

**BEZEQ THE ISRAEL TELECOMMUNICATION CORP. LIMITED**

**SEPARATE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
JUNE 30, 2010  
(UNAUDITED)**

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

**Separate condensed interim financial information as at June 30, 2010 (unaudited)**

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**Special review report to the Shareholders of “Bezeq” The Israel Telecommunication Corp. Limited, on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970**

*Introduction*

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq” The Israel Telecommunication Corp. Limited (hereinafter – the Company), as at June 30, 2010 and for the six and three month periods then ended. The separate interim financial information is the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

*Scope of Review*

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

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

*Conclusion*

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

Without qualifying our above conclusion, we draw attention to the claims made against the Company of which the exposure cannot yet be assessed or calculated, as described in Note 4.

Somekh Chaikin  
Certified Public Accountants (Isr.)

August 2, 2010

## Condensed interim information on financial position

	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	6	268	360
Investments, including derivatives	191	12	10
Trade receivables	865	867	845
Receivables	134	89	555
Inventory	9	15	9
Current tax assets	-	2	-
Assets held for sale	38	64	40
<b>Total current assets</b>	<b>1,243</b>	<b>1,317</b>	<b>1,819</b>
Investments, including derivatives	96	106	100
Trade and other receivables	96	60	102
Property, plant and equipment	3,888	3,762*	3,771*
Intangible assets	221	147	193
Investments in investees	6,828	5,049	6,566
Deferred tax assets	327	448	383
<b>Total non-current assets</b>	<b>11,456</b>	<b>9,572</b>	<b>11,115</b>
<b>Total assets</b>	<b>12,699</b>	<b>10,889</b>	<b>12,934</b>

	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>December 31, 2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>
<b>Liabilities</b>			
Debentures, loans and borrowings	1,163	662	685
Trade payables	228	298	263
Other payables, including derivatives	433	421	537
Loans from subsidiaries	201	-	250
Current tax liabilities	80	-	86
Deferred income	18	21	19
Provisions (Note 4)	270	262	279
Employee benefits	414	301	469
<b>Total current liabilities</b>	<b>2,807</b>	1,965	2,588
Debentures	2,340	3,098	3,166
Bank loans	1,900	400	383
Employee benefits	248	222	247
Deferred income and others	4	6	6
<b>Total non-current liabilities</b>	<b>4,492</b>	3,726	3,802
<b>Total liabilities</b>	<b>7,299</b>	5,691	6,390
<b>Equity</b>			
Share capital	6,203	6,172	6,187
Share premium	345	203	275
Reserves	538	631	595
Retained earnings (deficit)	(1,686)	(1,808)	(513)
<b>Total equity</b>	<b>5,400</b>	5,198	6,544
<b>Total equity and liabilities</b>	<b>12,699</b>	10,889	12,934

**Shlomo Rodav**  
Chairman of the Board

**Avi Gabbay**  
CEO

**Alan Gelman**  
Deputy CEO and CFO

Date of approval of the financial statements: August 2, 2010

\* Retrospective application by restatement, see Note 3 to the condensed consolidated interim financial statements as at June 30, 2010

The accompanying notes are an integral part of the condensed interim financial information.

**Condensed interim information on income**

	<b>Six months ended</b>		<b>Three months ended</b>		<b>Year ended</b>
	<b>June 30</b>		<b>June 30</b>		<b>December 31</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>
Revenue (Note 2)	<b>2,611</b>	2,644	<b>1,307</b>	1,318	5,303
<b>Costs and expenses</b>					
Depreciation and amortization	<b>341</b>	416	<b>171</b>	205	794
Salaries	<b>527</b>	542	<b>250</b>	264	1,094
General and operating expenses (Note 3)	<b>788</b>	831	<b>396</b>	411	1,690
Other operating expenses (income), net	<b>(38)</b>	(16)	<b>(13)</b>	4	202
	<b>1,618</b>	1,773	<b>804</b>	884	3,780
Operating profit	<b>993</b>	871	<b>503</b>	434	1,523
<b>Finance income</b>					
Finance income	<b>78</b>	145	<b>50</b>	87	310
Finance expenses	<b>(106)</b>	(120)	<b>(79)</b>	(83)	(295)
Finance income (expenses), net	<b>(28)</b>	25	<b>(29)</b>	4	15
<b>Profit after finance income, net</b>	<b>965</b>	896	<b>474</b>	438	1,538
Share in profits of investees	<b>571</b>	497	<b>289</b>	225	958
<b>Profit before income tax</b>	<b>1,536</b>	1,393	<b>763</b>	663	2,496
Income tax	<b>256</b>	244	<b>125</b>	122	431
<b>Profit after income tax</b>	<b>1,280</b>	1,149	<b>638</b>	541	2,065
Profit from deconsolidation of a subsidiary	-	-	-	-	1,538
<b>Profit for the period</b>	<b>1,280</b>	1,149	<b>638</b>	541	3,603

The accompanying notes are an integral part of the condensed interim financial information.

