"BEZEQ" THE ISRAEL TELECOMMUNICATION CORP. LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2000

(UNAUDITED)

Contents

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The Board of Directors
"Bezeq" The Israel Telecommunication Corp. Limited

Dear Sirs,

Re: Review of the Unaudited Interim Consolidated Financial Statements for the Six Months and Three Months Ended June 30, 2000

At your request we have reviewed the interim consolidated balance sheet of "Bezeq" The Israel Telecommunication Corp. Limited and its subsidiaries as at June 30, 2000, as well as the interim consolidated statements of operations, changes in shareholders' equity and cash flows for the six months and three months 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 Shareholders Meetings and of meetings 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 June 30, 2000 constitute approximately 5.04% of total consolidated assets and whose revenues constitute approximately 7.36% and approximately 6.75% of the total consolidated revenues, respectively for the six months and three months then ended. Furthermore, the data included in the financial statements relating to the net asset value of the Company's investments in affiliates and its equity in their operating results is based on their interim financial statements reviewed by other auditors.

The Company retroactively adjusted its financial statements for the year ended December 31, 1999 and for the six months ended June 30, 1999 by way of restatement, in order to reflect the revised accounting treatment of capitalizing the costs of subscriber acquisitions in a proportionally consolidated subsidiary retroactively, as detailed in Note 2C, an amendment with which we agree.

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 in 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), 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 plan for organizational change, as described in Note 5.

3. Claims made against the Company and against investee companies, as described in Note 6A.

Yours truly,

Somekh Chaikin
Certified Public Accountants (Isr.)

August 15, 2000

Interim Consolidated Balance Sheet

In terms of Shekels of June 2000

	June 30 2000 (Unaudited)	June 30 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current Assets			
Cash and cash equivalents	537,455	876,491	666,730
Short-term investments	152,209	369,646	302,270
Trade receivables	1,308,938	1,492,867	1,528,559
Other receivables and debit balances	508,047	386,506	484,333
Inventory	118,236	107,326	110,624
	2,624,885	3,232,836	3,092,516
Materials and spare parts	206,538	225,024	232,116
Investments and long-term receivables			
Bank deposits and other investments	266,219	296,574	276,777
Investee companies	250,780	58,261	75,781
	516,999	354,835	352,558
Fixed assets			
Cost	29,567,718	29,513,642	28,859,555
Less - accumulated depreciation	17,451,574	16,085,189	16,155,616
	12,116,144	13,428,453	12,703,939
Other assets			
Deferred charges and other assets	318,978	94,639 **	258,474 **
Deferred taxes	151,220	421,466 *	238,629
Minority interest	395	-	-
	470,593	516,105	497,103
	15,935,159	17,757,253	16,878,232

* Reclassified

** Restated, See Note 2C

	June 30 2000 (Unaudited)	June 30 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current liabilities			
Short-term bank credit	480,026	110,457	272,023
Current maturities of:			
Debenture issued to the Government of Israel	-	942,735	472,722
Long-term bank loans	906,283	1,075,657	1,057,370
Other debentures	213,752	216,565	226,363
Trade payables	940,772	989,166	1,160,713
Dividend payable	-	-	302,696
Employee severance benefits	214,334	272,603	352,503
Other current liabilities	787,215	966,362	828,876
	3,542,382	4,573,545	4,673,266
Long-term liabilities			
Long-term loans	3,359,776	3,498,848	3,248,749
Other debentures	1,122,235	1,336,575	1,258,325
Convertible debentures	-	269,999	-
Employee severance benefits	76,731	378,562	78,757
Deferred taxes	19,797	33,140 * **	20,259 **
Deferred revenues	74,684	83,085	79,075
	4,653,223	5,600,209	4,685,165
Convertible debentures	81,362	-	234,576
Contingent liabilities			
Shareholders' equity	7,658,192	7,583,499 **	7,285,225 **
	15,935,159	17,757,253	16,878,232

Ido Dissentshik	Ilan Biran	Iris Stark	Oren Lieder
Member of the Board	CEO	Member of the Board	Chief Financial Officer

Date of approval of the financial statements: August 15, 2000.

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

Interim Consolidated Statement of Operations

In terms of Shekels of June 2000

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenues from telecommunications services (Note 8)	4,255,117	4,542,930*	1,993,620	2,183,523*	9,177,659
Costs and expenses					
Operating and general expenses (Note 9)	2,215,489	2,483,297* **	978,315	1,256,856* **	5,139,380**
Depreciation	1,358,439	1,359,602	674,834	679,972	2,731,129
Royalties to the Government of Israel	157,614	155,554	75,417	75,322	302,489
	3,731,542	3,998,453	1,728,566	2,012,150	8,172,998
Operating income	523,575	544,477	265,054	171,373	1,004,661
Financing expenses					
The Government of Israel for interest (including erosion)	4,899	36,727	(1,140)	11,604	56,270
Banks and others, net (including erosion)	161,249	153,581	35,309	48,651	305,153
	166,148	190,308	34,169	60,255	361,423
Earnings after financing expenses	357,427	354,169	230,885	111,118	643,238
Other income (expenses), net	87,420	(278,006)*	(3,269)	455*	(560,554)
Earnings before income tax	444,847	76,163	227,616	111,573	82,684
Income tax	(192,727)	(34,744)**	(96,224)	(38,183)**	(59,888)**
	252,120	41,419	131,392	73,390	22,796
Equity in losses of affiliates	(49,929)	(2,343)	(23,386)	(1,945)	(21,631)
Minority interest in losses of consolidated company	395	-	395	-	-
Earnings before cumulative effect of change in accounting method	202,586	39,076	108,401	71,445	1,165
Cumulative effect as at beginning of year of the change in accounting method, net	-	7,050**	-	-	7,050**
Net earnings	202,586	46,126	108,401	71,445	8,215
Basic and diluted earnings per NIS 1 par value of ordinary shares (in NIS)	0.256	0.062**	0.135	0.092	0.025**

