May 28, 2014

Quarterly report for the period ended March 31, 2014

- **Update to Chapter A (Description of Company Operations) of the Periodic Report for 2013**
- **Directors report on the state of the Company's affairs for the period ended March 31, 2014**
- **Interim Financial Statements as at March 31, 2014**

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2013

Update to Chapter A (Description of Company Operations) [1] to the Periodic Report for 2013 ("Periodic Report") of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")

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

Section 1.1 - Bezeq Group activities and business development

Section 1.1.2 - Mergers and acquisitions - Merger of the Company and DBS, Section 1.6.2(D) - Limitations concerning the control of DBS, and Section 1.6.5(B) - Approvals and limitations as part of the transaction to acquire control of the Company

On March 26, 2014, the Company received the decision of the Antitrust Authority stipulating that when the conditions listed in the decision are met, the limitations that were imposed on Eurocom Group with respect to its holdings in DBS will be cancelled and the merger between the Company and DBS will be permitted (in this section - “the Merger”).

Hereunder are the key conditions for approval of the merger:

- The Company and any person associated with it (in this section - “Bezeq”) will not impose any restriction on the use of fixed-line Internet infrastructure services stemming from the customer’s cumulative surfing volume, and it may not restrict or block the possibility available to a customer to make use of any service or application provided on the Internet.
- Bezeq will deduct amounts for providing multi-channel TV services from the payments of ISPs for connecting them to the Bezeq network.
- Bezeq will sell and provide Internet infrastructure services and TV services under equal conditions for all Bezeq customers (the sale of Internet infrastructure services as part of a bundle will not, in itself, be considered a sale under non-equal conditions).
- Bezeq and DBS will cancel any exclusivity arrangements pertaining to productions that are not original productions and they shall not be party to any such exclusivity arrangements (except in relation to a third party which, on the date of the decision, has a broadcasting license). Furthermore, for two years from the approval date of the merger, Bezeq will not prevent any entity (excluding an entity that has a broadcasting license on the date of the decision) from acquiring rights in original productions (this does not apply to new productions).

The full text of the Antitrust Authority’s decision appears in an Immediate Report of the Company dated March 26, 2014, presented here by way of reference.

The Company has established a sub-committee of the Board of Directors to handle the issue, and through which it is reviewing the decision and the conditions listed therein, as well as the options available to it, including the feasibility of the merger.

Section 1.2 - Segments of operation

On May 20, 2014, a transaction was completed between the subsidiary Walla! Communications Ltd. (“Walla”) and Axel Springer Digital Classifieds Holding GmbH, a foreign media company incorporated in Germany, for the sale of all the share capital of Coral Tel Ltd. (“Coral Tel”), a private company fully controlled by the Company (indirectly, by Walla), which operates the Yad2 website. The full consideration in the amount of NIS 805 million was received upon completion of the transaction and Walla no longer holds any share capital in Coral Tel. The sale agreement signed by the parties on May 5, 2014 includes an undertaking by Walla and the Company not to engage in the areas of operation of Coral Tel for 24 months. In view of the foregoing, the Company is expected to record pre-tax profit of NIS 560 million in its financial statements for Q2 2014.

[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 2013 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

Section 1.3.3 - Dividend distribution

For information about a dividend distribution in respect of profits from the second half of 2013, see Note 6 to the Company's Financial Statements for the period ended March 31, 2014.

Section 1.4 - Financial information about Bezeq Group's segments of operation

Section 1.4.4 - Main results and operational data

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

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenues (NIS millions)	1,077	1,101	1,127	1,121	1,129
Operating profit (NIS millions)	504	459	494	510	535
Depreciation and amortization (NIS millions)	168	174	174	168	167
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS millions) (1)	672	633	668	678	702
Net profit (NIS millions)	332	312	360	351	348
Cash flow from operating activities (NIS millions)	616	526	631	556	561
Payments for investments in property, plant & equipment and intangible assets (NIS millions)	210	222	198	186	183
Proceeds from the sale of property, plant & equipment and intangible assets (NIS millions)	28	90	48	124	42
Free cash flow (NIS millions) (2)	434	394	481	494	420
Number of active subscriber lines at the end of the period (in thousands)(3)	2,214	2,216	2,223	2,224	2,242
Average monthly revenue per line (NIS) (ARPL)(4)	64	70	73	75	75
Number of outgoing minutes (in millions)	1,608	1,742	1,707	1,805	1,788
Number of incoming minutes (in millions)	1,467	1,541	1,521	1,550	1,503
Number of Internet subscribers at the end of the period (in thousands)	1,289	1,263	1,230	1,202	1,185
Average monthly revenue per Internet subscriber (NIS)	82	82	86	85	83
Average broadband speed per Internet subscriber (Mbps)	20.0	18.1	17.3	15.2	10.4
Churn rate (5)	3.0%	3.1%	2.8%	3.5%	3.7%

(1) EBITDA is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations and adjusts for differences in the capital structure, various taxation issues and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices which are based on GAAP and it is not used as a sole 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.

(2) Free cash flow is a financial index which is not based on GAAP. 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 results and cash flows because the Company believes that free cash flow is an important liquidity index that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets.

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

(4) Excluding revenues from transmission services and data communications, Internet services, services to communications operators and contractor and other works. Calculated according to average lines for the period.

(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.

2. Pelephone

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenue from services (NIS millions)	637	688	710	696	714
Revenues from sale of equipment (NIS millions)	280	295	237	219	250
Total revenue (NIS millions)	917	983	947	915	964
Operating profit (NIS millions)	126	76	172	186	174
Depreciation and amortization (NIS millions)	106	113	111	113	121
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS millions) (1)	232	188*	283	299	295
Net profit (NIS millions)	108	67*	140	161	153
Cash flow from operating activities (NIS millions)	349	327	442	468	354
Payments for investments in property, plant and equipment and intangible assets (NIS millions)	73	77	88	84	66
Free cash flow (NIS millions) (1)	276	250	354	384	288
Number of subscribers at end of the period (thousands) (2)	2,631	2,642	2,683	2,702	2,741
Average monthly revenue per subscriber (NIS) (ARPU) (3)	80	86	88	85	86
Churn rate (4)	7.5%	8.3%	6.2%	6.9%	7.2%

* After adjustment for non-recurring expenses resulting from the implementation of the collective labor agreement detailed in Section 3.9.2 of the Description of Company Operations in the 2013 reports, which also includes increased severance pay as specified in Section 3.9.6 of the same report, Pelephone's EBITDA and net profit in Q4 2013 amounted to NIS 249 million and NIS 109 million respectively.

(1) Regarding the definition of EBITDA and free cash flows, see notes (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber data include Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network) and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made at least one call/ sent one SMS, has not had any web browsing activity or who has not paid for Pelephone services. It is noted that a customer may have more than one subscriber number ("line").

(3) 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 subscribers in the same period.

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

3. Bezeq International

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenues (NIS millions)	355	368	360	359	346
Operating profit (NIS millions)	58	56	55	60	56
Depreciation and amortization (NIS millions)	32	33	33	33	31
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS millions) (1)	90	89	88	93	87
Net profit (NIS millions)	42	38	39	44	37
Cash flow from operating activities (NIS millions)	74	77	71	81	58
Payments for investments in property, plant and equipment and intangible assets (NIS millions) (2)	31	18	21	27	31
Free cash flow (NIS millions) (1)	43	59	50	54	28
Churn rate (3)	4.0%	4.6%	4.7%	4.5%	4.2%

(1) Regarding the definition of EBITDA and cash flows, see notes (1) and (2) in the Bezeq Fixed Line table.

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

4. DBS

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenues (NIS millions)	424	417	410	404	404
Operating profit (NIS millions)	73	61	72	68	67
Depreciation and amortization (NIS millions)	70	71	66	64	62
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS millions) (1)	143	131	138	132	130
Net profit (loss) (NIS millions)	(34)	(83)	(136)	(101)	(61)
Cash flow from operating activities (NIS millions)	113	133	126	110	122
Payments for investments in property, plant and equipment and intangible assets (NIS millions)	78	83	67	84	90
Free cash flow (NIS millions) (1)	35	50	59	26	32
Number of subscribers (at the end of the period, in thousands) (2)	607	601	593	583	578
Average monthly revenues per subscriber (ARPU) (NIS)(3)	234	233	233	232	233
Churn rate (4)	3.6%	3.0%	3.4%	3.2%	3.8%

(1) Regarding the definition of EBITDA and cash flows, see notes (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber – one household or one small business customer. In the event of a business customer with many 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 from a small business customer.

(3) Monthly ARPU is calculated by dividing total DBS revenues (from content and equipment, premium channels, advanced products, and other services) by average number of customers.

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

Section 1.5 - Forecast in relation to the Group

Following completion of the transaction to sell all the share capital of Coral Tel, which operates Yad2 (see update to Section 1.2), approval of the provision for the early retirement of employees (see update to Section 2.9.3), and the execution of an agreement by Pelephone to establish an LTE network, below is a revised forecast for the Bezeq Group for 2014, based on the information currently known to the Bezeq Group:

- Net profit for shareholders is expected to be approximately NIS 2 billion.
- EBITDA[2] is expected to be approximately NIS 4.5 billion.
- The Group's free cash flow[3] is expected to be approximately NIS 2.5 billion.[4]

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations, including -

the forecasts do not include the effect of a provision for the early retirement of employees, insofar as this takes place (over and above any resolutions relating to retirement that have already been passed by the Company, as detailed in the update to Section 2.9.3), investments insofar as there are any for the purchase of frequencies for a 4G LTE network, and the impact of a possible merger with DBS.

The Group's forecasts are based, inter alia, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, the economic situation and accordingly, the Group's ability to implement its plans in 2014. Actual results might differ significantly from these estimates, taking note of changes which may occur in the foregoing, in business conditions and the effects of regulatory decisions, technology changes, developments in the structure of the telecommunications market, etc. or insofar as one or more of the risk factors listed in Sections 2.21, 3.20, 4.17 and 5.21 in the chapter - Description of Company Operations in the 2013 reports, materializes.

Section 1.6 - General environment and the influence of external factors on the Group's activity

Section 1.6.1 - Emergence of communication groups in the Israeli market and transition to competition among the groups.

