"BEZEQ" THE ISRAEL TELECOMMUNICATION CORP. LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003

Interim Consolidated Financial Statements as at March 31, 2003 (unaudited)

Contents

The Board of Directors of
"Bezeq" - The Israel Telecommunications Corp. Limited

Dear Sirs,

Re: Review of the Unaudited Interim Consolidated Financial Statements
for the Three Month Period Ended March 31, 2003

At your request we have reviewed the interim consolidated balance sheet of "Bezeq" - The Israel Telecommunication Corp. Limited and its subsidiaries as at March 31, 2003, as well as the interim consolidated statement of operations, the interim statement of changes in shareholders' equity and the interim consolidated statement of cash flows for the three month period then ended.

Our review was carried out in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. The procedures included, inter alia, reading the said financial statements, reading the minutes of meetings of the shareholders and of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

Reports of other auditors were furnished to us which relate to the review of the interim financial statements of subsidiaries, whose assets as at March 31, 2003, constitute approximately 19.83% of the total assets included in the interim consolidated balance sheet and whose revenues constitute approximately 34.64% of the total revenues included in the interim consolidated statement of operations for the three months then ended. Furthermore, the data contained in the interim consolidated financial statements, which relate to the net asset value of the Company's investments in affiliated companies and to its equity in their operating results, is based on interim financial statements which were reviewed by other auditors.

As the review is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the interim consolidated financial statements.

In the course of our review, including reviewing the reports of other auditors as mentioned above, nothing came to our attention which would indicate the necessity of making material changes to the said interim financial statements in order for them to be in conformity with generally accepted accounting principles and in accordance with the provisions of Section 4 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

We draw attention to the uncertainties relating to the following matters, for which the maximum possible exposure is significant:

1. The anticipated opening of the communications sector to competition, changes in tariffs and their effect on the Company's financial position and operating results, as described in Note 1.

2. A program of early retirement, as described in Note 6.

3. Claims made against the Company and against investee companies, as described in Note 7A.

4. The financial position of an affiliated company and the financing agreement with banking corporations and the shareholders of the affiliated company, including the Addendum to the Financing Agreement which has not yet been signed as at the date of signature of these financial statements. As described in Note 4A, the continuation of the activities of the affiliated company is dependent upon the formulation of the Addendum to the Financing Agreement as mentioned in the Note and the receipt of additional loans from shareholders.

Somekh Chaikin
Certified Public Accountants (Isr.)
A member firm of KPMG International
May 22, 2003

Interim Consolidated Balance Sheet

In adjusted shekels of March 2003

	March 31 2003 (Unaudited)	March 31 2002 (Unaudited)	December 31 2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	**1,265,776**	1,596,811	1,000,185
Short-term investments	**835,666**	473,777	1,189,273
Trade receivables	**1,716,559**	1,723,378 *	1,765,635
Other receivables and debit balances	**523,046**	315,394	518,766
Inventory	**168,353**	160,710	168,685
	4,509,400	4,270,070	4,642,544
Materials and spare parts	**156,614**	159,361	123,140
Investments and long-term debts			
Investments, deposits and debit balances	**665,055**	1,784,179	774,799
Investments in investee companies	**369,809**	420,036	393,112
	1,034,864	2,204,215	1,167,911
Fixed assets			
Cost	**30,564,505**	30,457,894	30,189,766
Less – accumulated depreciation	**20,683,737**	19,786,520	20,142,143
	9,880,768	10,671,374	10,047,623
Other assets			
Deferred charges and other assets	**258,877**	362,158	285,001
Deferred taxes	**410,912**	468,363	405,208
	669,789	830,521	690,209
	16,251,435	18,135,541	16,671,427

	March 31 2003 (Unaudited)	March 31 2002 (Unaudited)	December 31 2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current liabilities			
Bank credit	**455,562**	245,538	532,944
Current maturities of:			
Long-term bank loans	**558,118**	592,432	549,309
Debentures	**602,258**	199,240	211,932
Trade payables	**1,006,261**	965,047	1,162,347
Employee severance benefits	**329,640**	244,030	214,287
Other current liabilities	**1,186,157**	1,148,189 *	1,126,811
	4,137,996	3,394,476	3,797,630
Long-term liabilities			
Long-term loans	**2,115,413**	2,799,350	2,119,749
Debentures	**2,294,013**	2,699,122	2,790,697
Employee severance benefits	**1,007,683**	1,364,357	1,148,698
Deferred revenues	**47,100**	58,024	44,988
	5,464,209	6,920,853	6,104,132
Minority rights	**1,164**	–	579
Contingent liabilities (Note 7)			
Shareholders' equity	**6,648,066**	7,820,212	6,769,086
	16,251,435	18,135,541	16,671,427

Adv. Miriam (Miki) Mazar	Ilan Biran	Ron Eilon
Chairperson of the Board	Chief Executive Officer	Chief Financial Officer

* Reclassified

Date of approval of the financial statements: May 22, 2003

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

Interim Consolidated Statement of Operations

In adjusted shekels of March 2003

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues from telecommunications services (Note 9)	**2,032,109**	2,081,551	8,298,684
Costs and expenses			
Operating and general expenses (Note 10)	**1,146,803**	1,151,577	4,660,511
Depreciation	**561,866**	583,910	2,336,415
Royalties to the Government of Israel	**61,805**	67,146	256,941
	1,770,474	1,802,633	7,253,867
Operating income	**261,635**	278,918	1,044,817
Financing expenses, net	**32,636**	45,278	169,807
Earnings after financing expenses	**228,999**	233,640	875,010
Other expenses (income), net	**89**	(1,767)	1,252,927
Earnings (loss) before income taxes	**228,910**	235,407	(377,917)
Income taxes	**88,070**	70,009	212,965
Earnings (loss) after income taxes	**140,840**	165,398	(590,882)
Equity in losses of affiliates	**70,894**	53,320	349,775
Minority share in earnings (losses) of a consolidated company	**585**	(1,480)	(3,089)
Net earnings (loss)	**69,361**	113,558	(937,568)
Primary and diluted earnings (loss) per NIS 1 par value of common shares (in NIS)	**0.029**	0.047	(0.389)

