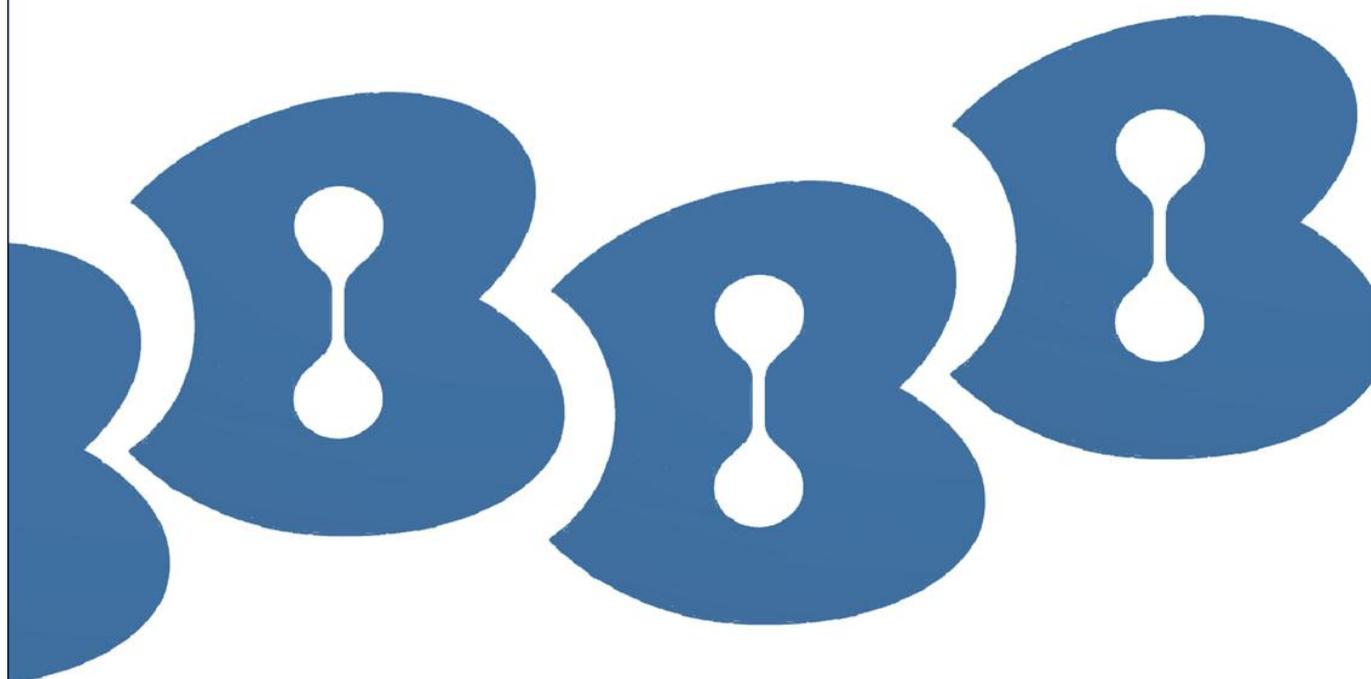


**Bezeq The Israel  
Telecommunication  
Corporation Ltd.  
Separate Financial  
Information for Year ended  
December 31, 2013**



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

| <b>Contents</b>   | <b>Page</b> |
|---|-------------|
| <b>Auditors' Report</b>   | <b>2</b>    |
| <b>Separate Financial Information</b>                             |             |
| Information pertaining to Financial Position                      | 3           |
| Information pertaining to Profit or Loss and Comprehensive Income | 5           |
| Information pertaining to Cash Flows                              | 6           |
| Notes to the Separate Financial Information                       | 8           |



**Somekh Chaikin**  
8 Hartum Street, Har Hotzvim  
PO Box 212, Jerusalem 91001  
Israel

Telephone 972 2 531 2000  
Fax 972 2 531 2044  
Internet www.kpmg.co.il

To:  
The Shareholders of “Bezeq” the Israeli Telecommunication Corporation Ltd.

Dear Sirs,

**Subject: Special auditors’ report on separate financial data according to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970**

We have audited the separate financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq” the Israeli Telecommunication Corporation Ltd. (hereinafter – “the Company”) as of December 31, 2013 and 2012 and for each of the three years, the last of which ended December 31, 2013, which are included in the Company’s periodic report. The separate financial data are the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express an opinion on the separate financial data based on our audit.

