"BEZEQ" THE ISRAEL TELECOMMUNICATION CORP. LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2000

(UNAUDITED)

Contents

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

Dear Sirs,

Re: Review of the Unaudited Interim Consolidated Financial Statements for the Nine Months and Three Months Ended September 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 September 30, 2000, as well as the interim consolidated statements of operations, changes in shareholders' equity and cash flows for the nine 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 September 30, 2000 constitute approximately 4.75% of total consolidated assets and whose revenues constitute approximately 7.46% and approximately 7.66% of the total consolidated revenues, respectively for the nine 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 nine months ended September 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.)

November 23, 2000

Interim Consolidated Balance Sheet

In terms of shekels of September 2000

	September 30 2000 (Unaudited)	September 30 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current Assets			
Cash and cash equivalents	1,509,338	884,128	661,121
Short-term investments	195,710	450,516	299,728
Trade receivables	1,342,700	1,514,973	1,515,701
Other receivables and debit balances	550,169	483,087	480,259
Inventory	119,911	113,053	109,693
	3,717,828	3,445,757	3,066,502
Materials and spare parts	183,516	225,215	230,163
Investments and long-term receivables			
Bank deposits and other investments	284,888	286,936	274,450
Investee companies	189,282	53,854	75,144
	474,170	340,790	349,594
Fixed assets			
Cost	29,803,145	29,551,571	28,616,811
Less - accumulated depreciation	17,958,512	16,609,142	16,019,727
	11,844,633	12,942,429	12,597,084
Other assets			
Deferred charges and other assets	351,795	178,625**	256,300**
Deferred taxes	602,007	398,219*	236,622
	953,802	576,844	492,922
	17,173,949	17,531,035	16,736,265

* Reclassified
** Restated, See Note 2C

	September 30 2000 (Unaudited)	September 30 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current liabilities			
Short-term bank credit	683,713	206,554	269,735
Current maturities of:			
Debenture issued to the Government of Israel	-	699,804	468,745
Long-term bank loans	825,948	1,136,887	1,048,477
Other debentures	220,092	223,402	224,459
Trade payables	981,855	1,014,042	1,150,950
Dividend payable	-	301,566	300,151
Employee severance benefits	389,635	459,654	349,538
Other current liabilities	865,298	1,032,293	821,904
	3,966,541	5,074,202	4,633,959
Long-term liabilities			
Long-term loans	2,868,229	3,381,348	3,221,423
Other debentures	2,110,453	1,258,254	1,247,740
Convertible debentures	-	254,232	-
Employee severance benefits	1,244,748	206,216	78,095
Deferred taxes	26,761	36,649** *	20,088**
Deferred revenues	72,033	80,664	78,410
	6,322,224	5,217,363	4,645,756
Convertible debentures	72,398	-	232,603
Contingent liabilities			
Shareholders' equity	6,812,786	7,239,470**	7,223,947**
	17,173,949	17,531,035	16,736,265

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

Date of approval of the financial statements: November 23, 2000.

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

Interim Consolidated Statement of Operations

In terms of shekels of September 2000

	For the nine months ended September 30		For the three months ended September 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)	6,301,211	6,772,997*	2,081,885	2,268,278*	9,100,464
Costs and expenses					
Operating and general expenses (Note 9)	3,183,442	3,771,644** *	986,588	1,309,231** *	5,096,151**
Depreciation	2,011,989	2,025,953	664,976	677,829	2,708,157
Royalties to the Government of Israel	240,434	233,728	84,146	79,488	299,945
	5,435,865	6,031,325	1,735,710	2,066,548	8,104,253
Operating income	865,346	741,672	346,175	201,730	996,211
Financing expenses					
To the Government of Israel for interest (including erosion)	4,855	46,845	-	10,428	55,797
To banks and others, net (including erosion)	281,890	218,763	121,997	66,478	302,593
	286,745	265,608	121,997	76,906	358,390
Earnings after financing expenses	578,601	476,064	224,178	124,824	637,821
Other expenses, net	(1,299,091)	(381,407)*	(1,385,776)	(105,681)*	(555,839)
Earnings (losses) before income tax	(720,490)	94,657	(1,161,598)	19,143	81,982
Tax benefit (tax on earnings)	245,570	(41,226)**	436,676	(6,776)**	(59,385)**
	(474,920)	53,431	(724,922)	12,367	22,597
Equity in losses of affiliates	(117,395)	(6,270)	(67,886)	(3,947)	(21,449)
Minority interest in losses of consolidated company	2,092	-	1,701	-	-
Earnings (losses) before cumulative effect of change in accounting method	(590,223)	47,161	(791,107)	8,420	1,148
Cumulative effect as at beginning of year of the change in accounting method, net	-	6,991**	-	-	6,991**
Net earnings (losses)	(590,223)	54,152	(791,107)	8,420	8,139
Basic and diluted earnings (losses) per NIS 1 par value of ordinary shares (in NIS)	(0.729)	0.074**	(0.975)	0.011**	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 September 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		
Nine months ended September 30, 2000					
Balance as at December 31, 1999 (audited)	4,113,484	648,800	35,482	2,426,181*	7,223,947
Erosion of dividend proposed last year and paid this year (unaudited)	-	-	-	(1,415)	(1,415)
Net loss (unaudited)	-	-	-	(590,223)	(590,223)
Tax benefit in respect of shares to employees (unaudited)	-	21,657	-	-	21,657
Conversion of convertible debentures (unaudited) (1)	14,179	144,641	-	-	158,820
Balance as at September 30, 2000 (unaudited)	4,127,663	815,098	35,482	1,834,543	6,812,786
Three months ended September 30, 2000					
Balance as at July 1, 2000 (unaudited)	4,126,773	805,872	35,482	2,625,650	7,593,777
Net loss (unaudited)	-	-	-	(791,107)	(791,107)
Conversion of convertible debentures (unaudited) (2)	890	9,226	-	-	10,116
Balance as at September 30, 2000 (unaudited)	4,127,663	815,098	35,482	1,834,543	6,812,786
Nine months ended September 30, 1999					
Balance as at December 31, 1998 (audited)	4,095,677	477,296	35,482	2,718,193	7,326,648
Net earnings (unaudited)	-	-	-	54,152*	54,152
Proposed dividend	-	-	-	(301,565)	(301,565)
Conversion of convertible debentures (unaudited)	15,171	145,064	-	-	160,235
Balance as at September 30, 1999 (unaudited)	4,110,848	622,360	35,482	2,470,780	7,239,470
Three months ended September 30, 1999					
Balance as at July 1, 1999 (unaudited)	4,109,623	610,440	35,482	2,763,925*	7,519,470
Net earnings (unaudited)	-	-	-	8,420*	8,420
Proposed dividend	-	-	-	(301,565)	(301,565)
Conversion of convertible debentures (unaudited)	1,225	11,920	-	-	13,145
Balance as at September 30, 1999 (unaudited)	4,110,848	622,360	35,482	2,470,780	7,239,470