* Reclassified

** Restated, See Note 2C

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

Interim Statement of Changes in Shareholders' Equity

In terms of Shekels of June 2000

	Share capital	Share premium capital reserve	Capital reserve in respect of transactions between the Company and a controlling shareholder	Retained earnings	Total
			NIS thousands		
Six months ended June 30, 2000					
Balance as at December 31, 1999 (audited)	4,148,376	654,303	35,784	2,446,762*	7,285,225
Erosion of dividend proposed last year and paid this year (unaudited)	-	-	-	(1,427)	(1,427)
Net earnings (unaudited)	-	-	-	202,586	202,586
Tax benefit in respect of shares to employees (unaudited)	-	21,841	-	-	21,841
Exercise of convertible debentures (unaudited) (1)	13,403	136,564	-	-	149,967
Balance as at June 30, 2000 (unaudited)	4,161,779	812,708	35,784	2,647,921	7,658,192
Three months ended June 30, 2000					
Balance as at April 1, 2000 (unaudited)	4,161,559	811,062	35,784	2,539,520*	7,547,925
Net earnings (unaudited)	-	-	-	108,401	108,401
Exercise of convertible debentures (unaudited) (2)	220	1,646	-	-	1,866
Balance as at June 30, 2000 (unaudited)	4,161,779	812,708	35,784	2,647,921	7,658,192
Six months ended June 30, 1999					
Balance as at December 31, 1998 (audited)	4,130,407	481,343	35,784	2,741,243	7,388,777
Net earnings (unaudited)	-	-	-	46,126*	46,126
Exercise of convertible debentures (unaudited)	14,064	134,532	-	-	148,596
Balance as at June 30, 1999 (unaudited)	4,144,471	615,875	35,784	2,787,369	7,583,499
Three months ended June 30, 1999					
Balance as at April 1, 1999 (unaudited)	4,132,391	498,669	35,784	2,715,924*	7,382,768
Net earnings (unaudited)	-	-	-	71,445*	71,445
Exercise of convertible debentures (unaudited)	12,080	117,206	-	-	129,286
Balance as at June 30, 1999 (unaudited)	4,144,471	615,875	35,784	2,787,369	7,583,499

* Restated, See Note 2C

Interim Statement of Changes in Shareholders' Equity (contd.)

In terms of Shekels of June 2000

	Share capital	Share premium capital reserve	Capital reserve in respect of transactions between the Company and a controlling shareholder	Retained earnings	Total
			NIS thousands		
Year ended December 31, 1999					
Balance as at December 31, 1998 (audited)	4,130,407	481,343	35,784	2,741,243	7,388,777
Net earnings (audited)	-	-	-	8,215*	8,215
Dividend in respect of previous year (audited)	-	-	-	(302,696)	(302,696)
Conversion of convertible debentures (audited)	17,969	172,960	-	-	190,929
Balance as at December 31, 1999 (audited)	4,148,376	654,303	35,784	2,446,762	7,285,225

* Restated, See Note 2C

(1) 134,870,728 par value convertible debentures were converted to 13,327,147 ordinary shares with a par value of NIS 1 each.

(2) 2,215,441 par value convertible debentures were converted to 218,917 ordinary shares with a par value of NIS 1 each.

