May 12, 2013

Quarterly Report for the period ending March 31, 2013

- Update of Chapter A (Description of Company Operations) of the Periodic Report for 2012
- Directors' Report on the state of the Company's affairs for the period ended March 31, 2013
- Interim Financial Statements as at March 31, 2013

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

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

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

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

Section 1.1 - Bezeq Group activities and business development

Section 1.1.1 – General

Following are details of the current holdings in the Company including fully diluted holdings, assuming exercise of all the options allotted to the Group's employees and managers as of March 31, 2013 and May 9, 2013:

Shareholders	Percentage of holdings		
	as at March 31, 2013	as at May 9, 2013	Fully diluted at May 9, 2013[2]
B Communications (through B Tikshoret) [3]	30.97%	30.97%	30.20%
The public	69.03%	69.03%	69.80%

Section 1.4 - Dividend distribution

Section 1.4.2 - Distribution that does not pass the profit test

Concerning the application filed in the Tel Aviv District Court (Economic Department) on March 13, 2013 by a holder of Company debentures (Series 5), declaring his objection to the distribution of the fifth portion of the distribution which does not pass the profit test which was approved by the court on March 31, 2011 - on April 18, 2014 the Company was also served with "an objection to distribution of the fifth portion of an unearned dividend" which was filed by the same debenture holder. The

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

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

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

Company rejected the arguments set out in the objections, and asked the court to dismiss the objections in limine and in substance. On May 6, 2013, a hearing on the objection took place and at the court's recommendation, the holder of the debentures deleted his objection.

Section 1.4.3 - Dividend distribution

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

On a shareholder's claim concerning this dividend distribution, see the update to Section 2.18.

The outstanding, distributable profits at the reporting date amount to NIS 508 million[4].

[4] Subject to compliance with the distribution tests.

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

Section 1.5.4 - Main results and operational data

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

	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenues (NIS millions)	1,129	1,121	1,149	1,161	1,199
Operating profit (NIS millions)	535	564*	419	437	539
Depreciation and amortization (NIS millions)	167	189	185	178	178
Earnings before interest, taxes, depreciation and amortization (EBITDA)(NIS millions)(6)	702	753*	604	615	717
Net profit (NIS millions)	348	370*	246	263	348
Cash flow from operating activities (NIS millions)	561	512	470	376	651
Payments for investments in property, plant & equipment and intangible assets (NIS millions)	183	202	249	238	269
Proceeds from the sale of property, plant & equipment and intangible assets (NIS millions)	42	136	96	22	46
Free cash flow (NIS millions)(1)(7)	420	446	317	160	428
Number of active subscriber lines at end of the period (in thousands) (2)	2,242	2,268	2,299	2,335	2,368
Average monthly revenue per line (NIS) (ARPL)(3)	69	71	73	73	74
Number of outgoing minutes (in millions)	1,788	1,979	2,126	2,226	2,360
Number of incoming minutes (in millions)	1,509	1,571	1,595	1,516	1,543
Number of internet subscribers at end of the period (in thousands)(2)	1,185	1,169	1,153	1,136	1,121
Percentage of subscribers using NGN services out of the Company's total internet subscribers connected to NGN network (%) (4)	65%	62%	60%	57%	55%
Average monthly revenue per internet subscriber (NIS)	83	80	80	80	84
Average bandwidth per internet subscriber (Mbps)	10.4	9.6	9.0	8.3	7.5
Churn rate (5)	3.7%	4.0%	4.2%	3.9%	3.2%

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

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

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

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

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

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

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

* Restated due to retrospective implementation of the amendment to IAS 19 “Employee Benefits”. On this, see Note 2.3C to the Company’s consolidated financial statements for the period ended March 31, 2013.

B. Pelephone

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

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

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

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

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

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

C. Bezeq International

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

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

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

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

D. DBS

	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q12012
Revenues (NIS millions)	404	407	403	409	417
Operating profit (NIS millions)	67	73	54	74	52
Depreciation and amortization (NIS millions)	62	64	64	54	66
Earnings before interest, taxes, depreciation and amortization (EBITDA)((NIS millions) (1)	130	137	118	128	118
Net profit (loss) (NIS millions)	(61)	(20)	(119)	(107)	(64)
Cash flow from operating activities (NIS millions)	122	119	83	100	116
Payments for investments in property, plant & equipment and intangible assets, net (NIS millions)	90	72	87	69	56
Free cash flow (NIS millions) (1)	32	47	(4)	31	60
Number of subscribers (at end of the period, in thousands) (2)	578	578	581	582	585
Average monthly revenue per subscriber (ARPU) (NIS) (3)	233	234	231	234	237
Churn rate (4)	3.8%	3.8%	4.1%	3.9%	3.6%

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

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

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

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

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

Section 2.9.3 – Early retirement plans

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

Section 2.13.6 - Credit rating

Regarding the Company`s ilAA Stable Outlook credit rating issued by Standard & Poor's Maalot for the Company (and its debentures) - on April 22, 2013, Standard & Poor's Maalot published a full rating report in connection with the rating dated February 21, 2013. The rating report is attached to the Board of Directors' report.

Section 2.17.5 - Management agreement:

On April 21, 2013 and April 25, 2013, the Compensation Committee and Board of Directors of the Company, respectively, approved the entering into a revised agreement with Eurocom Communications Ltd., to provide the Company with on-going management and consulting services, all in consideration of a total of NIS 5.524 million per annum. The agreement is for a period of three years commencing June 1, 2013 (date of the termination of the current management agreement) until May 31, 2016, unless either party informs the other of its wish to terminate the agreement by giving three months advance notice. Extension of the agreement must be approved by the general meeting of the Company's shareholders, which has been convened for June 13, 2013. For additional information, see a transaction report and notice of convening a special general meeting of the Company dated May 7, 2013, cited here by way of reference.

Section 2.18 – Legal proceedings

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

On April 8, 2013, the Company received a claim which was filed against the Company and against the controlling shareholder by one of its shareholders in the Tel Aviv District Court (Economic Department), requesting that the court declare that the controlling shareholder has a personal interest in the dividend distribution due to be approved by the general meeting, and demanding that the Company publish information and documents as well as summons the economic experts whose opinion had been published by the Company. On April 21, 2013, the court dismissed an immediate motion for summary proceedings to investigate the claim which had been filed by the plaintiff. Accordingly, the claim will be investigated in accordance with the dates prescribed by law and there is no change in the dates scheduled for the dividend distribution and the general meeting, which took place on April 24, 2013.

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

Section 3.10.1 – Suppliers of terminal equipment

The agreement with Apple Distribution International ("Apple") for the purchase and distribution of iPhone handsets in Israel, was extended until the beginning of May 2013. Pelephone is negotiating to extend the agreement beyond this date.

On May 12, 2013, the Company's Board of Directors gave its approval in principle for Pelephone to enter into an agreement with Apple, whereby Pelephone will undertake to purchase a minimum annual quantity of handsets over a further three-year period at the manufacturer's prices which are in force on the actual date of purchase. Pelephone believes that as in previous years, these quantities will form a substantial share of the number of handsets it expects to sell during the agreement period.

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

Section 3.12.5 - Credit rating

Regarding the Company`s ilAA Stable Outlook credit rating issued by Standard & Poor's issued for Pelephone (and its debentures) - on April 22, 2013, Standard & Poor's Maalot published a full rating report in connection with the rating from February 2013. The rating report is attached to the Board of Directors' report.

Section 3.15.2 A - Obligations to banks

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

Financial covenants to which Pelephone is obligated:	at March 31, 2013	Maximum required ratio
Pelephone's total debts will not exceed 3 times its equity.	0.56	3.00
Total debts must not exceed NIS 3.8 billion (linked to the CPI known in January 2002. As at March 31, 2013 = NIS 4.88 billion).	1.58	4.88
Undertaking to a particular bank that debts to it will not exceed 40% of Pelephone's total cumulative debts to financial entities including debenture holders.	14.9%	40%

Section 3.16 – Substantial agreements

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

Section 3.17 – Legal proceedings

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

4. Bezeq International – international communication and internet services

There are no updates to this chapter.

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

Section 5.15 –

For information about the financial covenants and DBS's compliance with them, see Note 4 to the financial statements of DBS as at March 31, 2013, which are included in this quarterly report.

Section 5.15.3 - Institutional financing

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

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

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

Section 5.18.1 -

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

May 12, 2013	
Date	"Bezeq" - The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:

Shaul Elovitch, Chairman of the Board of Directors

Stella Handler, CEO

Directors' Report on the State of the Company's Affairs for the three months ended March 31, 2013

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

We respectfully present the Directors' Report on the state of affairs of "Bezeq" – The Israel Telecommunication Corp. Limited ("the Company") and the consolidated Group companies (the Company and the consolidated companies together: "the Group"), for the three-month period ended March 31, 2013 ("Quarter").

The Directors' Report contains a condensed review of its subject-matter and was prepared assuming that the Directors' Report for December 31, 2012 is also available to the reader.