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

Interim Statement of Changes in Shareholders' Equity

In adjusted shekels of March 2003

	Share capital	Capital reserve – share premium	Capital reserve in respect of transactions between the Company and a controlling shareholder	Dividend proposed after the balance sheet date	Retained earnings (deficit)	Total
	NIS thousands					
Three months ended March 31, 2003						
Balance as at December 31, 2002 (audited)	**6,282,518**	**963,616**	**38,800**	**191,480**	**(707,328)**	**6,769,086**
Net earnings (unaudited)	–	–	–	–	**69,361**	**69,361**
Dividend paid	–	–	–	**(191,480)**	**1,099**	**(190,381)**
Balance as at March 31, 2003 (unaudited)	**6,282,518**	**963,616**	**38,800**	–	**(636,868)**	**6,648,066**
Three months ended March 31, 2002						
Balance as at December 31, 2001 (audited)	6,282,518	963,616	38,800	–	421,720	7,706,654
Net earnings (unaudited)	–	–	–	–	113,558	113,558
Balance as at March 31, 2002 (unaudited)	6,282,518	963,616	38,800	–	535,278	7,820,212
Year ended December 31, 2002						
Balance as at December 31, 2001 (audited)	6,282,518	963,616	38,800	–	421,720	7,706,654
Net loss (audited)	–	–	–	–	(937,568)	(937,568)
Dividend proposed after the balance sheet date	–	–	–	191,480	(191,480)	–
Balance as at December 31, 2002 (audited)	6,282,518	963,616	38,800	191,480	(707,328)	6,769,086

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

Interim Consolidated Statement of Cash Flows

In adjusted shekels of March 2003

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Net earnings (loss)	**69,361**	113,558	(937,568)
Adjustments to reconcile net earnings (loss) to net cash flows provided by operating activities (see A below)	**707,443**	566,017	3,894,564
Net cash derived from operating activities	**776,804**	679,575	2,956,996
Cash flows for investing activities			
Investment in fixed assets	**(399,453)**	(307,813)	(1,390,693)
Proceeds from disposal of fixed assets	**4,848**	4,285	25,361
Proceeds from disposal of investment in affiliated companies	**–**	111,943	119,989
Investment in long-term deposits and investments	**(26,225)**	(14,710)	*(343,984)
Proceeds from long-term deposits and investments	**25,013**	34,397	164,084
Decrease (increase) in short-term investments, net	**349,538**	1,562	(774,800)
Decrease (increase) in materials and spare parts	**(6,937)**	5,348	23,388
Acquisition of a partnership consolidated for the first time (see B below)	**–**	–	(3,966)
Investment in investee companies	**(52,196)**	(90,456)	(369,282)
Investment in other assets	**(15,641)**	(56,790)	(129,760)
Net cash used in investing activities	**(121,053)**	(312,234)	(2,679,663)
Cash flows from financing activities			
Issue of debentures (after deduction of issue expenses)	**–**	109,892	109,892
Repayment of debentures	**(159,892)**	(126,432)	(227,400)
Receipt of long-term loans	**155,855**	169,635	212,964
Repayment of long-term loans	**(118,360)**	(113,022)	(849,058)
Receipt (repayment) of short-term bank credit, net	**(77,382)**	(209,056)	78,001
Dividend paid	**(190,381)**	–	–
Net cash used in financing activities	**(390,160)**	(168,983)	(675,601)
Increase (decrease) in cash and cash equivalents	**265,591**	198,358	(398,268)
Balance of cash and cash equivalents at the beginning of the period	**1,000,185**	1,398,453	1,398,453
Balance of cash and cash equivalents at the end of the period	**1,265,776**	1,596,811	1,000,185

* Reclassified

The notes to the financial statements are integral part thereof.

Interim Consolidated Statement of Cash Flows (Contd.)

In adjusted shekels of March 2003

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
A – Adjustments to reconcile net earnings to net cash flows provided by operating activities			
Income and expenses not involving cash flows:			
Depreciation	**561,866**	583,910	2,336,415
Deferred taxes	**18,924**	25,840	30,968
Company's equity in losses of affiliated companies	**70,894**	53,320	349,775
Minority share in earnings (losses) of a consolidated company	**585**	(1,480)	(3,089)
Decrease in employee severance benefits, net	**(25,663)**	(43,201)	(288,603)
Loss (gain) on disposal of fixed assets	**1,310**	(1,511)	(13,085)
Provision for impairment of assets	**–**	–	1,266,138
Erosion (appreciation) of and interest on long-term investments and debts	**15,194**	(62,426)	(189,735)*
Erosion (appreciation) of short-term investments, net	**4,069**	(2,405)	58,462
Appreciation (erosion) of long-term liabilities:			
Debentures	**53,533**	5,319	210,553
Long-term loans	**(33,597)**	42,560	(13,743)
Amortization of deferred expenses and other adjustments	**41,995**	61,444	231,346
Changes in current assets and liabilities items:			
Decrease in trade receivables	**49,326**	84,821	60,004
Decrease in receivables and debit balances	**86,901**	42,572	5,018
Increase in inventory	**(588)**	(36,168)	(46,020)
Increase (decrease) in trade payables balances	**(178,541)**	(93,977)	52,444
Increase (decrease) in other current liabilities	**39,122**	(88,340)	(134,985)
Increase (decrease) in deferred revenues	**2,113**	(4,261)	(17,299)
	707,443	566,017	3,894,564
B – Partnership consolidated for the first time			
Working capital (excluding cash and cash equivalents)			6,681
Fixed assets			(6,182)
Long-term liabilities			815
Minority rights as at the acquisition date			743
Investment in an affiliated company			1,095
Goodwill			(7,118)
			(3,966)
C – Non–cash transactions			
Acquisition of fixed assets, other assets, materials and spare parts on credit	**156,903**	64,223	213,909
Sale of fixed assets on credit	**–**	1,186	5,958

* Reclassified

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

Notes to the Interim Consolidated Financial Statements as at March 31, 2003 (Unaudited)

NOTE 1 – GENERAL

A. The interim statements were prepared according to generally accepted accounting principles, applicable to the preparation of financial statements for interim financial statements. These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as at December 31, 2002.

