



Press Release

BEZEQ GROUP REPORTS THIRD QUARTER 2009 FINANCIAL RESULTS ¹

Net profit attributable to shareholders increased to NIS 2.09 billion in the third quarter, including one-time gain of NIS 1.5 billion from the deconsolidation of yes

Net profit attributable to shareholders from continuing operations increased 15.1% to NIS 586 million in the third quarter

Revenue increased 4.2% year-over-year to a record NIS 2.92 billion

EBITDA increased to NIS 1.24 billion during the third quarter, up 8.4% year-over-year, for a record EBITDA margin of 42.3%

Tel Aviv, Israel – November 5, 2009 – Bezeq - The Israel Telecommunication Corp., Limited (TASE: BEZQ), Israel's leading telecommunications provider, announced today its financial results for the third quarter of 2009 and the nine months ended September 30, 2009. Details regarding today's investor conference call and web cast are included later in this press release.

Bezeq Group's Third Quarter 2009 Financial Highlights:

- Revenues of NIS 2.92 billion, up 4.2% compared to the prior year period.
- Operating profit of NIS 875 million, up 12.9% compared to the prior year period.
- Net profit attributable to shareholders of NIS 2.09 billion, including a one-time gain of NIS 1.5 billion from the deconsolidation of yes, compared to NIS 462 million in the prior year period.
- Net profit attributable to shareholders from continuing operations were NIS 586 million, up 15.1% year-over-year.
- Earnings per basic and diluted shares amounted to NIS 0.79, of which NIS 0.22 from continuing operations; this compares to NIS 0.18 per basic and NIS 0.17 per diluted shares for the prior year period.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled NIS 1.24 billion, up 8.4% compared to the prior year period; EBITDA margin was a record 42.3% compared to 40.6% in the prior year period.
- Free cash flow totaled NIS 657 million, up 9.6% year-over-year.² Year-to-date free cash flow increased 35.3% to NIS 1.78 billion.

Deconsolidation of yes

¹ Unless otherwise stated, all consolidated profit and loss figures in this press release are adjusted to reflect the deconsolidation of yes as of January 1st, 2008, except for the financial statement tables at the back of this press release.

² Free cash flow is defined as cash flow from operating activities less net capital investments, plus dividend received.



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On August 20th, 2009, the Israeli Supreme Court overturned a lower court ruling which would have allowed Bezeq to exercise cashless options and increase its 49.8% stake in the pay-TV subsidiary yes beyond 50%.

In light of the Supreme Court's decision preventing the Company from increasing its stake in yes beyond 50%, the Company no longer exercises legal or effective control in yes. Therefore, commencing on August 21st, 2009, and pursuant to accepted IFRS accounting practices, the Company ceased to consolidate yes' financial statements. Instead, the Company states its investment in yes using the equity method according to the fair value of this investment from that date. As a result, on August 21st, 2009, the Company recorded a net profit of NIS 1.538 billion, composed of NIS 1.175 billion representing the fair value of the Company's investment in yes on August 20th, 2009, and NIS 363 million reflecting the negative balance of this investment on the Company's balance sheet.

Pursuant to accepted IFRS accounting practices, the Consolidated Statements of Income for the third quarter and the first nine months of 2009 do not consolidate yes' financial results. yes' results from January 1st through August 20th, 2009, are accounted for as results from discontinued operations. The Consolidated Statements of Income for the 2008 comparative periods have been re-presented to reflect the deconsolidation of yes. However, the Consolidated Balance Sheet, Changes in Equity and Cash Flows statements for the 2008 comparative periods have not been re-presented.³

Segment Highlights:

- **Bezeq Fixed-Line:** The Fixed-Line segment generated a record EBITDA margin of 50.3% and continued to actively and successfully mitigate the decline in revenues from traditional telephony. Fixed-Line revenues grew 1.9% sequentially and declined 3.2% year-over-year, or 2.7% when adjusting for mobile interconnect fees. Third quarter operating profit totaled NIS 491 million, an increase of 14.7% year-over-year. Third quarter 2009 EBITDA totaled NIS 675 million, up 5.1% year-over-year. Bezeq's broadband Internet subscriber base increased 3.2% year-over-year to 1.03 million subscribers as of September 30, 2009, as Bezeq continued to upgrade its ADSL subscriber base, with 60% of its customers enjoying bandwidths of at least 2 megabits per second versus 45% a year ago. Broadband Internet average revenue per user (ARPU) increased 5.9% year-over-year to NIS 72. Bezeq Fixed-Line continued the rollout of its advanced IP-based NGN infrastructure, which is already connected to approximately 270,000 customers.
- **Pelephone:** Pelephone, the cellular operations segment, completed its second full quarter of operations since the launch of its new High-Speed GSM (HSPA) cellular network, and recorded quarterly revenue totaling NIS 1.37 billion, up 13.0% year-over-year. Pelephone achieved solid year-over-year quarterly growth in operating profit, net profit, EBITDA and free cash flow. Active subscribers totaled approximately 2.72 million as of September 30, 2009, an increase of 0.9% year-over-year, including an Israeli industry high 1.41 million 3G subscribers, an increase of 31.7% year-over-year. Pelephone increased its base of subscribers operating on its new HSPA network to 520,000 as of early November, representing over 17% of its total subscribers. Segment minutes of use (MOU) and ARPU