Par. C - HOT Group

On May 22, 2014, the Antitrust Authority published a decision of the Antitrust Commissioner ("the Commissioner") giving conditional approval for the infrastructure sharing agreement with Partner Communications Ltd. ("Partner") (see update to Section 3.6.2.C below). This decision prescribes the following conditions that will apply to HOT Telecom Limited Partnership ("HOT Telecom"), a company wholly owned by HOT: (a) HOT Telecom will not place and will not enforce any restriction on the use of fixed-line Internet infrastructure services stemming from the customer's cumulative surfing volume. This includes that HOT Telecom may not set the price and quality of the fixed-line Internet infrastructure services according to the customer's cumulative surfing volume (this condition will remain in force until the earlier of (1) December 31, 2015, (2) 30 days after the Minister of Communications has set laid out the conditions and tariffs for providing wholesale services on HOT Telecom's Internet infrastructures); (b) HOT Telecom will not restrict or block, directly or indirectly, the possibility available to customers to use any service or application provided on the Internet at any time, including by way of setting prices or the use of technology. (c) HOT Telecom's Internet infrastructure services will be sold and supplied on equal terms to all HOT Telecom customers,

[2] For a definition of EBITDA, see note (1) to the table in the update to Section 1.4.4 A.

[3] For a definition of free cash flow, see note (2) to the table in the update to Section 1.4.4 A.

[4] It is stipulated that the net proceeds of the sale of Yad2 (net of tax) will be presented as part of cash flow from investment activity, and the sale therefore has no effect on the forecast of free cash flow as defined in the Periodic Report (cash from operating activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net).

irrespective of whether or not they purchase additional communications services from HOT. On this, it was determined that the sale of discounted Internet infrastructure services as part of a service bundle will not, in itself, be deemed a breach of the conditions.

Section 1.6.3 - Regulatory oversight and changes in the regulatory environment

Par. A - Policy for regulating competition

Concerning a petition by the Company to HCJ in an application for relief to obtain information for its reference at a hearing on the subject of a wholesale market, in a HCJ hearing that took place on March 17, 2014, the parties agreed that they would conduct a thorough dialog and the Company would be allowed to hold a supplementary hearing to exhaust all its arguments. After reaching agreement, the Company withdrew its petition. Subsequently, a first session of the hearing took place at which the Company requested further clarifications. The Ministry sent the Company partial clarifications to which it responded and it is now waiting for additional clarifications.

Concerning a hearing on the subject of a service portfolio for the use of passive infrastructures according to which service providers will be allowed to use the physical infrastructure of the infrastructure owner, on May 1, 2014 the Company submitted its response to the hearing and expressed its objection to the scope and content of the services, and also noted that the defining of the portfolio was beyond the scope of the Ministry's powers and that it constitutes an infringement of the Company's rights.

As emerges from the foregoing, the hearing on the wholesale market is well under way and the Company has significant comments on the Ministry of Communications' hearing documents, which, in the Company's opinion, include erroneous facts, assumptions and conclusions regarding the price and scope of the wholesale services. In view of the foregoing, and in view of the positions of other relevant entities that are expected to be submitted during the course of the hearing, there is still a great deal of uncertainty as to the final manner of regulation that will apply to the wholesale market. Consequently, at the date of publication of this quarterly report, there is no change in the Company's estimates detailed in this section in the chapter - Description of Company Operations" in the 2013 financial reports.

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

Section 2.9.3 - Early retirement plans

On May 15, 2014, the Board of Directors approved a budget of NIS 116.5 million for the early retirement of 101 employees on the early retirement track in accordance with the conditions of the collective labor agreement from December 2006, as amended in December 2010. The Board also approved the early retirement of additional employees on the enlarged severance pay track, based on the Company's requirements. In view of the foregoing, the Company is expected to record a provision for the above in the amount of NIS 116.5 million in its financial statements for Q2 2014.

Section 2.9.6 - Officers and senior management in the Company

Concerning the Company's compensation policy – on March 19, 2014, a general meeting of the Company's shareholders approved the compensation policy as detailed in the 2013 reports.

Section 2.13.6 - Credit rating

On May 13, 2014, Standard & Poor's Maalot Ltd. published affirmation of a rating of ilAA/Stable for the Company and Pelephone (unchanged from the previous rating). The rating report can be seen in an Immediate Report (Amendment) issued by the Company on May 15, 2014, cited here by way of reference.

Section 2.17.4 - Early retirement agreements

On April 24, 2014, the Company and Menorah Mivtachim Insurance Ltd. signed an agreement regulating pension payments for the early retirement of Company employees and payment of the remainder of old-age and survivors' pensions to employees who retire from the Company under the special collective retirement agreement. The agreement period is until the end of 2016 and it includes a mechanism for Company participation in future yields/losses in the pension portfolio for the retirees which will be managed by Menorah.

Section 2.18 – Legal proceedings

On subsection D concerning an action and application for its certification as a class action, in which it was alleged that the Company unlawfully collected amounts from its subscribers upon disconnection due to failure to make payments - on May 18, 2014 the Company received a court ruling certifying the action as a class action in one of the causes (insofar as it pertains to collection of the fixed payment after discontinuation of the service) and rejecting the application insofar as it pertains to the other causes (disconnection of the additional line, collection of a renewal fee when the line is reconnected or collection of the fixed payment for the line for the period until the discontinuation of the service). Taking note of the above, and given that other causes of the applicants were neglected prior to the issue of the said ruling, and according to information in the Company's possession, the financial implications of the ruling are insignificant to the Company's business

Concerning an action together with an application for its certification as a class action against Coral Tel - as part of agreement for the sale of Walla's holdings in Coral Tel (see update to Section 1.2), Walla undertook to indemnify the buyer for loss that may be incurred as a result of this move up to the amount of the purchase, subject to the conditions and limitations specified in the agreement.

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

Section 3.6.2 C - Infrastructure sharing

In May 2014, the Ministry of Communications published a document on "Policy for sharing broadband access networks that belong to general license-holders for providing cellular (mobile radio telephone) services" ("the Policy Document").

Following are the main points of the policy document:[5]

1. The Ministry encourages and will continue to encourage passive sharing of network sites and masts only, as well as the active sharing of antennae only among all operators.
2. In general, the Ministry believes that active sharing on a multi-operator core network (MOCN) format (sharing of antennae, frequencies and radio equipment) is preferable to active sharing on a multi-operator radio access network (MORAN) format (sharing of antennae and radio equipment without the sharing of frequencies), in view of the need to streamline the frequency spectrum. Nevertheless, the Ministry does not rule out the possibility that under special circumstances, it might deem it appropriate to approve an agreement under a MORAN format.
3. In general, the Ministry of Communications will allow the sharing of transmission from cell sites to the centralized radio-based stations in a bandwidth-sharing configuration. However, under exceptional conditions, and at the Ministry's discretion, it might allow sharing of transmission from the cell sites to the centralized radio-based stations in other cases as well.
4. When examining individual network-sharing agreements, the Ministry will take into account the considerations specified in the Policy Document that pertain to four key aspects: the existing level of competition and the potential for harm to the competition, the existing and expected inventory of frequencies and how efficiently they are being used, survivability and redundancy of the networks from the national perspective, and ensuring the level of telecommunications services over time.
5. Based on the foregoing, the Ministry outlined principle guidelines that will be used to examine each individual network-sharing agreement submitted for its approval. The guidelines also stipulate that sharing under an MOCN format will not be allowed for two cellular operators with fully deployed 3G cellular network, but that it will be considered in relation to a new operator with a partially deployed 3G cellular network, together with an established operator with a fully deployed 3G cellular network, and that the Ministry will allow sharing based on an MOCN format, provided that at least 3 independent wireless access networks are being operated in every region in Israel. Other conditions are also prescribed.

[5] The policy document appears on the Ministry of Communications website: http://www.moc.gov.il/sip_storage/FILES/0/3550.pdf.

6. The Ministry does not intend to allow any sharing of radio (cellular) infrastructure, including shared transmission to radio base stations between Bezeq Group and HOT Group, which are the only owners of fixed-line infrastructure in Israel.
7. The Minister of Communications will consider revoking all or some of the network sharing approvals, depending on the circumstances, if it emerges that harm has been caused to the level of competition, the level of coverage or the level of service to customers.

An initial inspection of the Policy Document conducted by Pelephone shows that the infrastructure sharing agreement that Pelephone signed with Cellcom and Golan in December 2013, apparently does not comply with the threshold conditions in the Policy Document.

On May 25, 2014, Cellcom announced that it had signed an agreement with Golan granting it the right to use the 4G network that it intends to establish. This agreement is in addition to an agreement for the right to use the 2G and 3G networks that Cellcom and Golan signed in December 2013. These agreements are subject to the approvals of the Ministry of Communications and the Antitrust Commissioner. Cellcom's announcement also noted that it is continuing its efforts to implement network sharing, including the sharing of the passive elements on the network sites.

Pelephone is reviewing alternative network sharing options in a manner that will comply with the principles of the Policy Document and Pelephone's recent discussions with the Ministry of Communications and the Antirust Commissioner on the subject of network sharing.

On May 22, 2014, Partner and HOT announced that the Commissioner had resolved to approve the network sharing agreement between them subject to conditions. In its report, Partner noted that it estimates that in principle, the network sharing agreement signed by the companies was consistent with the principles of the policy document and that they are in the process of obtaining the relevant approvals for implementing the network sharing agreement.

The infrastructure sharing model has the potential to reduce the costs of establishing the network and its on-going operation. Consequently, insofar as Pelephone does not receive permission to operate under a network sharing model, the costs of Pelephone's network (with respect to establishment of the networks, acquiring the frequencies and the on-going operation of the network) are likely to be higher than those of its main competitors.

Pelephone's estimates as described above in this section are forward-looking information. At this stage, there is no certainty as to the extent to which the policy document will in future impact Pelephone's ability to operate under an infrastructure sharing model or the format of its operations based on such a model, nor is there any certainty as to the extent to which approval or lack thereof for Pelephone's operations based on an infrastructure sharing model will affect the costs of its network.