B. In the notes to the interim financial statements, the Company presents only the significant changes in its business and legal environment that occurred from the date of the latest annual financial statements until the date of these interim financial statements. The full and detailed description, including significant changes and developments which occurred in recent years, particularly in the field of cellular telephone services, international communication services, domestic communication services, the opening of these markets to competition and decisions of the Ministerial Committee for Privatization to reduce the State's holdings in the Company, appear in Note 1 to the Company's annual financial statements as at December 31, 2002. The significant changes that occurred from the date of those annual financial statements to the date of these financial statements, are as follows:

1. On March 31, 2003, the Committee for Regulating the Tariffs of Bezeq presented a report containing its recommendations. The report includes, *inter alia*, the following recommendations:

   a. Commencing June 1, 2003, to lower the overall average level of the Company's tariffs compared with the level set in the last tariff update (May 1, 2002), by an average of 5.55% in nominal terms, in an integrated move in which the call tariffs will be reduced by 23% while fixed monthly fees will be increased by 15%.

      The lowering of the Company's tariffs will include cancellation of the minimum call tariff (which is 22.5 agorot including VAT), setting a tariff of 12.9 agorot (including VAT) per call minute during peak hours (which is 4.7 agorot less that the current average tariff at peak times) and a tariff of 5.8 agorot (including VAT) per call minute in off-peak times (which is half an agora less than the current average tariff at off-peak times). In addition, interconnect tariffs will be reduced by 8.2%.

   b. Tariff updates will continue to be based on price updates less the "efficiency coefficient", which will remain at its present level of (3.5%). If the Company's output falls by more than 4%, the efficiency coefficient will be lowered by one half of one percent for each decrease of one percent in output and if the Company's output rises, the efficiency coefficient will be raised by one half of one percent for each increase of one percent in output.

   c. This arrangement will remain in effect until March 31, 2007, with an option to extend it for a further year, where the date of the tariff update (after the first update) will be April 1 of each year.

   The Company approached the Committee with a request to correct incorrect facts which it alleges were included in the report and submitted to the Ministers its detailed remarks on the contents and the report's recommendations, which it characterizes as extremely harsh for the Company. Implementation of the recommendations can be expected to reduce the Company's revenues considerably and to have a materially adverse effect on its business results.

2. Further to Note 1E(1) to the financials statements as at December 31, 2002, concerning a reduced deduction percentage for the cellular companies, it was determined that for the period from January 1, 2003, to May 31, 2003, the Company would deduct 1.1%. Furthermore, the Company submitted a response to the notice of the Minister of Communications which rejected the economic grounds on which the notice was based and demanded that the deduction percentage for the period prior to January 1, 2003, be 2.5% and for the period thereafter, a rate greater than 1.1%.

3. Regarding the settlement agreement between the Company and the State of Israel and Israel Lands Administration relating to the Company's rights in real estate assets transferred to the Company, see Note 5 below.

NOTE 2 - ACCOUNTING POLICY

The significant accounting policies employed in preparation of these financial statements, are the same as those employed in the preparation of the latest annual financial statements, except for the following:

New accounting standards

1. In July 2001 the Israeli Institute for Accounting Standardization ("IIAS") published two new standards:

   a. Accounting Standard No. 12 – “Termination of adjustment of financial statements”. This standard eliminates adjustment for the effects of the purchasing power of the shekel in financial statements, starting from January 1, 2003.

      In December 2002, the IIAS published Standard No. 17, postponing the application of Standard No. 12 to January 1, 2004. Thus, the adjustment of the financial statements will end on that date. Until December 31, 2003 the Company will continue to prepare statement adjusted in accordance with Opinion No. 36 of the ICPAI. The adjusted amounts included in the financial statements as at December 31, 2003, will serve as the starting point for the nominal reporting starting on January 1, 2004. Implementation of Standard No. 12 is liable to have material implications for the reported business results of the Company, the extent of which depends on the rate of inflation, the composition of assets and the Company's financing resources.

   b. Accounting Standard No. 13 – “Effects of changes in foreign currency exchange rates”. The standard deals with the translation of foreign currency transactions and the translation of the financial statements of overseas operations for integration in the financial statements of the reporting corporation and supersedes the provisions of Clarifications 8 and 9 to Opinion No. 36, which will become null and void when Accounting Standard No. 12, described above, becomes effective.

2. In February 2003 the IIAS published Accounting Standard No. 15 – “Impairment in Asset Value”. The Standard lays down procedures with which a corporation must comply in order to ensure that its assets in the consolidated balance sheet are not stated in an amount exceeding their recoverable amount, which is the higher of the net sale price and the present value of the estimated future cash flows expected to derive from the use and realization of the asset. In addition, the Standard lays down rules of statement and disclosure for assets whose value is impaired. The Standard applies to financial statements for the periods starting from January 1, 2003. Application of the Standard will not affect interim financial statements.

NOTE 3 – FINANCIAL STATEMENTS IN ADJUSTED VALUES

The financial statements were prepared on the basis of historical cost adjusted for changes in the general purchasing power of the Israeli currency. The changes that occurred in the Consumer Price Index (“CPI”) and in the foreign currency exchange rates are as follows:

	Consumer price index	Exchange rate US dollar	Exchange rate of the euro
	%	%	%
In the three month period ending:			
March 31, 2003	**0.779**	**(1.056)**	**(2.983)**
March 31, 2002	2.362	5.706	4.382
During the year ended December 31, 2002	6.496	7.269	27.182

NOTE 4 – INVESTMENTS IN INVESTEE COMPANIES

A. D.B.S. Satellite Services (1998) Ltd. ("DBS")

The Company's investment in DBS as at the balance sheet date amounts to approximately NIS 1,131 million. The Company's share in the accumulated losses of DBS is approximately NIS 823 million, of which approximately NIS 55 million was recorded in the present quarter. The balance of the current debt of DBS to the Company and its consolidated companies amounts to approximately NIS 65 million.

Further to Note 8E in the financial statements as at December 31, 2002, the process of allotment to the Company of the additional shares DBS, which will increase the Company's holdings in DBS to about 49.9%, has not yet ended.

Since starting operation, DBS has accumulated considerable losses and negative cash flows. The loss for the year 2002 amounted to approximately NIS 728 million and the loss in the three month period ended March 31, 2003, amounted to approximately NIS 123 million. As a result of these losses, the capital loss and the deficit in working capital at DBS as at March 31, 2003, amounted to approximately NIS 2,435 million and NIS 1,675 million, respectively. The working capital deficit includes bank credit of NIS 1,190 million.