The Group reports on four main segments in its financial statements:

1) **Domestic Fixed-Line Communications**

2) **Cellular**

3) **International Communications, Internet and NEP Services**

4) **Multi-Channel Television (stated by the equity method)**

The Company's consolidated financial statements also include an "Others" segment which comprises mainly Internet services and an Internet portal operation (through Walla) and customer call center services (through Bezeq On-line), This Others segment is not material at the Group level.

Profit for the Quarter attributed to the owners of the Company amounted to NIS 497 million, compared with NIS 582 million in the corresponding quarter last year, a decrease of 14.6%.

EBITDA (earnings before interest, taxes, depreciation and amortization) of the Group decreased from NIS 1,208 million in the corresponding quarter to NIS 1,089 million in the Quarter, a decrease of 9.9%.

The results for the Quarter compared with the corresponding quarter were affected primarily by more intense competition in the communications market, notably in the Cellular segment, which resulted in a decline in revenue. The impact of this decline was moderated primarily by the decrease in operating and general expenses.

1. Explanations of the Board of Directors for the state of the corporation's affairs, the results of its operations, its equity, cash flows and other topics

1.1 Financial position

1.1.1 Assets

The Group's assets as of March 31, 2013 amounted to NIS 16.09 billion, compared with NIS 17.92 billion on March 31, 2012, of which NIS 5.95 billion (37%) are property, plant and equipment, compared with NIS 6.10 billion (34%) on March 31, 2012.

The decrease in the Group's assets stems primarily from the Cellular segment, which decreased, from NIS 5.94 billion on March 31, 2012 to NIS 4.62 billion as of March 31, 2013. The decrease stems primarily from a decrease in the trade receivables as a result of a decrease in revenues from the sale of terminal equipment and the factoring in of certain receivables paid for in installments. Decreases were also recorded in cash balances, property, plant and equipment, intangible assets and inventory.

In the Domestic Fixed-Line Communications segment, total assets, without dividend receivable, loans and investment in associates, decreased compared with March 31, 2012 by NIS 423 million. The decrease stems mainly from a decrease in the balances of cash and cash equivalents plus current investments, and from a decrease in deferred tax assets.

In the International Communications, Internet and NEP segment, total assets decreased by NIS 41 million. Most of the decrease occurred in cash balances and other long-term assets.

In the Multi-Channel Television segment (stated by the equity method), total assets increased by NIS 178 million, which stemmed from an increase in property, plant and equipment, mainly as a result of an increase in investment in decoders, a rise in broadcasting rights mainly as a result of the increase in the balance of original productions, and an increase in cash, largely due to the raising of debt in the Quarter.

1.1.2 Liabilities

The Group's debt to financial institutions and debenture holders as of March 31, 2013 amounted to NIS 9.39 billion, compared with NIS 9.42 billion on March 31, 2012.[1] Repayment of debentures and loans in the Domestic Fixed-Line Communications segment and in the Cellular segment was offset by receipt of bank loans in the Domestic Fixed-Line Communications segment.

[1] The Group's debt to financial institutions and debentures-holders, net of cash and cash equivalents and current investments as of March 31, 2013, amounted to NIS 7.3 billion, compared with NIS 6.65 billion on March 31, 2012.

1.2 Results of operations

1.2.1 Principal results

Condensed consolidated statement of income:

	1-3/2013 NIS millions	1-3/2012 NIS millions	Increase / (Decrease) NIS millions	%
Revenue	**2,405**	2,740	(335)	(12%)
Operating expenses	**1,644**	1,890	(246)	(13%)
Operating profit	**761**	850	(89)	(10%)
Finance (income) expenses, net	**24**	(44)	68	-
Profit after finance (income expenses, net	**737**	894	(157)	(18%)
Share in losses of affiliates	**40**	58	(18)	(31%)
Profit before income tax	**697**	836	(139)	(17%)
Income tax	**200**	245	(45)	(18%)
Profit for the period	**497**	591	(94)	(16%)
Attributed to:				
Company owners	**497**	582	(85)	(15%)
Non-controlling interest	**-**	9	(9)	(100%)
Profit for the period	**497**	591	591	(16%)
Earnings per share				
Base and diluted earnings per share (NIS)	**0.18**	0.21	(0.03)	(14%)

The Group's revenue in the first quarter of 2013 amounted to NIS 2,405 million, compared with NIS 2,740 million in the corresponding quarter, a decrease of 12.2%. The decrease stems primarily from the Cellular segment as a result of more intense competition, which resulted in a decrease in revenues from services and from the sale of terminal equipment.

The Group's depreciation and amortization expenses in the Quarter amounted to NIS 328 million compared with NIS 358 million in the corresponding quarter, a decrease of 8.4%. The decrease stems mainly from the Domestic Fixed-Line Communications segment and the Cellular segment.

The Group's salary expenses in the Quarter amounted to NIS 499 million compared with NIS 511 million in the corresponding quarter, a decrease of 2.4%. The decrease stems from the Cellular segment.

The Group's operating and general expenses in the Quarter amounted to NIS 889 million compared with NIS 1,044 million in the corresponding quarter, a decrease of 14.9%. The decrease stems mainly from the Cellular segment, primarily as a result of the decrease in the costs of sales of terminal equipment. In addition, commencing 2013, the obligation of Group companies to pay royalties to the State was cancelled.

Other operating income, net, in the quarter amounted to NIS 72 million compared with NIS 23 million in the corresponding quarter. The increase stems from the Domestic Fixed-Line Communications segment.

Finance expenses, net, in the quarter amounted to NIS 24 million, compared with net finance income of NIS 44 million in the corresponding quarter. Most of the change stems from the sale of all of all the shares held in Traffix Communications Systems Ltd. at a profit of NIS 74 million in the first quarter of 2012.

Taxes on the Group's income in the Quarter amounted to NIS 200 million representing 27.1% of earnings after finance expenses, net, compared with NIS 245 million in the corresponding quarter, representing 27.4% of earnings after finance income, net. The decrease in the tax expense stems primarily from the Cellular segment owing to a decrease in pre-tax profit, and from the recording of a tax expense in the corresponding quarter in respect of profit from the sale of the entire holding in Traffix Communications Systems Ltd.

1.2.2 Segments of operation

A. Revenue and operating profit by segment of operation:

	1-3/2013		1-3/2012	
	NIS millions	% of revenues	NIS millions	% of revenues
Revenues by segment of operation				
Domestic Fixed-Line communications	**1,129**	**46.9%**	1,199	43.8%
Cellular	**964**	**40.1%**	1,244	45.4%
International Communications, Internet and NEP	**346**	**14.4%**	332	12.1%
Multi-Channel Television	**404**	**16.8%**	417	15.2%
Others and setoffs*	**(438)**	**(18.2%)**	(452)	(16.5%)
Total Group revenues	**2,405**	**100%**	2,740	100%

	1-3/2013		1-3/2012	
	NIS millions	% of revenues	NIS millions	% of revenues
Operating income by segment of operation				
Domestic Fixed-Line communications	**535**	**47.4%**	539	45.0%
Cellular	**174**	**18.1%**	267	21.5%
International Communications, Internet and NEP	**56**	**16.2%**	50	15.1%
Multi-Channel Television	**67**	**16.6%**	52	12.5%
Others and setoffs*	**(71)**	**-**	(58)	-
Consolidated operating income / % of Group revenues	**761**	**31.6%**	850	31.0%

* The setoffs are mainly in respect of the Multi-Channel Television segment, an affiliate.

B. Domestic Fixed-Line Communications

Revenues

The segment's revenues in the first quarter of 2013 amounted to NIS 1,129 million compared with NIS 1,199 million in the corresponding quarter, a decrease of 5.8%.

The decrease in the segment's revenues stems mainly from a decrease in revenue from telephony, primarily as a result of erosion of revenue per telephone line, a decline in the number of subscribers and a decrease in revenue from interconnect fees to the cellular networks.

The decrease in revenues was offset by an increase in revenues from high-speed Internet, mainly the result of an increase in the number of Internet subscribers. Revenues from data communication also increased.

Costs and expenses

Depreciation and amortization expenses in the Quarter amounted to NIS 167 million, compared with NIS 178 million in the corresponding quarter, a decrease of 6.2%. The decrease stems from the end of depreciation of the old network in 2012 and the end of depreciation of other property, plant and equipment, as well as a revision of depreciation rates moderated by the amortization of new investments.

Salary expenses in the Quarter amounted to NIS 270 million compared with NIS 267 million in the corresponding quarter, an increase of 1.1%. The increase in salary expenses stemmed mainly from a decrease in salaries attributed to investment and wage creep, and was largely offset by employee retirements and a decrease in share-based payments.

Operating and general expenses in the Quarter amounted to NIS 230 million compared with NIS 237 million in the corresponding quarter, a decrease of 3%. The decrease stemmed mainly from the cancellation of the mandatory payment of royalties to the State, commencing 2013, and from a decrease in interconnect fees to the cellular networks along with a corresponding decrease in revenues from interconnect fees. Building maintenance and sub-contractor expenses also decreased, but that decrease was almost entirely offset by a decrease in the obligation to pay frequency fees in the first quarter of 2012.

Other operating income, net in the quarter amounted to NIS 73 million compared with NIS 22 million in the corresponding quarter. The increase stems mainly from an increase in capital gains from the sale of real estate and copper (including forward transactions in respect of copper).