Section 3.7.1 - Infrastructures

In April 2014, Pelephone signed an agreement with L.M. Ericsson Israel Ltd. ("Ericsson") to upgrade the network center to support LTE, purchase and install radio equipment and to make additional adjustments to the network to support LTE. The equipment to be supplied to Pelephone will also support Advanced 4.5G LTE technology.

Among other things, the agreement includes an undertaking by Ericsson to supply most of the equipment immediately.

Pelephone anticipates that it will ready to launch the LTE network distributed on hundreds of sites in the Tel Aviv Metropolitan and Jerusalem areas within three months. Nevertheless, launch of the network is subject to the allocation of the frequencies required to operate the technology and the approval of the Ministry of Communications to launch it.

In connection with the anticipated costs of setting up the LTE network – the cost of establishing and expanding the network (payments to Ericsson and additional costs relating to the setting up and expansion of the network) is expected to reach NIS 300-400 million, which is expected to be paid over the period 2014-2016, excluding the cost of purchasing the frequencies. It should be clarified that at this time the scope of the costs of purchasing the frequencies remains uncertain, taking into account the fact that the Ministry of Communications has not yet published a tender for allocation of the frequencies.

Pelephone's above-mentioned estimates concerning the costs of setting up the LTE network and payment period are forward-looking information, based on Pelephone's forecasts and assessments, in part, in connection with the speed and format of setting up the network. It should be clarified that, as noted above, these costs do not take into account the costs of purchasing frequencies and they therefore do not reflect the full cost of setting up and expanding the network.

4. International communications, Internet and NEP services - Bezeq International Ltd. ("Bezeq International")

Section 4.8 – Human resources

In March 2014, Bezeq International received notice from the New Labor Federation ("the Histadrut") that more than one third of Bezeq International's employees had chosen to sign up as members of the Histadrut, and that it therefore constitutes a representative workers union of Bezeq International's employees. After inspecting the enrollment forms that it received, Bezeq International informed the Histadrut that it is inclined to recognize it as the representative workers union of Bezeq International. The parties have begun to negotiate a collective labor agreement.

Commencing May 15, 2014, Moti Elmaliach is the CEO of Bezeq International. This follows the announcement by the previous CEO of Bezeq International, Yitzhak Benbenisti, that he would be stepping down.

5. Multi-channel television - DBS Satellite Services (1998) Ltd. ("DBS")

Section 5.4 – New products

In March 2014, DBS launched the YesGo Service.

Section 5.15.3 - Institutional financing

In April 2014, DBS issued additional debentures (Series 1) and (Series 2) by way of an expansion of the series, in the total amount of NIS 300 million.

Section 5.15.4 - S&P Maalot ratings for DBS and its debentures

On April 1, 2014, S&P Maalot issued an (ilA-) rating for additional debentures of up to NIS 250 million par value to be issued by DBS through a new issuance of debentures or an expansion of an existing series.

On April 30, 2013 S&P Maalot upgraded DBS to a rating of ilA (stable) and upgraded the debentures of DBS to a rating of (ilA), and placed DBS on a rating watch list with positive outlook.

Section 5.17.9 - Ownership of broadcast channels

In April 2014, DBS began to broadcast local news, in accordance with the Communications (Telecommunications and Broadcasts) Law (Amendment no. 59 and Temporary Provision), 2014 and a decision of the Council dated March 2014.

Section 5.17.13 - Regulation of the transmission of video content via media infrastructures

In February 2014, the Minister of Communications appointed a committee to review the regulation of commercial broadcasts, whose task is to review and compile recommendations, in part, in connection with the principles and standards that will apply to all companies involved in the distribution of audio-visual content. The committee was also asked to make recommendations as to the possible inclusion of advertising in the broadcasts of DBS and HOT. The committee was asked to formulate its recommendations by August 2014. Pursuant to a request from the committee, in April 2014, DBS submitted its position on the aforementioned subjects.

Section 5.19.1 B - Legal proceedings

On May 22, 2014, a hearing took place on the motion to certify during which the applicants, at the court's recommendation, asked to abandon the request for certification. The court instructed that the abandonment affidavits be filed by May 29, 2014, and that after they have been received, the court will strike out the application for certification.

May 28, 2014

Date

Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Shaul Elovitch, Chairman of the Board of Directors

Stella Handler, CEO

Bezeq - The Israel Telecommunication Corporation Ltd.

The Board of Directors’ Report on the State of the Company’s Affairs for the Period Ended March 31, 2014

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 three months ended March 31, 2014 ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2013 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)**

It is noted that the Company's financial statements include an "Others" segment, which comprises mainly online content, commerce and classified advertisement services (through Walla, Walla Shops, Yad-2 and other websites) and contracted call center services (through "Bezeq Online"). The "Others" segment is immaterial at the Group level.

	1-3.2014	1-3.2013	(Decrease)	
	NIS millions	NIS millions	NIS millions	%
Profit	**457**	**497**	(40)	(8.0)
EBITDA (operating profit before depreciation and amortization)	**1,002**	**1,089**	(87)	(8.0)

Year-on-year, quarterly results were affected mainly by a decrease in the Group's revenues, and in other operating income, net. This decrease was mainly offset by a reduction in operating expenses and tax expenses.

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 position

	1-3.2014	1-3.2013	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Cash and current investments	**2,394**	**2,085**	309	14.8	This increase was attributable to the Domestic Fixed-Line Communications segment.
Current and non-current trade and other receivables	**3,410**	**4,227**	(817)	(19.3)	This decrease was mainly attributable to a decrease in trade receivables in the Cellular Communications segment, as a result of a decrease in revenues from instalment-based handset sales, and a decrease in service revenues.
Other current assets	**150**	**242**	(92)	(38.0)	This decrease was attributable to a decrease in inventory in the Cellular Communications and the Domestic Fixed-Line Communications segments, and a decrease in assets held for sale in the Domestic Fixed-Line Communications segment.
Other non-current assets	**9,449**	**9,539**	(90)	(0.9)	
Total assets	**15,403**	**16,093**	(690)	(4.3)	
Debt to financial institutions and bondholders	**9,717**	**9,388**	329	3.5	This increase was mainly attributable to Domestic Fixed-Line Communications operations, following a bond issue in 2013, effected as an expansion of existing bond series. This increase was mostly offset by repayment of bonds and loans in the Domestic Fixed-Line Communications, and Cellular Communication segments.
Other liabilities	**3,594**	**3,738**	(144)	(3.9)	This decrease was mainly attributable to a reduction in dividends payable.
Total liabilities	**13,311**	**13,126**	185	1.4	
Total equity	**2,092**	**2,967**	(875)	(29.5)	The decrease in equity was attributable to the Group's earnings, less dividend payments. In the present Quarter, a dividend was proposed for the Group's earnings in the second half of 2013. No dividend was recommended in the same quarter last year (it was recommended in the second quarter of 2013). Equity comprises 13.6% of the balance sheet total, as compared to 18.4% of the balance sheet total on March 31, 2013.

1.2 Results of operations

1.2.1 Highlights

	1-3.2014	1-3.2013	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenues	**2,311**	**2,405**	(94)	(3.9)	The decrease was attributable to fixed-line telephone revenues in the Domestic Fixed-Line Communications segment, and service revenues in the Cellular Communications segment.
Depreciation and amortization expenses	**314**	**328**	(14)	(4.3)	The decrease was attributable to the Cellular Communications segment.
Salary expenses	**448**	**499**	(51)	(10.2)	This decrease was attributable to the Domestic Fixed-Line Communications segment.
General and operating expenses	**869**	**889**	(20)	(2.2)	This decrease was attributable to the Domestic Fixed-Line Communications segment and was partially offset by an increase in the Cellular Communications segment.
Other operating income, net	**8**	**72**	(64)	(88.9)	This decrease was attributable to the Domestic Fixed-Line Communications segment.
Operating profit	**688**	**761**	(73)	(9.6)	
Finance expenses, net	**42**	**24**	18	75.0	The bulk of the increase in net finance expenses was attributable to a decrease in net finance income from the Cellular Communications segment.
Share in losses of investees	**19**	**40**	(21)	(52.5)	This decrease was attributable to a reduction in the losses posted by the Multichannel Television segment.
Income tax	**170**	**200**	(30)	(15.0)	The decrease was attributable to the Domestic Fixed-Line Communications and Cellular Communications segments.
Profit for the year	**457**	**497**	(40)	(8.0)	

1.2.2 Operating segments

A Revenue and operating profit data, presented by the Group's operating segments.

	1-3.2014		1-3.2013	
	NIS millions	% of total revenues	NIS millions	% of total revenues
Revenues by operating segment				
Domestic Fixed-Line Communications	1,077	46.6	1,129	46.9
Cellular Communications	917	39.7	964	40.1
International Communications, Internet and NEP Services	355	15.4	346	14.4
Multi-Channel Television	424	18.3	404	16.8
Other and offsets*	(462)	(20.0)	(438)	(18.2)
Total	2,311	100	2,405	100

	1-3.2014		1-3.2013	
	NIS millions	% of segment revenues	NIS millions	% of segment revenues
Operating profit by segment				
Domestic Fixed-Line Communications	504	46.8	535	47.4
Cellular Communications	126	13.7	174	18.1
International Communications, Internet and NEP Services	58	16.3	56	16.2
Multi-Channel Television	73	17.2	67	16.6
Other and offsets*	(73)	-	(71)	-
Consolidated operating profit/ % of Group revenues	688	29.8	761	31.6