* Restated, see Note 2C

Interim Statement of Changes in Shareholders' Equity

In terms of shekels of September 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)	4,095,677	477,296	35,482	2,718,193	7,326,648
Net earnings (audited)	-	-	-	8,139*	8,139
Dividend in respect of previous year (audited)	-	-	-	(300,151)	(300,151)
Conversion of convertible debentures (audited)	17,807	171,504	-	-	189,311
Balance as at December 31, 1999 (audited)	4,113,484	648,800	35,482	2,426,181	7,223,947

* Restated, See Note 2C

(1) 143,514,228 par value convertible debentures were converted to 14,181,248 ordinary shares with a par value of NIS 1 each.

(2) 8,643,500 par value convertible debentures were converted to 854,101 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 September 2000

	For the nine months ended September 30		For the three months ended September 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 (losses)	(590,223)	54,152*	(791,107)	8,420*	8,139*
Adjustments to reconcile net earnings to net cash flows generated by operating activities (see A below)	2,995,149	1,874,110*	1,650,680	807,240*	2,366,796*
Net cash flow generated by operating activities	2,404,926	1,928,262	859,573	815,660	2,374,935
Cash flows generated by investing activities					
Acquisition of fixed assets	(1,293,497)	(1,102,954)	(475,790)	(353,178)	(1,410,929)
Proceeds from disposal of fixed assets	13,975	17,126	1,702	11,337	20,018
Investment in long-term deposits and investments	(44,223)	(16,193)	(17,358)	(1,974)	(15,746)
Realization of long-term deposits and future contracts	43,046	84,833	8,315	27,210	112,178
Decrease (increase) in short-term investments, net	105,690	(66,431)	(45,212)	(86,027)	84,603
Decrease (increase) in materials and spare parts, net	44,857	(9,890)	32,524	21,885	(79,659)
Investments in investee companies	(229,441)	(23,749)	(6,405)	(31)	(60,218)
Investment in other assets	(197,883)	(209,193)*	(71,985)	(105,299)	(299,991)*
Net cash flow used for investing Activities	(1,557,476)	(1,326,451)	(574,209)	(486,077)	(1,649,744)
Cash flows generated by financing activities					
Repayment of debenture issued to the Government of Israel	(469,406)	(702,473)	-	(233,011)	(934,210)
Issue of other debentures (after deduction of issue expenses)	1,088,710	260,876	1,088,710	-	262,018
Repayment of other debentures	(208,914)	(189,064)	(64,721)	(54,709)	(205,606)
Receipt of long-term loans	698,569	466,478	44,277	-	717,428
Repayment of long-term loans	(1,220,604)	(687,971)	(584,951)	(123,857)	(1,101,352)
Receipt of short-term bank credit, net	413,978	206,554	207,725	97,029	269,735
Dividend paid	(301,566)	-	-	-	-
Net cash flow generated by (used for) financing activities	767	(645,600)	691,040	(314,548)	(991,987)
Increase (decrease) in cash and cash equivalents	848,217	(43,789)	976,404	15,035	(266,796)
Cash and cash equivalents at beginning of period	661,121	927,917	532,934	869,093	927,917
Cash and cash equivalents at end of period	1,509,338	884,128	1,509,338	884,128	661,121