**Condensed interim information on comprehensive income**

	<b>Six months ended</b>		<b>Three months ended</b>		<b>Year ended</b>
	<b>June 30</b>		<b>June 30</b>		<b>December 31</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>
<b>Profit for the period</b>	<b>1,280</b>	1,149	<b>638</b>	541	3,603
<b>Other comprehensive income (loss) for the period, net of tax</b>	-	1	<b>1</b>	(2)	(11)
<b>Total comprehensive income for the period</b>	<b>1,280</b>	1,150	<b>639</b>	539	3,592

The accompanying notes are an integral part of the condensed interim financial information.

**Condensed interim information on cash flows**

	<b>Six months ended</b>		<b>Three months ended</b>		<b>Year ended</b>
	<b>June 30</b>		<b>June 30</b>		<b>December 31</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>
<b>Cash flows from operating activities</b>					
Profit for the year	1,280	1,149	638	541	3,603
Adjustments:					
Depreciation	304	363*	153	183*	715*
Amortization of intangible assets	37	53	18	22	79
Profit from deconsolidation of a subsidiary	-	-	-	-	(1,538)
Share in profits of equity-accounted investees	(571)	(497)	(289)	(225)	(958)
Finance expenses, net	12	(22)	16	(1)	(44)
Capital gain, net	(29)	(20)	(2)	-	(64)
Share-based payments	6	13	2	6	25
Income tax expenses	256	244	125	122	431
Change in inventory	-	(5)	2	(5)	1
Change in trade receivables	(12)	20	2	(12)	(20)
Change in other receivables	(23)	9	29	67	46
Change in other payables	(38)	(29)	(37)	(140)	20
Change in trade payables	(37)	18	5	(44)	(19)
Change in provisions	(9)	9	(5)	7	25
Change in employee benefits	(55)	(73)	(28)	(16)	118
Net cash from (used for) operating activities for transactions with investees	(6)	(13)	3	(7)	2
Income tax paid, net	(199)	(176)	(109)	(90)	(202)
<b>Net cash flows from operating activities</b>	<b>916</b>	<b>1,043</b>	<b>523</b>	<b>408</b>	<b>2,220</b>
<b>Cash flows from investment activities</b>					
Investment in intangible assets	(65)	(61)	(32)	(39)	(133)
Proceeds from sale of property, plant and equipment	41	58	26	9	86
Change in current investments, net	-	6	-	-	6
Purchase of property, plant and equipment	(420)	(368)	(215)	(152)	(720)
Proceeds from disposal of investments and long-term loans	4	40	3	35	46
Interest received	6	10	6	7	25
Net cash flows from investment for transactions with investees	634	430	214	30	578
<b>Net cash flows from (used for) investment activities</b>	<b>200</b>	<b>115</b>	<b>2</b>	<b>(110)</b>	<b>(112)</b>

\* Retrospective application by restatement, see Note 3 to the condensed consolidated interim financial statements as at June 30, 2010

The accompanying notes are an integral part of the condensed interim financial information.



**Condensed Interim Statements of Cash Flows (Contd.)**

	<b>Six months ended</b>		<b>Three months ended</b>		<b>Year ended</b>
	<b>June 30</b>		<b>June 30</b>		<b>December 31</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>
<b>Cash flow from finance activities</b>					
Bank loans received	<b>1,900</b>	400	<b>1,900</b>	-	400
Repayment of bank loans	<b>(400)</b>	-	<b>(400)</b>	-	-
Short-term borrowing, net	<b>226</b>	-	<b>226</b>	-	-
Repayment of debentures	<b>(558)</b>	(547)	<b>(416)</b>	(403)	(556)
Dividend paid	<b>(2,453)</b>	(792)	<b>(2,453)</b>	(792)	(1,941)
Interest paid	<b>(153)</b>	(152)	<b>(142)</b>	(152)	(167)
Proceeds for derivatives, net	-	11	-	21	44
Proceeds from exercise of options into shares	<b>18</b>	97	<b>3</b>	61	129
Net cash from (used for) finance activities for transactions with investees	<b>(50)</b>	-	<b>200</b>	-	250
<b>Net cash from (used for) finance activities</b>	<b>(1,470)</b>	(983)	<b>(1,082)</b>	(1,265)	(1,841)
<b>Increase (decrease) in cash flow and cash equivalents</b>	<b>(354)</b>	175	<b>(557)</b>	(967)	267
Cash and cash equivalents at beginning of period	<b>360</b>	93	<b>563</b>	1,235	93
<b>Cash and cash equivalents at end of period</b>	<b>6</b>	268	<b>6</b>	268	360

The accompanying notes are an integral part of the condensed interim financial information.