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

1.2.2. Operating segments

B Domestic Fixed-Line Communications Segment

	1-3.2014	1-3.2013	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Telephony	**426**	**510**	(84)	(16.5)	This decrease was mainly attributable to a decrease in the average revenue per line, primarily due to the reduction in fixed call termination rates beginning December 1, 2013.
Internet - infrastructure	**332**	**310**	22	7.1	This increase was mainly attributable to growth in the number of Internet subscribers. The increase was partially offset by a decrease in revenues from home router sales following a change from sales to rentals.
Transmission, data communications and others	**319**	**309**	10	3.2	This increase was attributable to data communications and transmission revenues.
Total revenues	**1,077**	**1,129**	**(52)**	**(4.6)**	
Depreciation and amortization expenses	**168**	**167**	1	0.6	
Salary expenses	**223**	**270**	(47)	(17.4)	This decrease was mainly attributable to a decrease in the number of employee positions, share-based payments, and annual bonus.
General and operating expenses	**190**	**230**	(40)	(17.4)	This decrease was mainly attributable to a reduction in connectivity fees to communication carriers (mainly fixed-line) and a reduction in terminal equipment costs following a transition from selling home network routers, to rental.
Other operating income, net	**8**	**73**	(65)	(89.0)	Other income, net was down due mainly to a decrease in capital gains on real estate and copper sales, and increased costs for termination of employment by way of early retirement.
Operating profit	**504**	**535**	(31)	(5.8)	
Finance expenses, net	**56**	**52**	4	7.7	Net finance expenses were up mainly due to a decrease in finance income on shareholder loans to DBS, as a result of the negative CPI change in the present quarter, as opposed to a positive CPI change in the same quarter last year.
Income tax	**116**	**135**	(19)	(14.1)	The tax rate on profit after finance expenses, net was 25.9%, as compared to 28% last year. This decrease in the tax rate was attributable to an increase in the tax-deductible portion of share-based payments in the present quarter, and due to dividend revaluation expenses recognized in the same quarter last year which are not recognized as a tax expense. The decrease was partially offset by an increase in the corporate income tax rate in 2014.
Segment profit	**332**	**348**	(16)	(4.6)	

1.2.2 Operating segments

C Cellular Communications segment

	1-3.2014	1-3.2013	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Services	**637**	**714**	(77)	(10.8)	Service revenues were down due to market competition driving down rates and migration of existing customers to cheaper bundles at current market prices, both of which served to lower ARPU. Revenues were also down due to a decrease in the number of subscribers.
Terminal equipment sales	**280**	**250**	30	12.0	Revenues from terminal equipment sales were up due mainly to higher sales volumes on data products such as tablets and laptops.
Total revenues	**917**	**964**	(47)	(4.9)	
Depreciation and amortization expenses	**106**	**121**	(15)	(12.4)	This decrease was mainly attributable to assets whose amortization period has ended.
Salary expenses	**109**	**114**	(5)	(4.4)	
General and operating expenses	**576**	**555**	21	3.8	This increase was mainly attributable to higher sales costs on terminal equipment due to higher sales volumes. This increase was partially offset by a reduction in call completion fees, mainly due to lower fixed-line call termination rates.
Operating profit	**126**	**174**	(48)	(27.6)	
Finance income, net	**18**	**29**	(11)	(37.9)	Net finance income was down mainly due to a decrease in credit reflected in instalment-based terminal equipment sales. Results were also affected by a decrease in other interest income, partially offset by a decrease in interest expenses following a reduction in the average debt.
Income tax	**36**	**50**	(14)	(28.0)	The decrease was attributable to the reduction in income before taxes.
Segment profit	**108**	**153**	(45)	(29.4)	

1.2.2 Operating segments

D International Communications, Internet and NEP Services

	1-3.2014	1-3.2013	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenues	**355**	**346**	9	2.6	This increase was attributable to revenues from enterprise communication solutions (ICT), and higher internet revenues due to growth in the number of subscribers. This increase was partially offset by a decrease in revenues from outgoing calls, stemming mainly from cellular market migration to plans offering unlimited international calls.
Depreciation and amortization expenses	**32**	**31**	1	3.2	
Salary expenses	**75**	**73**	2	2.7	This increase was mainly attributable to an increase in the number of employees providing outsourced services in ICT operations.
General and operating expenses	**190**	**186**	4	2.2	This increase was attributable to an increase in ICT expenses, partially offset by a decrease in expenses for outgoing calls, along with the above revenues.
Operating profit	**58**	**56**	2	3.6	
Finance expenses, net	**2**	**4**	(2)	(50)	
Share in the earnings of associates	**1**	**-**	1	-	
Tax expenses	**15**	**15**	-	-	
Segment profit	**42**	**37**	5	13.5	

1.2.2 Operating segments

E Multi-Channel Television

	1-3.2014	1-3.2013	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenues	**424**	**404**	20	5.0	This increase was mainly attributable to subscriber growth.
Cost of revenues	**269**	**258**	11	4.3	This increase was mainly attributable to increased depreciation expenses and utilized broadcasting rights.
Sales, marketing, general and administrative expenses	**82**	**78**	4	5.1	This increase was mainly attributable to higher salary costs.
Operating profit	**73**	**67**	6	9.0	
Finance expenses, net	**107**	**128**	(21)	(16.4)	This decrease was mainly attributable to linkage differences on bonds and shareholder loans, due to the decrease in the CPI in the present Quarter, as opposed to an increase in the CPI recorded in the same quarter last year
Segment loss	**(34)**	**(61)**	27	(44.3)	

1.3 Cash Flow

	1-3.2014	1-3.2013	Change		Explanation
	NIS millions	NIS millions	NIS millions	%	
Cash flow from operating activities	**1,043**	**972**	71	7.3	This increase was mainly attributable to changes in working capital in the Domestic Fixed-Line Communications and the Cellular Communications segments, which were partially offset by a decrease in net profit.
Cash flows used in investment activities	**(497)**	**(675)**	178	(26.4)	In the present Quarter, there was a decrease in the net acquisition of financial assets held for trade in the Domestic Fixed-Line Communications segment.
Cash flows used in financing activities	**(107)**	**(190)**	83	(43.7)	No debts were repaid in the present Quarter in the Domestic Fixed-Line Communications segment.
Increase in cash	**439**	**107**	332	310	

<u>Average volume in the reported Quarter:</u>
Long-term liabilities (including current maturities) to financial institutions and bond holders: NIS 9,772 million.

Supplier credit: NIS 672 million.

Short-term credit to customers: NIS 2,575 million. Long-term credit to customers: NIS 623 million.

As of March 31, 2014, the Group had a working capital surplus of NIS 1,059 million, as compared to a working capital surplus of NIS 1,251 million on December 31, 2013.

This decrease was attributable to a reduction in the working capital surplus of the Cellular Communications and Domestic Fixed-Line Communications segments, due to a decrease in current assets.

2. Aspects of Corporate Governance

Disclosure concerning the financial statements' approval process

2.1 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 to the Company's Periodic Report for 2013.

2.2 Financial statements approval process

A. The Financial Statements Review Committee discussed and finalized its recommendations to the Company's Board of Directors in its meetings of May 22, 2014, and May 25, 2014.

The Committee's meeting of May 25, 2014, was 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. David "Dudu" Mizrahi; Company Comptroller, Mr. Danny Oz; the Internal Auditor, Mr. Lior Segal; the Legal Counsel, Mr. Amir Nachlieli; Mr. Rami Nomkin - director; the external auditors; and other Company officers. The Committee's meeting of May 22, 2014, was attended, in addition to the above, by the Company secretary, Mrs. Linor Yochelman

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 May 25, 2014.

The Board of Directors discussed the Financial Statements Review Committee's recommendations and the financial statements on May 28, 2014.

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 first quarter of 2014.

3. Disclosure Concerning the Company's Financial Reporting

3.1 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.

3.2 Material events subsequent to the financial statements' date

For information on material events subsequent to the financial statements' date, see Note 13 to the financial statements.

4. Details of debt certificate series

On May 13, 2014, Standard & Poor's Maalot Ltd. ("Maalot") affirmed its ilAA/Stable rating for the Company's bonds (Series 5-8). For current and historical ratings data for the bonds, see the Company's (amended) immediate report of May 15, 2014 (ref. no. 2014-01-064836) (Maalot) and November 19, 2013 (ref. no. 2013-01-196218) (Midroog). The rating reports are included in this Board of Directors' Report by way of reference.

5. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of March 31, 2014, see the Company's reporting form on the MAGNA system, dated May 29, 2014.

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

Shaul Elovitch	Stella Handler
Chairman of the Board	CEO

Signed: May 28, 2014

Bezeq The Israel Telecommunication Corporation Ltd.

Condensed Consolidated Interim Financial Statements

March 31, 2014

(Unaudited)

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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 March 31, 2014 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial in accordance with IAS 34 “Interim Financial Reporting”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 1.6% of the total consolidated assets as of March 31 2014, and whose revenues constitute 1.6% of the total consolidated revenues for the three month period then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report of the other auditors.

Scope of Review

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

Conclusion

Based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying 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 report 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.)

May 28, 2014

Condensed Consolidated Interim Statements of Financial Position

Assets	March 31, 2014 (Unaudited) NIS million	March 31, 2013 (Unaudited) NIS million	December 31, 2013 (Audited) NIS million
Cash and cash equivalents	**1,049**	573	610
Investments, including derivatives	**1,345**	1,512	1,132
Trade receivables	**2,499**	2,875	2,651
Other receivables	**293**	402	344
Inventory	**100**	148	117
Assets classified as held for sale	**50**	94	66
Total current assets	**5,336**	5,604	4,920
Trade and other receivables	**618**	950	652
Property, plant and equipment	**6,008**	5,947	5,973
Intangible assets	**2,039**	2,151	2,060
Deferred and other expenses	**260**	262	261
Investments in equity-accounted investees (mainly loans)	**1,032**	1,024	1,015
Investments	**81**	93	81
Deferred tax assets	**29**	62	60
Total non-current assets	**10,067**	10,489	10,102
Total assets	**15,403**	16,093	15,022

Condensed Consolidated Interim Statements of Financial Position (Contd.)