We did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 171 million and NIS 223 million as of December 31, 2013 and 2012, respectively, and the Company's share in their profits (losses) amounted to approximately NIS (7) million, NIS 59 million and NIS (7) million for each of the three years, the last of which ended December 31, 2013. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such investees, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial data are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes assessing the accounting principles that were used in preparing the separate financial data and the significant estimates made by the Board of Directors and by Management of the Company, as well as evaluating the separate financial data presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the separate financial data has been prepared, in all material respects, in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Without qualifying our abovementioned opinion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 9.

Somekh Chaikin  
Certified Public Accountants (Isr.)  
March 5, 2014

Information pertaining to the Financial Position as at December 31

|                                    |      | 2013          | 2012          |
|------------------------------------|------|---------------|---------------|
|                                    | Note | NIS million   | NIS million   |
| <b>Assets</b>                      |      |               |               |
| Cash and cash equivalents          |      | 237           | 221           |
| Investments, including derivatives | 3.1  | 1,129         | 1,071         |
| Trade receivables                  | 3.2  | 738           | 740           |
| Other receivables                  | 3.2  | 166           | 208           |
| Inventories                        |      | 7             | 13            |
| Loans to investees                 | 8.2  | 498           | 465           |
| Assets classified as held for sale |      | 66            | 44            |
| <b>Total current assets</b>        |      | <b>2,841</b>  | <b>2,762</b>  |
| Trade and other receivables        | 3.2  | 61            | 128           |
| Property, plant and equipment      | 5    | 4,426         | 4,403         |
| Intangible assets                  |      | 334           | 355           |
| Investment in investees            |      | 5,890         | 6,061         |
| Loans to investees                 | 8.2  | 555           | 1,016         |
| Investments, including derivatives | 3.1  | 67            | 67            |
| Deferred tax assets                | 4.2  | 50            | 111*          |
| <b>Total non-current assets</b>    |      | <b>11,383</b> | <b>12,141</b> |
| <b>Total assets</b>                |      | <b>14,224</b> | <b>14,903</b> |

Separate Financial Information as at December 31, 2013

|   |      | 2013          | 2012          |
|---|------|---------------|---------------|
|   | Note | NIS million   | NIS million   |
| <b>Liabilities</b>  |      |               |               |
| Debentures, loans and borrowings                                  | 3.4  | 1,127         | 1,132         |
| Trade payables  | 3.3  | 129           | 149           |
| Other payables, including derivatives                             | 3.3  | 484           | 493           |
| Current tax liabilities   |      | 522           | 447           |
| Provisions  | 9    | 109           | 139           |
| Employee benefits   |      | 222           | 216*          |
| Dividend payable  |      | -             | 969           |
| <b>Total current liabilities</b>                                  |      | <b>2,593</b>  | <b>3,545</b>  |
| Debentures and loans  | 3.4  | 8,926         | 8,630         |
| Employee benefits   |      | 201           | 219*          |
| Other liabilities   |      | 81            | 54            |
| <b>Total non-current liabilities</b>                              |      | <b>9,208</b>  | <b>8,903</b>  |
| <b>Total liabilities</b>  |      | <b>11,801</b> | <b>12,448</b> |
| <b>Equity</b>   |      |               |               |
| Share capital   |      | 3,842         | 3,837         |
| Share premium   |      | 143           | 100           |
| Reserves  |      | 565           | 608           |
| Deficit   |      | (2,127)       | (2,090)*      |
| <b>Total equity attributable to equity holders of the Company</b> |      | <b>2,423</b>  | <b>2,455</b>  |
| <b>Total liabilities and equity</b>                               |      | <b>14,224</b> | <b>14,903</b> |

**Shaul Elovitch**  
Chairman of the Board of Directors

**Stella Handler**  
CEO

**David ("Dudu") Mizrahi**  
Deputy CEO and CFO

Date of approval of the financial statements: March 5, 2014

\* Reclassified due to retrospective application of IAS 19 "Employee Benefits", see Note 2.2

The attached notes are an integral part of the separate financial information.