Profitability

Operating profit in the segment in the Quarter is similar to the corresponding quarter and amounted to NIS 535 million.

Finance expenses, net

Finance expenses, net in the Quarter amounted to NIS 52 million, compared with NIS 49 million in the corresponding quarter, an increase of 6.1%. The increase stems primarily from recording finance income owing to a decrease in the liability to pay frequency fees in the first quarter of 2012, and from a decrease in profits from investments in monetary funds. Most of the increase was offset by a decrease in finance expenses in respect of revaluation of the obligation to distribute a dividend that does not pass the profit test, and an increase in finance income from shareholder loans to DBS.

C. Cellular segment

Revenue

Segment revenues in the Quarter amounted to NIS 964 million compared with NIS 1,244 million in the corresponding quarter, a decrease of 22.5%. The decrease stems from the significantly more intense competition in the industry, as described in the Periodic Report for 2012.

Revenues from services in the Quarter amounted to NIS 714 million compared with NIS 834 million in the corresponding quarter, a decrease of 14.4%. The decrease in the service revenues stemmed from tariff erosion as a result of intensifying competition and the transition to unlimited packages, which elf to a decrease in average revenue per use (ARPU) and from a decrease in the number of subscribers. The negative impact on revenues as partly offset by an increase in revenues from cellular operators that use the segment's network.

Segment revenues from the sale of equipment in the Quarter amounted to NIS 250 million, compared with NIS 410 million in the corresponding quarter, a decrease of 39%. The decrease stemmed primarily from a decline in handsets sold, which resulted, inter alia, from the market being opened up to imported handsets and the opening of numerous stores that sell equipment.

Costs and expenses

Depreciation and amortization expenses in the Quarter amounted to NIS 121 million compared with NIS 135 million in the corresponding quarter, a decrease of 10.4%. The decrease stemmed mainly from termination of the capitalization of subscriber acquisition costs.

Salary expenses in the Quarter amounted to NIS 114 million compared with NIS 132 million in the corresponding quarter, a decrease of 13.6%. The decrease in the salary expense stems primarily from a decrease in the number of positions.

Operating and general expenses in the Quarter amounted to NIS 555 million compared with NIS 710 million in the corresponding quarter, a decrease of 21.8%. The decrease stemmed mainly from a decrease in the cost of selling terminal equipment, largely as a result of a decline in the number of handsets sold, and of cancellation of the duty to pay royalties to the State, commencing 2013.

Profitability

Operating profit in the Quarter amounted to NIS 174 million compared with NIS 267 million in the corresponding quarter, a decrease of 34.8%. The decrease in operating profit stemmed primarily from erosion of revenues from services and a decline in quantities of equipment sold and in the profitability of the sales, as noted above.

Finance income, net

Finance income, net in the Quarter amounted to NIS 29 million compared with NIS 22 million in the corresponding quarter. The increase stemmed mainly from a decrease in interest expense in respect of loans owing to a decline in the average volume of debt in the Quarter compared with the corresponding quarter, and from an increase in other interest income, which was offset by a decrease in finance income recorded in respect of sales of equipment on installments in the past three years.

D. **International Communications, Internet and NEP**

Revenue

Revenues in the segment in the Quarter amounted to NIS 346 million compared with NIS 332 million in the corresponding quarter, an increase of 4.2%. The increase in revenues stems from an increase in Internet revenues as a result of growth in the number of subscribers and an increase in call transfers between communications carriers worldwide. The increase was offset by a decrease in revenues from outgoing calls stemming from the transition in the cellular market to packages that include unlimited overseas calls.

Costs and expenses

Depreciation and amortization expenses in the Quarter amounted to NIS 31 million compared with NIS 34 million in the corresponding quarter, a decrease of 8.8%. The decrease stems primarily from extension of the term of the agreement for non-repeatable usage rights in the capacities of an undersea cable that serves as back-up for the cable owned by the segment.

Salary expenses in the quarter amounted to NIS 73 million compared with NIS 70 million in the corresponding quarter, a decrease of 4.3%.

Operating and general expenses in the Quarter amounted to NIS 185 million compared with NIS 178 million in the corresponding quarter, an increase of 3.9%. The increase in these expenses stems from a rise in the expenses of call transfers between communications carriers worldwide, and was moderated, inter alia, by a decrease in expenses for outgoing calls along with revenues as described above.

Profitability

Operating profit in the segment in the Quarter amounted to NIS 56 million compared with NIS 50 million in the corresponding quarter, an increase of 12%. The increase stems from the changes described above in the revenue and expense items.

E. Multi-channel television segment (stated by the equity method)

Revenue

Revenues in the segment in the Quarter amounted to NIS 404 million compared with NIS 417 million in the corresponding quarter, a decrease of 3.1%. Most of the decrease stems from one-time sales of content in the corresponding quarter and from a decrease in the number of customers, and was moderated by a rise in revenues from the use of advanced converters.

Costs and expenses

Cost of sales in the Quarter amounted to NIS 258 million, compared with NIS 272 million in the corresponding quarter, a decrease of 5.2%. Most of the decrease stems from a decrease in content expenses and royalties.

Sales, marketing, administrative and general expenses in the Quarter amounted to NIS 78 million, compared with NIS 93 million in the corresponding quarter, a decrease of 16%. The decrease in these expenses stemmed primarily from a decrease in advertising and in depreciation expenses.

Profitability

Operating profit in the Quarter amounted to NIS 67 million compared with NIS 52 million in the corresponding quarter, an increase of 28.9%. The decrease in operating profit stems from the changes described above in the revenue and expense items

1.3 Equity

Equity attributable to the Company's owners as of March 31, 2013 amounted to NIS 2.97 billion, which is 18.4% of the total balance sheet, compared with NIS 3.24 billion and 18.1% of the total balance sheet on March 31, 2012.

The decrease in equity is the result of the Group's profits after deduction of a dividend of NIS 2.07 billion that was distributed during 2012 from the profits of the second half of 2011 and the first half of 2012.

On April 24, 2013, the general meeting of the shareholders of the Company approved (following the recommendation of the Board of Directors of the Company on March 13, 2013) the distribution of a cash dividend to the shareholders of the Company in the amount of NIS 861 million (see Note 7.3 to the financial statements).

1.4 Cash flows

Consolidated cash flows from operating activities in the first quarter of 2013 amounted to NIS 972 million, compared with NIS 998 million in the corresponding quarter, a decrease of NIS 26 million. Most of the decrease stems from the Domestic Fixed-Line Communications segment, mainly owing to changes in working capital, and was moderated by an increase in cash flow from operating activities in the Cellular segment generated by a decrease in working capital offset by a decrease in net profit. The decrease in working capital in the Cellular segment stemmed primarily from a decline in the volume of sales of equipment on installments, which led to a decrease in trade receivables, and from the factoring in of receivables paid for in installments.

Cash flow from operating activities is one of the sources of financing for the Group's investments, which during the Quarter included NIS 245 million in the development of communications infrastructures compared with NIS 385 million in the corresponding quarter. In addition, NIS 428 million was invested in financial assets held for trading compared with NIS 350 million in the corresponding quarter.

The Group repaid debts and paid interest in the Quarter amounting to NIS 192 million, compared with NIS 205 million in the corresponding quarter.

Average debt (including current maturities) to financial institutions and debenture holders in the reporting period amounted to NIS 9,467 million.
Average supplier credit in the Quarter was NIS 721 million. Average short-term customer credit was NIS 2,901 million, and average long-term customer credit was NIS 971 million.

The Group's working capital surplus as of March 31, 2013 amounted to NIS 1,251 million, compared with a surplus of NIS 1,977 million on March 31, 2012. The decrease in the working capital stems mainly from a decrease in cash balances and occurred primarily in the Cellular segment owing to a decrease in the segment's current assets. The Company (according to the separate financial statements) has a working capital surplus of NIS 94 million as of March 31, 2013, compared with a surplus of NIS 119 million on March 31, 2012.

2. Market risks – Exposure and Management

2.1 Fair value sensitivity analyses and the effects of changes in the market prices of the fair value of the balances in and off the balance sheet for which there is a strong commitment as of March 31, 2013, do not differ significantly from the report as of December 31, 2012.

2.2 The linkage base report at March 31, 2013 does not differ significantly from the report as of December 31, 2012, except for additional forward transactions made by the Domestic Fixed-Line Communications segment and amounting to NIS 322 million for reducing exposure to changes in the CPI in respect of the balance of Debentures Series 5, and forward transactions made by the Cellular segment and amounting to USD 75 million for reducing exposure to changes in exchange rates in respect of the purchase of equipment (see Note 11.2 to the financial statements).

3. Aspects of Corporate Governance

3.1 Disclosure of the process for approval of the financial statements

3.1.1 Committee

The Company's Financial Statements Review Committee is a separate committee which does not serve as the Audit Committee. The committee's four members are Yitzhak Idelman, chairman (external director), Mordechai Keret (external director), Tali Simone (external director), and Dr. Yehoshua Rosenzweig (independent director), each of whom has accounting and financial expertise. All the members of the committee provided a statement prior to their appointment. For additional details about the directors who are committee members, see Chapter D of the Company's Periodic Report for 2012.