## Notes to the separate condensed interim financial information as at June 30, 2010

## NOTE 1 – METHOD FOR PREPARING THE FINANCIAL INFORMATION

## A. Definitions

“The Company”: Bezeq The Israel Telecommunication Corporation Ltd.

“Associate”, “the Group”, “Investee”, “Interested Party”: as defined in the consolidated financial statements of the Company for 2009.

## B. Main points of the method for preparing of the financial information

The separate interim financial information is stated in accordance with Article 38(D) of the Securities Regulations (Periodic and Interim Reports), 5730-1970 and does not include the information required under the provisions of Article 9(C) and the Tenth Addendum of the Securities Regulations (Periodic and Interim Reports), 5730-1970 in respect of separate financial information of the corporation. The report should be read together with the separate financial information as at December 31, 2009 and for the year then ended and together with the condensed consolidated interim statements as at June 30, 2010 (“the consolidated reports”).

## NOTE 2 – REVENUE

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2010	2009	2010	2009	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Telephony	1,580	1,667	795	828	3,333
Internet	471	417	235	210	863
Transmission and data communications	444	420	221	213	851
Other services	116	140	56	67	256
	<b>2,611</b>	<b>2,644</b>	<b>1,307</b>	<b>1,318</b>	<b>5,303</b>

## NOTE 3 – OPERATING AND GENERAL EXPENSES

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2010	2009	2010	2009	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cellular telephone expenses	401	410	211	206	823
General expenses	116	110	56	51	266
Materials and spare parts	39	41	16	19	80
Building maintenance	119	132	58	68	278
Services and maintenance by sub-contractors	39	48	18	23	96
Vehicle maintenance expenses	48	47	25	22	96
Royalties to the State of Israel	16	25	8	13	18
Collection fees and sundry	10	18	4	9	33
	<b>788</b>	<b>831</b>	<b>396</b>	<b>411</b>	<b>1,690</b>

**Notes to the separate condensed interim financial information as at June 30, 2010**

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**NOTE 4 – CONTINGENT LIABILITIES**

During the normal course of business, legal claims were filed or are pending against the Company (“hereinafter in this section: “claims”).

The financial statements of the Company include provisions of NIS 270 million for the claims. The additional exposure beyond these provisions for the claims amounts to approximately NIS 3 billion. In addition, subsequent to the reporting date, another two claims were filed against the company, together with application for certification as class actions, which at this stage cannot be assessed. The plaintiff estimates the first claim at “tens of millions of shekels” and the second claim is estimated at NIS 250 million.

There are other claims for which the Company has additional exposure beyond the aforesaid, as the exact amount of the claim is not stated in the claim.

For further information about contingent liabilities, see Note 6 to the consolidated financial statements - Contingent Liabilities.

**NOTE 5 - SUBSTANTIAL AGREEMENTS AND TRANSACTIONS WITH INVESTEES**

**A. Loans**

- 1) On March 21, 2010, the Company provided a loan of NIS 45 million to Bezeq International Ltd. (“Bezeq International”), subject to the terms of the framework loan agreement between the companies. The loan, which bears annual interest of 4% and is linked to the CPI, will be repaid in four equal monthly payments (principal and interest), commencing on June 1, 2010.
- 2) On May 31, 2010, the Company took out a loan of NIS 90 million from Pelephone Communications Ltd. (“Pelephone”), subject to the terms of the framework loan agreement between the companies. The loan, which bears annual interest of 4% and is linked to the CPI, will be repaid on January 6, 2011.  
In addition, on June 15, 2010, Pelephone provided the Company with another loan of NIS 110 million. The loan, which is linked to the CPI and bears annual interest of 4%, was repayable on July 6, 2010. Pursuant to the aforesaid terms, the loan was repaid on July 6, 2010.
- 3) In respect of the loan provided by the Company to Bezeq Online Ltd. (“Bezeq Online”), after repayment of NIS 2.5 million on June 30, 2010, the balance of the loan amounted to NIS 8 million.

**B. Dividends**

On May 2, 2010, the Company received a dividend of NIS 200 million from Pelephone.

**NOTE 6 – SUBSEQUENT EVENTS**

- A. On August 1, 2010, the board of directors of Pelephone approved the distribution of a dividend amounting to NIS 210 million.
- B. On August 1, 2010, the board of directors of Bezeq International approved the distribution of a dividend of NIS 196 million (this distribution is subject to the acquisition of Walla shares by Bezeq International and their sale to the Company as set out in Note 13 (D) to the consolidated financial statements).