* 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 September 2000

	For the nine months ended September 30		For the three months ended September 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 (loss) to net cash flows generated by operating activities					
Revenues and expenses not involving cash flows:					
Depreciation	2,011,989	2,025,953	664,976	677,829	2,708,157
Provision for decrease in value of fixed assets	-	-	-	-	105,881
Deferred taxes	(287,876)	(66,456)*	(438,854)	(25,794)*	79,735*
Company's equity in losses of investee companies, net	117,395	6,270	67,886	3,947	21,449
Minority interest in losses of consolidated company	(2,092)	-	(1,701)	-	-
Provision for decrease in value of an affiliated company	-	-	-	-	(14,849)
Increase (decrease) in employee severance benefit, net	1,206,750	(61,530)	1,345,766	20,203	(299,764)
Gain on disposal of fixed assets	(1,711)	(5,327)	(86)	(4,243)	(16,314)
Erosion (appreciation) of and interest on long-term deposits and future contracts	23,112	(37,873)	352	(57,035)	16,854
Erosion (appreciation) of short-term investments, net	(1,672)	(69)	431	2,037	(316)
Appreciation (erosion) of long-term liabilities:					
Debenture issued to the Government of Israel	661	(3,077)	-	(1,961)	(2,397)
Other debentures	(24,438)	(6,277)	(21,181)	(3,786)	813
Convertible debentures	-	(1,732)	-	(1,087)	139
Long-term loans	(71,594)	53,165	(5,260)	106,452	(36,052)
Amortization and other adjustments	105,412	53,016*	41,312	21,196*	67,205*
Changes in asset and liability items:					
Decrease (increase) in trade receivables	173,827	31,859	(44,808)	(34,295)	54,544
Increase in receivables and debit balances	(122,509)	(36,264)	(52,469)	(12,059)	(105,100)
Increase in inventory	(2,004)	(81,497)	(624)	(7,608)	(81,559)
Increase (decrease) in trade payables	(153,826)	37,016	14,507	50,862	92,448
Increase (decrease) in other current liabilities	30,102	(29,008)	82,456	74,302	(217,767)
Decrease in deferred revenues	(6,377)	(4,059)	(2,023)	(1,720)	(6,311)
	2,995,149	1,874,110	1,650,680	807,240	2,366,796
B - Non-cash transactions					
Acquisition of fixed assets, materials and spare parts on credit	307,370	241,230	307,370	241,230	322,641
Sale of fixed assets on credit	22,943	-	22,943	-	22,943
Dividend proposed for payment	-	-	-	-	300,151

* 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 that 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 are lower tariffs. The tariff update was accompanied by a change in the manner of charging for calls, principally a change in the method 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 court, 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 that was held before the court, it was agreed by the parties that the application for the temporary injunction would be withdrawn, and 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 that is included in the revenues and expenses from mobile wireless telephone in the reported nine month period ended September 30, 2000 are approximately NIS 281 million (September 30, 1999 - approximately NIS 1,067 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 to cable broadcasting franchisees, a license to provide fixed-line domestic communication services by means of the cable infrastructure which exists today, 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. Such legislative action and award of licenses have not yet been implemented. It must be stated that the Attorney General also rejected, in an additional opinion, the possibility of awarding a temporary license to the cable companies for providing fast Internet access services. The cable companies have filed a petition in the High Court of Justice on this matter.

e. Following the abrogation of Section 50 of the Telecommunications Law, 5742 - 1982, which granted the Company exclusivity in providing domestic communication services, the Ministry of Communications published, in October 2000, tenders for the provision of domestic communication services by means of a wireless access network to subscribers' homes.

f. In September 2000, the Company filed a petition in the High Court of Justice, for an order nisi against the Ministry of Communications, regarding the Company's application to increase the call tariffs following the shortening of the depreciation period for its digital switching equipment. The Court issued an order nisi. The Ministry of Communications has not yet responded to the petition.

g. Following discussions between the Company and the Ministry of Communications concerning the provision by the Company of broadband communications services using ADSL technology, on November 6, 2000 the Ministry approved the service portfolio subject to the conditions set out in the approval. The Company is continuing its preparations for providing the service to the general public, and has entered into agreements with suppliers for purchase of equipment, at considerable cost.

h. In September 2000 the Ministry of Communications promulgated regulations (effective from October 2, 2000), in connection with incoming call tariffs in the cellular network. Under the new regulations, incoming call tariffs will be gradually reduced between October 2000 and January 2003. The management of Pelephone Communications Ltd. – a proportionally consolidated company – estimates that the new regulations are liable to have a material effect on its future profitability. Pelephone Communications Ltd. has petitioned the High Court of Justice for abrogation of the regulations.

2. At its meeting on August 27, 2000, the Ministerial Committee for Privatization decided to sell the State's holdings in the Company by way of a private placement which would be accompanied, in the initial stage, by raising capital for the Company. The placement will include shares comprising at least 50.1% of the Company's share capital. The Companies Authority was authorized to carry out the actions required for implementation of the decision, including actions listed in the decision. It was further decided that the placement process would end, if possible, within nine to twelve months from the date of the decision. The Knesset Finance Committee approved the above decision of the Ministerial Committee on September 6, 2000.

NOTE 1 - GENERAL (CONTD.)
B. (contd.)

3. In July 2000, the Knesset enacted the Employment of Workers by Personnel Contractors (Amendment) Law, 5760-2000. The law stipulates, inter alia, that workers of personnel contractors, who are effectively employed by an employer for a period exceeding nine consecutive months, will be considered to be actual employees of the employer. The Group's companies employ a significant number of workers of personnel contractors, and the Company is making preparations to absorb some of them as its employees. The Company is unable to estimate, at this stage, what effect the above law might have on the Group.

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 related 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 NIS 19.2 million were capitalized at an interest rate of 2.5% in the first and second quarter of 2000.

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 the accounting method, is not material.

NOTE 2 - ACCOUNTING POLICIES (CONTD.)

C. Restatement

The Company retroactively adjusted its financial statements for the year ended December 31, 1999 and for the period ended September 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.

(1) Effect on net earnings

	For the nine months ended September 30	For the three months ended September 30	For the year ended December 31
	1999 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Net profit as previously reported	51,926	9,548	6,696
Effect of restatement:			
Increase in operating and general expenses	(7,445)	(1,765)	(8,657)
Decrease in income tax	2,680	637	3,109
Cumulative effect as at beginning of year of the change in accounting method, net	6,991	-	6,991
	54,152	8,420	8,139

(2) Cumulative effect of the change in accounting method

	For the nine months ended September 30	For the three months ended September 30	For the year ended December 31
	1999 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Cumulative effect as at beginning of year of the change in accounting method, net	10,923	-	10,923
Less: tax effect	3,932	-	3,932

	6,991	-	6,991

NOTE 2 - ACCOUNTING POLICIES (CONTD.)