**Information pertaining to Profit or Loss for the year ended December 31**

|  |      | 2013         | 2012         | 2011         |
|--|------|--------------|--------------|--------------|
|  | Note | NIS million  | NIS million  | NIS million  |
| Revenues   | 6    | 4,478        | 4,630        | 4,648        |
| <b>Cost of Activities</b>  |      |              |              |              |
| Depreciation and amortization  |      | 683          | 730          | 688          |
| Salaries   |      | 980          | 1,036*       | 1,076*       |
| General and operating expenses   | 7    | 895          | 1,033        | 1,074        |
| Other operating expenses (income), net                                     |      | (78)         | (128)        | 139          |
|  |      | <b>2,480</b> | <b>2,671</b> | <b>2,977</b> |
| Operating profit   |      | <b>1,998</b> | <b>1,959</b> | <b>1,671</b> |
| <b>Financing expenses (income)</b>   |      |              |              |              |
| Financing expenses   |      | 534          | 581*         | 533*         |
| Financing income   |      | (317)        | (322)        | (291)        |
| Financing expenses, net  |      | <b>217</b>   | <b>259</b>   | <b>242</b>   |
| Profit after financing expenses, net                                       |      | <b>1,781</b> | <b>1,700</b> | <b>1,429</b> |
| Share in earnings of investees, net  |      | 400          | 654          | 1,001        |
| Profit before income tax   |      | <b>2,181</b> | <b>2,354</b> | <b>2,430</b> |
| Income tax   | 4.1  | 410          | 493*         | 356*         |
| Profit for the year attributable to the Company's controlling shareholders |      | <b>1,771</b> | <b>1,861</b> | <b>2,074</b> |

**Information pertaining to Comprehensive Income for the year ended December 31**

|   | 2013         | 2012         | 2011         |
|---|--------------|--------------|--------------|
|   | NIS million  | NIS million  | NIS million  |
| Profit for the year attributable to the Company's controlling shareholders        | 1,771        | 1,861        | 2,074        |
| <b>Items of other comprehensive income</b>  |              |              |              |
| Actuarial gains (losses) net of tax   | 17           | (15)         | 28           |
| Other items of comprehensive income (loss) for the year, net of tax               | (11)         | (12)         | 7            |
| <b>Total other comprehensive income (loss) for the year, net of tax</b>           | <b>6</b>     | <b>(27)</b>  | <b>35</b>    |
| <b>Profit for the year attributable to the Company's controlling shareholders</b> | <b>1,777</b> | <b>1,834</b> | <b>2,109</b> |

\* Reclassified due to retrospective application of IAS 19 "Employee Benefits", see Note 2.2

The attached notes are an integral part of the separate financial information.

**Information pertaining to Cash Flows for the year ended December 31**

|   | 2013         | 2012         | 2011           |
|---|--------------|--------------|----------------|
|   | NIS million  | NIS million  | NIS million    |
| Cash flows from operating activities                                      |              |              |                |
| Profit for the year   | 1,771        | 1,861*       | 2,074*         |
| Adjustments:  |              |              |                |
| Depreciation  | 576          | 635          | 613            |
| Amortization of intangible assets   | 107          | 95           | 75             |
| Profits of investees accounted by   |              |              |                |
| the equity method, net  | (400)        | (654)        | (1,001)        |
| Financing expenses, net   | 267          | 309          | 245*           |
| Capital gain, net   | (161)        | (150)        | (181)          |
| Share-based payment transactions  | 29           | 73           | 165            |
| Income tax expenses   | 410          | 493*         | 356*           |
| Expenses (income) for derivatives, net                                    | (7)          | -            | (21)           |
| Change in inventory   | 6            | -            | 2              |
| Change in trade and other receivables                                     | 25           | (61)         | 95             |
| Change in trade and other payables  | 40           | (108)        | (53)           |
| Change in provisions  | (29)         | (24)         | (67)           |
| Change in employee benefits   | 3            | (131)*       | 66*            |
| Net cash from financing activities (used for activities)                  |              |              |                |
| due to transactions with investees  | (35)         | (18)         | (34)           |
| Net income tax paid   | (328)        | (311)        | (228)          |
| <b>Net cash flows from operating activities</b>                           | <b>2,274</b> | <b>2,009</b> | <b>2,106</b>   |
| Cash flows from investing activities                                      |              |              |                |
| Investment in intangible assets   | (86)         | (136)        | (167)          |
| Proceeds from the sale of property, plant and equipment                   | 304          | 300          | 228            |
| Acquisition of financial assets held for trading and others               | (1,486)      | (2,457)      | (2,850)        |
| Proceeds from the sale of financial assets held for trading and others    | 1,441        | 2,329        | 1,961          |
| Purchase of property, plant and equipment                                 | (703)        | (822)        | (998)          |
| Proceeds from disposal of investments and long-term loans                 | -            | 7            | 7              |
| Increase in the rate of holding in a subsidiary                           | -            | (77)         | -              |
| Others  | 23           | 23           | 28             |
| Net cash from the investment activities with investees                    | 1,080        | 1,323        | 507            |
| <b>Net cash from Investing activities (used for investing activities)</b> | <b>573</b>   | <b>490</b>   | <b>(1,284)</b> |

\* Reclassified due to retrospective application of IAS 19 "Employee Benefits", see Note 2.2

The attached notes are an integral part of the separate financial information.