On May 23, 2001, a financing agreement ("the Financing Agreement") was signed between DBS and certain banks ("the Banks"), stipulating, *inter alia*, undertakings by DBS to meet certain suspending conditions and to comply with cumulative milestones and financial stipulations (hereinafter – the Conditions).

An economic study carried out by the Banks at the beginning of 2002 determined that in order to finance the operations of DBS, additional financing would be required which considerably exceeds the financing requirements defined in the Financing Agreement.

On December 30, 2002, DBS, the shareholders and the Banks signed an agreement increasing the credit line from the Banks (hereinafter - Interim Credit Line), which will be implemented concurrently with additional investments of the shareholders in an amount not less than a sum equal to 150% of the amount that will be injected by the Banks. Receipt of the Interim Credit Line is subject, *inter alia*, to DBS's compliance with financial and operating Conditions set out in this agreement. At the same time as the signing, as aforesaid, the parties were discussing an increase of the Interim Credit Line (hereinafter– Addendum to the Financing Agreement). As at the date of signing of these financial statements, shareholders and the Banks transferred to DBS an amount of approximately $ 36 million and approximately $ 24 million, respectively, which represents their full shares under the Interim Credit Line.

Under the Interim Credit Line agreement, it was stipulated that if by March 31, 2003 –

(1) it is not proved to the Banks that the total financing needs of DBS do not exceed the Interim Credit Line plus the Addendum to the Financing Agreement (including the proportional part of the shareholders) and

(2) DBS, the shareholders and the Banks have not signed the Addendum to the Financing Agreement.

then the Banks will be entitled to take the necessary steps, at their exclusive discretion, to collect all the amounts due to them and to act in accordance with their rights under the Financing Agreement in the event of occurrence of an infringing event as provided for in that agreement. An economic study carried out by the Banks during the report period determines that the overall financing needs of DBS do not exceed the Interim Credit Line plus the Addendum to the Financing Agreement (including the proportional part of the shareholders). However, as at the date of approval of these financial statements, the Addendum to the Financing Agreement had not yet been signed. In addition, some of the Conditions provided in the Financing Agreement and the Interim Credit Line are not being met. Accordingly, the credit from the Banks was classified under current liabilities.

NOTE 4 – INVESTMENTS IN INVESTEE COMPANIES (CONTD.)

A. D.B.S. Satellite Services (1998) Ltd. ("DBS") (contd.)

As at the date of approval of these financial statements, the competent authorities of the Banks had given their approval in principle for the Addendum to the Financing Agreement. Concurrently, discussions are continuing between the parties on the details of the Addendum. The principal shareholders of DBS notified the Banks of their intention to invest, in parallel with the Banks, their proportional part in the Addendum to the Financing Agreement. The principal shareholders are continuing to make additional credit available to DBS, beyond the Interim Credit Line and on account of the Addendum to the Financing Agreement. As at the date of approval of the financial statements, the credit made available to DBS by the shareholders on account of the Addendum to the Financing Agreement amounted to approximately $ 2.5 million.

The grant of loans by the Company to DBS are subject, *inter alia*, to the approval of the Ministerial Committee for Privatization (hereinafter – the Committee). On January 14, 2003, the Committee gave its approval for the Company to invest in DBS a total of the percentage of its holding in DBS multiplied by $ 600 million and up to an exposure ceiling of $ 300 million.. The management of DBS estimates that the total investments approved for the Company by the Committee cover the proportional part of the Interim Credit Line plus the proportional part of the Addendum to the Financing Agreement.

DBS's continued operation is contingent upon the integration of the Addendum to the Financing Agreement as aforesaid and upon the receipt of additional loans from the shareholders.

The Management of DBS believes that the chances are good that ongoing discussions between DBS, the shareholders and the Banks will lead to the formulation of the Addendum to the Financing Agreement and to the arranging the financial resources required by DBS in the coming year.

B. Goldnet Communications Services – a registered partnership ("the Partnership")

Further to Note 8H to the financial statements as at December 31, 2002, in the matter of the exercise of the Put option held by Malam Systems Ltd. ("Malam") relating to the Company, for the sale of 20.9% of its holding in the Partnership, on May 5, 2003, after receipt of the approvals required by law for the change in the holdings in the Partnership and after the consideration was paid by the Company, the Company's holdings in the Partnership increased to 74.9%, while the holdings of Malam in the Partnership decreased accordingly to 25.1%.

C. Adanet For Business Group Ltd. ("Adanet")

Further to Note 8G to the financial statements as at December 31, 2002, Adanet sustained losses of NIS 4 million during the period ended March 31, 2003 and NIS 34.9 million during 2002, and has an equity deficit as at March 31, 2003, amounting to NIS 63.5 million and a working capital deficit as at the same date amounting to NIS 34.7 million. During 2002 Adanet started implementation of a plan that included efficiency measures and cost-cutting. In addition, Adanet obtained approval from the Company for its business plan, which includes an injection by the Company of the financing required for Adanet's current operations at least until the end of March 2004. Furthermore, discussions are being held between Adanet, the Company and banks for continuing the present bank credit at least for the coming year.

There is uncertainty regarding the implementation of the business plan of Adanet as written, as well as regarding the outcome of the discussions with the banks for arranging the financing that Adanet requires. Adanet's continued operation depends on the implementation of the business plan, including an injection of finance by the Company and the successful outcome of the discussions with the banks and arranging the aforementioned financing. Adanet's management and the Company believe that there is a reasonable chance that the discussions with the banks will lead to an arrangement of the financing required by Adanet for the continued operation of Adanet for at least the coming year.

NOTE 4 – INVESTMENTS IN INVESTEE COMPANIES (CONTD.)

C. Adanet For Business Group Ltd. ("Adanet") (contd.)

The balance of the Company's investment in Adanet (including shareholders' loans) as at the date of the financial statements, amounts to approximately NIS 31 million.