³ For more information on the accounting treatment of the yes deconsolidation, please see Note 4 of the Company's financial statements for the three and nine months ended September 30th, 2009.



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both experienced sequential performance gains as new HSPA subscribers contributed data usage profiles consistent with those of higher value customer segments.

- **Bezeq International:** Bezeq International, Israel's leading supplier of broadband ISP services, posted third quarter 2009 revenues of NIS 332 million, up 1.1% versus the year ago period. Operating profit, net profit and EBITDA generated double-digit year-on-year growth rates, while the EBITDA margin reached 26.4%. Operating and free cash flow both registered impressive year-over-year gains, rising to NIS 82 million and NIS 48 million, respectively. During the quarter, Bezeq International launched voice-over-broadband (VOB) services and made preparations towards the launch of PRIVATE NGN services in October, both aimed at increasing customer choice and driving new sources of revenue.
- **yes:** Effective August 21st, 2009, the yes multi-channel pay-TV segment's financial results are no longer consolidated in the Bezeq group-level financial statements. yes' revenues increased 1.4% year-over-year to NIS 380 million as subscribers increased 2.0% year-over-year to 567,000. Third quarter operating profit and EBITDA (31.4% EBITDA margin) posted solid year-over-year performance gains. Segment operating cash flow increased 38.9% to NIS 135 million year-over-year, and free cash flow rose 16.5% to NIS 48 million versus the year ago period.

Shlomo Rodav, Chairman of the Board of Bezeq, stated, "Bezeq's impressive third quarter and year-to-date 2009 financial performance reflect our continued ability to deliver on our strategic initiatives, while further streamlining our operations company-wide. We showed solid improvement in consolidated revenue, operating profit and EBITDA. Our recently deployed HSPA cellular network and the ongoing deployment of our NGN infrastructure are returning benefits in terms of enhanced service capabilities, an improved customer experience, as well as margin improvement. We will continue leveraging these strategic investments while delivering our customers a best in class communications experience.

"Looking ahead, we see excellent opportunities for innovative product and service offerings, higher Internet bandwidths and ultimately driving an even more compelling value proposition for the Company's customers and shareholders alike," concluded Mr. Rodav.

Alan Gelman, Chief Financial Officer and Deputy CEO of Bezeq, commented, "The strength of our financial performance drove higher levels of free cash flows, further strengthening the Company's balance sheet and supporting our ability to reward our shareholders through healthy dividend distributions. In accordance with our stated dividend policy, of distributing cash dividends amounting to 100% of the net profit attributable to shareholders of the Company on a semi-annual basis, in October, the Company distributed a cash dividend totaling NIS 1.15 billion, or NIS 0.43 per share. Looking forward to the end of the fiscal year, we remain confident in our ability to deliver on our financial guidance and achieve improvements in our full-year 2009 financial performance versus the year ago," concluded Mr. Gelman.



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Bezeq Group (Consolidated) Results

Bezeq Group (Consolidated) *	Q3 2009	Q3 2008	Change	Q1-Q3 2009	Q1-Q3 2008	Change
	(NIS millions)			(NIS millions)		
Revenues	2,924	2,806	4.2%	8,587	8,314	3.3%
Operating profit	875	775	12.9%	2,492	2,188	13.9%
EBITDA	1,236	1,140	8.4%	3,601	3,282	9.7%
EBITDA margin	42.3%	40.6%		41.9%	39.5%	
Net profit attributable to shareholders of the company	2,088	462	351.9%	3,237	1,329	143.6%
Diluted EPS (NIS)	0.79	0.17	364.7%	1.21	0.50	142.0%
Cash flow from operating activities	1,021	1,115	-8.4%	2,869	2,375	20.8%
Capex, net	364	525	-30.7%	1,093	1,071	2.0%
Free cash flow	657	600	9.6%	1,781	1,316	35.3%
Net debt/EBITDA (end of period) **				0.61	0.77	
Net debt/shareholders' equity (end of period)				0.44	0.73	

* As of August 21st, 2009, the Company ceased consolidating yes' financial statements and started accounting for its investment in yes according to the equity method. In this table all figures reflect the de-consolidation of yes as of January 1st, 2008.