| <b>Information pertaining to Cash Flows for the years ended December 31 (contd.)</b> |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | <b>2013</b>        | <b>2012</b>        | <b>2011</b>        |
|  | <b>NIS million</b> | <b>NIS million</b> | <b>NIS million</b> |
| Cash flow from financing activities  |                    |                    |                    |
| Issue of debentures and receipt of loans   | <b>1,360</b>       | 650                | 5,292              |
| Repayment of debentures and loans  | <b>(928)</b>       | (531)              | (1,302)            |
| Dividend paid  | <b>(2,830)</b>     | (3,071)            | (3,155)            |
| Interest paid  | <b>(433)</b>       | (436)              | (346)              |
| Others   | -                  | 14                 | 20                 |
| Net cash used for financing operations<br>of transactions with investees             | -                  | -                  | (433)              |
| <b>Net cash from financing operations (used for<br/>financing operations)</b>        | <b>(2,831)</b>     | (3,374)            | 76                 |
| Increase (decrease) in cash and cash<br>equivalents                                  | <b>16</b>          | (875)              | 898                |
| Cash and cash equivalents at January 1   | <b>221</b>         | 1,096              | 198                |
| <b>Cash and cash equivalents at the end of the<br/>year</b>                          | <b>237</b>         | 221                | 1,096              |

The attached notes are an integral part of the separate financial information

## Notes to the Separate Financial Information as at December 31, 2013

### 1. General

Below is a breakdown of financial information from the Group's consolidated financial statements as at December 31, 2013 ("the Consolidated Statements") published as part of the periodic reports, pertaining to the Company itself ("the Separate Financial Information"), presented pursuant to Regulation 9C ("the Regulation") and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Tenth Addendum") with respect to the separate financial information of the corporation.

The separate financial information should be read in conjunction with the Consolidated Statements.

In this Separate Financial Information -

The Company - Bezeq The Israel Telecommunication Corporation Limited

"Investee", "Group", "Subsidiary", "Interested Party" - as these terms are defined in the Company's consolidated financial statements for 2013.

### 2. Significant Accounting Standards applied in the Separate Financial Information

The accounting standards specified in the Consolidated Statements were consistently applied by the Company for all the periods presented in this Separate Financial Information, including the method for classifying financial information in the consolidated statements, with the required changes:

#### 2.1. **Presentation of the financial information**

The information pertaining to the financial position, profit and loss, comprehensive income and cash flows include information included in the Consolidated Statements, which refer to the Company separately. The investment balances and results of the operations of investees are accounted using the equity method. Cash flows for ongoing activities, investment activities and financing for transactions with investees are presented separately, in net figures, under the relevant item based on the nature of the transaction.

#### 2.2. **Retrospective Application of Accounting Standards**

Since January 1, 2013, the Company has been applying the revised IAS 19 - Employee Benefits ("the Revision"). As a result of retrospective application by way of restatement of the revised IAS 19, the Group restated the Statements of Income for 2011 and 2012 while recording an increase in net profit of NIS 8 million and NIS 3 million, respectively. The Company also recorded a decrease in equity at January 1, 2011, December 31, 2011 and December 31, 2012 in the amounts of NIS 16 million, NIS 8 million and NIS 5 million, respectively.

#### **Transactions between the Company and investees**

##### 2.2.1 Presentation

Intra-group balances and income and expenses arising from intra-group transactions, which were cancelled in the preparation of the Consolidated Statements, are presented separately from the balance for investees and the profit relating to investees, and are presented together with similar third party balances.

##### 2.2.2 Measurement

Transactions carried out between the Company and its subsidiaries are measured in accordance with the recognition and measurement principles set out in the International Financial Reporting Standards ("IFRS"). These principles outline the accounting treatment for third party transactions.

### 3. Financial Instruments

#### 3.1. Investments, including derivatives

|                                   | December 31,<br>2013 | December 31,<br>2012 |
|-----------------------------------|----------------------|----------------------|
|                                   | NIS million          | NIS million          |
| Exchange Traded Notes (ETN)       | 999                  | 962                  |
| Money market                      | 100                  | -                    |
| Bank Deposits                     | 30                   | 105                  |
| Derivatives and other investments | -                    | 4                    |
|                                   | <b>1,129</b>         | <b>1,071</b>         |

Investments in ETNs and monetary reserves are investments marked for trade and are presented at fair value as at the date of the financial statements. Investments in ETNs mature during 2014, The bank deposit matures in April 2014. The balance for non-current investments at December 31, 2013 and December 31, 2012 primarily includes a deposit in a bank for providing loans to the Company's employees, its maturity has as yet not been set.