Liabilities and equity	March 31, 2014 (Unaudited) NIS million	March 31, 2013 (Unaudited) NIS million	December 31, 2013 (Audited) NIS million
Debentures, loans and borrowings	**1,113**	1,065	1,136
Trade payables	**624**	651	719
Other payables, including derivatives	**818**	808	707
Current tax liabilities	**529**	492	523
Provisions	**122**	126	125
Employee benefits	**269**	230	257
Dividend payable (see Note 6)	**802**	981	-
Total current liabilities	**4,277**	4,353	3,467
Loans and debentures	**8,604**	8,323	8,691
Employee benefits	**235**	259	234
Provisions	**68**	67	68
Deferred tax liabilities	**32**	49	55
Other liabilities, including derivatives	**95**	75	84
Total non-current liabilities	**9,034**	8,773	9,132
Total liabilities	**13,311**	13,126	12,599
Total equity	**2,092**	2,967	2,423
Total liabilities and equity	**15,403**	16,093	15,022

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 consolidated interim financial statements

Condensed Consolidated Interim Statements of Income

	Note	Three months ended March 31		Year ended December 31
		2014	2013	2013
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Revenues	7	**2,311**	2,405	9,563
Costs of activity				
Depreciation and amortization		**314**	328	1,311
Salaries		**448**	499	1,872
General and operating expenses	8	**869**	889	3,576
Other operating income, net	9	**(8)**	(72)	(15)
Total operating expenses		**1,623**	1,644	6,744
Operating profit		**688**	761	2,819
Financing expenses (income)				
Financing expenses		**113**	140	573
Financing income		**(71)**	(116)	(428)
Financing expenses, net		**42**	24	145
Profit after financing expenses, net		**646**	737	2,674
Share in losses of equity-accounted investees		**(19)**	(40)	(252)
Profit before income tax		**627**	697	2,422
Income tax		**170**	200	651
Profit for the period		**457**	497	1,771
Earnings per share (NIS)				
Basic and diluted earnings per share		**0.17**	0.18	0.65

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended 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 not transferred to profit or loss			
Actuarial gains, net of tax	**-**	-	22
Items of other comprehensive income (net of tax) to be transferred to profit or loss subsequent to initial recognition in comprehensive income	**13**	7	(16)
Total comprehensive income for the period	**470**	504	1,777

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the period of three months ended March 31, 2014 (Unaudited)							
Balance as at January 1, 2014	3,842	143	242	390	(67)	(2,127)	2,423
Profit for the period	**-**	**-**	**-**	**-**	**-**	**457**	**457**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**13**	**-**	**13**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**13**	**457**	**470**
Transactions with owners recognized directly in equity							
Dividends to Company shareholders (see Note 6)	**-**	**-**	**-**	**-**	**-**	**(802)**	**(802)**
Share-based payments	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Exercise of options for shares	**2**	**18**	**(18)**	**-**	**-**	**-**	**2**
Balance as at March 31, 2014	**3,844**	**161**	**223**	**390**	**(54)**	**(2,472)**	**2,092**
For the period of three months ended March 31, 2013 (Unaudited)							
Balance as at January 1, 2013	3,837	100	256	390	(38)	(2,090)	2,455
Profit for the period	-	-	-	-	-	497	497
Other comprehensive income for the period, net of tax	-	-	-	-	7	-	7
Total comprehensive income for the period	-	-	-	-	7	497	504
Transactions with owners recognized directly in equity							
Share-based payments	-	-	8	-	-	-	8
Balance as at March 31, 2013 (Unaudited)	3,837	100	264	390	(31)	(1,593)	2,967
For the year ended December 31, 2013 (Audited)							
Balance as at January 1, 2013	3,837	100	256	390	(38)	(2,090)	2,455
Profit in 2013	-	-	-	-	-	1,771	1,771
Other comprehensive income for the year, net of tax	-	-	-	-	(16)	22	6
Total comprehensive income for 2013	-	-	-	-	(16)	1,793	1,777
Transactions with owners recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(1,830)	(1,830)
Share-based payments	-	-	29	-	-	-	29
Exercise of options for shares	5	43	(43)	-	-	-	5
Increase in the rate of holding in a subsidiary	-	-	-	-	(13)	-	(13)
Balance as at December 31, 2013	3,842	143	242	390	(67)	(2,127)	2,423

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended 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	**314**	328	1,311
Share in losses of equity-accounted investees	**19**	40	252
Financing expenses, net	**63**	68	278
Capital gain, net	**(17)**	(47)	(159)
Share-based payments	**(1)**	8	29
Income tax expenses	**170**	200	651
Miscellaneous	**(3)**	(4)	(22)
Change in inventory	**21**	(28)	9
Change in trade and other receivables	**163**	105	646
Change in trade and other payables	**(62)**	(6)	27
Change in provisions	**(4)**	(28)	(29)
Change in employee benefits	**13**	(22)	2
Change in other liabilities	**-**	-	11
Net income tax paid	**(90)**	(139)	(625)
Net cash from operating activities	**1,043**	972	4,152
Cash flow used for investing activities			
Investment in intangible assets and deferred expenses	**(48)**	(44)	(186)
Proceeds from the sale of property, plant and equipment	**29**	43	312
Acquisition of financial assets held for trading and others	**(210)**	(435)	(1,570)
Proceeds from the sale of financial assets held for trading and others	**-**	7	1,528
Purchase of property, plant and equipment	**(267)**	(245)	(1,042)
Proceeds (payments) for long-term investments	**(3)**	-	9
Miscellaneous	**2**	(1)	32
Net cash used for investing activities	**(497)**	(675)	(917)
Cash flows used for financing activities			
Repayment of debentures and loans	**(82)**	(156)	(1,120)
Issue of debentures and receipt of loans	**-**	-	1,364
Dividends paid	**-**	-	(2,830)
Interest paid	**(27)**	(36)	(453)
Increase in the rate of holding in a subsidiary	**-**	-	(50)
Miscellaneous	**2**	2	(2)
Net cash used for financing activities	**(107)**	(190)	(3,091)
Increase in cash and cash equivalents, net	**439**	107	144
Cash and cash equivalents at beginning of period	**610**	466	466
Cash and cash equivalents at end of period	**1,049**	573	610

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 11 – 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, 2013 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 March 28, 2014.

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, 2014, the Group applies the amendment to IAS 32, Financial Instruments: Presentation, which refers to offsetting financial assets and financial liabilities. Application of the amendment to IAS 32 did not have a material effect on the Group's financial statements.

3.3 New standards and interpretations not yet adopted

Combined amendment to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets, published in May 2014 ("the Amendment to IAS 16 and IAS 38").

The Amendment to IAS 16 and IAS 38 clarifies accepted depreciation and amortization methods. The Amendment to IAS 16 and IAS 38 is effective prospectively for annual periods beginning on or after January 1, 2016. Early adoption of the Amendment to IAS 16 and IAS 38 is permitted subject to disclosure. The Group is examining the effects of adopting the Amendment to IAS 16 and IAS 38 on the financial statements.

4. Group Entities

A detailed description of the Group entities appears in Note 10 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 Further to Note 10.1.2 to the Annual Financial Statements regarding publications of the terms for the Antitrust Commissioner's approval of the merger between the Company and DBS, on March 26, 2014, the Antitrust Commissioner informed the Company that on fulfillment of the terms, the restrictions imposed on Eurocom Group for its continued holding of DBS will be removed and the Company will be allowed to merge with DBS ("the Merger").

The Company has established a subcommittee of the Board of Directors to address the decision and its terms, and the available options, including viability of the merger.

4.1.3 Since the beginning of its operations, DBS has accumulated substantial losses. The loss of DBS in 2013 amounted to NIS 381 million and the loss in the three months ended March 31, 2014 amounted to NIS 34 million. As a result of these losses, as of March 31, 2014, DBS had an equity deficit and a working capital deficit of NIS 4,377 million and NIS 649 million, respectively

4.1.4 As of March 31, 2014, DBS complied with the financial covenants established under its financing and bond agreements. As of March 31, 2014, DBS complied with the debt/EBITDA ratio covenant established in Deed of Trust B (DBS's debt/EBITDA ratio as of March 31, 2014, was 3). Furthermore, DBS complied with the debt//EBITDA ratio covenant specified by the 2012 Bonds (as of March 31, 2014, DBS's debt/EBITDA ratio was 2.75), and the debt/(E-C) ratio covenant specified by the 2012 Bonds (as of March 31, 2014, the debt/(E-C) ratio was 8).

4.1.5 The management of DBS estimates that the financing resources available to DBS, which include, inter alia, the working capital deficit and its debt raising activities, will be sufficient for DBS's operating needs in the coming year, based on the forecasted cash flows approved by DBS's Board of Directors. Should additional resources be required to meet DBS's operating needs in the coming year, DBS will adjust its operations so as not to require additional resources beyond those currently at its disposal.

4.1.6 On April 1, 2014, S&P Maalot set an -ilA rating for additional bonds to be issued by DBS up to a total par value amount of NIS 250 million. This issue will be effected as a new bonds issue or as an expansion of an existing series.

In April 2014, DBS carried out an additional issue of Bonds (Series A), effected as an expansion of the series by a total of NIS 253 million, and an additional issue of Bonds (Series B), effected as an expansion of the series by a total of NIS 47 million .For information about the terms of the debentures, see Note 10.1.6 to the Annual Financial Statements.

On April 30, 2014, S&P Maalot upgraded its rating for DBS and the DBS's bonds to ilA (stable), and put the rating on its watch list with a positive outlook.

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 109 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 March 31, 2014 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 8.2 billion. There is also additional exposure of NIS 477 million 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.

For updates subsequent to the reporting date, see section 5.2 below.

5.1 Following is a detailed description of the Group's contingent liabilities as at March 31, 2014, 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**	**77**	**1**
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.	**18**	**3,886**	**476**
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.	**-**	**128**	**-**
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies (including in relation to environmental quality and radiation) and regarding real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	**1**	**4,036***	**-**
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) or by the authorities to the Group companies.	**16**	**47**	**-**
Total legal claims against the Company and subsidiaries		**109**	**8,222**	**477**
Contingent liabilities for legal claims against associates		**8**	**157**	**67**

* Of this amount, a total of USD 3.7 billion is for the motion for certification of a class action for which a settlement for summary dismissal was signed in January 2013, pending court approval.

5.2 Subsequent to the reporting date, claims amounting to NIS 137 million were filed against Group companies and claims amounting to NIS 17 million were filed against associates. At the approval date of the financial statements, the exposure for these claims cannot yet be assessed. In addition, claims with exposure of NIS 79 million came to an end. The costs to the Group companies for these claims are insignificant. In addition, the Group's exposure was reduced by NIS 700 million for claims which will most likely not materialize with the sale of the Group's investment in Coral Tel, as described in Note 13.2 below.