** EBITDA in this calculation refers to trailing twelve months

The Bezeq Group's revenues for the third quarter of 2009 were NIS 2.92 billion, up 4.2% from NIS 2.81 billion for the year ago period, continuing the solid quarterly top line growth recorded in the first half of 2009. Revenue growth was primarily driven by double digit year-over-year growth of the Telephone cellular segment, which more than offset the expected decline in traditional fixed-line telephony, with Bezeq International turning in modest year-over-year growth. Within the Fixed-Line segment, the anticipated decline in revenue associated with fixed-line telephony continues to be mitigated by solid growth in high speed Internet, data communications and transmission services.

Operating profit increased 12.9% to NIS 875 million in the third quarter of 2009, driven primarily by higher total revenues and ongoing cost reduction initiatives.

Net profit attributable to Bezeq shareholders for the third quarter of 2009 amounted to NIS 2.09 billion, including a one-time gain of NIS 1.5 billion following the deconsolidation of yes. Excluding this one-time gain, net profit attributable to shareholders from continuing operations increased 15.1% year-on-year to NIS 586 million. The Company's EBITDA for the third quarter of 2009 totaled NIS 1.24 billion (42.3% EBITDA margin), up 8.4% as compared to the third quarter of 2008 EBITDA of NIS 1.14 billion (40.6% EBITDA margin).

Cash paid for net capital expenditures in the third quarter of 2009 amounted to NIS 364 million, a decrease of 30.7% as compared to the year ago period. This decline stemmed primarily from a substantially lower level of capital expenditure payments made by Telephone in the current period following the successful deployment of its HSPA cellular infrastructure which was ramping up in the year ago period.

Free cash flow for the Company totaled NIS 657 million for the third quarter of 2009, an increase of 9.6% compared to the prior year period. The rise in free cash flow was primarily a result of significantly lower consolidated net capital expenditure payments. In the first nine months of 2009,



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free cash flow generation expanded by NIS 465 million to NIS 1.78 billion, already surpassing the NIS 1.70 billion free cash flow achieved for the full-year 2008.

As of September 30, 2009, the Company's consolidated net financial debt was NIS 2.71 billion, compared with NIS 4.96 billion as of September 30, 2008, which included yes' debt to financial institutions. Excluding yes' debt to financial institutions, the group's net financial debt as of September 30, 2008 would have been NIS 3.23 billion. The decrease in the adjusted net financial debt was primarily related to the repayment of loans and debentures by Bezeq Fixed-Line and Telephone.

Bezeq Fixed-Line Results

Bezeq Fixed-Line	Q3 2009	Q3 2008 *	Change	Q1-Q3 2009	Q1-Q3 2008 *	Change
	(NIS millions)			(NIS millions)		
Revenues	1,343	1,388	-3.2%	3,987	4,150	-3.9%
Operating profit	491	428	14.7%	1,362	1,243	9.6%
EBITDA	675	642	5.1%	1,962	1,886	4.0%
EBITDA margin	50.3%	46.3%		49.2%	45.4%	
Capex, net	184	144	27.8%	555	349	59.0%
Number of active subscriber lines (end of period, in thousands)	2,518	2,645	-4.8%	2,518	2,645	-4.8%
Average monthly revenue per line (NIS) **	83	85	-2.4%	82	84	-2.3%
Number of outgoing usage minutes (millions)	3,095	3,428	-9.7%	9,230	10,285	-10.3%
Number of incoming usage minutes (millions)	1,737	1,719	1.0%	5,055	5,043	0.2%
Number of ADSL subscribers (end of period, in thousands)	1,026	994	3.2%	1,026	994	3.2%
Average monthly revenue per ADSL subscriber (NIS)	72	68	5.9%	70	67	3.5%

* In the first nine months of 2008, NIS 26 million related to a provision for early-retirement, which previously appeared as other operating expenses (income), were reclassified to financing expenses, of which NIS 5 million for the three months period ended September 30, 2008.

** Not including revenues from data communications and transmission services, services to communications providers, and contract and other work.

The third quarter saw the successful commercial launch of Bezeq's ultra-fast IP-based NGN infrastructure, which contributed to strengthening Bezeq's leading market position. The NGN provides Bezeq's customers with dramatic improvements in Internet access speeds, enhances Bezeq's technological preparedness to compete in an increasingly converged communications market, and provides an important platform upon which to build out additional value-added services, increase operating efficiencies and improve future segment profitability. As of late October, Bezeq Fixed-Line has already connected approximately 270,000 customers to the new network, of which over 15,000 customers already benefit from high speed NGN bandwidths. Bezeq plans to expand NGN coverage reaching over one million households in Israel by 2010.