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

Interim Consolidated Statement of Cash Flows

In terms of Shekels of June 2000

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows generated by operating activities					
Net earnings	202,586	46,126*	108,401	71,445*	8,215*
Adjustments to reconcile net earnings to net cash flows generated by operating activities (see A below)	1,355,874	1,075,949*	738,763	687,104*	2,386,868*
Net cash flow generated by operating activities	1,558,460	1,122,075	847,164	758,549	2,395,083
Cash flows generated by investing activities					
Acquisition of fixed assets	(824,643)	(756,160)	(292,121)	(420,903)	(1,422,897)
Proceeds from disposal of fixed assets	12,377	5,838	7,380	1,662	20,188
Investment in long-term deposits	(27,093)	(14,340)	(11,023)	(2,896)	(15,879)
Realization of long-term deposits and investments	35,026	58,114	3,905	35,372	113,130
Decrease (increase) in short-term investments, net	152,182	19,763	(16,059)	120,646	85,321
Decrease (increase) in materials and spare parts, net	12,438	(32,046)	(1,940)	(29,145)	(80,334)
Investment in investee companies	(224,928)	(23,920)	(116,979)	(12,578)	(60,729)
Investment in other assets	(126,966)	(104,779)*	(54,727)	(64,618)	(302,536)*
Net cash flow used for investing activities	(991,607)	(847,530)	(481,564)	(372,460)	(1,663,736)
Cash flows generated by financing activities					
Repayment of debenture issued to the Government of Israel	(473,389)	(473,460)	(235,914)	(236,145)	(942,134)
Issue of other debentures (after deduction of issue expenses)	-	263,217	-	162,710	264,241
Repayment of other debentures	(145,416)	(135,617)	(16,449)	(16,316)	(207,350)
Receipt of long-term loans	659,842	470,448	352,408	158,733	723,514
Repayment of long-term loans	(641,045)	(568,917)	(395,166)	(279,437)	(1,110,695)
Receipt (repayment) of short-term bank credit, net	208,003	110,457	26,338	(28,685)	272,023
Dividend paid	(304,123)	-	-	-	-
Net cash flow used for financing activities	(696,128)	(333,872)	(268,783)	(239,140)	(1,000,401)
Increase (decrease) in cash and cash equivalents	(129,275)	(59,327)	96,817	146,949	(269,054)
Cash and cash equivalents at beginning of period	666,730	935,818	440,638	729,542	935,784
Cash and cash equivalents at end of period	537,455	876,491	537,455	876,491	666,730

* Restated, See Note 2C

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

Interim Consolidated Statement of Cash Flows (contd.)

In terms of Shekels of June 2000

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
A - Adjustments to reconcile net earnings to net cash flows generated by operating activities					
Revenues and expenses not involving cash flows:					
Depreciation	1,358,439	1,359,602	674,834	679,972	2,731,129
Provision for decrease in value of fixed assets	-	-	-	-	106,779
Deferred taxes	152,259	(41,013)*	56,389	12,270*	80,412*
Company's equity in losses of investee companies, net	49,929	2,343	23,386	1,945	21,631
Minority interest in losses of consolidated company	(395)	-	(395)	-	-
Provision for decrease in value of an affiliated company	-	-	-	-	(14,975)
Decrease in employee severance benefits, net	(140,195)	(82,429)	(13,355)	(76,633)	(302,307)
Gain on disposal of fixed assets	(1,639)	(1,093)	(1,140)	(454)	(16,452)
Erosion (appreciation) of long-term deposits	22,953	19,325	(6,486)	(6,026)	16,997
Erosion (appreciation) of short-term investments, net	(2,121)	(2,124)	1,377	(382)	(318)
Erosion (appreciation) of long-term liabilities:					
Debenture issued to the Government of Israel	667	(1,125)	(1,120)	(5,207)	(2,417)
Other debentures	(3,285)	(2,513)	(7,033)	(7,606)	820
Convertible debentures	-	(650)	-	(1,889)	140
Long-term loans	(66,897)	(53,740)	(13,333)	(5,766)	(36,358)
Amortization and other adjustments	64,644	32,090*	34,488	25,055*	67,769*
Changes in asset and liability items:					
Decrease in trade receivables	220,489	66,717	86,842	108,323	55,007
Decrease (increase) in receivables and debit balances	(70,634)	(24,411)	69,234	7,479	(105,991)
Increase in inventory	(1,390)	(74,518)	(7,046)	(3,441)	(82,251)
Increase (decrease) in trade payables	(169,761)	(13,965)	(84,112)	66,203	93,232
Decrease in other current liabilities	(52,798)	(104,189)	(71,746)	(105,587)	(219,614)
Decrease in deferred revenues	(4,391)	(2,358)	(2,021)	(1,152)	(6,365)
	1,355,874	1,075,949	738,763	687,104	2,386,868
B - Non-cash transactions					
Acquisition of fixed assets, materials and spare parts on credit	275,210	2,003	275,210	(40,238)	325,389
Sale of fixed assets on credit	23,138	-	23,138	-	23,138
Dividend proposed for payment	-	-	-	-	302,696

* Restated, See Note 2C

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

NOTE 1 - GENERAL

A. The interim statements have been prepared in accordance with generally accepted accounting principles, applicable to the preparation of interim financial statements. These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as at December 31, 1999 and for the year then ended.

B. The Company presents in the notes to the interim financial statements only the significant changes in its business and legal environment which occurred between the date of the previous annual financial statements and the date of these interim financial statements. The extensive and detailed description, including significant changes and developments which occurred in recent years, particularly in the fields of cellular services, international communications services, domestic communications services, the opening of these markets to competition, and the decisions of the Ministerial Committee for Privatization to reduce the State's holdings in the Company, appears in Note 1 to the Company's annual financial statements as at December 31, 1999. The significant changes which occurred from the date of the annual financial statements to the date of these financial statements are detailed below:

1. In connection with the opening of the domestic communications market to competition and determination of the Company's tariffs, the following developments occurred:

a. Access fees from the international telecommunications operators were reduced as of January 1, 2000 by approximately 30%, in accordance with the licenses of the operators which determined that the access fees would be reduced every year by that percentage.

b. The tariff update which was supposed to take effect on January 1, 2000, took effect on May 1, 2000. The update consisted of lowering the Company's tariffs by an average of 2.43%. Furthermore, a number of tariff baskets were offered, mostly for Internet users, the significance of which is lower tariffs. The tariff update was accompanied by a change in the manner of charging for calls, principally a change in the method of charging from charging by meter pulses to charging by duration (subject to a minimum tariff per call).

c. Pursuant to notification from the Company to the cellular communication service operators, (hereinafter - the Operators), starting on March 1, 2000, the billing arrangement which was in effect between them was canceled and a new arrangement commenced, whereby the Company transfers to the operators only the amounts which it actually collected in respect of airtime less a collection fee, in contrast to the existing arrangement in which the transfer of moneys was made on the basis of customer charges without deduction of a collection fee.