3.1.2 Approval of the financial statements

A. The Financial Statements Review committee discussed and finalized its recommendations to the Board from their meetings held on May 7, 2013 and May 9, 2013.

The meeting of the Financial Statements Review Committee on May 7, 2013 was attended by all the committee's members and by Mr. Shaul Elovitch – Chairman of the Board, Mr. Dudu Mizrachi – Deputy CEO and CFO, Mr. Danny Oz – Controller, Mr. Lior Segal – Internal Auditor, Mr. Amir Nachlieli – General Counsel, Mr. Rami Nomkin – director, the external auditors, and other office-holders in the Company. The committee's meeting on May 9, 2013 was attended by all of the above and also by Ms. Stella Handler – CEO of the Company.

B. The committee reviewed, among other things, the assessments and estimates made in connection with the financial statements, internal controls relating to the financial reporting, the integrity and propriety of the disclosure in the financial statements, and the accounting policy adopted in the company's material affairs.

C. The committee's recommendations were forwarded in writing to the Board on May 9, 2013. The Board discussed the recommendations of the Financial Statements Review Committee on May 12, 2013.

D. The Board believes that the recommendations of the Financial Statements Review Committee were submitted a reasonable time (three days) before the Board meeting, taking into account the scope and complexity of the recommendations.

E. The Board accepted the recommendations of the Financial Statements Review Committee, and resolved to approve the Company's financial statements for the first quarter of 2013.

4. Disclosure concerning the financial reporting of the Company

4.1 Critical accounting estimates

Information about principal subjects of uncertainty in the critical estimates and judgments used in application of the accounting policy can be found in Note 2.4 to the financial statements.

4.2 Due to the materiality of the claims filed against the Group, which cannot yet be assessed or the exposure estimated, the auditors drew attention to them in their opinion on the financial statements.

5. Details of series of liability certificates

5.1 Details relating to the series of liability certificates as of March 31, 2013 do not differ from the report as of December 31, 2012. .

5.2 Concerning the rating of the Company (and its debentures) by Standard & Poor's Maalot, which is ilAA\Stable Outlook – on April 22, 2013 Standard & Poor's Maalot published a full rating report in connection with the rating set on February 21, 2013. The rating report is attached to the Directors' Report.

6. Miscellaneous

For information about the liability balances of the Company and the subsidiaries or the proportionately consolidated companies in its financial statements as of March 31, 2013, see the report form filed by the Company on Magna on May 13, 2013.

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

Stella Handler CEO	Shaul Elovitch Chairman of the Board

Date of signature: May 12, 2013

Bezeq The Israel Telecommunication Corporation Limited.

Condensed Consolidated Interim Financial Statements

as at March 31, 2013

(Unaudited)

bezeq

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

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Somekh Chaikin
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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, 2013 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 information 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 certain consolidated subsidiaries whose assets constitute 1.9% of the total consolidated assets as of March 31, 2013, and whose revenues constitute 1.5% of the total consolidated revenues for the three month period then ended. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

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

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

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

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 6.

Somekh Chaikin

Certified Public Accountants (Isr.)

May 12, 2013

Condensed Consolidated Interim Statements of Financial Position

Assets	March 31, 2013 (Unaudited) NIS million	March 31, 2012 (Unaudited) NIS million	December 31, 2012 (Audited) NIS million
Cash and cash equivalents	**573**	1,473	466
Investments, including derivatives	**1,512**	1,297	1,081
Trade receivables	**2,875**	3,130	2,927
Other receivables	**402**	349	321
Inventory	**148**	225	123
Assets classified as held for sale	**94**	25	44
Total current assets	**5,604**	6,499	4,962
Investments, including derivatives	**93**	101	90
Trade and other receivables	**950**	1,442	1,074
Property, plant and equipment	**5,947**	6,102	6,076
Intangible assets	**2,151**	2,268	2,178
Deferred and other expenses	**262**	280	255
Investments in equity-accounted investees (mainly loans)	**1,024**	1,041	1,005
Deferred tax assets	**62**	191*	128*
Total non-current assets	**10,489**	11,425	10,806
Total assets	**16,093**	17,924	15,768

Condensed Consolidated Interim Statements of Financial Position (Contd.)

Liabilities and equity	Note	March 31, 2013 (Unaudited) NIS million	March 31, 2012 (Unaudited) NIS million	December 31, 2012 (Audited) NIS million
Debentures, loans and borrowings		**1,065**	685	1,140
Trade payables		**651**	894	790
Other payables, including derivatives		**808**	948	703
Current tax liabilities		**492**	481	456
Provisions		**126**	181	155
Employee benefits		**230**	351*	251*
Dividend payable	7	**981**	982	969
Total current liabilities		**4,353**	4,522	4,464
Debentures		**4,180**	4,592	4,250
Loans		**4,143**	4,139	4,156
Employee benefits		**259**	247*	260*
Other liabilities		**75**	76	62
Provisions		**67**	69	66
Deferred tax liabilities		**49**	63	55
Dividend payable		**-**	935	-
Total non-current liabilities		**8,773**	10,121	8,849
Total liabilities		**13,126**	14,643	13,313
Equity				
Total equity attributable to equity holders of the Company		**2,967**	3,238*	2,455*
Non-controlling interests		**-**	43	-
Total equity		**2,967**	3,281	2,455
Total liabilities and equity		**16,093**	17,924	15,768

Shaul Elovitch
Chairman of the Board

Stella Handler
CEO

David "Dudu" Mizrahi
Deputy CEO and CFO

Date of approval of the financial statements: May 12, 2013

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

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

Condensed Consolidated Interim Statements of Income

	Note	Three months ended March 31		Year ended December 31
		2013	2012	2012
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Revenues	9	**2,405**	2,740	10,278
Costs and expenses				
Depreciation and amortization		**328**	358	1,436
Salaries		**499**	511	1,976*
General and operating expenses	10	**889**	1,044	3,953
Other operating income, net		**(72)**	(23)	(128)
		1,644	1,890	7,237
Operating profit		**761**	850	3,041
Financing expenses (income)				
Financing expenses		**140**	132	649*
Financing income		**(116)**	(176)	(498)
Financing expenses (income), net		**24**	(44)	151
Profit after financing expenses, net		**737**	894	2,890
Share in losses of equity-accounted investees		**(40)**	(58)	(245)
Profit before income tax		**697**	836	2,645
Taxes on income		**200**	245	778*
Profit for the period		**497**	591	1,867
Attributable to:				
Owners of the Company		**497**	582	1,861*
Non-controlling interests		**-**	9	6
Profit for the period		**497**	591	1,867
Earnings per share (NIS)				
Basic and diluted earnings per share		**0.18**	0.21	0.68

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

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**497**	591	1,867*
Items of other comprehensive income not transferred to profit or loss			
Actuarial losses, net of tax	**-**	-	(20)
Items of other comprehensive income (net of tax) to be transfered to profit or loss subsequent to initial recognition in comprehensive income	**7**	(6)	(7)
Total comprehensive income for the period	**504**	585	1,840
Attributable to:			
Owners of the Company	**504**	576	1,834*
Non-controlling interests	**-**	9	6
Total comprehensive income for the period	**504**	585	1,840

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

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Retained deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to owners of the Company						
Three months ended March 31, 2013							
Balance as at January 1, 2013 (Audited)	3,837	100	256	390	(38)	(2,090)*	2,455
Profit for the period (Unaudited)	**-**	**-**	**-**	**-**	**-**	**497**	**497**
Other comprehensive income for the period, net of tax (Unaudited)	**-**	**-**	**-**	**-**	**7**	**-**	**7**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**7**	**497**	**504**
Transactions with owners recognized directly in equity							
Share-based payments (Unaudited)	-	-	8	-	-	-	8
Balance as at March 31, 2013 (Unaudited)	**3,837**	**100**	**264**	**390**	**(31)**	**(1,593)**	**2,967**

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

For details regarding the approval of the general meeting of the Company's shareholders for distribution of a cash dividend of NIS 861 million, subsequent to the reporting date, see Note 7.