Continued successful implementation of cost-cutting measures across the Fixed-Line segment resulted in an impressive EBITDA margin of 50.3% – the highest since the privatization of Bezeq in 2005. The Fixed-Line segment posted record third quarter 2009 EBITDA of NIS 675 million, as compared to NIS 642 million (46.3% EBITDA margin) in the third quarter of 2008. Bezeq Fixed-Line contributed approximately 55% of the Group's consolidated EBITDA. Third quarter financial results of the Fixed-Line segment include capital gains from real estate disposals in the amount of NIS 38 million.

On the revenue side, in the third quarter of 2009 Bezeq Fixed-Line continued to mitigate the anticipated year-over-year decline in revenues to only 3.2%, once again outperforming the market percentage share loss in access lines over the same period. According to the latest data from the



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Ministry of Communications, as of June 2009 Bezeq's market share in the consumer segment stood at 78.5%, as compared to 84.6% a year ago. Third quarter results benefitted from solid revenue growth associated with high-speed Internet (ADSL) services as well as higher revenues from data communications and transmission services, which combined to partially offset a decrease in voice revenues resulting from fewer lines, lower call traffic, as well as lower interconnect fees to the cellular networks.

Bezeq Fixed-Line's operating profit in the third quarter of 2009 totaled NIS 491 million, an increase of 14.7% as compared to the third quarter of 2008. General and operating expenses declined by 2.8%, driven by a decline in interconnect expenses transferred to cellular operators and the continued implementation of efficiency measures. The 11.8% decline in salary expenses includes the attribution of certain salary expenses to capital investments.

The number of customers subscribing to Bezeq's ADSL Internet service increased 3.2% year-over-year to 1.03 million subscribers as of September 30, 2009, giving Bezeq Fixed-Line a market-leading share of approximately 60% of broadband access services in Israel. Bezeq continued to upgrade its ADSL subscriber base, with 60% of its customers enjoying bandwidths of at least 2 megabits per second, as compared to 45% a year ago.

ADSL ARPU was NIS 72 in the third quarter of 2009, an increase of 5.9% over the prior year period, primarily due to bandwidth upgrades and sales of value-added services and home networks. Fixed-line telephony average revenue per line (ARPL) was NIS 83 in the third quarter of 2009, down a modest 2.4% as compared to the prior year period, but up 2.5% sequentially.

As announced today, the Company's Board of Directors has approved a plan for the early retirement of about 171 Bezeq Fixed-Line employees in 2010, at an estimated cost of NIS 225 million. This planned reduction in Bezeq Fixed-Line's workforce falls under the second phase of the Company's December 2006 labor agreement. In addition, the Board of Director's approved an additional cost allocation of NIS 41 million towards the completion of the 2009 early retirement plan. As a result, a provision for early retirement totaling NIS 266 million is expected to be recognized in the Company's fourth quarter 2009 financial statements.



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Pelephone Results

Pelephone	Q3 2009	Q3 2008	Change	Q1-Q3 2009	Q1-Q3 2008	Change
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	1,372	1,214	13.0%	3,983	3,575	11.4%
Operating profit	316	293	7.8%	939	774	21.3%
EBITDA	471	422	11.6%	1,384	1,162	19.1%
EBITDA margin	34.3%	34.8%		34.7%	32.5%	
Net profit	231	211	9.5%	694	554	25.3%
Cash flows from operating activities	395	379	4.2%	1,060	979	8.3%
Capex, net	146	350	-58.3%	454	633	-28.3%
Free cash flow	249	29	758.6%	606	346	75.1%
Number of subscribers (end of period, in millions)	2.721	2.698	0.9%	2.721	2.698	0.9%
Average revenue per user (ARPU, NIS)	136	129	5.4%	131	128	2.6%
Average monthly minutes of use per subscriber (MOU)	339	359	-5.6%	330	357	-7.6%

Pelephone, Bezeq's cellular segment, experienced another strong quarter as it continues to leverage the benefits of the recently deployed HSPA network. Increased quarterly revenues translated into material year-over-year improvements in all profitability measures, even as the segment incurred increased costs associated with the transition to the new network and operating dual networks.

Pelephone's active subscribers totaled approximately 2.72 million as of September 30, 2009, an increase of 0.9% year-over-year, including a record 1.41 million 3G subscribers, an increase of 31.7% year-over-year. The new HSPA network, which is central to Pelephone's commitment to access higher value segments of the mobile communications market, currently has approximately 520,000 subscribers – accounting for over 17% of Pelephone's total subscriber base. Segment MOU and ARPU both experienced sequential performance gains as subscribers on the HSPA network contributed data usage profiles consistent with those of higher value customer segments.