6. Equity and Share-based Payments

6.1 Below are details of the Company's equity:

Registered			Issued and paid up		
March 31, 2014	March 31, 2013	December 31, 2013	March 31, 2014	March 31, 2013	December 31, 2013
(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	**2,731,837,758**	2,725,015,344	2,730,129,689

6.2 On March 27, 2014, the general assembly of the Company's shareholders approved the recommendation of the Company's Board of Directors of March 5, 2014 to distribute a cash dividend to the shareholders of the Company in the amount of NIS 802 million (representing NIS 0.2936509 per share on the ex-date. The dividend was paid in cash on April 23, 2014.

6.3 The balance of the distributable profits as at the reporting date (subject to fulfillment of the distribution tests) amounts to NIS 457 million (surpluses accumulated in the last two years after deducting prior distributions).

7. Revenues

	Three months ended		Year ended
	March 31		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Domestic fixed-line communication			
Fixed-line telephony	**417**	495	1,908
Internet - infrastructure	**332**	308	1,283
Transmission and data communication	**207**	200	794
Other services	**57**	59	220
	1,013	1,062	4,205
Cellular telephony			
Cellular services and terminal equipment	**623**	697	2,744
Sale of terminal equipment	**280**	250	1,000
	903	947	3,744
International communications, internet and NEP services	**332**	336	1,367
Other	**63**	60	247
	2,311	2,405	9,563

8. Operating and General Expenses

	Three months ended March 31		Year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Terminal equipment and materials	**262**	258	1,071
Interconnectivity and payments to domestic and international operators	**206**	224	905
Maintenance of buildings and sites	**156**	161	607
Marketing and general	**139**	140	563
Services and maintenance by sub-contractors	**40**	38	162
Vehicle maintenance	**37**	37	152
Content services	**15**	17	65
Collection fees	**14**	14	51
	869	889	3,576

9. Other Operating Expenses (Income), Net

	Three months ended March 31		Year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit from the sale of property, plant and equipment (mainly real estate)	**(12)**	(35)	(120)
Profit from copper sales	**(5)**	(12)	(40)
Provision for early retirement	**8**	(13)	90
Expenses for collective agreement at Pelephone	**-**	-	61
Others	**1**	(12)	(6)
	(8)	(72)	(15)

10. Financial Instruments

10.1. Fair value

10.1.1 Financial instruments at fair value for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, short-term investments, deposits, derivatives, some of the loans and credit, trade payables, other payables and declared dividend are the same or proximate to their fair value. The table below shows the differences between the carrying amount and the fair value of financial liabilities.

The methods used to estimate the fair values of financial instruments are described in Note 28.7 to the Annual Financial Statements.

	As at March 31, 2014		As at March 31, 2013		As at December 31, 2013	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Bank loans (unlinked)	**2,105**	**2,240**	2,386	2,482	2,086	2,203
Debentures issued to the public (CPI-linked)	**3,154**	**3,420**	2,285	2,471	3,132	3,347
Debentures issued to the public (unlinked)	**1,354**	**1,471**	1,354	1,465	1,335	1,449
Debentures issued to financial institutions (unlinked)	**410**	**456**	410	445	403	444
	7,023	**7,587**	6,435	6,863	6,956	7,443

10.1.2 Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, with details of the evaluation method. The methods used to estimate the fair values of financial instruments are described in Note 28.7 to the Annual Financial Statements.

	March 31, 2014	March 31, 2013	December 31, 2013
	NIS million	NIS million	NIS million
Level 1: investment in exchange-traded funds and financial funds	**1,281**	1,399	1,099
Level 2: forward contracts	**(34)**	(15)	(25)
Level 3: investment in non-marketable shares	**11**	22	12
	1,258	1,406	1,086

11. Segment Reporting

11.1. Operating segments

	Three months ended March 31, 2014 (Unaudited)						
	Domestic fixed-line communication	Cellular communications	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	1,011	902	331	424	62	(424)	2,306
Inter-segment revenues	66	15	24	-	5	(105)	5
Total revenues	1,077	917	355	424	67	(529)	2,311
Depreciation and amortization	168	106	32	70	7	(69)	314
Segment results – operating profit	504	126	58	73	1	(74)	688
Financing expenses	106	6	5	123	2	(129)	113
Financing income	(50)	(24)	(3)	(16)	-	22	(71)
Total financing expenses (income), net	56	(18)	2	107	2	(107)	42
Segment profit (loss) after financing expenses, net	448	144	56	(34)	(1)	33	646
Share in profits (losses) of associates	-	-	1	-	-	(20)	(19)
Segment profit (loss) before income tax	448	144	57	(34)	(1)	13	627
Income tax	116	36	15	-	3	-	170
Segment results – net profit (loss)	332	108	42	(34)	(4)	13	457

	Three months ended March 31, 2013 (Unaudited)						
	Domestic fixed-line communication	Cellular communications	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	1,059	946	337	403	57	(403)	2,399
Inter-segment revenues	70	18	9	1	6	(98)	6
Total revenues	1,129	964	346	404	63	(501)	2,405
Depreciation and amortization	167	121	31	62	7	(60)	328
Segment results – operating profit	535	174	56	67	(1)	(70)	761
Financing expenses	129	12	7	131	3	(142)	140
Financing income	(77)	(41)	(3)	(3)	(1)	9	(116)
Total financing expenses (income), net	52	(29)	4	128	2	(133)	24
Segment profit (loss) after financing expenses, net	483	203	52	(61)	(3)	63	737
Share in losses of associates	-	-	-	-	-	(40)	(40)
Segment profit (loss) before income tax	483	203	52	(61)	(3)	23	697
Income tax	135	50	15	-	2	(2)	200
Segment results – net profit (loss)	348	153	37	(61)	(5)	25	497

	Year ended December 31, 2013 (Audited)						
	Domestic fixed-line communication	**Cellular communications**	**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	4,198	3,741	1,365	1,633	241	(1,633)	9,545
Inter-segment revenues	280	68	68	2	21	(421)	18
Total revenues	4,478	3,809	1,433	1,635	262	(2,054)	9,563
Depreciation and amortization	683	458	130	263	31	(254)	1,311
Segment results – operating profit	1,998	608	227	268	(4)	(278)	2,819
Financing expenses	534	46	23	654	6	(690)	573
Financing income	(317)	(137)	(9)	(7)	-	42	(428)
Total financing expenses (income), net	217	(91)	14	647	6	(648)	145
Segment profit (loss) after financing expenses, net	1,781	699	213	(379)	(10)	370	2,674
Share in profits (losses) of associates	-	-	1	-	-	(253)	(252)
Segment profit (loss) before income tax	1,781	699	214	(379)	(10)	117	2,422
Income tax	410	178	56	2	5	-	651
Segment results – net profit (loss)	1,371	521	158	(381)	(15)	117	1,771

11.2. **Adjustment of profit or loss for reporting segments**

	Three months ended March 31		Year ended
	2014	**2013**	**December 31, 2013**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Operating profit for reporting segments	**761**	832	3,101
Cancellation of expenses for a segment classified as an associate	**(73)**	(67)	(268)
Financing income (expenses), net	**(42)**	(24)	(145)
Share in losses of associates	**(19)**	(40)	(252)
Other adjustments	**-**	(4)	(14)
Consolidated profit before income tax	**627**	697	2,422

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

12.1. Pelephone Communications Ltd.

Selected data from the statement of financial position:

	March 31, 2014	March 31, 2013	December 31, 2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**1,828**	2,271	2,073
Non-current assets	**1,996**	2,351	2,053
	3,824	4,622	4,126
Current liabilities	**906**	1,231	1,037
Long-term liabilities	**128**	559	205
Total liabilities	**1,034**	**1,790**	**1,242**
Equity	**2,790**	2,832	2,884
	3,824	4,622	4,126

Selected data from the statement of income:

	Three months ended March 31		Year ended
	2014	2013	December 31, 2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**637**	714	2,808
Revenues from sales of terminal equipment	**280**	250	1,001
Total revenues from services and sales	**917**	964	3,809
Cost of services and sales	**681**	676	2,711
Gross profit	**236**	288	1,098
Selling and marketing expenses	**83**	86	320
General and administrative expenses	**27**	28	109
Other operating expenses	**-**	-	61
	110	114	490
Operating profit	**126**	174	608
Financing expenses	**6**	12	46
Financing income	**(24)**	(41)	(137)
Financing income, net	**(18)**	(29)	(91)
Profit before income tax	**144**	203	699
Income tax	**36**	50	178
Profit for the period	**108**	153	521

12. Condensed Financial Statements of Pelephone Communications Ltd. and Bezeq International Ltd. (Contd.)

12.2. **Bezeq International Ltd.**

Selected data from the statement of financial position:

	March 31, 2014	March 31, 2013	December 31, 2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**515**	504	494
Non-current assets	**751**	797	763
	1,266	1,301	1,257
Current liabilities	**363**	353	311
Long-term liabilities	**122**	172	129
Total liabilities	**485**	525	440
Equity	**781**	776	817
	1,266	1,301	1,257

Selected data from the statement of income:

	Three months ended March 31		Year ended
	2014	2013	December 31, 2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**355**	346	1,433
Operating expenses	**218**	208	879
Gross profit	**137**	138	554
Selling and marketing expenses	**50**	51	205
General and administrative expenses	**29**	31	119
Other expenses, net	**-**	-	3
	79	82	327
Operating profit	**58**	56	227
Financing expenses	**5**	7	23
Financing income	**(3)**	(3)	(9)
Financing expenses, net	**2**	4	14
Share in profits of equity-accounted associates	**1**	-	1
Profit before income tax	**57**	52	214
Income tax	**15**	15	56
Profit for the period	**42**	37	158

13. Subsequent Events

13.1 In April 2014, Pelephone signed an agreement with LM Ericsson Israel Ltd. ("Ericsson"), to upgrade the network center to support LTE, purchase and install radio equipment, and additional adjustments to the network for support of LTE. The equipment supplied to Pelephone will also support LTE Advanced Technology (4.5 generation). The agreement includes Ericsson's undertaking to supply most of the equipment immediately. Launching of the network is subject to regulatory approvals and the allocation of the frequencies that are required to operate the technology.