#### 3.2. Trade and other receivables

|                             | Maturity dates | Unlinked    | Israeli CPI<br>linked | Total       |
|-----------------------------|----------------|-------------|-----------------------|-------------|
|                             |                | NIS million | NIS million           | NIS million |
| <b>December 31, 2013</b>    |                |             |                       |             |
| <b>Current assets</b>       |                |             |                       |             |
| Trade receivables           | 2014           | 738         | -                     | 738         |
| Other receivables           | 2014           | 42          | 124                   | 166         |
| Total current assets        |                | 780         | 124                   | 904         |
| <b>Non-current assets</b>   |                |             |                       |             |
| Trade and other receivables | 2015-2016      | 50          | 11                    | 61          |
| <b>December 31, 2012</b>    |                |             |                       |             |
| <b>Current assets</b>       |                |             |                       |             |
| Trade receivables           | 2013           | 740         | -                     | 740         |
| Other receivables           | 2013           | 51          | 157                   | 208         |
| Total current assets        |                | 791         | 157                   | 948         |
| <b>Non-current assets</b>   |                |             |                       |             |
| Trade and other receivables | 2014-2015      | 82          | 46                    | 128         |

### 3.3. Other payables, including derivatives

|  | Unlinked<br>(including non-<br>financial items) | Israeli CPI<br>linked | In foreign<br>currency or<br>linked thereto<br>(primarily USD) | Total       |
|--|---|-----------------------|--|-------------|
|  | NIS million                                     | NIS million           | NIS million  | NIS million |
| <b>December 31, 2013</b>                 |   |                       |  |             |
| Trade payables                           | 112   | -                     | 17   | 129         |
| Other payables, including<br>derivatives | 426   | 58                    | -  | 484         |
|  | <b>538</b>                                      | <b>58</b>             | <b>17</b>  | <b>613</b>  |
| <b>December 31, 2012</b>                 |   |                       |  |             |
| Trade payables                           | 127   | -                     | 22   | 149         |
| Other payables, including<br>derivatives | 424   | 66                    | 3  | 493         |
|  | <b>551</b>                                      | <b>66</b>             | <b>25</b>  | <b>642</b>  |

### 3.4. Debentures and loans

#### 3.4.3 Composition:

|                                      | December 31, 2013 | December 31, 2012 |
|--------------------------------------|-------------------|-------------------|
|                                      | NIS million       | NIS million       |
| <b>Current liabilities</b>           |                   |                   |
| Current maturities of debentures (1) | 530               | 535               |
| Current maturities of bank loans     | 597               | 597               |
|                                      | <b>1,127</b>      | <b>1,132</b>      |
| <b>Non-current liabilities</b>       |                   |                   |
| Debentures (2)                       | 5,474             | 4,581             |
| Bank loans                           | 3,452             | 4,049             |
|                                      | <b>8,926</b>      | <b>8,630</b>      |
|                                      | <b>10,053</b>     | <b>9,762</b>      |

- 1) Of which NIS 185 million (NIS 183 million in 2012) are for current maturities of debentures, held by Bezeq Zahav (Holdings) Ltd. ("Bezeq Zahav"), as set out in Note 8.2 below.
- 2) Of which NIS 365 million (NIS 540 million in 2012) are for debentures held by Bezeq Zahav, as set out in Note 8.2 below.

### 3.4.4 Terms and debt repayment schedule

|  | December 31, 2013 |               | December 31, 2012 |               |
|--|-------------------|---------------|-------------------|---------------|
|  | Balance           |               | Balance           |               |
|  | Carrying amount   | Nominal value | Carrying amount   | Nominal value |
|  | NIS million       | NIS million   | NIS million       | NIS million   |
| Total unlinked loans at variable interest          | 1,981             | 1,981         | 2,306             | 2,306         |
| Total unlinked loans at fixed interest             | 2,068             | 2,068         | 2,340             | 2,340         |
| <b>Total loans</b>                                 | <b>4,049</b>      | <b>4,049</b>  | <b>4,646</b>      | <b>4,646</b>  |
| <b>Debentures issued to the public</b>             |                   |               |                   |               |
| CPI-linked debentures at fixed interest - Series 5 | 1,481             | 1,193         | 1,950             | 1,591         |
| Debenture Series 6-8                               | 4,111             | 3,937         | 2,730             | 2,712         |
| Total debentures issued to the public              | 5,592             | 5,130         | 4,680             | 4,303         |
| <b>Debentures issued to financial institutes:</b>  |                   |               |                   |               |
| CPI-linked debentures at fixed interest            | 12                | 9             | 36                | 27            |
| Unlinked debentures at fixed interest              | 400               | 400           | 400               | 400           |
| Total debentures issued to financial institutions  | 412               | 409           | 436               | 427           |
| <b>Total debentures</b>                            | <b>6,004</b>      | <b>5,539</b>  | <b>5,116</b>      | <b>4,730</b>  |
| <b>Total interest-bearing liabilities</b>          | <b>10,053</b>     | <b>9,588</b>  | <b>9,762</b>      | <b>9,376</b>  |

For further information see Note 11 to the Consolidated Statements - Debentures, Loans and Borrowings and Note 8.2 below.