C. Restatement (contd.)

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

	For the nine months ended September 30	For the three months ended September 30	For the year ended December 31
	1999 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Net earnings per NIS 1 par value of shares, as previously reported	0.071	0.013	0.020
Net earnings per NIS 1 par value of shares, as reported in these financial statements	0.074	0.011	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 have been adjusted to the shekel of September 2000. Below are details of the changes that occurred in the Consumer Price Index and the exchange rate of the US dollar:

	Consumer Price Index	US dollar exchange rate
	%	%
For the nine month period ended:		
September 30, 2000	(0.47)	(3.10)
September 30, 1999	0.85	2.78
For the three month period ended:		
September 30, 2000	(0.84)	(1.47)
September 30, 1999	1.24	4.91
For the year ended December 31, 1999	1.34	(0.17)

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES

A. Pelephone Communications Ltd. (hereinafter: "Pelephone")

In September 2000 notice was received from a shareholder holding 50% of Pelephone's shares ("the Shareholder"), according to which negotiations are taking place with a third party regarding the sale of its holdings in Pelephone. Under the Pelephone shareholders agreement, if a party to the agreement wishes to sell its shares in Pelephone, it must offer them to the other party, and the other party has the right, inter alia, of proposing an "alternate offeree" which will purchase the shares.

1. At its meeting on November 22, 2000, the Board of Directors of the Company did not change its earlier decision (from October 31, 2000), according to which the Company must attempt to exercise the right of first refusal granted under the Pelephone shareholders agreement, for the purchase of the holdings of the Pelephone shareholder, in a way that would preserve Pelephone as a non-government company. The Board of Directors concluded that the benefits offered by the Government Companies Authority, to release Pelephone from certain restrictions which would apply if it were a government company, were inadequate, and determined that the good of the company required the selection of a mode of action whereby a third party, and not the Company, would purchase the Pelephone shares, so as to prevent it from becoming a government company (hereinafter: "**Alternate Offeree**").

2. As a result, the Board of Directors at its aforesaid meeting, selected an Alternate Offeree which would purchase the shares of the Pelephone shareholder and would sign an option agreement with the Company, whose main points are as follows:

a. The shares of the Pelephone shareholder will be purchased by the Alternate Offeree at the price they were offered by the shareholder (593 million US dollars), by means of a special company which it will establish for this purpose ("**the Special Company**").

b. Financing of the purchase will be by means of no less than 60 million US dollars of the Special Company's equity, 240 million US dollars by means of convertible debentures for 80% of the share capital of the Special Company which will be issued to Bezeq by the Special Company, and the remainder by means of a bank loan.

c. In addition, the Company will be granted a Call option for purchase of the remaining 20% of the share capital of the Special Company, concurrently with conversion of all the debentures to shares as aforesaid ("**the Options**"). Conversion for the debentures is both a condition for the exercise of the Call option and is obligated by its exercise.

d. The options can be exercised by the Company within six months from the date of purchase of the shares ("**the Short Option**"), or from the end of 24 months from the date of purchase of the shares and until the elapse of four years from the date of their purchase ("**the Long Option**").

e. The exercise price of the Short Option is the return of the nominal investment plus 8 million US dollars, and of the Long Option is the greater of the return of the nominal investment or a valuation of the value of the holdings of the Alternate Offeree at full dilution.

3. The closing of the transaction is subject to approvals under the law.

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES (CONTD.)

B. 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 38.7 million as at September 30, 2000. Negotiations are taking place with the buyers, during which the buyers announced their readiness to pay a sum that is approximately 3 million dollars less than the amount specified in the memorandum of understanding. If the sale is actually made, the Company expects to include in its financial statements a pre-tax gain of approximately NIS 90 million.

C. Cellular communications project in India

During the nine month period ended September 30, 2000, the Company increased its investment in the joint venture company in India by approximately NIS 22.4 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 23.2 million, in respect of the guarantees which were called in during 1999.

On September 5, 2000, the Company signed an agreement for the sale and transfer of the Company's holdings in the joint company in India. Under the agreement, of the 16% capital held by the Company, it will immediately transfer 4.8% to the buyer. The remainder of the Company's holdings, 11.2% of the issued and paid up capital, are subject to a blocking period which was set by the government of India, and it was agreed that the remainder of the shares will be transferred to the buyer at the end of the blocking period, in January 2001, subject to regulatory and contractual terms and approvals. The consideration paid by the buyer to the Company for the 4.8% of the shares is approximately 12.5 million dollars. The consideration for the remainder of the shares, 11.2%, amounts to approximately 29 million dollars and will be transferred to the Company upon transfer of those shares to the buyer. The consideration includes payment for the shares sold, plus reimbursement of the bank guarantee for payment of the license fee, which the Company put up at the time for the joint company and which was called in by the Indian ministry of communications, as well as a reimbursement of the Company's formation expenses and current expenses in connection with the joint company. The financial statements include a pre-tax capital gain in the amount of approximately NIS 41 million for the sale of 4.8% of the shares.

D. 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 DBS 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 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. The negotiations of DBS with other banks for credit lines to finance its ongoing activities have not yet resulted in an agreement. The Company's investment in DBS as at the balance sheet date amounts to approximately NIS 189 million. The Company also put up a bank guarantee in favor of DBS in the amount of approximately NIS 12 million.

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES (CONTD.)