D. Pelephone Communications Ltd. ("Pelephone")

In May 2003 the Company received a partial update of the estimated value of Pelephone, indicating a rise in its value to between $ 800 million and $ 1 billion. In view of the uncertainty as to the continuing existence of the factors that led to this update, no change was made in the provision for impairment in value. The Company will re-examine the value of Pelephone at a later date.

NOTE 5 – FIXED ASSETS

Further to Note 9C to the financial statements as at December 31, 2002, on May 15, 2003, the Company signed a settlement agreement with the Government of Israel for the State of Israel and Israel Lands Administration ("the Administration"). The agreement regulates the dispute between the aforementioned parties relating to the rights of the Company in various real estate assets which were transferred to the Company when it commenced operations in 1984, under an asset transfer agreement which was signed between the Company and the State ("the Asset Transfer Agreement" or "the Agreement").

Under the settlement agreement, 14 properties will be returned to the State out of the 28 which are in the Company's possession under renewable lease status (whole properties which were leased to the Company for a period of two years and renewable each time for a further two years, unless the State exercised its right to end the lease on terms and conditions laid down in the Asset Transfer Agreement), this being in addition to three properties which were returned to the Administration prior to the settlement agreement and the Administration will allocate three substitute properties instead of some of those which the Company will return to the State. The remainder of the properties in the Company's possession under renewable leases and properties which were leased to the Company under the Asset Transfer Agreement will remain in the Company's possession on discounted lease terms, as set out in the Agreement. The Administration will also allocate and lease to the Company, after completion of planning stages, an net area of 70 dunams at the Sakia site, on lease terms which will be set out in an agreement. The Agreement also includes a number of individual arrangements in the matter of specific disputes between the parties, some of which related to certain of the properties in dispute and some of which related to other properties that were not part of the dispute. Under these arrangements, it was agreed, *inter alia*, that the Company will return several additional properties (one of which was never in dispute), as set out in the Agreement.

The Agreement will become valid after its approval by the Israel Lands Council, by the Audit Committee of the Board of Directors of the Company, the Board of Directors and a General Meeting of the Company (since it is an exceptional transaction between the Company and its controlling shareholder – the State of Israel), and after it is validated by a decision of the court in which the claim was filed by the State, the Administration and the Development Authority against the Company in the matter in dispute. The approval process will commence after the parties complete, within a few days, approval and signature of some of the appendices to the Agreement, which includes drawings of four of the properties.

In the opinion of the Company's Management, the aforementioned is not expected to have a material effect on the financial statements of the Company.

NOTE 6 – LIABILITY FOR EMPLOYEE SEVERANCE BENEFITS

Early retirement plan

In September 2000, the Company reached an agreement with workers' representatives for extension of the 1997 collective agreement for early retirement. Under the agreement 1,770 additional employees would take early retirement from April 1, 2001, through December 31, 2006, (with an option to extend the final retirement date for certain employees through December 31, 2008).

The agreement also stated that the Company would be able to terminate the employment of employees in a compensation track, in excess of the aforementioned quota. In the opinion of the Company's Management, the possibility of additional employees retiring under the aforementioned track is low and accordingly, no provision has been made in the financial statements. Under this plan, approximately 403 employees had taken early retirement by March 31, 2003.

NOTE 7 – CONTINGENT LIABILITIES

A. CLAIMS AND CONTINGENT LIABILITIES

The Company and the investee companies have contingent liabilities in respect of which the maximum possible exposure is considerable. A detailed description of these contingent liabilities appears in Note 19A to the Company's financial statements for the year ended December 31, 2002. No significant changes have occurred in respect of the contingent liabilities up to the date of the signing of these financial statements, except for the following:

1. Further to Note 19.A.(25) to the financial statements as at December 31, 2002 regarding the letter of demand in the name of the Moshave Porath Committee which was received in October 2001; a statement of claim was received in April 2003 at the Company's offices which had been filed in the Tel Aviv District Court against the Company, Israel Broadcasting Authority and the State of Israel, by various plaintiffs from Moshav Porath in the Sharon region, including the estates of deceased persons, for compensation due to bodily injury under the Torts Ordinance. The claim alleges violation of legislated duties and acts and/or failures allegedly committed by the defendants, jointly and/or severally, in connection with the operation of the “Hillel” broadcasting station that is near the plaintiffs' homes and as a result thereof the plaintiffs, due to radiation from the broadcasting station, suffered bodily injury, most of which ended in the death of some of the plaintiffs. The amount of the claim, as stated by the plaintiffs, is "more than NIS 15 million", and the claim notes that the plaintiffs will also petition to split the reliefs so as to reserve the right to sue later for other financial damages which are not bodily injury, such as damage to crops and loss of value of land. According to the notice of the plaintiffs' lawyer that was provided prior to filing the claim, this claim is the first claim and it is intended to file, at a later date, additional claims of additional residents who were injured as a result of radiation from the Hillel Station.

   The Company is studying the statement of claim and is unable, at this stage, to estimate its chances and the exact financial amount of the claim, or the chances and amounts of any additional claims that will be filed, if they are filed, against it. Nevertheless, it is noted that in reply to the letter of demand sent to the Company by the plaintiffs' lawyer (in October 2001 as mentioned above and a short time prior to filing the claim), the Company rejected the allegations of the plaintiffs, and reiterated that its activities at the Hillel station are carried out in accordance with the provisions of the law and the directives and permits granted by the competent authorities who are responsible for the broadcasting activities at the station. It is further noted that the Company rejected a proposal made by the plaintiffs' lawyer before filing the claim, to negotiate and reach a settlement arrangement with the plaintiffs before they filed the claim.

NOTE 7 – CONTINGENT LIABILITIES (CONTD.)

A. CLAIMS AND CONTINGENT LIABILITIES (CONTD.)

Furthermore on March 16, 2003, the Company received another letter of demand, in which the Company is required to vacate the “Hillel station” and in which it was informed of the intention to file claims in respect of liability for health damages as a result of operating the station. The Company rejected the letter, and for the sake of caution, informed the relevant insurance companies of the demand, as well as the Ministry of Communications, the Ministry of the Environment and the Broadcasting Authority.

In addition, during April 2003 a petition was filed in the Supreme Court against the Minister of the Environment, the Minister of Defense, the Broadcasting Authority and the Company, by the head of the Zuran Local Council, seeking an order for the immediate termination of operation of the broadcasting station at the “Hillel” site, since by operating the station, hazardous radiation was endangering the health of the residents of Moshav Zuran. The petition was transferred for hearing before a panel of three Justices.