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

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

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Retained deficit	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to owners of the Company								
Three months ended March 31, 2012									
Balance as at January 1, 2012 (Audited)	3,826	68	220	390	(2)	(1,860)*	2,642	38	2,680
Profit for the period (Unaudited)	-	-	-	-	-	582	582	9	591
Other comprehensive income for the period, net of tax (Unaudited)	-	-	-	-	(6)	-	(6)	-	(6)
Total comprehensive income for the period	-	-	-	-	(6)	582	576	9	585
Transactions with owners recognized directly in equity									
Share-based payments(Unaudited)	-	-	20	-	-	-	20	-	20
Exercise of options for shares (Unaudited)	4	12	(16)	-	-	-	-	-	-
Distribution to holders of non-controlling interests, net (Unaudited)	-	-	-	-	-	-	-	(4)	(4)
Balance as at March 31, 2012 (Unaudited)	3,830	80	224	390	(8)	(1,278)	3,238	43	3,281

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

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

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

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

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

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**497**	591	1,867*
Adjustments:			
Depreciation and amortization	**328**	358	1,436
Share in losses of equity-accounted investees	**40**	58	245
Financing expenses (income), net	**68**	(1)	291
Capital gain, net	**(47)**	(24)	(150)
Share-based payments	**8**	20	72
Income tax expenses	**200**	245	778*
Expenses (income) for derivatives, net	**(4)**	5	-
Change in inventory	**(28)**	(23)	74
Change in trade and other receivables	**105**	(80)	505
Change in trade and other payables	**(6)**	18	(264)
Change in provisions	**(28)**	(5)	(34)
Change in employee benefits	**(22)**	(31)	(144)*
Net income tax paid	**(139)**	(133)	(662)
Net cash from operating activities	**972**	998	4,014
Cash flow used in investing activities			
Investment in intangible assets and deferred expenses	**(44)**	(75)	(269)
Proceeds from the sale of property, plant and equipment	**43**	47	305
Acquisition of financial assets held for trading	**(435)**	(1,100)	(2,527)
Proceeds from the sale of financial assets held for trading	**7**	750	2,396
Purchase of property, plant and equipment	**(245)**	(385)	(1,271)
Proceeds from disposal of long-term investments	**-**	88	100
Miscellaneous	**(1)**	7	29
Net cash used in investment activities	**(675)**	(668)	(1,237)
Cash flows used in financing activities			
Repayment of debentures and loans	**(156)**	(159)	(720)
Bank loans received	**-**	-	650
Dividends paid	**-**	-	(3,071)
Interest paid	**(36)**	(46)	(464)
Increase in the rate of holding in a subsidiary	**-**	-	(77)
Miscellaneous	**2**	(4)	19
Net cash used for financing activities	**(190)**	(209)	(3,663)
Increase (decrease) in cash and cash equivalents	**107**	121	(886)
Cash and cash equivalents at beginning of period	**466**	1,352	1,352
Cash and cash equivalents at end of period	**573**	1,473	466

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

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

Notes to the Financial Statements

1. Reporting Entity

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

2. Basis of Preparation

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

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

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on May 12, 2013.

2.4 Use of estimates and judgment

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

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

3. Reporting Principles and Accounting Policy

3.1 The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements, except as described in section 3.2 below. See section 3.2 for a description of the changes in accounting policy in the condensed consolidated interim financial statements and their effect.

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

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

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

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

4. Group Entities

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

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

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

4.1.2 Since the beginning of its operations, DBS has accumulated substantial losses. The loss of DBS in 2012 amounted to NIS 310 million and losses in the three month period ended March 31, 2013 amounted to NIS 61 million. As a result of these losses, the capital deficit and working capital deficit of DBS as at March 31, 2013 amounted to NIS 4,022 million and NIS 585 million, respectively.

4.1.3 As at March 31, 2013, DBS is in compliance with the financial covenants under the financing agreements and the debentures. As at March 31, 2013, DBS was in compliance with the debt/EBITDA ratio set out in Deed of Trust B (as at March 31, 2013, the debt/EBIDTA ratio was 3.2). In addition, DBS was in compliance with the debt/EBITDA ratio set out in Debenture 2012 (as at March 31, 2013, the debt-EBIDTA ratio was 2.9) and the debt/(E-C) ratio set out in Debenture 2012 (as at March 31, 2013, the debt/(E-C) ratio was 8.9).

For raising of additional debt in and subsequent to the reporting period, see Note 4.1.5 below.

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

4.1.5 On March 13, 2013, S&P Maalot announced a rating of ilA- for the additional debentures that will be issued by DBS, by way of a new issue of debentures and/or expansion of an existing series, for total financing of up to NIS 200 million par value.

On March 21, 2013, DBS issued additional debentures (Series B) by expanding the series, amounting to NIS 73 million, and on April 14, 2013, DBS issued additional debentures (Series B) by expanding the series, amounting to NIS 26 million.

5. Employee benefits

Further to Note 16.4 to the Annual Financial Statements, on April 25, 2013, the Company's Board of Directors approved early retirement of 51 employees at a total cost of NIS 50 million. The expense of NIS 50 million will be recognized in the Group's financial statements for the second quarter of 2013.

6. 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 111 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, 2013 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 7.6 billion. There is also additional exposure of NIS 1 billion for claims, the chances of which cannot yet be assessed

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

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

For updates subsequent to the reporting date, see section 6.2 below.

6.1 Following is a detailed description of the Group's contingent liabilities as at March 31, 2013, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims that cannot yet be assessed
		NIS million		
Claims of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Company in respect of recognition of various salary components as components for calculation of payments to Company employees, some of which have wide ramifications in the Company.	62	267	-
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	15	3,063	1,013
Supplier and communication provider claims	Claims filed by suppliers of goods and/or services to Group companies or by communications providers that the Group companies supply goods and/or services to or receive goods and/or services from These claims are usually for compensation for alleged damage as a result of the supply of the service and/or the product.	3	88	-
Claims for punitive damages	Claims for alleged physical damage or damage to property caused by Group companies (including in relation to environmental quality and radiation). The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	1	3,952*	15
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	11	59	-
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).	19	171	-
		111	7,600	1,028

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

See Note 7.3 below for information about the statement of claim filed by one of the Company's shareholders against the Company and against the Company's controlling shareholder regarding distribution of a dividend.

6.2 Subsequent to the reporting date, customer claims amounting to NIS 381 million were filed against Group companies. In addition, customer claims with exposure of NIS 517 million came to an end. The costs to the Group companies for these claims were minor.

6.3 Contingent claims referring to DBS (associate)

As at March 31, 2013, the exposure for claims against DBS for various matters amounted to NIS 130 million (before linkage and interest).

7. Equity and Share-based Payments

7.1 Below are details of the Company's equity:

Registered			Issued and paid up		
March 31, 2013	March 31, 2012	December 31, 2012	March 31, 2013	March 31, 2012	December 31, 2012
(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
2,825,000,000	2,825,000,000	2,825,000,000	2,725,015,344	2,717,689,862	2,724,754,676

7.2 Further to Note 20.2.4 to the Annual Financial Statements regarding the objection to distribution of the fifth payment of the special distribution, on April 18, 2013, the Company was also served with "an objection to the distribution of the fifth payment of a dividend that is not paid out of the profits", which was filed by the same debenture holder. The Company rejected the arguments set out in the objection, and petitioned the court to dismiss the objection summarily and on its merits. On May 6, 2013, there was a hearing of the objection and following the Court's recommendation, the debenture holder withdrew the objection.

On April 8, 2013, a shareholder of the Company filed a statement of claim against the Company and the Company's controlling shareholder at the Tel Aviv Economic Affairs Court, petitioning the court to declare that the Company's controlling shareholder has a personal interest in distribution of the dividend that is pending approval of the general meeting, and that the Company will publish information and documents and will commission economic experts whose opinion will be published by the Company. On April 21, 2013, the court dismissed an urgent motion to shorten procedures to resolve the claim filed by the plaintiff. Accordingly, the claim will be resolved according to the dates set by law and there is no change in the dates set for distribution of the dividend and the general meeting, which was held on April 24, 2013.

7.3 Subsequent to the reporting date, on April 24, 2013, the general meeting of the Company's shareholders approved the recommendation of the Company's Board of Directors of March 13, 2013 to distribute a cash dividend to the shareholders of the Company in the amount of NIS 861 million. Together with this distribution, the fifth payment of the special distribution amounting to NIS 500 million will be paid (see also Notes 20.2.2 and 20.2.4 to the Annual Financial Statements and Note 7.2 above).

8. Transactions with Interested and Related Parties

Further to Note 29.5.2 to the Annual Financial Statements, regarding approval of the Company's Board of Directors for the agreement between DBS and Space Communications Ltd. ("Space") to lease space segments, on May 8, 2013, the general meeting of the Company's shareholders approved the Company's vote at the general meeting of DBS shareholders in favor of the amended agreement between DBS and Space and its extension regarding the lease of satellite segments on Amos 2, Amos 3 and Amos 6 satellites and/or any other satellite as agreed by the parties, until the end of 2028, in the amount of USD 227 million for the entire period. The agreement was also approved at the general meeting of DBS's shareholders on that same day.