D. DBS Satellite Services (1998) Ltd. (Contd.)

DBS turned to its shareholders in order to transfer additional shareholders' loans in the amount of approximately 42 million dollars that were supposed to have been received by November 15, 2000. By November 23, 2000, only about 17.85 million dollars had been transferred. The remainder of the amount that has not been transferred also includes the Company's share in the amount of approximately 12.6 million dollars.

Pursuant to the decision of the Ministerial Committee for Privatization, the maximum cumulative exposure of 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 869 million). The Company applied for the approval of the Ministers' Committee for Privatization to increase the amount of its maximum cumulative exposure in DBS in light of the expenses and investments which are expected to grow significantly according to an updated business plan.

During the third quarter of 2000 DBS completed the development stage and commenced providing satellite broadcast services. The Company's equity in the accumulated loss of DBS amounts to approximately NIS 117, of which approximately NIS 92 million were recorded in the nine months ended September 30, 2000.

E. 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.

F. 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. Realization of the agreement was subject to the receipt of various approvals. In view of the position taken by the Government Companies Authority that it does not intend to recommend approval of the agreement, and with the elapse of the time for the granting of the approvals, the third parties announced their wish to cancel the transaction, and the parties therefore agreed to cancel the agreement. Despite the cancellation, and wishing to continue implementation of its strategy of growth in the Internet field, the Company approached the shareholders for funding for this purpose, and is also acting to increase the bank credit at its disposal.

NOTE 5 - LIABILITIES FOR EMPLOYEE SEVERANCE BENEFITS

Restructuring plan and early retirement plan

As part of the Company's current restructuring plan which was approved by the Board of Directors in March 2000, between December 31, 1999 and September 30, 2000, 294 employees retired from the Company, and by March 2001 another 236 are expected to retire.

As the privatization process of the Company continues and the communications market opens up to competition, additional changes will be required in the Company's workforce. Accordingly, the Company reached an agreement with the workers' representatives in September 2000, for extension of the 1997 collective early retirement agreement whereby, from April 1, 2001 until December 31, 2006 (with an option to extend the final retirement date for certain employees until December 31, 2008), another 1,770 employees will take early retirement. The agreement also states that the Company's management will be able to terminate the employment of workers in a compensation track, beyond the above quantity.

NOTE 5 - LIABILITIES FOR EMPLOYEE SEVERANCE BENEFITS (Contd.)

The financial statements include approximately NIS 1,437 million in respect of expected expenses for implementation of the early retirement plan, which incorporates a supplementary NIS 75 million for the present plan. In the opinion of the Company's management, the probability of additional workers retiring in the compensation track is low, and accordingly, no provision is made in the financial statements.

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 collected money unlawfully from its subscribers, for certain services that 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. No provision was made in the financial statements for this claim.

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, on September 21, 2000 the Company signed a settlement agreement with the software supplier. Pursuant to the agreement, the software supplier paid the Company approximately 3.7 million dollars in addition to approximately 19.8 million dollars in guarantees which were called in by the Company. The parties waived all their claims with no admission of liability. The financial statements include income of approximately NIS 100 million in respect of the amounts received.

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 Tribunal approved the request of Bezeq International to terminate the appeal which was filed in the Tribunal concerning the determination of the Commissioner in the matter of exploitation of market status by way of misleading the public, with no possibility of its renewal.

NOTE 6 - CONTINGENT LIABILITIES (Contd.)

A. Claims and contingent liabilities (contd.)

5. On August 10, 2000 a letter was received by the Company from a representative of the Anti-Trust Commissioner, according to which, based on information received by the Anti-Trust Authority, there is a suspicion that the Company, in its preparations for providing ADSL services, is taking actions which are liable to constitute violations of the Anti-Trust Law, 5748-1998 ("the Law"). The alleged actions relate to agreements between the Company and dealers (agents) of ADSL services on its behalf. Accordingly, the Company was requested to provide its preliminary comments on those allegations, and to transfer certain information and documents to the Commissioner. The Company's initial investigation indicates that such suspicion of contravening the Law, taking note of the fact that it concerns trials and agreements with dealers who are in fact agents, oversteps the mark and is unjustified. The Company submitted its comments on the above allegations, as well as certain information and documents requested of it, and subsequently received, on November 16, 2000, a letter from the Anti-Trust Commissioner's representative, stating that in their opinion, even after examining the response of the Company, there remains a suspicion of violation of the provisions of the Law and the Company is required to cancel the agreements with the dealers and to notify them accordingly. The Company is adhering to its position that the suspicion is unjustified. Nevertheless, the Company is examining ways to handle the issue, inter alia, in the light of the final approval of the ADSL service portfolio, which will in all probability render the agreements with the dealers irrelevant.

6. Further to the contents of Note 11E to the Company's financial statements as at December 31, 1999, discussions were held with the assessment officer to finalize tax assessments for the years 1995 to 1998 (inclusive). In August 2000, the Company and a supervisor representing the assessment officer reached agreement on some of the issues that arose in the inspection, and for the remaining issues an assessment without agreement will be issued to the Company. It was further agreed that following the Company's request and the consent of the Income Tax Authorities dated August 7, 2000 to increase the depreciation rates which the Company may claim in respect of switching and subscriber equipment for the years 1995-1998, the assessment officer will examine the revised tax returns submitted by the Company, and depending on the results of the examination will reduce the Company's tax liability. In those revised tax returns the Company claims additional depreciation amounts which are considerably higher than the additional tax liability in the aforementioned tax assessments. The agreement is subject to the approval of the assessment officer. Since these proceedings including the assessment for 1994 and the reservations concerning it, have not yet ended, it is not possible, at this stage, to assess their final outcome. No provision was made in the financial statements in respect of the above tax assessments.