13.2 On May 20, 2014, the subsidiary Walla Communications Ltd. ("Walla") and Axel Springer Digital Classifieds Holding GmbH, a foreign company incorporated in Germany, whose activities include media, completed a transaction for the sale of the entire share capital of Coral Tel Ltd ("Coral Tel"), a private company wholly controlled by the Company (indirectly, through Walla), which operates the Yad2 website. On completion of the transaction, the full consideration of NIS 805 million was received. Walla no longer holds any share capital in Coral Tel. The sale agreement signed by the parties on May 5, 2014 includes an undertaking by Walla and the Company to refrain from engaging in Coral Tel's fields of activity for 24 months. In view of the above, the Group is expected to record pre-tax profit of NIS 560 million in its financial statements for the second quarter of 2014.

13.3 Further to Note 14.5 to the Annual Financial Statements, on May 15, 2014, the Company's Board of Directors approved a provision of NIS 116.5 million for the early retirement of 101 employees, in accordance with the terms of the collective agreement of December 2006, as amended in December 2010. The Board of Directors also approved the retirement of additional employees in an increased compensation track, in accordance with the Company's requirements. In view of the above, the Company is expected to include a provision of NIS 116.5 million in its financial statements for the second quarter of 2014.

D.B.S. Satellite Services (1998) Ltd.

Condensed Interim Financial Statements as of March 31, 2014

Condensed Interim Financial Statements as of March 31, 2014

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Auditors' Review Report to the Shareholders of
D.B.S. Satellite Services (1998) Ltd.

Introduction

We have reviewed the accompanying financial information from D.B.S. Satellite Services (1998) Ltd. ("the Company), including the condensed interim statement of financial position as of March 31, 2014, and the condensed interim statements of income, comprehensive income, changes in equity deficit, and cash flows for the three month period then ended. The Board of Directors and Management are responsible for preparing and presenting the financial information for this interim period in accordance with IAS 34 - *Interim Financial Reporting*. They are also responsible for preparing the financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion concerning the financial information for this interim period based on our review.

Scope

We conducted our review in accordance with Review Standard 1 - *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* established by the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making enquiries, 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 be assured 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 this financial information is not prepared, in all material respects, in accordance with IAS 34.

Additionally, based on our review, nothing has come to our attention that causes us to believe that this financial information does not conform, in all material respects, to the disclosure provisions set forth in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our conclusion, we draw attention to Note 4, concerning the Company's financial position.

Sincerely,

Somekh Chaikin
CPAs

May 25, 2014

Condensed Interim Statements of Financial Position as of

	March 31 2014	March 31 2013	December 31 2013
	(unaudited)	(unaudited)	(audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Assets			
Cash and cash equivalents	**118,425**	72,999	125,263
Trade receivables	**165,792**	159,550	164,277
Other receivables	**5,229**	4,618	1,615
Total current assets	**289,446**	237,167	291,155
Broadcasting rights - net of exercised rights	**420,416**	391,451	416,598
Property, plant and equipment, net	**788,322**	749,052	775,131
Intangible assets, net	**137,420**	105,964	133,728
Total non-current assets	**1,346,158**	1,246,467	1,325,457
Total assets	**1,635,604**	1,483,634	1,616,612

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

Condensed Interim Statements of Financial Position as of

	March 31 2014	March 31 2013	December 31 2013
	(unaudited)	(unaudited)	(audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Liabilities			
Credit from banks	**13,586**	62,253	35,785
Current maturities on bonds	**290,167**	184,565	292,168
Trade payables	**456,485**	405,617	467,929
Other payables	**169,431**	162,093	161,318
Provisions	**8,795**	7,709	12,360
Total current liabilities	**938,464**	822,237	969,560
Bonds and bank loans	**1,382,592**	1,427,446	1,387,616
Loans from shareholders	**3,660,806**	3,184,589	3,571,900
Other long-term liabilities	**25,261**	66,276	24,931
Employee benefits	**5,420**	5,455	5,779
Total non-current liabilities	**5,074,079**	4,683,766	4,990,226
Total liabilities	**6,012,543**	5,506,003	5,959,786
Equity deficit			
Share capital	**29**	29	29
Share premium	**85,557**	85,557	85,557
Options	**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
Retained losses	**(6,058,295)**	(5,703,725)	(6,024,530)
Total equity deficit	**(4,376,939)**	(4,022,369)	(4,343,174(
Total liabilities and equity	**1,635,604**	1,483,634	1,616,612

David Efrati
Authorized to sign as Chairman of the Board
(See Note 8)

Ron Eilon
CEO

Micky Neiman
CFO

Financial statements approval date: May 25, 2014

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

Condensed Interim Statements of Income

	For the three months ended		For the year ended
	March 31, 2014	March 31, 2013	December 31, 2013
	(unaudited)	(unaudited)	(audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Revenues	**423,724**	403,541	1,635,216
Cost of revenues	**268,750**	258,114	1,051,618
Gross profit	**154,974**	145,427	583,598
Sales and marketing expenses	**39,614**	39,119	153,712
General and administrative expenses	**42,478**	38,879	162,372
Operating profit	**72,882**	67,429	267,514
Finance expenses	**33,467**	31,752	167,677
Finance income	**(15,912)**	(2,661)	(6,979)
Finance expenses for shareholder loans, net	**88,906**	98,847	486,158
Finance expenses, net	**106,461**	127,938	646,856
Loss before income tax	**(33,579)**	(60,509)	(379,342)
Income tax	**186**	192	1,352
Loss for the period	**(33,765)**	(60,701)	(380,694)

Basic and diluted loss per share (NIS)	**1,129**	2,030	12,734

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

Condensed Interim Statements of Comprehensive Income

	For the three months ended		For the year ended
	March 31, 2014	March 31, 2013	December 31, 2013
	(unaudited)	(unaudited)	(audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Loss for the period	**(33,765)**	(60,701)	(380,694)
Items of other comprehensive income that will not be transferred to profit or loss			
Actuarial gains (losses) on a defined benefit plan	**-**	166	(646)
Total other comprehensive income (loss) for the period that will not be transferred to profit or loss	**-**	166	(646)
Total comprehensive loss for the period	**(33,765)**	(60,535)	(381,340)

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

Condensed Interim Statements of Changes in Equity Deficit

	Share capital	Share premium	Options	Capital reserve	Capital reserve for share-based payments	Retained losses	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the three months ended March 31, 2014 (unaudited)							
Balance as of January 1, 2014 (audited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(6,024,530)**	**(4,343,174)**
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	**(33,765)**	**(33,765)**
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	**(33,765)**	**(33,765)**
Balance as of March 31, 2014 (unaudited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(6,058,295)**	**(4,376,939)**
For the three months ended March 31, 2013 (unaudited)							
Balance as of 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	-	-	-	-	-	(60,701)	(60,701)
Other comprehensive income for the period	-	-	-	-	-	166	166
Total comprehensive loss for the period	-	-	-	-	-	(60,535)	(60,535)
Balance as of March 31, 2013 (unaudited)	29	85,557	48,219	1,537,271	10,280	(5,703,725)	(4,022,369)

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

Condensed Interim Statements of Changes in Equity (Contd.)

	Share capital	Share premium	Options	Capital reserves	Capital reserve for share-based payments	Retained losses	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the year ended December 31, 2013 (audited)							
Balance as of 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 year							
Loss for the year	-	-	-	-	-	(380,694)	(380,694)
Other comprehensive loss for the year	-	-	-	-	-	(646)	(646)
Total comprehensive loss for the year	-	-	-	-	-	(381,340)	(381,340)
Balance as of December 31, 2013 (audited)	29	85,557	48,219	1,537,271	10,280	(6,024,530)	(4,343,174)

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

Condensed Interim Statements of Cash Flows

	For the three months ended		For the year ended
	March 31, 2014	March 31, 2013	December 31, 2013
	(unaudited)	(unaudited)	(audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Cash flows from operating activities			
Loss for the period	**(33,765)**	(60,701)	(380,694)
Adjustments:			
Depreciation and amortization	**69,731**	61,953	262,735
Finance expenses, net	**107,412**	123,244	633,376
Losses (gains) from sale of property, plant and equipment	**356**	800	320
Income tax expenses	**186**	192	1,352
Change in trade receivables	**(1,515)**	3,493	(1,234)
Change in other receivables	**(3,613)**	(2,944)	59
Change in broadcasting rights net of exercised rights	**(3,818)**	(14,102)	(39,249)
Change in trade and other payables	**(21,475)**	10,055	16,076
Change in employee benefits	**(359)**	(216)	(704)
	146,905	182,475	872,731
Income taxes paid	**(272)**	(192)	(1,550)
Net cash from operating activities	**112,868**	121,581	490,487
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment	**67**	35	474
Purchase of property, plant and equipment	**(64,617)**	(75,656)	(260,110)
Payments for software and licenses	**(13,191)**	(13,990)	(63,638)
Net cash used in investing activities	**(77,741)**	(89,611)	(323,274)

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

Condensed Interim Statements of Cash Flows (Contd.)

	For the three months ended		For the year ended
	March 31, 2014	March 31, 2013	December 31, 2013
	(unaudited)	(unaudited)	(audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Cash flows from financing activities			
Repayment of bond principal	**-**	-	(223,355)
Short-term bank credit and loans, net	**(18,597)**	(7,069)	(33,537)
Payment for finance lease liabilities	**(1,073)**	-	(2,766)
Interest paid	**(22,295)**	(24,018)	(121,352)
Bond issues, net	**-**	72,116	339,060
Net cash from (used in) financing activities	**(41,965)**	41,029	(41,950)
Increase (decrease) in cash and cash equivalents	**(6,838)**	72,999	125,263
Cash and cash equivalents at the beginning of the year	**125,263**	-	-
Cash and cash equivalents at the end of the year	**118,425**	72,999	125,263

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

NOTE 1 - THE REPORTING ENTITY

D.B.S. Satellite Services (1998) Ltd. ("the Company") was incorporated in Israel in 1998 and has its main offices in 6 HaYozma Street, Kfar Saba.
The Company holds a Ministry of Communications license for satellite television broadcasts ("the License"). The License is valid until January 2017, and may be extended for additional six-year periods, subject to certain conditions. The Company's operations are subject, inter alia, to the Communications (Telecommunications and Broadcasts) Law, 1982 ("the Communications Law") and the regulations and rules enacted thereunder, and to the terms of the License.