9. Revenues

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Domestic fixed-line communication			
Fixed-line telephony	**495**	574	2,179
Internet - infrastructure	**308**	296	1,166
Transmission and data communication	**200**	196	784
Other services	**59**	66	218
	1,062	1,132	4,347
Cellular telephony			
Cellular services and terminal equipment	**697**	813	3,174
Sale of terminal equipment	**250**	410	1,203
	947	1,223	4,377
International communications, internet and NEP services	**336**	322	1,289
Other	**60**	63	265
	2,405	2,740	10,278

10. Operating and General Expenses

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Terminal equipment and materials	**258**	379	1,263
Interconnectivity and payments to domestic and international operators	**224**	224	900
Maintenance of buildings and sites	**161**	162	663
Marketing and general	**140**	122	556
Services and maintenance by sub-contractors	**38**	43	158
Vehicle maintenance	**37**	38	162
Content services	**17**	24	103
Royalties and collection fees	**14**	52	148
	889	1,044	3,953

11. Financial Instruments

11.1. Fair value

11.1.1 Fair value compared to carrying amounts

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

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

	March 31, 2013		December 31, 2012	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Financial liabilities	NIS million	NIS million	NIS million	NIS million
Bank loans (CPI-linked)	**91**	**91**	99	100
Bank loans (unlinked)	**2,386**	**2,482**	2,362	2,487
Debentures issued to the public (CPI-linked)	**2,285**	**2,471**	2,245	2,829
Debentures issued to the public (unlinked)	**1,354**	**1,465**	1,335	1,081
Debentures issued to financial institutions (CPI-linked)	**316**	**316**	388	404
Debentures issued to financial institutions (unlinked)	**410**	**445**	403	440
Special dividend payable (see Note 7)	**981**	**989**	969	983
	7,823	**8,259**	7,801	8,324

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

11.1.2 Fair value hierarchy

As at March 31, 2013, the Group's investments in ETFs and monetary funds amounting to NIS 1.4 billion (as at December 31, 2012, NIS 962 million), are measured at fair value, using quoted prices (unadjusted) in an active market for identical instruments (Level 1).

11.2. Cash flow hedge accounting

11.2.1 Further to Note 30.6 to the Annual Financial Statements, in the first quarter of 2013, the Company entered into two additional forward contracts to hedge exposure to changes in the CPI for the balance of series 5 debentures amounting to NIS 322 million. The contracts expire on June 1, 2016

As at March 31, 2013, the fair value of all forward contracts used to hedge the Company's cash flows amount to a liability of NIS 12 million.

11.2.2 In the first quarter of 2013, Pelephone engaged in a number of forward transactions in the amount of USD 75 million, to reduce exposure to exchange rate fluctuations for terminal equipment purchases. As at March 31, 2013, the fair value of these forward contracts is a liability of NIS 3 million.

12. Segment Reporting

12.1. Operating segments

	Three months ended March 31, 2013 (Unaudited)						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,059	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 (loss)	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 earnings (losses) of equity accounted investees	-	-	-	-	-	(40)	(40)
Segment profit (loss) before income tax	483	203	52	(61)	(3)	23	697
Taxes on income	135	50	15	-	2	(2)	200
Segment results – net profit (loss)	348	153	37	(61)	(5)	25	497

12. Segment Reporting (contd.)

	Three months ended March 31, 2012 (Unaudited)						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,131	1,222	321	417	62	(417)	2,736
Inter-segment revenues	68	22	11	-	9	(106)	4
Total revenues	1,199	1,244	332	417	71	(523)	2,740
Depreciation and amortization	178	135	34	66	6	(61)	358
Segment results – operating profit (loss)	539	267	50	52	(2)	(56)	850
Financing expenses	120	17	5	119	2	(131)	132
Financing income	(71)	(39)	(3)	(3)	-	(60)	(176)
Total financing expenses (income), net	49	(22)	2	116	2	(191)	(44)
Segment profit (loss) after financing expenses, net	490	289	48	(64)	(4)	135	894
Share in earnings (losses) of equity accounted investees	-	-	-	-	-	(58)	(58)
Segment profit (loss) before income tax	490	289	48	(64)	(4)	77	836
Taxes on income	142	73	12	-	(1)	19	245
Segment results – net profit (loss)	348	216	36	(64)	(3)	58	591

12. Segment Reporting (contd.)

12.1 Operating segments (contd.)

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

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

12. Segment Reporting (contd.)

12.2. Adjustments for segment reporting of revenues and profit or loss

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit or loss			
Operating profit for reporting segments	832	908	3,323*
Cancellation of expenses for a segment classified as an associate	(67)	(52)	(253)
Financing income (expenses), net	(24)	44	(151)*
Share in losses of equity-accounted investees	(40)	(58)	(245)
Profit (loss) for operations classified in other categories	(1)	(2)	(13)
Other adjustments	(3)	(4)	(16)
Consolidated profit before income tax	697	836	2,645

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

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

13.1. Pelephone Communications Ltd.

Selected data from the Statement of financial position

	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**2,271**	2,887	2,169
Non-current assets	**2,351**	3,057	2,535
	4,622	5,944	4,704
Current liabilities	**1,231**	1,294	1,054
Long-term liabilities	**559**	1,284	681
Total liabilities	**1,790**	2,578	1,735
Equity	**2,832**	3,366	2,969
	4,622	5,944	4,704

Selected data from the Statement of income

	Three months ended March 31		Year ended
	2013	2012	December 31, 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**714**	834	3,261
Revenues from sales of terminal equipment	**250**	410	1,207
Total revenues from services and sales	**964**	1,244	4,468
Cost of services and sales	**676**	831	3,040
Gross profit	**288**	413	1,428
Selling and marketing expenses	**86**	116	422
General and administrative expenses	**28**	30	114
	114	146	536
Operating profit	**174**	267	892
Financing expenses	**12**	17	101
Financing income	**(41)**	(39)	(146)
Other financing income, net	**(29)**	(22)	(45)
Profit before income tax	**203**	289	937
Taxes on income	**50**	73	239
Profit for the period	**153**	216	698

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

13.2. Bezeq International Ltd.

Selected data from the Statement of financial position

	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**504**	527	456
Non-current assets	**797**	815	803
	1,301	1,342	1,259
Current liabilities	**353**	298	256
Long-term liabilities	**172**	179	180
Total liabilities	**525**	477	436
Equity	**776**	865	823
	1,301	1,342	1,259

Selected data from the Statement of income

	Three months ended March 31		Year ended
	2013	2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**346**	332	1,340
Operating expenses	**208**	201	796
Gross profit	**138**	131	544
Selling, marketing and development expenses	**51**	50	209
General and administrative and other expenses	**31**	31	116
	82	81	325
Operating profit	**56**	50	219
Financing expenses	**7**	5	18
Financing income	**(3)**	(3)	(10)
Financing expenses (income), net	**4**	2	8
Share in profits of equity-accounted associates	**-**	-	1
Profit before income tax	**52**	48	212
Taxes on income	**15**	12	52
Profit for the period	**37**	36	160

DBS SATELLITE SERVICES (1998) LTD.

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

Introduction

We have reviewed the accompanying financial information of D.B.S. Satellite Services (1998) Ltd. (hereinafter- "the Company") comprising of the condensed interim statement of financial position as of March 31, 2013 and the related condensed 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 information 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.

Scope of Review

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

Conclusion

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

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 5, 2013

Condensed Interim Statements of Financial Position at

	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Cash and cash equivalents	**72,999**	22,266	-
Trade receivables	**159,550**	166,671	163,043
Other receivables	**4,618**	5,683	1,674
Total current assets	**237,167**	194,620	164,717
Broadcasting rights, net of rights exercised	**391,451**	345,112	377,349
Property, plant and equipment, net	**749,052**	669,556	745,365
Intangible assets, net	**105,964**	96,145	99,864
Total non-current assets	**1,246,467**	1,110,813	1,222,578
Total assets	**1,483,634**	**1,305,433**	1,387,295

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

Condensed Interim Statements of Financial Position as at

	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Borrowings from banks	**62,253**	98,743	69,322
Current maturities for debentures	**184,565**	57,494	174,305
Trade payables and service providers	**405,617**	431,885	396,572
Other payables	**162,093**	*150,269	172,412
Provisions	**7,709**	55,737	6,200
Total current liabilities	**822,237**	794,128	818,811
Debentures	**1,427,446**	1,121,231	1,364,840
Bank loans	**-**	309,539	-
Loans from shareholders	**3,184,589**	2,764,042	3,085,742
Other long-term liabilities	**66,276**	*24,312	73,899
Employee benefits	**5,455**	6,325	5,837
Total non-current liabilities	**4,683,766**	4,225,449	4,530,318
Total liabilities	**5,506,003**	5,019,577	5,349,129
Capital 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
Accumulated deficit	**(5,703,725)**	(5,395,500)	(5,643,190)
Total capital deficit	**(4,022,369)**	(3,714,144)	(3,961,834)
Total liabilities and equity	**1,483,634**	1,305,433	1,387,295

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

Date of approval of the financial statements: May 5, 2013

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

* Reclassified – see note 2G to the annual financial statements 2012 regarding the change in classification.