Revenues in the third quarter of 2009 totaled a record NIS 1.37 billion, a 13.0% increase from revenues of NIS 1.21 billion in the prior year period. Revenues were driven primarily by increased sales of premium handsets for the new HSPA cellular network, as well as increased sales of data, content and value-added services which contributed to ARPU growth. Revenues from data, content and value-added services constituted a record 20.3% of Pelephone's revenues from cellular services for the third quarter of 2009, compared to 16.2% for the prior year period and 19.2% for the second quarter of 2009.

Pelephone's ARPU for the third quarter increased 5.4% year-over-year and 3.8% sequentially to NIS 136, primarily due to the rise in data, content and value-added services driven across the new HSPA network. MOU increased 3.0% sequentially and declined 5.6% year-over-year to 339 minutes. The year-over-year comparison of ARPU and MOU were influenced by the reduction of approximately 92,000 dormant subscribers at the end of 2008 and the transition to billing per second as opposed to billing per 12-second intervals which was implemented in January of 2009.

Net profit for Pelephone in the third quarter of 2009 totaled NIS 231 million, an increase of 9.5% as compared to NIS 211 million in the third quarter of 2008. Net profit benefited mainly from higher revenues from data, content and value-added services, and from improved margins on handset



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sales, as well as a 5.7% decrease in year-over-year segment salary expenses. These gains were mitigated by a 20.2% increase in depreciation and amortization expenses related to the depreciation of the HSPA network which began in 2009, as well as increased maintenance costs associated with the operation of the new HSPA network alongside the existing CDMA cellular network.

Pelephone posted third quarter 2009 EBITDA of NIS 471 million (34.3% EBITDA margin), an increase of 11.6% compared to NIS 422 million (34.8% EBITDA margin) for the third quarter of 2008.

Pelephone's cash flow from operating activities in the third quarter of 2009 totaled NIS 395 million, an increase of 4.2% compared to NIS 379 million in the third quarter of 2008, while free cash flow increased substantially to NIS 249 million in the current period from NIS 29 million in the prior year period, as capital expenditure payments were reduced substantially in the current period following the successful deployment of its HSPA cellular infrastructure.

Bezeq International Results

Bezeq International	Q3 2009	Q3 2008	Change	Q1-Q3 2009	Q1-Q3 2008	Change
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	332	329	1.1%	984	969	1.6%
Operating profit	66	59	12.3%	194	176	10.0%
EBITDA	88	79	11.1%	256	237	8.1%
EBITDA margin	26.4%	24.0%		26.0%	24.4%	
Net profit	51	44	15.2%	151	133	13.6%
Cash flows from operating activities	82	32	155.9%	248	90	174.3%
Capex, net	33	33	0.5%	81	92	-11.7%
Free cash flow	48	9	443.9%	172	9	1837.8%

Bezeq International, Israel's leading provider of broadband ISP services, posted third quarter 2009 revenues of NIS 332 million, up 1.1% compared to NIS 329 million in the third quarter of 2008. Revenues benefited from a rise in the number of broadband subscribers, an increase in call routing between international operators (hubbing), an increase in integration communications activities as well as an increase in data services. Conversely, there was a decline in revenue from outgoing calls due to a decrease in the volume of traffic in the market and erosion of the average price per minute, and a decrease in revenue from the sale of private exchanges (PBX), resulting in part from the macroeconomic environment. Bezeq International maintained its leadership position in Internet services and continued to invest in the development of enhanced business services, hosting and integration solutions as a platform to support future growth with a broader range of product offerings. During the quarter, Bezeq International launched voice-over-broadband (VOB) services and made advanced preparations towards the launch of PRIVATE NGN services in October, both aimed at increasing customer choice and driving new revenue sources.

Bezeq International generated a net profit of NIS 51 million in the third quarter of 2009, an increase of 15.2% compared to a net profit of NIS 44 million in the year ago period. The increase in profitability came as a result of the strength of the core ISP business as well as continued focus on cost control.



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Bezeq International posted third quarter 2009 EBITDA of NIS 88 million (26.4% EBITDA margin), an increase of 11.1% compared to NIS 79 million (24.0% EBITDA margin) for the third quarter of 2008.