The Operators expressed their objection to the change in the existing arrangement and one of them also filed a legal claim in which it requested that the Company be instructed to continue to act in accordance with the arrangement which had existed until then. The same Operator also applied for a temporary injunction instructing as aforesaid until a decision would be given in the principal action. In the hearing which was held before the court, it was agreed by the parties that the application for the temporary injunction would be withdrawn, and that the parties reached consensus as to the procedures in the subsequent stages of conducting the action. The results of this proceeding cannot be assessed.

As a result of the change in the billing arrangements, as described above, starting on March 1, 2000, the Company's revenues and expenses from mobile wireless telephone do not include airtime. The airtime which is included in the revenues and expenses from mobile wireless telephone in the six month period ended June 30, 2000 is approximately NIS 290 million (June 30, 1999 - approximately NIS 680 million).

NOTE 1 - GENERAL (CONTD.)

B. (contd.)

d. At the beginning of April 2000, the Attorney General resolved the dispute between the Ministries of Justice and Communications on the question of whether the Minister of Communications may award a license to provide fixed-line domestic communication services by means of the cable infrastructure which exists today to cable broadcasting franchisees, without a tender, or, alternatively, without receipt of special consideration. The main thrust of the Attorney General's decision was that according to the current legal situation, the Minister of Communications is not authorized to award licenses of which the practical significance is unlimited extension of the franchises, and that for implementation of a decision to change the policy for awarding franchises to a policy of awarding licenses, legislative action would be required.

As a result of the decision of the Attorney General, the Ministry of Communications prepared a draft amendment to the Telecommunications Law, which was distributed for the comments of Government ministries and other relevant bodies. According to the proposed amendment, the Minister of Communications would be authorized to grant licenses for providing domestic communication services to the cable companies, subject to certain conditions. Upon receipt of such an operating license, the cable company which received it would cease to have exclusivity in providing cable television services in the relevant cable area. In addition, the amendment broadens the authority of the Minister of Communications to issue instructions to the operators of public telecommunications networks (including the Company), to allow other communications operators to use their networks (unbundling).

NOTE 2 - ACCOUNTING POLICIES

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

A. As of January 1, 2000, the provisions of Accounting Standard Number 3 - Capitalization of Credit Costs apply. Pursuant to the Standard, credit costs relating to assets in the process of installation are capitalized until the date on which all the essential activities required for preparing them for their designated use are completed. In the reported period, credit costs amounting to approximately NIS 8.9 million were capitalized at an interest rate in the first and second quarter of 2000 of 2.3%.

B. Until December 31, 1999, the cost of inventory at Pelephone Communications Ltd. - a proportionally consolidated company, was determined by the "first in first out" method. Starting from the first quarter of 2000, the cost of inventory is determined by the rolling average method. The cumulative effect as at the beginning of the year in respect of the said change in accounting method is not material.

C. Restatement

The Company retroactively adjusted its financial statements for the year ended December 31, 1999 and for the period ended June 30, 1999 by way of restatement, so as to retroactively reflect therein, amendment of the accounting treatment in the capitalization of the costs of subscriber acquisitions in Pelephone Communications Ltd. - a proportionally consolidated company. In the original financial statements until 1999, Pelephone Communications Ltd. charged the costs of subscriber acquisitions to the statement of operations. Commencing with these financial statements, subscriber acquisition costs, including those in respect of years up to 1999, appear in the balance sheet within Other Assets and are depreciated over 36 months.

NOTE 2 - ACCOUNTING POLICIES (CONTD.)

C. Restatement (contd.)

(1) Effect on net earnings

	For the six months ended June 30	For the three months ended June 30	For the year ended December 31
	1999 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Net profit as previously reported	42,739	72,900	6,753
Effect of restatement:			
Increase in operating and general expenses	(5,723)	(2,270)	(8,731)
Decrease in income tax	2,060	815	3,143
Net cumulative effect as at beginning of year of the change in accounting method	7,050	-	7,050
	46,126	71,445	8,215

(2) Cumulative effect of the change in accounting method

	For the six months ended June 30	For the three months ended June 30	For the year ended December 31
	1999 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Gross cumulative effect as at beginning of year of the change in accounting method, net	11,016	-	11,016
Less: tax effect	3,966	-	3,966
	7,050	-	7,050

(3) Effect on the net earnings per NIS 1 par value of shares

	For the six months ended June 30	For the three months ended June 30	For the year ended December 31
	1999 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS	NIS	NIS
Net earnings per NIS 1 par value of shares, as previously reported	0.060	0.092	0.020
Net earnings per NIS 1 par value of shares, as reported in the these financial statements	0.062	0.092	0.025