Condensed Interim Income Statements

	For the three months ended		For the year ended
	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues	**403,541**	416,704	1,635,994
Cost of revenues	**258,114**	272,237	1,067,087
Gross profit	**145,427**	144,467	568,907
Selling and marketing expenses	**39,119**	53,507	166,274
General and administrative expenses	**38,879**	39,355	149,884
Operating profit	**67,429**	51,605	252,749
Financing expenses	**31,752**	31,729	155,431
Financing income	**(2,661)**	(2,589)	(1,859)
Financing expenses for shareholder loans	**98,847**	86,127	407,826
Financing expenses, net	**127,938**	115,267	561,398
Loss before income tax	**(60,509)**	(63,662)	(308,649)
Income tax	**192**	200	1,668
Loss for the period	**(60,701)**	(63,862)	(310,317)
Basic and diluted loss per share (in NIS)	**2,030**	2,136	10,380

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

Condensed Interim Statements of Comprehensive Income

	For the three months ended		For the year ended
	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Loss for the period	**(60,701)**	(63,862)	(310,317)
Other comprehensive income items not transferred to profit and loss:			
Actuarial profits (losses) from a defined benefit plan	**166**	-	(1,235)
Total other comprehensive profit (loss) for the period which was not transferred	**166**	-	(1,235)
Total comprehensive loss for the period	**(60,535)**	(63,862)	(311,552)

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

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Option warrants	Capital reserve	Capital reserve for share-based payments	Accrued deficit	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Three months ended March 31, 2013 (Unaudited)							
Balance as at January 1, 2013 (Audited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(5,643,190)**	**(3,961,834)**
Total comprehensive loss for the period							
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(60,701)**	**(60,701)**
Other comprehensive profit for the period	**-**	**-**	**-**	**-**	**-**	**166**	**166**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(60,535)**	**(60,535)**
Balance as at March 31, 2013 (Unaudited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(5,703,725)**	**(4,022,369)**
Three months ended March 31, 2012 (Unaudited)							
Balance as at January 1, 2012 (Audited)	29	85,557	48,219	1,537,271	10,280	(5,331,638)	(3,650,282)
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	(63,862)	(63,862)
Other comprehensive loss for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(63,862)	(63,862)
Balance as at March 31, 2012 (Unaudited)	29	85,557	48,219	1,537,271	10,280	(5,395,500)	(3,714,144)

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

Condensed Interim Statements of Changes in Equity (Contd.)

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

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

Condensed Interim Statements of Cash Flow

	For the three months ended		For the year ended
	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Loss for the period	**(60,701)**	(63,862)	(310,317)
Adjustments:			
Depreciation and amortization	**61,953**	65,842	248,250
Financing expenses, net	**123,244**	120,351	548,997
Loss (profit) from sale of property, plant and equipment	**800**	(56)	504
Share-based payments	**-**	-	-
Income tax expenses	**192**	200	1,668
Change in trade receivables	**3,493**	(7,075)	(3,447)
Change in other accounts receivable	**(2,944)**	2,337	6,346
Change in broadcasting rights, net of rights exercised	**(14,102)**	(14,540)	(46,777)
Change in trade payables and other liabilities	**10,055**	12,800	(24,271)
Change in employee benefits	**(216)**	154	(1,569)
	182,475	180,013	729,701
Income tax paid	**(192)**	(200)	(1,337)
Net cash from operating activities	**121,581**	115,951	418,047
Cash flows from investment activities			
Proceeds from the sale of property, plant and equipment	**35**	109	471
Acquisition of property, plant and equipment	**(75,656)**	(48,463)	(240,686)
Payments for software and licenses	**(13,990)**	(7,914)	(43,531)
Net cash used in investment activities	**(89,611)**	(56,268)	(283,746)

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

Condensed Interim Statements of Cash Flow (Contd.)

	For the three months ended		For the year ended
	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Repayment of bank loans	**-**	(14,953)	(423,235)
Repayment of debenture principal	**-**	-	(58,211)
Short-term bank credit, net	**(7,069)**	(442)	66,046
Payment for financing lease obligation	**-**	(334)	(1,554)
Interest paid	**(24,018)**	(35,013)	(125,674)
Issue of debentures, net	**72,116**	-	395,002
Net cash stemming from (used for) financing activities	**41,029**	(50,742)	(147,626)
Increase (decrease) in cash and cash equivalents	**72,999**	8,941	(13,325)
Cash and cash equivalents at the beginning of the period	**-**	13,325	13,325
Cash and cash equivalents at the end of the period	**72,999**	22,266	-

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

NOTE 1 - REPORTING ENTITY

DBS Satellite Services (1998) Ltd. ("the Company") was incorporated in Israel in 1998 and its head office is located at 6 Hayozma Street, Kfar Saba.

The Company holds a license from the Ministry of Communications for satellite television broadcasts ("the License"). The License is valid until January 2017 and may be extended for additional periods of six years under certain conditions. The Company's operations are subject, inter alia, to the Communications Law (Telecommunications and Broadcasts), 1982 ("the Communications Law") and the regulations and rules promulgated thereunder and to the License terms.

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

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

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

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

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance

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

The condensed interim financial statements were approved by the Company's Board of Directors on May 5, 2013.

B. Use of estimates and judgment

The preparation of the condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates 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 judgment of management when applying the Company's accounting policy and the principal assumptions used in assessments that involve uncertainty are consistent with those applied in the annual financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

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

First implementation of new standards

A. Since January 1, 2013, the Company has been implementing IAS 19, *Employee Benefits*, ("the standard"). As a result of this implementation there has been a change in the method of measuring the liability for vacation days. Implementation of the amended standard has not had a material effect on the financial statements.

B. Since January 1, 2013, the Company has been implementing the amendment to IFRS 13, Fair Value Measurement. Implementation of the standard has not had a material effect on the financial statements. Publication of the standard has led to expansion of the disclosure requirements in respect of the fair value of financial instruments in the interim financial statements. The requirements of the standard have been integrated into the statements in note 7 regarding financial instruments.

NOTE 4 – FINANCIAL POSITION OF THE COMPANY

A. Since the beginning of its operations, the Company has accumulated substantial losses. The Company's losses in 2012 amounted to NIS 310 million and losses in the three months ended March 31, 2013 amounted to NIS 61 million. As a result of these losses, the Company's capital deficit and working capital deficit as at March 31, 2013 amounted to NIS 4,022 million and NIS 585 million, respectively.

B. 1. As at March 31, 2013, DBS is in compliance with the financial covenants under the financing agreements and the debentures. At March 31, 2013 the Company was in compliance with the debt/EBITDA ratio covenant fixed in Deed of Trust B (the Company's debt/EBITDA ratio at March 31, 2013 was 3.2). The Company was also in compliance with the debt/EBITDA ratio covenant fixed in the 2012 debenture (the Company's debt/EBITDA ratio at March 31, 2013 was 2.9) and with the debt/(E-C) ratio covenant fixed in the 2012 debenture (the Company's debt/(E-C) ratio at March 31, 2013 was 8.9).

2. For raising of additional debt in the reporting period and thereafter, see notes 6 and 8.

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

NOTE 5 – CONTINGENT LIABILITIES

Legal claims

Legal claims have been filed against the Company or various legal proceedings are pending against it (in this section: "legal claims").

In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, appropriate provisions have been included in the financial statements where provisions are required to cover the exposure resulting from such claims.

As at March 31, 2013, the exposure resulting from the legal claims filed against the Company in respect of various matters amounts to NIS 130,440,000. These amounts and all the amounts of the claims in this note do not include interest and linkage.

Following is a description of the material legal claims against the Company as at March 31, 2013 classified by groups with similar characteristics.

NOTE 5 – CONTINGENT LIABILITIES (CONTD.)

A. Employee claims

During the normal course of business, employees and former employees filed collective and individual claims against the Company. Most of these claims are for alleged non-payment of salary components and delay in salary payment. As at March 31, 2013, these claims amounted to NIS 58,718,000. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 1,550,000 where provisions are required to cover the exposure resulting from such claims.

B. Customer claims

During the normal course of business, the Company's customers filed claims against the Company. These are mainly motions for certification of class actions (and claims by virtue thereof) which are usually allegations of unlawful collection of money and harm to the services provided by the Company. As at March 31, 2013, these claims amounted to NIS 71,322,000. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 4,075,000 where provisions are required to cover the exposure resulting from such claims. See also note 6 B below.

C. Supplier and communication provider claims

During the normal course of business, suppliers of goods and/or services to the Company filed various claims against the Company. As at March 31, 2013, these claims amounted to NIS 400,000. In the opinion of the Company's lawyers, financial resources will not be needed to dismiss these claims.

NOTE 6 –EVENTS IN THE BALANCE SHEET PERIOD

A. On March 13, 2013 S&P Maalot awarded an ilA- rating to additional debenture issues to be issued by the Company by means of a new issue of debentures and/or expansion of an existing series in relation to total borrowing of up to NIS 200 million par value.

On March 21, 2013 the Company implemented another issue of debentures (Series B) by way of expansion of the series in the sum of NIS 73 million. For the terms of the debenture see note 14 to the financial statements at December 31, 2012.

B On March 6, 2013 a claim was filed against the Company together with a motion for certification as a class action. According to the claimant, the Company disconnected customers from Channel 5 and reconnected only those customers who requested reconnection, and it is continuing to collect payments for the channel from customers which did not contact it and consequently were not reconnected. The applicant estimated the personal damage caused at NIS 1,065, where NIS 1,000 of this amount is for non-monetary damage, but did not specify a total amount for the claim.

NOTE 7 – FINANCIAL INSTRUMENTS

Fair value

A. Fair value compared with carrying amount

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

	March 31, 2013	
	Carrying Amount	Fair Value
	NIS thousands	
Assets		
Debentures including accumulated interest	1,650,446	1,693,633

B. Fair value hierarchy

The fair value of financial instruments measured at fair value is determined using the valuation method based on the level of the fair value hierarchy. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) for identical instruments in active markets.
Level 2: data observed directly or indirectly, which are not included in Level 1.
Level 3: data not based on observable market data.