Bezeq International reported another quarter of solid improvements in operating and free cash flow year-over-year, reaching NIS 82 million and NIS 48 million, respectively, mainly due to the positive impact of working capital changes.

yes Results

yes	Q3 2009	Q3 2008	Change	Q1-Q3 2009	Q1-Q3 2008	Change
	(NIS millions)			(NIS millions)		
Revenues	380	375	1.4%	1,140	1,136	0.3%
Operating profit	61	52	15.7%	186	122	52.5%
EBITDA	120	111	7.6%	357	306	16.6%
EBITDA margin	31.4%	29.6%		31.3%	26.9%	
Net profit (net loss)	(88)	(82)	7.7%	(185)	(247)	-25.3%
Cash flows from operating activities	135	97	38.9%	319	214	49.3%
Capex, net *	87	56	55.4%	208	175	19.1%
Free cash flow	48	41	16.5%	111	39	185.3%
Number of subscribers (end of period, in thousands)	567	556	2.0%	567	556	2.0%
Average revenue per user (ARPU, NIS)	224	226	-0.9%	225	229	-1.6%

* Including subscriber acquisition costs

As explained earlier, yes, the multi-channel pay-TV business, ceased to be consolidated into the group level financial statements as of August 21st, 2009. As a result, and pursuant to accepted IFRS accounting practices, the Company states its investment in yes using the equity method at the fair value of its investment in yes from that date.

yes posted a solid performance in the third quarter of 2009, as reflected by 15.7% and 7.6% year-over-year growth in operating profit and EBITDA, respectively, as well as double-digit growth in operating and free cash flows.

yes' revenue increased 1.4% year-over-year to NIS 380 million, due mainly to revenue from advanced services in the multi-channel television sector resulting from the increase in the number of subscribers. When adjusted for revenues generated in the prior year period from a terminated Internet access distribution agreement with Bezeq Fixed-Line, yes' pay-TV revenues increased 4% year-on-year. Third quarter 2009 ARPU experienced a 0.9% year-over-year decline to NIS 224. If revenues associated with the terminated Internet agreement were excluded, ARPU would have increased slightly year-over-year.

yes segment operating profit totaled NIS 61 million, up 15.7% year-over-year, for a 15.9% operating margin as compared to 14.0% in the prior year period.

Net loss increased to NIS 88 million, versus a net loss of NIS 82 million in the year ago period, primarily due to an increase in financing expenses to shareholders. Excluding the impact of



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financing costs to shareholders, yes generated a net profit of NIS 16.1 million as compared to NIS 1.2 million in the year ago period.

yes posted EBITDA of NIS 120 million (31.4% EBITDA margin) for the third quarter of 2009, an increase of 7.6% over EBITDA of NIS 111 million (29.6% EBITDA margin) for the year ago period.

Total yes subscribers increased 2.0% year-over-year to 567,000 subscribers as of September 30, 2009, up 11,000 subscribers from the year ago period and up 5,000 subscribers sequentially. yes is currently targeting early 2010 for the launch of its new video-on-demand (VOD) service, providing another value-added growth driver for the business.

Other Developments

On October 25th, 2009, the Company was notified that its controlling shareholder, Ap.Sb.Ar. Holdings Ltd., entered into an agreement with 012 Smile Communications Ltd., for the sale of all of its ordinary shares of the Company, which comprised approximately 30.6% of the issued and paid up share capital of the Company on that date. The completion of the transaction is subject to certain conditions mainly relating to the receipt of regulatory approvals, no later than April 25th, 2010.

Outlook

Based upon the Bezeq Group's financial performance for the first nine months of 2009, which was materially stronger than the corresponding nine-month period in 2008, the Bezeq Group reiterates its outlook for 2009 and continues to anticipate achieving full-year revenue, net profit, EBITDA and operating cash flows above those for the full-year 2008 results.

The Bezeq Group is maintaining its outlook for full-year 2009 gross capital expenditures, which are still expected to be close to the 2008 level.

The aforementioned guidance for the full-year 2009 is based on the anticipated Bezeq Group consolidated performance, which following the deconsolidation of yes financials as of August 21st, 2009, excludes the financial contribution of yes from both the 2009 and 2008 full-year periods.



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Conference Call & Web Cast Information

Bezeq will conduct a conference call hosted by Mr. Shlomo Rodav, Bezeq Chairman and Mr. Alan Gelman, Bezeq Chief Financial Officer and Deputy CEO, on Thursday, November 5, 2009, at 4:00 PM Israel Time / 9:00 AM Eastern Time. Participants are invited to join the live conference call by dialing:

International Phone Number: + 972-3-918-0609
Israel Phone Number: 03-918-0609

A live webcast of the conference call will be available on the investor relations section of the Bezeq corporate website at www.bezeq.co.il. Please visit the website at least 15 minutes early to register for the webcast and download any necessary audio software.

A webcast replay will be made available on the investor relations section of the Bezeq corporate website. An automated telephone replay will also be available approximately three hours after the completion of the live call through Wednesday, November 11, 2009. Participants are invited to listen to the conference call replay by dialing:

International Phone Number: + 972-3-925-5900
Israel Phone Number: 03-925-5900

About Bezeq The Israel Telecommunication Corp.