NOTE 3 - ADJUSTED FINANCIAL STATEMENTS

The financial statements are prepared on the basis of the historical cost convention adjusted for changes in the general purchasing power of the Israeli currency. The comparative data in the financial statements were adjusted to the Shekel of June 2000. Below are details of the changes which occurred in the Consumer Price Index and the exchange rate of the US dollar:

	Consumer Price Index	US dollar exchange rate
	%	%
For the six month period ended:		
June 30, 2000	0.37	(1.66)
June 30, 1999	(0.37)	(2.02)
For the three month period ended:		
June 30, 2000	1.61	1.44
June 30, 1999	1.06	1.04
For the year ended December 31, 1999	1.34	(0.17)

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES

A. Emitel Telecommunication Corp. Ltd. (hereinafter: "Emitel")

On April 17, 2000, Aphrodite B.V. (hereinafter: "Aphrodite"), which is held indirectly by the Company (66.7%), signed a memorandum of understanding whereby, subject to receipt of various approvals, including approvals of authorities, and its signature on a final agreement, Aphrodite will sell all of its holdings in Emitel. In consideration of the sale, Aphrodite will receive an amount which will be calculated according to a determined formula and which will in any case not be less than the sum of 50 million US dollars. The indirect investment in Emitel is recorded in the Company's books at equity value and amounts to approximately NIS 40.4 million as at June 30, 2000. If the sale is actually made, and assuming payment of the minimum consideration, the Company expects to include a pre-tax capital gain of approximately NIS 96 million in its financial statements. The memorandum of understanding is valid until August 17, 2000, and the parties are working for its extension for an additional two months.

B. Cellular communications project in India

During the six-month period ended June 30, 2000, the Company increased its investment in the joint venture company in India by approximately NIS 22.6 million and recorded its equity in the joint venture company's losses, as well as the liability in its favor in the books of the joint company in the amount of approximately NIS 23.3 million, in respect of the guarantees which were called in during 1999.

Following notice of the sale of shares in the joint venture company to a third party by one of its shareholders, the Company, in accordance with its rights under the terms of the shareholders agreement, gave notice that it wishes to sell all its shares in the joint venture company on the same terms. If this transaction is realized, a capital gain before tax of approximately NIS 95 million is expected to be included in the Company’s financial statements.

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES (CONTD.)

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

Under the shareholders' agreement which the Company and other principals signed in December 1998, the Company is entitled to hold approximately 30% of the shares of D.B.S. Satellite Services (1998) Ltd. (hereinafter: "DBS"). In January 1999, DBS received a license from the Ministry of Communications for satellite television broadcasts, in exchange for payment of NIS 30 million and a guarantee in the amount of NIS 30 million. DBS is a venture in the process of development, and foresees considerable losses and negative cash flow from operations in the first years of its activities. A bank with which DBS entered into a long-term financing agreement refused to grant further credit. DBS is negotiating with other banks for long-term credit lines to finance its ongoing activities. The Company's investment in DBS as at the balance sheet date amounts to approximately NIS 191 million.

Pursuant to the decision of the Ministerial Committee for Privatization, the maximum cumulative exposure of in the Company in connection with this investment will at no time exceed the percentage of the actual holdings of the Company in DBS, multiplied by 216 million dollars (approximately NIS 882 million).

In July 2000, DBS started providing satellite broadcasting services.

The Company's equity in the cumulative loss of DBS amounts to approximately NIS 61 million, of which approximately NIS 36 million were recorded in the six months ended June 30, 2000.

D. Agreement to establish an investee company

On March 16, 2000, an agreement was signed between a proportionally consolidated company and Sunycom Ltd., to establish GoNext Ltd. (hereinafter: "GoNext"), which has started to provide cellular Internet services. The proportionally consolidated company holds 51% of the shares of GoNext.

E. Bezeq International Ltd.

On May 25, 2000, Bezeq International Ltd. signed an agreement with third parties, which concerns spinning-off its Internet activities and setting up a joint venture. Pursuant to the agreement, the parties approached Walla! Communications Ltd. with a proposal to merge with the joint venture. Implementation of the agreement is contingent upon receiving various approvals. At the request of the Government Companies Authority, Bezeq International submitted clarifications relating to the transaction.

NOTE 5 - LIABILITIES FOR EMPLOYEE SEVERANCE BENEFITS

Restructuring plan

In March 2000, the Company's management presented a plan to the Board of Directors based on a material change in its organizational and functional concept, in a pattern similar to the change already made in several other similar companies in the communications field, with the transition to operating in a competitive environment. The Board of Directors of the Company approved the plan after receiving clarification from the Company's management. It is estimated that the retirement of approximately 500 to 600 employees is needed for implementation of the plan. The estimated cost of this retirement plan is approximately NIS 293 million, which was included in the financial statements for 1999. By June 30, 2000, 248 workers had retired as part of the plan. In accordance with an agreement which was validated as a decision of the Labor Court, the term of the agreement has been extended until March 31, 2001.