2. On May 4, 2003, a derivative statement of claim was received at the Company's offices, which includes an application to the court to approve the filing of the claim as a derivative claim (a claim which is filed by a shareholder or director of a company in the name of the company, with the approval of the court). The claim was filed by a shareholder of the Company against 20 directors and certain senior managers who were serving in the Company in October-November 2000 ("the Officers"), and against the Company. The statement of claim alleges as the main cause of the action, the negligent conduct of the Officers in the “Pelephone-Shamrock transaction.” In that transaction, the shares of Motorola Israel Ltd. in Pelephone were sold to Pelephone Holding L.L.C., a corporation registered in the U.S.A. ("the Foreign Corporation"), in consideration for approximately $ 591 million. The consideration in respect of the purchase was financed partly by a loan of $ 240 million extended to the Foreign Corporation by the Company against debentures convertible into 80% of the shares of the Foreign Corporation (a detailed description of the transaction appears in the financial statements of the Company starting from the year 2000). This negligence is mainly reflected, allegedly, in the fact that the Officers did not ensure that the Company received collateral for the loan extended to the Foreign Corporation by the Company. The claim further alleges that as a result of the negligence of the Officers, the Company was obliged to record a provision in its books for the full amount of the loan, which is tantamount to an admission that the chances of collecting the loan are non-existent, and therefore, the loss to the Company as a result of the Officers' negligence amounts to approximately $ 240 million. The plaintiff petitioned the court to order the Officers to pay the Company the amount of the loss it sustained, i.e. approximately $ 240 million.

   The Company is studying the statement of claim and is unable, at this stage, to estimate its outcome. It is noted, however, that the Company rejected a prior application sent to it by the plaintiff's lawyer, demanding full exercise of the rights of the Company in the matter, by way of filing a claim, citing as the reasons, *inter alia*, that the facts creating the cause of action were not described in accordance with the requirements of the Companies Law, 5759-1999 and that in any case, since the loan extended by the Company would fall due only in two years' time and since the Company still has an option to convert the loan to shares of the Foreign Corporation, and thus, legally speaking, the claim is speculative. It is further noted that contrary to the statement of claim, which alleges that the Company apparently did not receive collateral for the loan it extended, a second lien (convertible debenture) of the shares of Pelephone Holding L.L.C. in Pelephone was recorded against the loan (after a first lien was given to the bank that financed part of the transaction – see also Note 8.D.(2) to the financial statements as at December 31, 2002).

NOTE 7 – CONTINGENT LIABILITIES (CONTD.)

A. CLAIMS AND CONTINGENT LIABILITIES (CONTD.)

3. Further to Notes 19.A.(12), 19.A.(14) and 19.A.(17) to the financials statements as at December 31, 2002, relating to class actions filed against the Company for which the source of authority for filing the claims is Regulation 29 of the Civil Procedures Regulations. In April 2003 a ruling of principle and precedent was issued by the Supreme Court in a case in which the Company is not a party to, whereby it was determined that a class action cannot be filed by virtue of Regulation 29 of the Civil Procedures Regulations where no specific arrangement has been determined for filing the action in primary legislation. Based on that ruling, there is apparently no source of jurisdiction for filing the class actions mentioned in this sub-section, although specific decisions have not yet been given in those cases.

4. Further to Note 19.A.(4) to the financials statements as at December 31, 2002, concerning the claim of senior employees to a salary increment of 33%, the court has given its decision, denying the claim in full. The plaintiffs have appealed the decision.

5. Further to Note 19.A.(27) to the financials statements as at December 31, 2002, in connection with guarantees on which the Ministry of Communications of India demanded to foreclose, the proceeding was stricken for "inaction", and to the best of the Company's knowledge, no appropriate application has been filed for reviving the proceeding.

6. On April 3, 2003, a petition was filed in the Supreme Court against DBS, its shareholders (including the Company), the Government of Israel and others, in which the Supreme Court is requested, *inter alia*, to declare DBS a governmental company, in view of the amount of the Company's investments in DBS, and to cancel the decision of the Ministerial Committee for Privatization which gave its approval for the Company to increase its investment in DBS. It is noted that in fact, Bezeq's holdings in DBS today is less than 50%. The chances of the petition being allowed, and its implications if allowed, cannot be estimated.

7. In April 2003 an application was filed in the Tel Aviv District Court for approval of a class action in the amount of NIS 90 million, against Pelephone and against all the other cellular operators, The applicants allege that the three cellular companies formed a cartel for collecting a tariff of 38 agorot plus VAT for incoming SMS messages to each of their networks. The plaintiffs allege that the tariff is uniform, exorbitant, unreasonable and unfair. The period to which the claim relates is from March-June 2002 up to the date of filing the claim. Pelephone and its legal advisers are studying the claim material and are unable, at this stage. to estimate its chances.

8. On March 25, 2003, an application was filed in the District Court against DBS for approval of a claim as a class action, regarding the imposition of the cost of the electricity consumption required for operating a satellite dish on the tenants of the building on which the dish has been installed. The group in whose name the application was filed is all the houses where a satellite dish was installed by DBS. The claim is for declaratory relief determining that DBS must pay for the consumption of electricity of the dishes which it connected or were connected on its behalf in the various premises, and that it must reimburse the members of the group for the full amount they paid for the electricity consumption of the installations of DBS, and for compensation and/or restoration of monies which were paid in respect of the electricity consumption as aforesaid. The amount estimated as damages in respect of which the applicants are demanding restoration, is NIS 25 million.

   In the opinion of the legal advisers of DBS, it is difficult at this stage to estimate whether the claim will be allowed as a class action, and if it is allowed – what its chances are. Accordingly, DBS has not included a provision in respect of this claim in its financial statements.

NOTE 7 – CONTINGENT LIABILITIES (CONTD.)

A. CLAIMS AND CONTINGENT LIABILITIES (CONTD.)

9. Further to Note 19.A.(29) to the financials statements as at December 31, 2002, concerning the customer attribution process of a consolidated company, the supplementary referendum which commenced on July 1, 2002, was completed, after postponements, in February 2003. An examination carried out by the consolidated company found that the effects of the results of the referendum on its financial statements are not significant.

