



## Bezeq Third Quarter Earnings

November 27, 2001

### NET EARNINGS OF BEZEQ GROUP IN THE FIRST NINE MONTHS OF 2001: 165 MILLION NIS

**NET EARNINGS IN THE THIRD QUARTER: 7.36 MILLION NIS**

**REVENUES IN THE FIRST NINE MONTHS: 6.16 BILLION NIS  
THIRD QUARTER: NIS 2.04 BILLION**

■ **Bezeq Chairman, Ido Dissentshik:**

**“Customers are continuing to switch from fixed telephony to cellular; the distortion generated by the price differences of cellular calls is worsening”**

■ **Bezeq CEO, Ilan Biran:**

**“The results of the subsidiaries, investee companies and the parent company must all be improved in order to promote the privatization and complete it within the coming year”.**

**TEL-AVIV - ISRAEL- 27 November, 2001 -**

**Bezeq The Israel Telecommunication Corporation reported its financial results for the third quarter of the year 2001.**

- Net Earnings of the Bezeq Group for the first nine months of 2001 amounted to approximately 165 million NIS, compared with a loss of approximately 605 million NIS in the corresponding period last year. The difference in the results is derived from a decrease of 1.3 billion NIS (before tax) in the other expenses item.  
In 2000, an expense of approximately 1.4 billion NIS was recorded under this item, almost entirely for the early retirement plan. Eliminating the effects of the other expenses item in the two periods, the net profit for the first nine months of the year was approximately 165 million NIS, compared with 247 million NIS, last year.
- Net earnings in the third quarter amounted to 7 million NIS, compared with a loss of approximately 811 million NIS in the third quarter of 2000. Eliminating the effects of the other expenses item in the two periods, net profit in the third quarter of 2001 was approximately 23 million NIS, compared with approximately 98 million NIS in 2000.
- Earnings per share in the first nine months of 2001 were 0.133 NIS per 1 NIS par value, compared with a loss of 0.249 NIS in the same period last year.

- Revenues of the Bezeq Group in the first nine months of 2001 amounted to 6.16 billion NIS, compared to 6.46 billion NIS in the same period last year. The decrease in revenues was caused mainly by the change in the Company's method of accounting with the cellular companies since March 2000. Since that date, the Company's revenues have not included airtime expenses. In addition, revenues from fixed-line traffic in Israel have decreased as a result of the tariffs put into effect in May 2000 and March 2001, and as a result of the decrease in call traffic, which was partially offset by an increase in Internet access traffic. Revenues from international calls decreased due to the lowering of access fees by 30%, and due to the decrease in the revenues of the subsidiary, Bezeq International.
- Revenues in the third quarter of 2001 amounted to approximately 2.04 billion NIS, a decrease of approximately 4.2% compared with the third quarter of 2000 (when revenues were 2.13 NIS billion).
- Bezeq's share in the losses of companies included on the equity basis in the first nine months of 2001 amounted to approximately 142 million NIS, compared with 120 million NIS in the corresponding period last year.
- In the third quarter, this item amounted to approximately 65 million NIS, compared with 70 million NIS in the third quarter of 2000.
- **Bezeq Chairman, Ido Dissentshik, said that two notable facts arise from the financial statements for the first nine months of 2001: one – the Israeli economy is in deep recession, and two- customers are continuing to switch from fixed telephony to cellular telephony, and the distortion generated by the price differences for incoming and outgoing cellular calls is worsening.**

“These are negative external contributions to Bezeq's results, over which Bezeq has no control,” said Dissentshik. “Therefore, the investments which Bezeq has made in the subsidiaries must be continued; they are our chance for future growth. And all these together are behind the numbers presented today in the financial statements.”
- **Bezeq CEO, Ilan Biran, emphasized that the financial statements reflect the overall situation in the economy and in the telecommunications sector in particular. “A real change has occurred in demand in the sector, along with increasing intensification of competition in the main areas in which Bezeq operates: domestic telephony, cellular telephony and international calls (through the subsidiary companies Pelephone and Bezeq International). The deterioration of their results has significantly affected the results of the entire Group,” said Biran, and added: “Privatization must be pushed forward, so that Bezeq can act to improve its performance.”**
- **Operating and general expenses of the Bezeq Group amounted to approximately 3.35 billion NIS in the first nine months of 2001, compared with approximately 3.26 billion NIS in the corresponding period last year. The expenses were influenced by changes in the method of accounting with the cellular companies since March 2000. From that date, the Company's expenses do not include airtime expenses. In addition, there were increases in the operating expenses of Pelephone, in salaries and general expenses, and a decrease was recorded in expenses for sub-contractors. Most of the increase in salary expenses and the decrease in sub-contractor expenses are derived from the addition to the payroll of workers who were formerly employed through manpower companies.**

- Operating and general expenses in the third quarter of the year amounted to approximately 1.11 billion NIS, and increase of 10.9% compared with 1.0 billion NIS in the corresponding period last year.
- Operating income of the Group in the first nine months of 2001 amounted to approximately 652 million NIS, compared with 887 million NIS in the same period in 2000. The decrease is derived from the changes in the operating and general income and expense items described above, and from a decrease in depreciation and in royalties to the Government of Israel. The decrease in operating income is mainly in the parent company, Bezeq, and in the subsidiary Pelephone.
- Operating income in the third quarter amounted to approximately 222 million NIS, compared with 355 million NIS in 2000.
- Financing expenses of the Bezeq Group in the first nine months of the year amounted to approximately 99 million NIS, compared with 294 million NIS in the same period last year.
- Financing expenses in the third quarter amounted to approximately 47 million NIS, compared with 125 million NIS in the third quarter of 2000.
- Shareholders' equity of the Bezeq Group as at 30th September 2001, amounted to 7.27 billion NIS, which constitutes approximately 42.5% of the total balance sheet, compared with 6.98 billion NIS on 30th September 2000, which was 39.7% of the balance sheet.
- In the first nine months of 2001, the Bezeq Group repaid debts of 1.36 billion NIS, of which 913 million NIS were long-term loans, 207 million NIS debentures, and 237 million NIS short-term credit. The Group generated new debt of approximately 1.2 billion NIS, of which approximately 686 million NIS was in new long-term loans and 514 million NIS in issues of debentures.
- Royalties to the Government of Israel in the first nine months of 2001 amounted to approximately 201 million NIS, compared with 246 million NIS in the corresponding period last year.
- In the third quarter, royalties amounted to approximately 61 million NIS, compared with 86 million NIS in the third quarter of 2000.

**Tables to follow:**

Balance Sheet - Consolidated

Statement of Operations - Consolidated

Statement of Cash Flows - Consolidated

Condensed Financial Statements of Bezeq International Ltd.

Condensed Financial Statements of Pelephone Communications Ltd.