NOTE 6 - CONTINGENT LIABILITIES

A. Claims and contingent liabilities

The Company and 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 21A to the annual financial statements of the Company as at December 31, 1999. No material changes occurred in the contingent liabilities up to the date of signing these financial statements, except for the following:

1. In July 2000 a class action and application for approval as a class action were filed against the Company. According to the plaintiffs, the Company unlawfully collected money from its subscribers, for certain services which the Company provides. The claim is in the amount of approximately NIS 903 million. In the opinion of the Company's legal advisers, the Company has valid arguments against the application and against the claim. Nevertheless, they are unable to assess the chances of the application for approval being granted.

2. In April 2000, a company providing cable television broadcasts filed a claim against the Company, in which it petitioned for a writ of permanent mandatory order to enforce an agreement to upgrade its cable network, or alternatively, to enable it to carry out the works itself or through a contractor on its behalf. The claim alleged that as a result of Company sanctions, the upgrade works were interrupted and that this constitutes breach of contract. In the opinion of the Company's legal advisers, the chances of the Company's defense against the statement of claim are good.

3. Further to the contents of Note 9E in the financial statements as at December 31, 1999, the application for leave to appeal which was filed in the Supreme Court by the software supplier, against calling in the bank guarantee by the Company, was dismissed and the temporary injunction which was given in the framework of the request for leave to appeal was canceled. Consequently, the Company called in the guarantees and recorded income in the amount of the guarantees, approximately NIS 83 million, which are included as part of the other income item.

4. Further to the contents of Notes 21(A)(6) and 21(A)(9) in the financial statements as at December 31, 1999, on July 20, 2000 the Anti-Trust Court approved the request of Bezeq International to terminate the appeal which was filed in the Court as determined by the Commissioner in the matter of exploitation of market status by way of misleading the public. It should be noted that by law, a determination by the Anti-Trust Commissioner constitutes prima facie proof in legal proceedings, however, Bezeq International believes that it has good arguments against implementation of the determination, due to the impairment of its right to a hearing in the proceeding with the Commissioner.

5. On August 10, 2000, the Company received a letter from a representative of the Anti-Trust Commissioner, according to which, based on information received by the Anti-Trust Authority, a suspicion apparently exists that in connection with its organization in preparation for providing ADSL services, the Company is taking part in activities which represent violations of the Anti-Trust Law, 5748-1988. The activities subject to the claim are connected with agreements between the Company and its marketers (agents) of ADSL services. As a result, the Company was requested to give an initial reaction to the claims mentioned above and was also requested to submit information and various documents to the Commissioner. An initial investigation by the Company has revealed that, bearing in mind that this is an experimental development and that under the agreements with the marketers they are effectively agents, the said suspicion concerning violation of the law is farfetched and unjustified. The Company is preparing to send its response to the above claims and the information and various documents requested to the Commissioner.

NOTE 6 - CONTINGENT LIABILITIES (CONTD.)

A. Claims and contingent liabilities (contd.)

6. Further to the contents of Note 11(e) to the Company's financial statements as at December 31, 1999, concerning the Company's application to the Ministry of Communications to allow the Company to raise tariffs, which in the Company's opinion is required as a result of the change in its depreciation policy, the Ministry of Communications informed the Company that it does not agree with the Company's position and that the issue was being examined. The Company intends to take legal action on the matter.

7. Further to the contents of Note 11(e) to the Company's financial statements as at December 31, 1999, discussions took place with the Assessing Officer to finalize tax assessments for the years 1995 to 1998 (inclusive). In August 2000, the company and a Supervisor of the Assessing Officer reached agreement on some of the issues arising out of the inspection and the Company was issued with an assessment without agreement on the remaining issues. It was also agreed that further to the Company's application and agreement by the income tax authorities on August 7, 2000, to increase the rates of depreciation which the Company is entitled to claim in respect of switching and subscriber equipment for the years 1995 to 1998 (inclusive), the Assessing Officer will examine the revised tax returns submitted by the Company and will reduce the Company's tax liability according to the results of the examination. The said revised tax returns include claims by the Company for additional amounts of depreciation which are materially greater than the additional tax liabilities in the tax assessments mentioned above. The agreement is conditional upon agreement by the Assessing Officer. Since the above proceedings, including the 1994 assessment and appeal against it, have not yet concluded, it is not possible at this stage to estimate their final outcome. No provision in respect of the said tax assessments have been included in these financial statements.

8. In connection with the claim of a cellular communications service operator, see Note 1B1c.

B. Forward currency contracts

The Company has entered into forward exchange contracts as a hedge against exposure resulting from changes in the exchange rate of the US dollar in relation to changes in the CPI. As at June 30, 2000, the Company is contracted to purchase approximately US $404 million (approximately NIS 1,650 million) for which it will pay approximately NIS 1,667 million linked to the CPI. The contracts mature on various dates, the last of which is May 2002. The Company also contracted to purchase approximately US $355 million (approximately NIS 1,450 million) for which it will pay, at an agreed rate, approximately NIS 1,467 million.