7. In September 2000 Bezeq Call Ltd. (an inactive company) received a best judgment assessment for 1997, in which its taxable earnings were increased by some NIS 30 million, as a result of the determination by the assessment officer of proceeds from the sale of the business of Bezeq Call Ltd. to Bezeq Call Communications Ltd. The Company submitted an objection to the assessment, rejecting the determination outright. It is not possible, at this stage, to assess the final results of these proceedings. No provision was made in the financial statements in respect of the above assessment.

8. In August 2000, a class action together with an application for approval as a class action was filed against the Company, in the amount of approximately NIS 60 million including VAT. According to the plaintiff, the Company collected from its subscribers, unlawfully, payment differentials for the fixed fee for use of the telephone line. The plaintiff applied to the court for two reliefs – declaratory, where the court is requested to declare that the Company collected the payment differentials unlawfully, and "operative – financial", for reimbursement of the sums referred to. In the Company's opinion, relying on its legal advisers, the prospects of the claim cannot be assessed at this stage. No provision was made in the financial statements for this claim.

NOTE 6 - CONTINGENT LIABILITIES (Contd.)

A. Claims and contingent liabilities (contd.)

9. In September 2000 a declaratory claim was filed against the Company in the Jerusalem Labor Tribunal, by 2,423 pensioners of the Company who were transferred at the time from the Ministry of Communications to the Company upon its establishment. The plaintiffs are requesting declaratory relief from the Labor Tribunal, which will determine that the payments they received for grossing up, clothing increment and incentive pay are normal components of their determining salary for calculating their pension and for the payments given at the time of retirement. The plaintiffs also request declaratory relief determining that their last salary for determining pension be calculated according to the last salary which was paid to each of them for the last month of work, and not according to the average levels of each of them. According to the opinion of its legal counsel, the Company cannot estimate the chances of the claim at this stage. No provision was included in the financial statements for this claim.

10. In September 2000 a class action and application for approval as a class action were filed against the Company in the amount of approximately NIS 103 million. According to the plaintiff, the Company collected from its subscribers, unlawfully, "collection expenses" in respect of the Company's bills which were not promptly paid, before the Company had initiated any collection action in connection with the plaintiff. The reliefs requested by the plaintiff are mainly two – declaratory relief, where the court is requested to declare that the collection of "collection expenses" by the Company in the cases described in the statement of claim was unlawful and that the Company may not continue to collect these expenses in the future, and "operative – financial" relief, for reimbursement of the said amounts. The Company's legal advisers are unable, at this stage, to assess the chances of the claim. No provision was made in the financial statements for this claim.

11. In September 2000 a class action and application for approval as a class action were filed against the Company and is estimated to be more than NIS 750 million. According to the plaintiffs, the Company collected from its subscribers, unlawfully, a fixed fee for leasing the telephones with which the Company provided them, allegedly since those telephones were supplied to subscribers without a specific leasing agreement being signed with them, without proper disclosure and publicity of the fact that it was a "leasing" transaction for an unlimited time, as well as with regard to the amount of the "leasing fee" demanded and as regards to further collection of the "leasing fee" even after the subscribers had paid the "leasing fee" in an amount equal to the full reassessed value of the telephones supplied to them. Furthermore, according to the plaintiffs, the Company unlawfully collected "leasing fees" in that it did not offer its subscribers the choice of "leasing" or purchasing the telephones and in that it did not inform them of the option they had to cease paying the fixed leasing fees in exchange for a one-time payment which, the plaintiffs allege, is unlawful in itself. The relief requested by the plaintiffs is mainly financial, for reimbursement of the said amounts. The Company's legal advisers are unable, at this stage, to assess the chances of the claim. No provision was made in the financial statements for this claim.

In addition, on November 21, 2000, the Company received a class action and application for approval as a class action against the Company, in the amount of approximately NIS 240 million. It is noted that the action brings allegations similar to or the same as those in the action described above from September 2000. The Company is currently studying the statement of claim and is unable, at this stage, to estimate its prospects.

NOTE 6 - CONTINGENT LIABILITIES (CONTD.)

A. Claims and contingent liabilities (contd.)

12. In September 2000 a class action and application for approval as a class action were filed against the Company, Bezeq International Ltd. and the other international call operators. While the amount of the claim cannot be determined with accuracy, it is estimated at more than the limit of authority of the Magistrate's Court, which today stands at one million shekels.

The plaintiffs allege that starting on October 20, 1998, when the amendment to Regulation 12A(1) of the Value Added Tax Regulations, 5736-1976, took effect, the Company unlawfully collected 17% VAT for some collect calls originating abroad which were received by its subscribers in Israel (while allegedly serving, for this matter, mainly as a "collection pipe" for the international communications company through which the collect call passed in Israel and to which payment is in fact due), and did so, according to the plaintiffs, in a manner contravening the VAT Law and its Regulations and in violation of a legislated duty, in a way which breaches existing commitment contracts, acting in bad faith in fulfillment of those contracts and with negligent conduct. The plaintiffs also bring allegations against the international operators concerning collection of VAT for calls that were made abroad using dialing cards. According to the plaintiffs, the damages incurred by the group for the unlawful collection of VAT for all calls made from abroad to Israel in the relevant period (from October 20, 1998) are estimated in millions of shekels per year.

The reliefs requested by the plaintiffs are mainly two: declaratory relief, in which each of the defendants violated their duties under the contract between them and the members of the group which entered into the agreement with them, and financial relief for reimbursement of the said amounts, compensation for the damages sustained by the members of the group in the amounts as aforesaid. The Company's legal advisers are unable, at this stage, to assess the chances of the claim. No provision was made in the financial statements for this claim.