10. Further to Note 19.A.(36) to the financials statements as at December 31, 2002, relating to a class action filed against Pelephone in respect of over-collection, the claim was stricken on November 14, 2002.

11. In a series of letters sent recently to DBS, Israel Aircraft Industries ("IAI"), through its lawyer, alleged that DBS is in breach of existing agreements between it and IAI and H.L.L. Satellite Communications (Spacecom) Ltd. ("HLL"). Based on these allegations, IAI is threatening that on May 25, 2003, it will instigate a process in which IAI will cease making available to DBS responders on the Amos 1 satellite. DBS rejects the allegations of IAI as to the content of that agreed between DBS, IAI and HLL. DBS also denies the right of IAI to take such action.

B. GUARANTEES

In May 2003 the Company, in accordance with the demand of the Ministry of Communications, gave a bank guarantee in the amount of $ 10 million in connection with its general license for carrying out telecommunications activity and for providing telecommunications services.

C. FUTURE CONTRACTS

1. Hedging Contracts (Forward)

	Currency purchased	Currency payable	Final repayment date	Amounts receivable	Amounts payable
				NIS millions	
Contracts at predetermined interest rates					
	Dollar	CPI-linked NIS	February 2005	**927**	**970**
	Euro	CPI-linked NIS	February 2005	**1,267**	**1,125**
Contracts at predetermined exchange rate (excluding premium/discount)					
	Dollar	NIS	March 2004	**476**	**495**
	Euro	NIS	March 2004	**281**	**289**
	CPI-linked NIS	NIS	June 2003	**27**	**26**

NOTE 7 – CONTINGENT LIABILITIES (CONTD.)

C. FUTURE CONTRACTS (CONTD.)

2. Contracts not for hedging purposes

	Currency purchased	Currency payable	Final repayment date	Fair value	Volume
				NIS millions	
Options purchased (Call)	NIS	Dollar	December 2003	–	24
Options written (Call)	CPI-linked NIS	Dollar	August 2003	–	20
Contracts at predetermined exchange rate	Dollar	NIS	December 2003	(4)	101

NOTE 8 – SHARE CAPITAL

A. On January 13, 2002, a framework agreement was signed between the State and the Company, whereby capital would be raised by way of a private sale. The proceeds from the sale would be earmarked for financing the costs involved in the retirement of Company employees.

It was determined that the price at which the shares would be sold would be not less than NIS 6 net per share. According to a resolution of the General Meeting of the Shareholders of the Company, registered share capital not allotted as part of the process of raising capital until February 28, 2003 or until another date on which the State would hold 51.02% (at full dilution) of the share capital of the Company (whichever would be the earlier date) would be cancelled. As the capital was not raised by February 28, 2003, the registered capital of 130,000,000 shares was cancelled.

B. On January 27, 2003, the Special General Meeting of the Company approved the recommendation of the Board of Directors dated January 2, 2003, to distribute a cash dividend to the holders of the Company's shares who are registered in the Shareholders Register a the end of the business day on February 5, 2003. The X date was February 6, 2003, and payment date was February 20, 2003. The total cash dividend of NIS 190,000 thousand represents 7.8784 agorot per share.

NOTE 9 – REVENUES FROM TELECOMMUNICATION SERVICES

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues from communication services –			
Domestic fixed-line communications	**558,327**	592,269	2,324,769
Fixed fees	**556,774**	533,796	2,164,175
Cellular telephone	**499,067**	547,180	2,151,175
International communications and Internet services	**170,123**	172,054	680,770
Installation and sale of equipment to subscribers	**138,479**	126,118	540,898
Other	**19,153**	33,348	112,246
	1,941,923	2,004,765	7,974,033
Other revenues	**90,186**	76,786	324,651
	2,032,109	2,081,551	8,298,684

NOTE 10 – OPERATING AND GENERAL EXPENSES

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Salaries and related expenses	**518,836**	518,135	2,035,601
General expenses	**178,711**	197,722*	764,023*
Materials and spare parts	**148,510**	133,466	611,469
Cellular telephone expenses	**115,081**	104,927*	485,993
Building maintenance	**84,768**	95,263	361,236
Services and maintenance by subcontractors	**68,443**	74,270	262,423*
International communications expenses	**39,695**	34,469	156,318
Vehicle maintenance expenses	**29,837**	25,302	99,238
Collection fees	**8,849**	8,499	35,764
	1,192,730	1,192,053	4,812,065
Less – salaries charged to investment in fixed assets	**45,927****	40,476	151,554
	1,146,803	1,151,577	4,660,511

* Reclassified
** See Note 11C

NOTE 11 – CONDENSED INTERIM FINANCIAL STATEMENTS OF THE COMPANY

A. Statement of Operations

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues from telecommunication services (Note 11B)	**1,376,297**	1,448,614	5,611,224
Costs and expenses			
Operating and general expenses (Note 11C)	**617,620**	634,080	2,481,106
Depreciation	**464,881**	484,553	1,939,809
Royalties to the Government of Israel	**46,608**	48,440	183,890
	1,129,109	1,167,073	4,604,805
Operating income	**247,188**	281,541	1,006,419
Financing expenses, net	**16,565**	45,873	120,316
Earnings after financing expenses	**230,623**	235,668	886,103
Other expenses (income), net	**(2,048)**	(1,485)	1,239,973
Earnings (loss) before income tax	**232,671**	237,153	(353,870)
Income taxes	**88,366**	78,976	235,879
Earnings (loss) after income taxes	**144,305**	158,177	(589,749)
Company's equity in losses of investee companies	**74,944**	44,619	347,819
Net earnings (loss)	**69,361**	113,558	(937,568)

Notes to the Interim Consolidated Financial Statements as at March 31, 2003 (Unaudited)

NOTE 11 – CONDENSED INTERIM FINANCIAL STATEMENTS OF THE COMPANY (CONTD.)