C. Data regarding fair value measurement at level 2

During the first quarter of 2013 the Company entered into several forward transactions in order to reduce exposure to exchange rate changes. The fair value of forward transactions is determined using observable market data. The net fair value of these forward contracts at March 31, 2013 (liability) is NIS 1.7 million.

NOTE 8 – MATERIAL EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On April 14, 2013 the Company implemented another issue of debentures (Series B) by way of expansion of the series in the sum of NIS 26 million.

NOTE 9 – APPOINTMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS FOR THE APPROVAL MEETING

As at the date of approval of the financial statements, the Company's Board of Directors does not have an incumbent chairman. Consequently, on May 5, 2013 the Company's Board of Directors authorized David Efrati, a director in the Company, to serve as chairman of the Board of Directors' meeting convened to approve the financial statements and to sign the Company's financial statements as at March 31, 2013.

Bezeq the Israel Telecommunication Corporation Limited

Condensed Separate Interim Financial Information as at March 31, 2013

(Unaudited)

Condensed Separate Interim Financial Information as at March 31, 2013 (unaudited)

Contents	Page

Somekh Chaikin
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Israel

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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, 2013 and for 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 investee companies the investments in which amounted to NIS 215 million as of March 31, 2013, and the profit from these investee companies amounted to NIS 1 million for the three month periods then ended. The financial statements of those companies were reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

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

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

Conclusion

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 12, 2013

Condensed information pertaining to the interim Financial Position as at March 31

	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**170**	663	221
Investments, including derivatives	**1,506**	1,291	1,071
Trade receivables	**743**	783	740
Other receivables	**260**	251	208
Dividend received from investees	**371**	-	-
Inventory	**25**	17	13
Loans to investees	**474**	599	465
Assets classified as held for sale	**94**	25	44
Total current assets	**3,643**	3,629	2,762
Investments, including derivatives	**71**	79	67
Trade and other receivables	**120**	110	128
Property, plant and equipment	**4,338**	4,369	4,403
Intangible assets	**350**	384	355
Investment in investees	**5,878**	6,512	6,061
Loans to investees	**977**	1,685	1,016
Deferred tax assets	**53**	181*	111*
Total non-current assets	**11,787**	13,320	12,141
Total assets	**15,430**	16,949	14,903

Condensed Separate Interim Financial Information as at March 31, 2013 (unaudited)

	March 31, 2013 (Unaudited) NIS million	March 31, 2012 (Unaudited) NIS million	December 31, 2012 (Audited) NIS million
Liabilities			
Debentures, loans and borrowings	**1,056**	679	1,132
Trade payables	**93**	222	149
Other payables, including derivatives	**631**	736	493
Current tax liabilities	**487**	424	447
Provisions (Note 4)	**109**	157	139
Employee benefits	**192**	310*	216*
Dividend payable	**981**	982	969
Total current liabilities	**3,549**	3,510	3,545
Debentures	**4,579**	5,031	4,581
Loans	**4,049**	3,996	4,049
Employee benefits	**218**	202*	219*
Other liabilities	**68**	37	54
Dividend payable	**-**	935	-
Total non-current liabilities	**8,914**	10,201	8,903
Total liabilities	**12,463**	13,711	12,448
Equity			
Share capital	**3,837**	3,830	3,837
Share premium	**100**	80	100
Reserves	**623**	606	608
Deficit	**(1,593)**	(1,278)*	(2,090)*
Total equity attributable to equity holders of the Company	**2,967**	3,238	2,455
Total liabilities and equity	**15,430**	16,949	14,903

Shaul Elovitch
Chairman of the Board of Directors

Stella Handler
CEO

David "Dudu" Mizrachi
Deputy CEO and CFO

Date of approval of the financial statements: May 12, 2013

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

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

Condensed information pertaining to the Interim Profit or Loss

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	**1,129**	1,199	4,630
Cost of Activities -			
Depreciation and amortization	**167**	178	730
Salaries	**270**	267	1,036*
Operating and general expenses (Note 3)	**230**	237	1,033
Other operating expenses (income), net	**(73)**	(22)	(128)
	594	660	2,671
Operating profit	**535**	539	1,959
Financing expenses (income)			
Financing expenses	**129**	120	581*
Finance revenues	**(77)**	(71)	(322)
Financing expenses, net	**52**	49	259
Profit after financing expenses, net	**483**	490	1,700
Share in earnings of investees, net	**149**	254	654
Profit before income tax	**632**	744	2,354
Income tax	**135**	162	493*
Profit for the period attributable to the owners of the Company	**497**	582	1,861

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

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

Condensed Interim Statement of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**497**	582	1,861*
Items of other comprehensive income			
Actuarial gains (losses) net of tax	**-**	-	(15)
Other items of othe comprehensive income for the period, net of tax	**7**	-	(3)
Other comprehensive income (loss), net of tax Investees	**-**	(6)	(9)
Other comprehensive income (loss), net of tax	**7**	(6)	(27)
Total comprehensive income for the period attributable to equity holders of the Company	**504**	576	1,834

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

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

Condensed Interim Statement of Cash Flows

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**497**	582	1,861*
Adjustments:			
Depreciation	**141**	157	635
Amortization of intangible assets	**26**	21	95
Profits of investees accounted by the equity method, net	**(149)**	(254)	(654)
Financing expenses, net	**88**	52	309
Capital gain, net	**(47)**	(24)	(150)
Share-based payment transactions	**8**	20	73
Income tax expenses	**135**	162	493*
Expenses (income) for derivatives, net	**(4)**	5	-
Change in inventory	**(12)**	(5)	-
Change in trade and other receivables	**(33)**	(71)	(61)
Change in trade and other payables	**45**	90	(133)
Change in provisions	**(30)**	(5)	(24)
Change in employee benefits	**(25)**	(32)	(131)*
Change in deferred income	**6**	7	25
Net cash from financing activities (used for) due to transactions with investees	**(25)**	8	(18)
Net income tax paid	**(60)**	(62)	(311)
Net cash from operating activities	**561**	651	2,009

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

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
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from investing activities			
Investment in intangible assets	**(21)**	(36)	(136)
Proceeds from the sale of property, plant and equipment	**42**	46	300
Acquisition of financial assets held for trading and others	**(432)**	(1,100)	(2,457)
Proceeds from the sale of financial assets held for trading and others	**-**	750	2,329
Purchase of property, plant and equipment	**(162)**	(233)	(822)
Proceeds (payment) for derivatives	**3**	4	14
Proceeds from disposal of investments and long-term loans	**(4)**	(3)	7
Interest and dividends received	**2**	2	9
Increase in the rate of holding in a subsidiary	**-**	-	(77)
Net cash from (used in) investment activities due to transactions with investees	**62**	(403)	1,323
Net cash from financing activities (used for activities) **Investment**	**(510)**	(973)	490
Cash flow from finance activities			
Bank loans received	**-**	-	650
Repayment of bank loans	**(75)**	(77)	(204)
Repayment of debentures	**-**	-	(327)
Dividend paid	**-**	-	(3,071)
Interest paid	**(27)**	(34)	(436)
Net proceeds for derivatives	**-**	-	7
Proceeds from exercise of options	**-**	-	7
Net cash used for financing activities	**(102)**	(111)	(3,374)
Increase (decrease) in cash and cash equivalents	**(51)**	(433)	(875)
Cash and cash equivalents at beginning of period	**221**	1,096	1,096
Cash and cash equivalents at the end of the period	**170**	663	221

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 preparing financial information

1.1. Definitions

"The Company" - Bezeq The Israel Telecommunication Corporation Limited.

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

1.2. Principles used for preparing financial information

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

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

1.3. Retrospective Application of Accounting Policies

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

2. Revenues

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Fixed-line telephony	**510**	588	2,254
Internet - infrastructure	**310**	296	1,166
Transmission and data communication	**247**	245	976
Other services	**62**	70	234
	1,129	1,199	4,630

3. Operating and general expenses

	Three months ended March 31		Year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Interconnectivity and payments to communications operators	**57**	75	281
Marketing and general expenses	**44**	8*	159
Terminal equipment and materials	**27**	24	111
Maintenance of buildings and sites	**59**	63	245
Services and maintenance by sub-contractors	**16**	20	73
Vehicle maintenance expenses	**20**	19	83
Royalties and others	**7**	28	81
	230	237	1,033

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

4. Contingent Liabilities

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

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of these litigations, the financial statements include appropriate provisions in the amount of NIS 109 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, 2013 due to legal claims filed against the Company on various matters, which are unlikely to be realized, amounts to a total of NIS 2 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 52 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 date of the report, claims for which exposure amounted to NIS 351 million were concluded.

For further information concerning contingent liabilities see Note 6 to the Consolidated Financial Statements, Contingent Claims.

5. Dividends from Investees

5.1. On March 3, 2013 the board of directors of Pelephone Communications Ltd. decided to distribute a dividend in cash to the Company in the amount of NIS 287 million in May 2013.

5.2. On March 5, 2013 the board of directors of Bezeq International Ltd. decided to distribute a dividend in cash to the Company in the amount of NIS 84 million in May 2013.