### 3.5. Liquidity risk

Below are contractual maturities of financial liabilities, including estimated interest payments (based on known CPI and interest rates at December 31, 2013):

|  | December 31, 2013 |                        |                    |                     |              |              |                     |
|--|-------------------|------------------------|--------------------|---------------------|--------------|--------------|---------------------|
|  | Carrying amount   | Contractual cash flows | First half of 2014 | Second half of 2014 | 2015         | 2016-2018    | 2019 and thereafter |
|  | NIS million       | NIS million            | NIS million        | NIS million         | NIS million  | NIS million  | NIS million         |
| <b>Non-derivative financial liabilities</b>            |                   |                        |                    |                     |              |              |                     |
| Trade payables   | 129               | 129                    | 129                | -                   | -            | -            | -                   |
| Other payables   | 435               | 435                    | 430                | 5                   | -            | -            | -                   |
| Bank loans   | 4,049             | 4,668                  | 41                 | 696                 | 741          | 2,151        | 1,039               |
| Debentures issued to the public                        | 5,592             | 6,411                  | 595                | 83                  | 1,142        | 2,264        | 2,327               |
| Debentures issued to financial institutions and others | 412               | 550                    | 23                 | 13                  | 27           | 270          | 217                 |
| <b>Financial liabilities - derivatives</b>             |                   |                        |                    |                     |              |              |                     |
| Forward contracts (on the consumer price index)        | 17                | 17                     | 6                  | -                   | 5            | 4            | 2                   |
|  | <b>10,634</b>     | <b>12,210</b>          | <b>1,224</b>       | <b>797</b>          | <b>1,915</b> | <b>4,689</b> | <b>3,585</b>        |

### 3.6. Currency and CPI risks

For information regarding CPI hedging transactions that the Company carried out during 2013, see Note 28.6.1 to the Consolidated Statements. These transactions are recognized in the financial statements as cash flow hedges.

## 4. Income tax expenses

### 4.1. General

|                              | Year ended December 31 |             |             |
|------------------------------|------------------------|-------------|-------------|
|                              | 2013                   | 2012        | 2011        |
|                              | NIS million            | NIS million | NIS million |
| <b>Current tax expenses</b>  | <b>347</b>             | 380*        | 335*        |
| <b>Deferred tax expenses</b> | <b>63</b>              | 113         | 21          |
| <b>Income tax expenses</b>   | <b>410</b>             | 493*        | 356*        |

\* Reclassified due to retrospective application of IAS 19 "Employee Benefits", see Note 2.2

### 4.2. Changes during the year in recognized deferred tax assets and tax liabilities

Composition of and changes in deferred tax assets and tax liabilities during the year:

|                                  | Balance at<br>January 1,<br>2012 | Recognized<br>in profit or<br>loss | Recognized<br>in equity | Balance at<br>December<br>31, 2012 | Recognize<br>d in profit<br>or loss | Recognized<br>in equity | Balance at<br>December<br>31, 2013 |
|----------------------------------|----------------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------------------|-------------------------|------------------------------------|
|                                  | NIS million                      | NIS million                        | NIS million             | NIS million                        | NIS million                         | NIS million             | NIS million                        |
| Employee benefit plan            | 276                              | (62)                               | 7*                      | 221*                               | (23)                                | 1                       | 199                                |
| Share-based<br>compensation      | 12                               | (12)                               | -                       | -                                  | 32                                  | -                       | 32                                 |
| Property, plant and<br>equipment | (99)                             | (35)                               | -                       | (134)                              | (66)                                | -                       | (200)                              |
| Provisions and others            | 27                               | (4)                                | 1                       | 24                                 | (6)                                 | 1                       | 19                                 |
|                                  | 216                              | (113)                              | 8                       | 111*                               | (63)                                | 2                       | 50                                 |

\* Reclassified due to retrospective application of IAS 19 "Employee Benefits", see Note 2.2