Bezeq is Israel's leading telecommunications service provider. Established in 1984, the Company has led Israel into the new era of communications, based on the most advanced technologies and services. Bezeq and its subsidiaries offer the full range of communications services including domestic, international and cellular phone services; Internet, ADSL, and other data communications; satellite-based multi-channel TV; and corporate networks.

For more information about Bezeq please visit the corporate website at www.bezeq.co.il.

This press release contains general data and information as well as forward looking statements about Bezeq. Such statements include expressions of management's expectations about new and existing programs, opportunities, technology and market conditions. Although Bezeq believes its expectations are based on reasonable assumptions, these statements are subject to numerous risks and uncertainties. These statements should not be regarded as a representation that anticipated events will occur or that expected objectives will be achieved. These forward-looking statements are made only as of the date hereof and the Company assumes no obligation to update any forward-looking statement. In addition, the realization and/or otherwise of the forward-looking information will be affected by factors that cannot be assessed in advance, and which are not within the control of the Corporation, including the risk factors that are characteristic of its operations, and developments in the general environment, and external factors and the regulation that affects the Corporation's operations.

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Press Release

"Bezeq" The Israel Telecommunication Corp., Limited Condensed Consolidated Income Statements

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	*2008	2009	*2008	*2008
	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Audited) NIS millions
Continuing operations					
Revenue	8,587	8,314	2,924	2,806	11,015
Costs and expenses					
Depreciation and amortization	1,109	1,094	361	365	1,458
Salary	1,464	1,632	475	528	2,161
Operating and general expenses	3,576	3,439	1,251	1,145	4,660
Other operating expenses (income), net	(54)	** (39)	(38)	** (7)	96
	6,095	6,126	2,049	2,031	8,375
Operating profit	2,492	2,188	875	775	2,640
Financing expenses (income)					
Financing expenses	331	**428	168	**154	494
Financing income	(344)	(303)	(152)	(97)	(354)
Financing expenses (income), net	(13)	125	16	57	140
Profit after financing expenses (income)	2,505	2,063	859	718	2,500
Share in the profit (loss) of equity-accounted investees	(8)	4	(12)	2	5
Profit before income tax	2,497	2,067	847	720	2,505
Income tax	702	591	259	207	719
Profit for the period from continuing operations	1,795	1,476	588	513	1,786
Discontinued operations					
Profit (loss) for the period from discontinued operations	1,379	(247)	1,475	(82)	(265)
Profit for the period	3,174	1,229	2,063	431	1,521

* Restatement due to discontinued operations

** Reclassified



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited Condensed Consolidated Income Statements (Continued)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	*2008	2009	*2008	*2008
	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Audited) NIS millions
Attributable to:					
Shareholders of the Company					
Profit for the period from continuing operations	1,791	1,472	586	509	1,781
Profit (loss) for the period from discontinued operations	1,446	(143)	1,502	(47)	(154)
	3,237	1,329	2,088	462	1,627
Non-controlling interests					
Profit for the period from continuing operations	4	4	2	4	5
Loss for the period from discontinued operations	(67)	(104)	(27)	(35)	(111)
	(63)	(100)	(25)	(31)	(106)
Profit for the period	3,174	1,229	2,063	431	1,521
Basic earnings per share (in NIS)					
Profit from continuing operations	0.68	0.57	0.22	0.20	0.68
Profit (loss) from discontinued operations	0.55	(0.06)	0.57	(0.02)	(0.06)
	1.23	0.51	0.79	0.18	0.62
Diluted earnings per share (in NIS)					
Profit from continuing operations	0.67	0.55	0.22	0.18	0.68
Profit (loss) from discontinued operations	0.54	(0.05)	0.57	(0.01)	(0.07)
	1.21	0.50	0.79	0.17	0.61

* Restatement due to discontinued operations



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited Condensed Consolidated Balance Sheets

	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	1,278	1,198	786
Investments (including derivatives and cash funds)	181	61	33
Trade receivables	2,473	2,385	2,373
Other receivables	187	218	211
Inventory	196	159	158
Assets classified as held for sale	34	19	34
Total current assets	4,349	4,040	3,595
Investments, including derivatives	161	210	187
Trade receivables	809	584	576
Broadcasting rights, net of rights exercised	-	264	253
Property, plant and equipment	5,323	5,962	6,036
Intangible assets	1,874	2,665	2,674
Deferred and other expenses	419	390	411
Investments in equity-accounted investees	1,215	31	32
Deferred tax assets	385	*595	*550
Total non-current assets	10,186	10,701	10,719
Total assets	14,535	14,741	14,314

* Retrospective application by restatement



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited Condensed Consolidated Balance Sheets (continued)