13. Further to Note 21A(12) to the financial statements as at December 31, 1999 in connection with a class action which was filed against the Company, concerning payment for airtime where the call is routed to a voice mail box, in November 2000 the court dismissed the application for recognition as a class action while accepting most of the Company's arguments.

14. Further to Note 21A(16) to the financial statements as at December 31, 1999 concerning the class action against the Pelephone Communications Ltd., concerning exploitation of the company's status as a monopoly and exploitation of distress and misleading consumers, the amount of the action as a class action was assessed at approximately NIS 12.3 billion.

15. 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 September 30, 2000, the Company is contracted to purchase approximately US $ 283 million (approximately NIS 1,138 million) for which it will pay approximately NIS 1,167 million linked to the CPI and approximately 30 million euros (approximately NIS 107 million) for which it will pay approximately NIS 106 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 $335 million (approximately NIS 1,348 million) for which it will pay, at an agreed interest rate, approximately NIS 1,361 million and approximately 100 million euros (approximately NIS 355 million) for which it will pay, at an agreed interest rate, NIS 361 million.

NOTE 7 - EVENTS AFTER THE BALANCE SHEET DATE

The general meeting of the Company, which convened on November 23, 2000, resolved to approve the Board of Directors' recommendation and to increase the Company's registered capital to 1.6 billion ordinary shares and to distribute 1.6 billion bonus shares so that for each NIS 1 par value share, two bonus shares of a par value of NIS 1 each will be distributed. For this purpose, it was decide to capitalize undesignated earnings to a reserve capital fund which would be earmarked for the distribution of bonus shares, and to authorize the Board of Directors to issue the aforesaid bonus shares. The increase of the registered capital as aforesaid is subject to the approval of the Government of Israel.

NOTE 8 - REVENUES FROM TELECOMMUNICATIONS SERVICES

	For the nine months ended September 30		For the three months ended September 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	1,906,717	2,107,098	644,990	654,385	2,737,592
Cellular telephone	1,636,376	2,041,573	495,342	714,771	2,824,279
Fixed fees	1,480,021	1,331,702	498,858	476,044	1,810,504
International communications	614,546	655,414	216,764	220,468	888,328
Installation and sale of equipment to subscribers	375,606	367,541	125,486	117,126	476,922
Other	105,480	93,488	34,134	37,770	140,777
	6,118,746	6,596,816	2,015,574	2,220,564	8,878,402
Other revenues	182,465	176,181	66,311	47,714	222,062
	6,301,211	6,772,997	2,081,885	2,268,278	9,100,464

* Reclassified

NOTE 9 - OPERATING AND GENERAL EXPENSES

	For the nine months ended September 30		For the three months ended September 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	1,238,169	1,250,968	384,029	406,882	1,663,292
Cellular telephone expenses	411,542	961,269	66,886	358,894	1,358,524
International communication expenses	187,217	196,792	46,236	69,711	263,360
Materials and spare parts	316,585	217,161**	105,719	67,003**	284,426**
Building maintenance	276,479	312,806	94,083	109,230	394,832
Services and maintenance by sub-contractors	291,840	347,948	101,269	121,191	468,495
General expenses	492,450	523,818** *	196,310	177,217** *	715,275**
Vehicle maintenance expenses	53,176	46,281	18,406	17,643	65,150
Collection fees	29,322	31,704	9,632	10,292	41,917
	3,296,780	3,888,747	1,022,570	1,338,063	5,255,271
Less - salaries charged to investments in fixed assets	113,338	117,103	35,982	28,832	159,120
	3,183,442	3,771,644	986,588	1,309,231	5,096,151

* Reclassified
** Restated, See Note 2C

NOTE 10 - CONDENSED INTERIM FINANCIAL STATEMENTS OF THE COMPANY

A. Statement of Operations

	For the nine months ended September 30		For the three months ended September 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)	4,717,533	5,541,966*	1,512,598	1,854,341*	7,423,835
Costs and expenses					
Operating and general expenses (Note 10C)	1,942,096	2,906,796*	535,789	1,012,348*	3,908,984
Depreciation	1,677,072	1,713,213	553,808	567,408	2,282,554
Royalties to the Government of Israel	153,634	156,623	53,009	52,508	207,230
	3,772,802	4,776,632	1,142,606	1,632,264	6,398,768
Operating income	944,731	765,334	369,992	222,077	1,025,067
Financing expenses					
To the Government of Israel for interest (including erosion)	4,855	46,845	-	10,428	55,797
To banks and others, net (including erosion)	247,723	215,752	107,567	59,569	307,187
	252,578	262,597	107,567	69,997	362,984
Earnings after financing expenses	692,153	502,737	262,425	152,080	662,083
Other expenses, net	(1,270,001)	(380,715)*	(1,383,061)	(105,324)*	(480,506)
Earnings before income tax	(577,848)	122,022	(1,120,636)	46,756	181,577
Tax benefit (taxes on income)	235,661	(54,842)	432,953	(18,820)	(70,049)
	(342,187)	67,180	(687,683)	27,936	111,528
Equity in losses of affiliated companies	(248,036)	(13,028)**	(103,424)	(19,516)**	(103,389)**
Net earnings (losses)	(590,223)	54,152	(791,107)	8,420	8,139

* Reclassified
** Restated, See Note 2C

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

B. Revenues from telecommunications services

	For the nine months ended September 30		For the three months ended September 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	1,917,953	2,120,281	647,272	661,867	2,752,373
Cellular telephone	684,262	1,432,919	136,379	498,804	1,974,259
Fixed fees	1,390,899	1,225,947	473,108	443,948	1,661,290
International communications	285,473	322,044	103,074	105,806	442,285
Installation and sale of equipment to subscribers	155,099	176,452	52,787	57,220	234,274
Other	106,351	95,384	34,275	38,261	143,061
	4,540,037	5,373,027	1,446,895	1,805,906	7,207,542
Other revenues	177,496	168,939	65,703	48,435	216,293
	4,717,533	5,541,966	1,512,598	1,854,341	7,423,835