## 5. Property, plant and equipment

|  | 2013        | 2012        |
|--|-------------|-------------|
|  | NIS million | NIS million |
| <b>Cost or deemed cost</b>                           |             |             |
| Balance as at January 1                              | 16,200      | 16,820      |
| Additions  | 690         | 809         |
| Disposals including transfer to assets held for sale | (1,413)     | (1,429)     |
| Balance as at December 31                            | 15,477      | 16,200      |
| <b>Depreciation</b>                                  |             |             |
| Balance as at January 1                              | 11,797      | 12,501      |
| Depreciation for the year                            | 576         | 635         |
| Disposals including transfer to assets held for sale | (1,322)     | (1,339)     |
| Balance as at December 31                            | 11,051      | 11,797      |
| Amortized cost as at December 31                     | 4,426       | 4,403       |

For further information see Note 7.2 to the Consolidated Statements - Property, Plant and Equipment.

## 6. Revenues

|                                     | Year ended December 31 |             |             |
|-------------------------------------|------------------------|-------------|-------------|
|                                     | 2013                   | 2012        | 2011        |
|                                     | NIS million            | NIS million | NIS million |
| Fixed-line telephony                | 1,971                  | 2,254       | 2,393       |
| Internet - infrastructure           | 1,287                  | 1,166       | 1,092       |
| Transmission and data communication | 990                    | 976         | 931         |
| Other services                      | 230                    | 234         | 232         |
|                                     | 4,478                  | 4,630       | 4,648       |

## 7. Operating and general expenses

|  | Year ended December 31 |             |             |
|--|------------------------|-------------|-------------|
|  | 2013                   | 2012        | 2011        |
|  | NIS million            | NIS million | NIS million |
| Interconnectivity and payments to communications operators | 220                    | 281         | 314         |
| Marketing and general expenses                             | 186                    | 159         | 194         |
| Terminal equipment and materials                           | 90                     | 111         | 89          |
| Maintenance of buildings and sites                         | 233                    | 245         | 247         |
| Services and maintenance by sub-contractors                | 64                     | 73          | 76          |
| Vehicle maintenance expenses                               | 76                     | 83          | 78          |
| Royalties and others                                       | 26                     | 81          | 76          |
|  | 895                    | 1,033       | 1,074       |

## 8. **Substantial Agreements and Material Transactions with Investees**

For a list of entities directly held by the Company and additional information pertaining to subsidiaries held directly and indirectly by the Company, and for information pertaining to equity-accounted investees see Note 10 to the Consolidated Statements – Investees.

### 8.1. **Financial Guarantees**

8.1.1 For information pertaining to guarantees that the Company provided for borrowings from banks for investees, see Note 10.2 to the Consolidated Statements – Investees.

8.1.2 For information pertaining to guarantees and liens provided by the Company to various entities, see Note 17 to the Consolidated Statements - Securities, Liens and Guarantees.

### 8.2. **Loans**

#### Loans from investees

8.2.5 8.2.1 In 2004, Bezeq Zahav acquired debentures Series 5 issued by the Company. The par value balance held by Bezeq Zahav at December 31, 2013 amounted to NIS 440 million. These debentures are repayable in six equal annual installments in each of the years 2011 through 2016. The interest rate set for these debentures is 5.3% per annum. The purchase was made through a loan from the Company which is at the same terms as those of the debentures.

#### Loans to investees

8.2.6 8.2.2 Below is the breakdown the loan balances provided to investees:

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
|  | NIS million          | NIS million          |
| <b>Short-term loans and current maturities</b> |                      |                      |
| Bezeq Zahav                                    | 185                  | 183                  |
| Pelephone                                      | 220                  | 222                  |
| Bezeq International                            | 88                   | 48                   |
| Bezeq On Line                                  | -                    | 12                   |
| Walla  | 5                    | -                    |
|  | <b>498</b>           | <b>465</b>           |
| <b>Non-current liabilities</b>                 |                      |                      |
| Bezeq Zahav                                    | 365                  | 540                  |
| Pelephone                                      | -                    | 308                  |
| Bezeq International                            | 112                  | 160                  |
| Bezeq On Line                                  | 25                   | 8                    |
| Walla  | 53                   | -                    |
|  | <b>555</b>           | <b>1,016</b>         |
|  | <b>1,053</b>         | <b>1,481</b>         |