	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Liabilities			
Debentures, loans and borrowings	879	1,014	1,780
Trade payables	989	1,243	1,381
Other payables, including derivatives	714	754	850
Current tax liabilities	251	119	45
Deferred income	42	34	62
Provisions	365	345	355
Employee benefits	273	*434	*412
Dividend payable	1,149	835	-
Total current liabilities	4,662	4,778	4,885
Debentures	2,715	3,966	3,943
Bank loans	572	1,084	214
Loans from institutions	-	154	**158
Loans provided by non-controlling interests in a subsidiary	-	436	449
Employee benefits	271	253	265
Deferred income and others	5	14	**27
Provisions	70	57	64
Deferred tax liabilities	52	73	65
Total non-current liabilities	3,685	6,037	5,185
Total liabilities	8,347	10,815	10,070
Shareholders' equity			
Share capital	6,181	6,132	6,132
Share premium	247	-	-
Reserves	604	721	748
Deficit	(869)	*(2,461)	*(2,165)
Total equity attributable to shareholders of the Company	6,163	4,392	4,715
Non-controlling interests	25	(466)	(471)
Total shareholders' equity	6,188	3,926	4,244
Total shareholders' equity and liabilities	14,535	14,741	14,314

* Retrospective application by restatement

** Reclassified



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited Condensed Consolidated Statements of Cash Flows

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Profit for the period	3,174	1,229	2,063	431	1,521
Adjustments:					
Depreciation	1,033	1,061	331	354	1,394
Amortization of intangible assets	202	183	60	59	289
Amortization of deferred and other expenses	20	30	7	10	20
Profit from stating investment in an investee at fair value	(1,538)	-	(1,538)	-	-
Share in losses (gains) of equity-accounted investees	8	(4)	12	(2)	(5)
Financing costs, net	367	538	195	217	562
Capital gain, net	(54)	(21)	(30)	(2)	(68)
Share-based payment transactions	35	53	7	18	75
Income tax expenses	702	591	259	207	719
Proceeds (payment) for disposal of derivative financial instruments, net	14	(48)	(2)	(34)	(38)
Change in inventory	(47)	43	(8)	28	42
Change in trade receivables	(489)	(31)	(246)	101	(10)
Change in other receivables	14	(14)	31	-	(44)
Change in other payables	117	(15)	15	(19)	15
Change in trade payables	111	(280)	39	(3)	(225)
Change in provisions	22	(48)	11	(2)	(34)
Change in broadcasting rights net of rights exercised	(49)	(21)	15	14	(11)
Change in employee benefits, deferred income and other	(167)	(289)	(64)	(25)	(252)
Income tax paid	(346)	(368)	(60)	(140)	(535)
Net cash flows from operating activities	3,129	*2,589	1,097	*1,212	3,415

* Reclassified



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"Bezeq" The Israel Telecommunication Corp., Limited Condensed Consolidated Statements of Cash Flows (continued)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flow for investment activities					
Investment in intangible assets and deferred expenses	(247)	(385)	(91)	(250)	(469)
Proceeds from sale of property, plant and equipment and deferred expenses	102	101	40	14	147
Change in current investments, net	(134)	314	(40)	-	321
Purchase of property, plant and equipment	(1,125)	(962)	(369)	(345)	(1,300)
Proceeds from realization of investments and long-term loans	43	13	2	2	19
Purchase of investments and long-term loans	(4)	(6)	(1)	(2)	(8)
Investment in an affiliate	-	(1)	-	-	-
Dividend received	5	*12	-	*10	13
Interest received	26	*46	13	*12	64
Net cash used for investment activities	(1,334)	(868)	(446)	(559)	(1,213)

* Reclassified



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited Condensed Consolidated Statements of Cash Flows (continued)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Audited) NIS millions
Cash flow for financing activities					
Receipt of loans	400	-	-	-	-
Repayment of debentures	(672)	(697)	(63)	(70)	(714)
Repayment of loans	(86)	(112)	(24)	(31)	(148)
Short-term borrowing, net	48	(5)	7	(73)	(50)
Dividend paid	(792)	(679)	-	-	(1,514)
Interest paid	(338)	(266)	(80)	(31)	(243)
Payment for disposal of derivative financial instruments, net	11	36	2	7	52
Transfers by non-controlling interests less dividend distributed, net	8	7	20	3	8
Proceeds from exercise of employee options	117	-	-	-	-
Net cash used for financing activities	(1,304)	(1,716)	(138)	(195)	(2,609)
Net increase (decrease) in cash and cash equivalents	491	5	513	458	(407)
Cash and cash equivalents at the beginning of the period	786	1,203	765	740	1,203
Effect of fluctuations in the rate of exchange on cash balances	1	(10)	-	-	(10)
Cash and cash equivalents at the end of the period	1,278	1,198	1,278	1,198	786

* Reclassified