NOTE 7 - EVENTS AFTER THE BALANCE SHEET DATE

At the beginning of August 2000 the Company completed an issue of debentures which will be listed on the Luxembourg stock exchange, as part of a program for raising medium-term debentures (EMTN) in the amount of up to 750 million Euros, out of which the Company raised 300 million Euros in the first stage, for a period of seven years, at an annual yield to maturity of 6.6%. This sum is earmarked for general purposes by the Company, including early repayment of existing debts.

NOTE 8 - REVENUES FROM TELECOMMUNICATIONS SERVICES

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999* (Unaudited)	2000 (Unaudited)	1999* (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenues from telephone services -					
Domestic calls	1,272,430	1,465,036	599,727	630,331	2,760,813
Cellular telephone	1,150,713	1,338,057	486,443	661,620	2,848,236
Fixed fees	989,486	862,916	494,555	460,248	1,825,862
International communications	401,156	438,635	200,067	215,754	895,863
Installation and sale of equipment to subscribers	252,242	252,538	120,323	110,547	480,968
Other	71,951	56,191	31,866	27,672	141,971
	4,137,978	4,413,373	1,932,981	2,106,172	8,953,713
Other revenues	117,139	129,557	60,639	77,351	223,946
	4,255,117	4,542,930	1,993,620	2,183,523	9,177,659

* Reclassified

NOTE 9 - OPERATING AND GENERAL EXPENSES

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Salaries and related expenses	861,385	851,243	420,808	425,385	1,677,400
Cellular telephone expenses	347,580	607,483	57,690	312,037	1,370,048
General expenses	298,652	349,541 * **	138,168	211,229 * **	721,343 **
Materials and spare parts	212,655	151,432 * **	116,894	37,104 * **	286,838 **
Services and maintenance by sub-contractors	192,188	228,680	93,108	111,883	472,470
Building maintenance	183,943	205,303	88,307	104,761	398,181
International communications expenses	142,177	128,159	73,674	65,131	265,594
Vehicle maintenance expenses	35,065	28,881	18,345	14,715	65,703
Collection fees	19,857	21,594	10,151	10,771	42,273
	2,293,502	2,572,316	1,017,145	1,293,016	5,299,850
Less - salaries charged to investments in fixed assets	78,013	89,019	38,830	36,160	160,470
	2,215,489	2,483,297	978,315	1,256,856	5,139,380

* Reclassified
** Restated, See Note 2C

NOTE 10 - CONDENSED INTERIM FINANCIAL STATEMENTS OF THE COMPANY

A. Statement of Operations

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenues from telecommunications services (Note 10B)	3,232,121	3,718,906 *	1,451,098	1,782,404 *	7,486,809
Costs and expenses					
Operating and general expenses (Note 10C)	1,418,236	1,910,519 *	539,213	954,093 *	3,942,141
Depreciation	1,132,792	1,155,524	564,972	576,694	2,301,917
Royalties to the Government of Israel	101,479	104,998	47,528	50,147	208,988
	2,652,507	3,171,041	1,151,713	1,580,934	6,453,046
Operating income	579,614	547,865	299,385	201,470	1,033,763
Debentures:					
Financing expenses					
The Government of Israel for interest (including erosion)	4,899	36,727	(1,140)	11,604	56,270
Banks and others, net (including erosion)	141,343	157,500	29,365	45,381	309,785
	146,242	194,227	28,225	56,985	366,055
Earnings after financing expenses	433,372	353,638	271,160	144,485	667,708
Other income (expenses), net	114,019	(277,726)*	7,651	589 *	(484,582)
Earnings before income tax	547,391	75,912	278,811	145,074	183,126
Income tax	(198,966)	(36,328)	(101,977)	(51,164)	(70,643)
	348,425	39,584	176,834	93,910	112,483
Equity in earnings (losses) of affiliated companies	(145,839)	6,542**	(68,433)**	(22,465)**	(104,268)**
Net earnings	202,586	46,126	108,401	71,445	8,215

* Reclassified
** Restated, See Note 2C

NOTE 10 - CONDENSED INTERIM FINANCIAL STATEMENTS OF THE COMPANY (CONTD.)

B. Revenues from telecommunications services

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999* (Unaudited)	2000 (Unaudited)	1999* (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenues from telephone services -					
Domestic calls	1,281,460	1,470,785	604,163	632,642	2,775,720
Cellular telephone	552,530	942,039	152,661	460,958	1,991,006
Fixed fees	925,576	788,632	461,365	423,256	1,675,382
International communications	183,946	218,072	94,595	99,275	446,037
Installation and sale of equipment to subscribers	103,180	120,243	47,422	65,779	236,261
Other	72,687	57,608	32,218	28,508	144,275
	3,119,379	3,597,379	1,392,424	1,710,418	7,268,681
Other revenues	112,742	121,527	58,674	71,986	218,128
	3,232,121	3,718,906	1,451,098	1,782,404	7,486,809

* Reclassified

C. Operating and general expenses

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Salaries and related expenses	692,819	723,036	334,929	357,803	1,398,241
Cellular telephone expenses	292,472	675,905	-	339,142	1,502,792
General expenses	110,319	116,368 *	52,001	61,429 *	257,078
Materials and spare parts	16,386	39,814 *	8,227	8,393 *	51,626
Services and maintenance by sub-contractors	166,385	199,922	77,345	100,782	416,795
Building maintenance	162,188	184,298	77,091	93,502	355,478
International communications expenses	6,155	13,134	3,107	5,932	18,821
Vehicle maintenance expenses	29,842	25,644	15,242	12,569	60,161
Collection fees	19,683	21,417	10,101	10,701	41,619
	1,496,249	1,999,538	578,043	990,253	4,102,611
Less - salaries charged to investments in fixed assets	78,013	89,019	38,830	36,160	160,470
	1,418,236	1,910,519	539,213	954,093	3,942,141

* Reclassified

NOTE 11 - CONDENSED INTERIM FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD.