* Reclassified

C. Operating and general expenses

	For the nine months ended September 30		For the three months ended September 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	980,875	1,055,645	293,883	338,691	1,386,480
Cellular telephone expenses	290,012	1,065,716	-	395,496	1,490,152
General expenses	174,309	184,048	64,918	68,659	254,916
Materials and spare parts	28,774	44,499	12,526	5,020	51,192
Services and maintenance by sub-contractors	253,946	304,792	88,961	106,552	413,288
Building maintenance	244,189	281,307	83,365	98,559	352,488
International communications expenses	8,800	15,227	2,697	2,203	18,663
Vehicle maintenance expenses	45,513	41,360	15,922	15,932	59,655
Collection fees	29,016	31,305	9,499	10,068	41,270
	2,055,434	3,023,899	571,771	1,041,180	4,068,104
Less - salaries charged to investments in fixed assets	113,338	117,103	35,982	28,832	159,120
	1,942,096	2,906,796	535,789	1,012,348	3,908,984

* Reclassified

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

1. BEZEQ INTERNATIONAL LTD.

A. Balance sheet

	September 30 2000 (Unaudited)	September 30 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	281,692	546,530	411,232
Investments	40,708	3,862	-
Fixed assets	365,241	297,377	312,751
Other assets	19,725	2,651	12,201
	707,366	850,420	736,184
Current liabilities	433,517	381,564	383,293
Long-term liabilities	31,440	20,338	-
Quasi-capital receipt	157,731	157,731	157,731
Shareholders' equity	84,678	290,787	195,160
	707,366	850,420	736,184

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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Revenues from international communications services	505,299	532,495*	167,051	182,935*	715,886*
Operating expenses	413,172	424,377**	122,685	153,891**	591,938
Gross profit	92,127	108,118	44,366	29,044	123,948
Marketing expenses	103,724	76,338	41,335	25,213	110,900
General and administration expenses	65,440	42,286*	24,291	17,477*	72,541*
	169,164	118,624	65,626	42,690	183,441
Operating loss	(77,037)	(10,506)	(21,260)	(13,646)	(59,493)
Financing income (loss), net	121	18,561	(3,374)	4,866	35,906
Earnings (loss) after financing income, net	(76,916)	8,055	(24,634)	(8,780)	(23,587)
Other expenses, net	(27,310)	(4,012)	(1,680)	(4,012)	(77,175)
Earnings (loss) before income tax	(104,226)	4,043	(26,314)	(12,792)	(100,762)
Tax benefit (income tax)	-	(140)	-	5,063	8,961
Earnings (loss) after income tax	(104,226)	3,903	(26,314)	(7,729)	(91,801)
Company's equity in losses of investee company, net	(6,256)	-	(3,056)	-	-
Net earnings (loss)	(110,482)	3,903	(29,370)	(7,729)	(91,801)

* Reclassified

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

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

2. PELEPHONE COMMUNICATIONS LTD.

A. Balance sheet

	September 30 2000 (Unaudited)	September 30 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	1,132,379	918,248	926,383
Long-term trade receivables	55,765	16,128	11,299
Fixed assets	2,810,478	2,660,309	2,563,356
Compensation fund reserve, net	3,093	1,188	3,466
Other assets	634,260	325,498*	461,872*
	4,635,975	3,921,371	3,966,376
Current liabilities	2,025,447	1,119,497	1,180,649
Provision for losses of investee company	11,712	-	3,959
Long-term liabilities	686,385	847,196*	794,600*
Shareholders' equity	1,912,431	1,954,678*	1,987,168*
	4,635,975	3,921,371	3,966,376

* Restated, See Note 2C

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

2. PELEPHONE COMMUNICATIONS LTD. (CONT.)

B. Statement of Operations

	For the nine months ended September 30		For the three months ended September 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	2,579,785	2,176,764	898,870	740,434	2,961,171
Cost of cellular services, sales and services	2,131,070	1,787,306*	733,883	622,698*	2,379,221*
Gross profit	448,715	389,458	164,987	117,736	581,950
Sales and marketing expenses	323,896	215,382*	121,046	83,792*	283,892*
General and administration expenses	147,912	137,149	48,909	52,263	182,815
	471,808	352,531	169,955	136,055	466,707
Operating income (loss)	(23,093)	36,927	(4,968)	(18,319)	115,243
Financing expenses, net	(73,990)	(46,180)	(24,029)	(24,490)	(65,438)
Other income (expenses), net	(1,651)	(353)	(2,046)	(600)	519
Earnings (loss) before income tax	(98,734)	(9,606)	(31,043)	(43,409)	50,324
Tax benefit (income tax)	27,567	(1,562)*	7,910	13,963*	(25,052)*
Earnings (loss) after income tax	(71,167)	(11,168)	(23,133)	(29,446)	25,272
Minority interest in losses of a consolidated company	4,184	-	3,402	-	-
Company's equity in losses of investee company	(7,754)	-	(2,652)	-	(3,959)
Earnings (loss) before cumulative effect of the change in accounting method	(74,737)	(11,168)	(22,383)	(29,446)	21,313
Cumulative effect as at beginning of year of the change in accounting method, net	-	13,982*	-	-	13,982*
Net earnings (loss)	(74,737)	2,814	(22,383)	(29,446)	35,295

* Restated, See Note 2C