Below are the terms of the loans provided to investees (as presented in the Statement of Financial Position):

| <b>Balance</b>             |                        |                       |                               |                            |
|----------------------------|------------------------|-----------------------|-------------------------------|----------------------------|
|                            | <b>In NIS millions</b> | <b>Maturity dates</b> | <b>Number of installments</b> | <b>Interest rate range</b> |
| <b>Bezeq Zahav (*)</b>     | 550                    | 2011-2016             | 6                             | 5.3%                       |
| <b>Pelephone</b>           |                        |                       |                               |                            |
|                            | 220                    | 2014                  | 1                             | 5.7%                       |
| <b>Bezeq International</b> |                        |                       |                               |                            |
|                            | 96                     | 2012-2016             | 5                             | 5.1%                       |
|                            | 64                     | 2013-2017             | 5                             | 4.68%-4.7%                 |
|                            | 40                     | 2014                  | 1                             | 4.1%                       |
| <b>Bezeq On Line</b>       |                        |                       |                               |                            |
|                            | 25                     | 2015-2023             | 9                             | 4.86%                      |
| <b>Walla</b>               |                        |                       |                               |                            |
|                            | 58                     | 2013-2019             | 5                             | 4.68%                      |
|                            | <b>1,053</b>           |                       |                               |                            |

(\*) Loan linked to CPI. For further information regarding the loan that the Company provided to Bezeq Zahav with respect to debentures Series 5, see section 8.2.1 above.

8.2.3 For further information regarding loans that the Company provided to DBS, see Note 10.1.4 to the Consolidated Statements - Investees.

### 8.3. Service provision agreements

As the Company and its investees are communications providers, they are engaged in agreements and arrangements for providing and receiving various services in the communications sector, such as:

Transmission agreements, interconnectivity arrangements, billing agreements, various agreements regulating the communications services jointly provided by two companies, maintenance of telecommunication equipment, marketing arrangements, agreements to acquire telecommunication equipment, rental agreements (primarily for communications installations), collaboration agreements and publication on web sites of investees, management service agreements, etc.

The terms of the foregoing service agreements were set in accordance with generally accepted tariffs for this type of service.

Below is the breakdown of the volume of transactions and carrying balances:

|                     | Year ended December 31 |             |             |
|---------------------|------------------------|-------------|-------------|
|                     | 2013                   | 2012        | 2011        |
|                     | NIS million            | NIS million | NIS million |
| <b>Transactions</b> |                        |             |             |
| <b>Revenues</b>     |                        |             |             |
| Pelephone           | 155                    | 162         | 158         |
| Bezeq International | 118                    | 120         | 113         |
| DBS                 | 4                      | 6           | 3           |
| Other               | 3                      | 3           | 3           |
| <b>Total</b>        | <b>280</b>             | <b>291</b>  | <b>277</b>  |

|                     | Year ended December 31 |             |             |
|---------------------|------------------------|-------------|-------------|
|                     | 2013                   | 2012        | 2011        |
|                     | NIS million            | NIS million | NIS million |
| <b>Expenses</b>     |                        |             |             |
| Pelephone           | 56                     | 80          | 82          |
| Bezeq International | 19                     | 13          | 21          |
| DBS                 | 1                      | -           | -           |
| Other               | 2                      | 10          | 13          |
| <b>Total</b>        | <b>78</b>              | <b>103</b>  | <b>116</b>  |

|   | December 31 | December 31 |
|---|-------------|-------------|
|   | 2013        | 2012        |
|   | NIS million | NIS million |
| <b>Debt Balances (liabilities) due to the Company</b> |             |             |
| Pelephone   | 27          | 19          |
| Bezeq International                                   | 1           | 7           |
| DBS   | 27          | 31          |
| Other   | (1)         | (2)         |
| <b>Total</b>  | <b>54</b>   | <b>55</b>   |

For further information, see Note 27 to the Consolidated Statements - Transactions with Interested and Related Parties

#### 8.4. Dividends

For information pertaining to dividends that the Company received from investees, see Note 10.2.3 to the Consolidated Statements.

### 9. Contingent liabilities

Legal claims were filed against the company during normal course of business. There are also various judicial proceeding which stand against the company. ("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 December 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 1.4 billion. Of this amount, NIS 374 million is for a claim filed against the Company and other telecommunication 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 149 million for claims which the company cannot assess the chance of their success at this stage. All the foregoing amounts are linked to the consumer price index and are before the addition of interest.

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

Subsequent to reporting date, claims for which exposure amounted to NIS 56 million were concluded.

For further information pertaining to contingent liabilities see Note 15 to the Consolidated Statements - Contingent Liabilities.

## **10. Subsequent events**

1. On February 19, 2014 the board of directors of Pelephone resolved to distribute a dividend to the Company in the amount of NIS 206 million in May 2014.
2. On February 18, 2014 the board of directors of Bezeq International resolved to distribute a dividend to the Company in the amount of NIS 77 million in May 2014.