B. REVENUES FROM TELECOMMUNICATIONS SERVICES

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues from communications services			
Domestic fixed-line communications	**560,588**	597,499	2,347,713
Fixed fees	**529,807**	509,525	2,032,469
Cellular telephone	**131,264**	165,479	560,965
International communications	**35,680**	40,355	139,482
Installation and sale of equipment to subscribers	**33,452**	40,039	156,346
Other	**20,090**	35,427	117,965
	1,310,881	1,388,324	5,354,940
Other revenues	**65,416**	60,290	256,284
	1,376,297	1,448,614	5,611,224

C. OPERATING AND GENERAL EXPENSES

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Salaries and related expenses	**397,841**	403,828	1,566,012
General expenses	**74,373**	86,506	328,946*
Materials and spare parts	**22,447**	12,859	67,509
Building maintenance	**78,617**	82,378	332,832
Services and maintenance by subcontractors	**53,584**	57,874	211,513*
International communications expenses	**2,566**	1,429	5,077
Vehicle maintenance expenses	**25,426**	21,218	85,093
Collection fees	**8,693**	8,464	35,678
	663,547	674,556	2,632,660
Less – salaries charged to investments in fixed assets	**45,927****	40,476	151,554
	617,620	634,080	2,481,106

* Reclassified

** Starting from February 2003, following the installation of a new reporting system at the Company which enables accurate measurement of direct costs of employees of the Engineering and Technology Systems Division, the Company capitalized an additional amount for company built fixed assets. The additional amount in respect of this quarter is NIS 8 million.

Notes to the Interim Consolidated Financial Statements as at March 31, 2003 (Unaudited)

NOTE 12 – SECTORS OF BUSINESS OPERATIONS

The Company and the investee companies operate in various segments of the communications industry. Data on activities by segment are stated according to the segments of operation of those companies.

For the period ended March 31, 2003

	Domestic fixed line communications	Cellular telephone	International communications and Internet services	Others	Adjustments	Consolidated
	NIS thousands					
Revenues						
Revenues from externals	**1,322,398**	**476,040**	**170,008**	**63,663**	**–**	**2,032,109**
Inter-segment revenues	**53,899**	**1,111**	**2,354**	**7,964**	**(65,328)**	**–**
Total revenues	**1,376,297**	**477,151**	**172,362**	**71,627**	**(65,328)**	**2,032,109**
Segment results	**247,188**	**(15,436)**	**29,149**	**569**	**165**	**261,635**

For the year ended December 31, 2002

	Domestic fixed line communications	Cellular telephone	International communications and Internet services	Others	Adjustments	Consolidated
	NIS thousands					
Revenues						
Revenues from externals	5,399,807	2,011,783	688,661	198,433	–	8,298,684
Inter-segment revenues	211,416	7,850	8,497	30,244	(258,007)	–
Total revenues	5,611,223	2,019,633	697,158	228,677	(258,007)	8,298,684
Segment results	1,006,422	(64,375)	110,958	(8,849)	661	1,044,817

NOTE 13 – CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD.

1. BEZEQ INTERNATIONAL LTD.

A. Balance sheet

	March 31 2003	March 31 2002	December 31 2002
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	**162,016**	184,478	198,859
Investments	**10,255**	21,962	10,984
Fixed assets	**500,462**	428,155	497,334
Other assets	**7,459**	14,519	8,659
	680,192	649,114	715,836
Current liabilities	**325,360**	336,093	381,774
Long-term liabilities	**174,551**	205,686	175,395
Shareholders' equity	**180,281**	107,335	158,667
	680,192	649,114	715,836

NOTE 13 – CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD. (CONTD.)

1. BEZEQ INTERNATIONAL LTD. (CONTD.)

B. Statement of Operations

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues from international telecommunications services	**172,362**	171,083	697,166
Operating expenses	**99,957**	97,008	390,429
Gross profit	**72,405**	74,075	306,737
Marketing, general and administrative expenses	**43,256**	52,672	195,778
Operating income	**29,149**	21,403	110,959
Financing expenses (income), net	**3,522**	(6,109)	(1,625)
Earnings after financing, net	**25,627**	27,512	112,584
Other expenses (income), net	**2,858**	(207)	(35)
Earnings before income taxes	**22,769**	27,719	112,619
Income taxes	**473**	287	10,824
Earnings after income taxes	**22,296**	27,432	101,795
Company's equity in losses of an affiliated company	**682**	1,813	24,844
Net earnings	**21,614**	25,619	76,951

NOTE 13 – CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD. (CONTD.)

2. PELEPHONE COMMUNICATIONS LTD.

A. Balance sheet

	March 31 2003	March 31 2002	December 31 2002
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	**1,280,361**	1,201,873	1,349,772
Long-term trade receivables	**205,906**	120,701	160,408
Deferred income taxes	**340,016**	281,613	338,479
Fixed assets, net	**2,984,253**	2,676,097	2,815,615
Other assets	**417,765**	633,426	463,248
	5,228,301	4,913,710	5,127,522
Current liabilities	**2,007,677**	1,531,562	2,096,720
Provision for losses of investee company	**4,978**	4,002	4,534
Long-term liabilities	**1,376,488**	1,364,036	1,134,010
Shareholders' equity	**1,839,158**	2,014,110	1,892,258
	5,228,301	4,913,710	5,127,522

NOTE 13 – CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD. (CONTD.)

2. PELEPHONE COMMUNICATIONS LTD. (CONTD.)

B. Statement of Operations

	For the three month period ended March 31		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues from cellular services, sales and services	**954,302**	971,770	4,039,266
Cost of cellular services, sales and services	**829,105**	863,041*	3,548,995
Gross profit	**125,197**	108,729	490,271
Sales and marketing expenses	**118,034**	119,558*	478,712
General and administrative expenses	**38,034**	40,062*	158,036
	156,068	159,620	636,748
Operating loss	**(30,871)**	(50,891)	(146,477)
Financing expenses, net	**23,579**	8,615	95,418
Other income, net	**(187)**	(167)	(1,508)
Loss before income taxes	**(54,263)**	(59,339)	(240,387)
Tax benefit	**(1,537)**	(19,184)	(76,049)
Loss after income taxes	**(52,726)**	(40,155)	(164,338)
Minority equity in losses of a consolidated company	**–**	(2,961)	(5,859)
Company's equity in losses of an affiliate	**374**	106	672
Net loss	**(53,100)**	(37,300)	(159,151)

* Reclassified