Bezeq - The Israel Telecommunication Corporation Ltd. ("Bezeq") holds 49.78% of the Company's issued capital, and options for an additional 8.6% of the Company's issued capital, which Bezeq may exercise subject to Bezeq and the Company meeting the terms of the merger specified by the Antitrust Authority.
The Company's remaining shares are held by Eurocom DBS Ltd. Voting rights granted by these shares are held by a trustee, under an irrevocable letter of appointment and authorization, and pursuant to the Antitrust Commissioner's decision stating, inter alia, that he must use the shares as an owner.

On March 26, 2014, Bezeq received the Antitrust Authority's decision, whereby, subject to certain conditions, the restrictions imposed on the Eurocom Group concerning its continued holding of the Company would be repealed, and the merger between the Company and Bezeq would be permitted.

NOTE 2 - BASIS OF PREPARATION

A. Statement of Compliance

The condensed interim financial statements were prepared in accordance with IAS 34 - Interim Financial Reporting, and does not include all the information required to be presented in the full annual financial statements. These condensed statements should be read in conjunction with the financial statements for the year ended December 31, 2013 ("the Annual Statements"). In addition, 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 Board of Directors on May 25, 2014.

B. Use of estimates and judgment

In preparing these condensed financial statements according to IFRS, Management is required to exercise judgment and use assessments, estimates, and assumptions which affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. It is clarified that actual results may differ from these estimates.
Management's judgment in applying the Company's accounting policies and the key assumptions used in assessments involving uncertainty, are consistent with those applied in preparing the annual financial statements.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES

Principal accounting policies were applied in these interim financial statements in a manner that is consistent with their application in the Annual Statements for the year ended December 31, 2013, except for the following:

First-time application of new standards

Starting January 1, 2014, the Company applies the amendment to IAS 32 - *Financial Instruments: Presentation*, concerning the offsetting of financial assets and liabilities. Application of the amended standard did not materially affect the Company's financial statements.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (CONTD.)

New standards and interpretations not yet adopted

Integrated amendment to IAS 16 - *Property, Plant and Equipment* and IAS 38 - *Intangible Assets*, issued in May 2014 ("the Amendment").
The Amendment clarifies the acceptable methods of depreciation and amortization. Application of the Amendment is mandatory starting with the financial statements for annual periods starting on or after January 1, 2016, and is applied prospectively. Early adoption of the Amendment is possible, subject to certain disclosure requirements. The Company will study the implications of the Amendment's adoption on its financial statements.

NOTE 4 - THE COMPANY'S FINANCIAL POSITION

A. Since starting its operations, the Company has accumulated considerable losses. The Company's loss in 2013 amounted to NIS 381 million, and its loss in the three months ended March 31, 2014, amounted to NIS 34 million. As a result of these losses, as of March 31, 2014, the Company had an equity deficit and a working capital deficit of NIS 4,377 million and NIS 649 million, respectively.

B. 1. As of March 31, 2014, the Company complied with the financial covenants established under its financing and bond agreements. As of March 31, 2014, the Company complied with the debt/EBITDA ratio covenant established in Deed of Trust B (the Company's debt/EBITDA ratio as of March 31, 2014, was 3). Furthermore, the Company complied with the debt//EBITDA ratio covenant specified by the 2012 Bonds (as of March 31, 2014, the Company's debt/EBITDA ratio was 2.75), and the debt/(E-C) ratio covenant specified by the 2012 Bonds (as of March 31, 2014, the debt/(E-C) ratio was 8).

2. For information concerning additional debt raising subsequent to the reporting period, see Note 7 below.

3. For information concerning the upgrade of the Company's rating subsequent to the reporting period, see Note 7 below.

4. Management estimates that the financing resources available to the Company, which include, inter alia, the working capital deficit and its debt raising activities, will be sufficient for the Company's operating needs in the coming year, based on the forecasted cash flows approved by the Company's Board of Directors. Should additional resources be required to meet the Company's operating needs in the coming year, the Company will adjust its operations so as not to require additional resources beyond those currently at its disposal.

NOTE 5 - CONTINGENT LIABILITIES

Legal actions

Various legal actions have been filed or are pending against the Company (in this section: "Legal Actions").
Based, *inter alia*, on the opinion of its legal counsel concerning the chances for success of these Legal Actions, Management believes that adequate provisions have been included in the financial statements, where such provisions are required, to cover the Company's exposure from the said Legal Actions.

As of March 31, 2014, the Company's exposure to Legal Actions brought against the Company on various matters, totalled NIS 152.503 million. These amounts and all amounts of the claims detailed in this Note do not include linkage and interest.

Below are details of material claims pending against the Company as of March 31, 2014, classified into groups with similar characteristics.

A. Employee claims

In the normal course of business, collective and individual claims have been file against the Company by its employees and former employees. These claims primarily concern allegations of non-payment of salary components and delay in salary payments. As of March 31, 2014, these claims totaled NIS 77.038 million. Based on the opinion of its legal counsel concerning the chances of success of these claims, Management believes that adequate provisions have been included in the financial statements, to the amount of NIS 1.939 million, where provisions are required to cover the Company's exposure to such claims.

B. Customer claims

In the normal course of business, claims have been filed against the Company by its customers. These are mainly applications for approval as class actions (and subsequent actions) which usually concern claims of unlawful charges and complaints concerning services provided by the Company. As of March 31, 2014, these claims totaled NIS 74.475 million. Based, among other things, on the opinion of its legal counsel concerning the chances of success of these claims, Management believes that adequate provisions have been included in the financial statements, to the amount of NIS 6.226 million, where provisions are required to cover the Company's exposure to such claims.

C. Supplier and communication provider claims

In the normal course of business, various Legal Actions have been brought against the Company by suppliers of goods and/or services to the Company. As of March 31, 2014, these claims totaled NIS 990,000. Based, among other things, on the opinion of its legal counsel concerning the chances of success of these claims, Management believes that adequate provisions have been included in the financial statements, to the amount of NIS 100,000, where provisions are required to cover the Company's exposure to such claims.

NOTE 6 - FINANCIAL INSTRUMENTS

Fair value

A. Fair value vs. carrying amount

The carrying amount of certain financial assets and financial liabilities including cash and cash equivalents, trade receivables, other receivables, deposits, derivatives, bank credit, long- and short-term loans and credit, trade payables, other payables, matches or is near their fair value. The fair value of other financial assets and financial liabilities and their respective carrying amounts presented in the statement of financial position, are as follows:

	As of March 31, 2014	
	Carrying amount	Fair value
	NIS Thousands	
Bonds, including accrued interest and bank loans	1,730,275	1,941,583

	As of March 31, 2013	
	Carrying amount	Fair value
	NIS Thousands	
Bonds, including accrued interest	1,650,446	1,693,633

NOTE 6 - FINANCIAL INSTRUMENTS (CONTD.)

Fair value (contd.)

	As of December 31, 2013	
	Carrying amount	Fair value
	NIS Thousands	
Bonds, including accrued interest	1,712,923	1,933,242

B. Fair value hierarchy

The fair value of financial instruments measured at fair value is assessed according to the fair value level in the hierarchy.
The various levels are defined as follows:

- Level 1: Quoted (non-adjusted) prices on an active market for identical instruments.
- Level 2: Directly or indirectly observed data, not included in Level 1 as aforesaid.
- Level 3: Data not based on observed market data.

C. Data concerning Level 2 fair value measurement

As of March 31, 2014, the Company made a number of forward transactions to reduce its exposure to fluctuations in the USD exchange rate. The fair value of these forward transactions was determined by using market-observed data. The net fair value of these forward transactions as of March 31, 2014 (liability) totaled NIS 3.4 million.

NOTE 7 - MATERIAL EVENTS SUBSEQUENT TO THE REPORTING PERIOD

A. On April 1, 2014, S&P Maalot set an -ilA rating for additional bonds to be issued by the Company up to a total par value amount of NIS 250 million. This issue will be effected as a new bonds issue or as an expansion of an existing series.

B. In April 2014, the Company carried out an additional issue of Bonds (Series A), effected as an expansion of the series by a total of NIS 253 million, and an additional issue of Bonds (Series B), effected as an expansion of the series by a total of NIS 47 million. For information concerning the terms of these bonds, see Note 14 to the financial statements for December 31, 2013.

C. On April 30, 2014, S&P Maalot upgraded its rating for the Company and the Company's bonds to ilA (stable), and put the rating on its watch list with a positive outlook.

D. Subsequent to the reporting period, applications for approval of class actions were filed against the Company with a total value of NIS 42 million. As of the financial statements' approval date, it was not yet possible to assess the chances of success of these actions. It is noted that, in Note 20(2)a to its financial statements for December 31, 2013, following exposure of which the Company was aware prior to the filing of one of the said applications, the Company included an amount of NIS 25 million in its exposure balance in respect of the said application.

NOTE 8 - APPOINTMENT OF A CHAIRPERSON FOR THE FINANCIAL STATEMENTS APPROVAL MEETING

On the date of approval of the financial statements the Company's Board of Directors did not have an incumbent Chairperson. Consequently, on May 25, 2014, the Company's Board of Directors authorized David Efrati, a director in the Company, to chair the Board of Directors meeting in which the financial statements were approved, and to sign the Company's financial statements for March 31, 2014.

Bezeq The Israel Telecommunication Corporation Ltd.

Condensed Separate Interim Financial Information as at March 31, 2014 (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 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 interim information of Financial Position

	March 31, 2014 (Unaudited) NIS million	March 31, 2013 (Unaudited) NIS million	December 31, 2013 (Audited) 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 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 interim information of Profit or Loss

	Three months ended March 31		Year ended 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 March 31		Year ended 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 interim information of Cash Flows

	Three months ended March 31		Year ended 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 Interim Statements of Cash Flows (cont.)

	Three months ended March 31		Year ended 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

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 March 31		Year ended 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 March 31		Year ended 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.