1. BEZEQ INTERNATIONAL LTD.

A. Balance sheet

	June 30 2000 (Unaudited)	June 30 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	333,172	557,465	414,738
Investments	-	8,146	-
Fixed assets	346,686	291,559	315,417
Other assets	15,200	2,763	12,305
	695,058	859,933	742,460
Current liabilities	419,521	379,785	386,560
Long-term liabilities	1,440	20,215	-
Quasi-capital receipt	159,076	159,076	159,076
Shareholders' equity	115,021	300,857	196,824
	695,058	859,933	742,460

NOTE 11 - CONDENSED INTERIM FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD. (CONTD.)

1. BEZEQ INTERNATIONAL LTD. (CONTD.)

B. Statement of Operations

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenues from international communications services	329,263	350,417*	159,814	164,779*	699,327
Operating expenses	292,963	272,792**	139,580	121,077* **	596,984
Gross profit	36,300	77,625	20,234	43,702	102,343
Marketing expenses	62,921	51,561*	26,700	29,651*	111,845
General and administration expenses	29,631	22,898*	15,211	11,459*	50,497
	92,552	74,459	41,911	41,110	162,342
Operating income (loss)	(56,252)	3,166	(21,677)	2,592	(59,999)
Financing income, net	3,524	13,813	1,786	3,872	36,212
Earnings (loss) after financing income, net	(52,728)	16,979	(19,891)	6,464	(23,787)
Other expenses, net	(25,848)	-	(11,080)	-	(77,832)
Earnings (loss) before income tax	(78,576)	16,979	(30,971)	6,464	(101,619)
Tax benefit (income tax)	-	(5,247)	-	(2,028)	9,036
Earnings (loss) after income tax	(78,576)	11,732	(30,971)	4,436	(92,583)
Company's equity in losses of investee company, net	(3,227)	-	(1,735)	-	-
Net earnings (loss)	(81,803)	11,732	(32,706)	4,436	(92,583)

* Reclassified

** After deduction of approximately NIS 40,000 thousand in respect of cancellation of provisions in favor of Bezeq - The Israel Telecommunications Corp. Ltd.

NOTE 12 - CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD.

2. PELEPHONE COMMUNICATIONS LTD.

A. Balance sheet

	June 30 2000 (Unaudited)	June 30 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	1,062,976	889,784	934,241
Long-term trade receivables	47,242	24,322	11,395
Fixed assets	2,668,989	2,657,285	2,585,098
Compensation fund reserve, net	1,549	-	3,495
Other assets	587,231	153,378*	465,790*
	4,367,987	3,724,769	4,000,019
Current liabilities	1,698,451	860,588	1,190,664
Provision for losses of investee company	9,138	-	3,993
Long-term liabilities	709,174	863,209*	801,340*
Shareholders' equity	1,951,224	2,000,972*	2,004,022*
	4,367,987	3,724,769	4,000,019

* Restated. See Note 2C

NOTE 12 - CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD. (CONTD.)

2. **PELEPHONE COMMUNICATIONS LTD. (CONT.)**

B. Statement of Operations

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Income from cellular services, sales and services	1,688,515	1,448,519	856,680	682,610	2,986,290
Cost of cellular services, sales and services	1,402,381	1,174,487*	727,940	543,709*	2,399,404*
Gross profit	286,134	274,032	128,740	138,901	586,886
Sales and marketing expenses	204,570	132,706*	113,605	75,217*	286,300*
General and administration expenses	99,843	85,607	49,093	46,058	184,366
	304,413	218,313	162,698	121,275	470,666
Operating income (loss)	(18,279)	55,719	(33,958)	17,626	116,220
Financing expenses, net	(50,385)	(21,868)	(15,298)	(14,427)	(65,992)
Other income, net	398	249	649	249	523
Earnings (loss) before income tax	(68,266)	34,100	(48,607)	3,448	50,751
Tax benefit (income tax)	19,824	(15,657)*	14,572	(2,549)*	(25,265)*
Earnings (loss) after income tax	(48,442)	18,443	(34,035)	899	25,486
Minority interest in losses of a consolidated company	789	-	789	-	-
Company's equity in losses of investee company	(5,145)	-	(2,706)	-	(3,993)
Earnings (loss) before cumulative effect of change in accounting method	(52,798)	18,443	(35,952)	899	21,493
Cumulative effect as at beginning of year of the change in accounting method, net	-	14,100*	-	-	14,100*
Net earnings (loss)	(52,798)	32,543	(35,952)	899	35,593

* Restated, See Note 2C