

**BEZEQ'S FINANCIAL STATEMENTS SHOW IMPRESSIVE GROWTH
IN EARNINGS AND FREE CASH FLOW:
RECORD EARNINGS IN Q1: APPROX. NIS 400 MILLION**

Tel Aviv, Israel – 29th May, 2007 – Bezeq The Israel Telecommunication Corp., Limited (TASE: BEZQ), Israel's largest telecommunications provider, announced today its financial results for the first quarter 2007.

Key highlights:

- **Earnings attributed to the shareholders of Bezeq** (according to IFRS) increased in the first quarter of 2007 by approximately 27% compared with the same period last year, and amounted to approximately NIS 400 million.
- **Free cash flow** of the Group amounted to approximately NIS 645 million in the first quarter of the year, an increase of about 20% over the same period last year.
- **EBITDA** of the Bezeq Group reached approximately NIS 1.1 billion (35.6% of turnover), an increase of about 12.5% compared with the first quarter of 2006 (32.4% of turnover).
- Group **revenue** amounted to approximately NIS 3.1 billion in the first quarter of 2007, an increase of about 2.5% compared with the first quarter of 2006.

- **Bezeq Wireline:** Growth in activity in high-speed internet balances the erosion in revenue from telephony.
- **Pelephone** achieved an increase of 22% in net earnings, to NIS 154 million, and growth of about 5.4% in revenue, to approximately NIS 1,147 million
- **yes** posted growth of 37% in EBITDA, to approximately NIS 92 million, and a significant decrease of about 43% in net loss, to approximately NIS 48 million.
- **Bezeq International** posted record revenue of NIS 323 million and net earnings of NIS 37 million.

Chairman of Bezeq: The results show an improvement across the board; but Bezeq can do far better for consumers

Dov Weissglas, Chairman of the Board of Bezeq, upon publication of the financial statements, said that the Company can be proud of the impressive financial results, despite the complex and difficult period it has experienced in recent months. "Bezeq's strength is an unquestioned fact. Bezeq is the leading communications group in Israel – and its loyal customer public votes for it every day. I want to thank the employees and managers for the excellent results, but we must not rest for a single moment – we must continue and persevere in our efforts for the good of our customers."

Weissglas went on to say: "The results show improvement almost across the board. Both Bezeq Wireline and all the subsidiaries have made fine achievements. Pelephone with impressive growth in net earnings, yes with growth in EBITDA and a significant cut in its net loss, and Bezeq International with new record highs in revenue and profitability.

"However, we cannot forget that regulatory restrictions make it very difficult for Bezeq to compete. As a result, the Group will find it difficult to make the investments needed to retain its leadership in Israel and at the forefront of global communications technology," said Weissglas.

Acting CEO of Bezeq: Our high-speed internet strategy is proving itself

Acting CEO of Bezeq, Ika Abravanel, upon publication of the financial statements: "The growth in high-speed internet and the strategy of launching new internet products, together with the focus on the customer and his needs – are proving themselves. The internet is compensating for the erosion in telephony, and in fact, revenue in the first quarter of this year is on a par with the first quarter of last year.

"Exactly as planned from the outset and according to the work plan, we will continue the process of change in the Company which is so essential to its future. The Private Customers and Business Customers departments have made their initial preparations and have set out along their new road. Customers can already feel the change, which is undoubtedly for the better. Only an efficient and well-organized company can support the complex strategy that we are leading – one that is changing from an infrastructure company to a products and services company. The customers are our top priority, especially now," said Abravanel.

Highlights from the consolidated results

Bezeq Group (consolidated)	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>Change</u>
	(NIS millions)		
Revenue	3,089	3,012	2.5%
Costs and expenses	2,432	2,496	-2.6%
Operating income	657	516	27.2%
EBITDA	1,098	976	12.5%
EBITDA margin	35.6%	32.4%	
Earnings attributed to the shareholders of the Company	399	314	26.9%
Cash flow from operating activities	853	856	-0.3%
Purchase of property, plant and equipment and intangible assets (capex)	208	318	-34.6%
Free cash flow	645	538	19.9%
Net financial debt to shareholders' equity	1.16	0.61	

Revenue: The revenue of the Bezeq Group in the first quarter of 2007 amounted to NIS 3,089 million, compared with NIS 3,012 million in the first quarter of 2006, an increase of about 2.5%.

Costs and expenses: The costs and expenses of the Bezeq group in the first quarter of the year were NIS 2,432 million, a decrease of 2.6% compared with the first quarter of 2006.

Operating income: The operating income of the Bezeq Group in the first quarter of 2007 amounted to NIS 657 million, compared with NIS 516 million in the first quarter of 2006, an increase of 27.2%.

EBITDA: The EBITDA of the Group in the first quarter of 2007 was NIS 1,098 million (about 35.6% of revenue), compared with NIS 976 million and 32.4% of revenue in the first quarter of 2006, an increase of 12.5%.

Net earnings attributed to the shareholders (as per IFRS): The net earnings attributed to the shareholders increased in the first quarter of the year by about 27%, to approximately NIS 399 million, compared with net earnings of NIS 314 million in the first quarter of 2006.

Purchase of property, plant and equipment and intangible assets (capex): In the first quarter of 2007, Bezeq recorded a decrease of 34.6% in investments in the purchase of property, plant and equipment and intangible assets, to approximately NIS 208 million, compared with NIS 318 million in the first quarter of 2006.

Free cash flow: The free cash flow of the Group for the first quarter of the year amounted to NIS 645 million, compared with NIS 538 million last year, an increase of 20%.

Net financial debt to shareholders' equity: This ratio in the first quarter of 2007 was 1.16, compared with a ratio of 0.61 in the first quarter of 2006.

Highlights from the results of Bezeq Wireline

Bezeq in the field of domestic communications in the first quarter of 2007 posted positive results, most notably the growth in high-speed internet. Despite a foreseen decline in revenue from telephony, Bezeq's revenue decreased by only 0.8%, due mainly to ongoing growth in the number of customers and the number of ADSL subscribers.

Operating income of NIS 369 million in the quarter reflects an impressive growth of 20% compared with the same quarter in 2006. And as a result of lower depreciation expenses, EBITDA increased by about 7% and amounted to approximately NIS 607 million, which is 42.1% of turnover. In the first quarter of 2006, EBITDA was 38.9% of turnover.

Bezeq Wireline (the Company)	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>Change</u>
	(NIS millions)		
Revenue	1,442	1,455	-0.8%
Costs and expenses	1,073	1,147	-6.4%
Operating income	369	308	20.0%
EBITDA	607	565	7.3%
EBITDA margin	42.1%	38.9%	

Highlights from the results of Pelephone

Pelephone continued to grow in the first quarter of 2007, and posted a 22% increase in its **net earnings**, which amounted to NIS 154 million, as well as an increase of 5.4% in its **revenue**, to NIS 1,147 million. The positive trend stems mainly from marketing activities, which led to an increase of 7.5% in the **number of subscribers** (2.48 million at the end of March 2007) compared with the first quarter of 2006. And the Company's strategy of promoting content and 3G services enabled Pelephone to consolidate its status in the first quarter as a leader in 3G, with 420,000 **3G subscribers** as of today, comprising 17% of all its customers.

Pelephone	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>Change</u>
	(NIS millions)		
Revenue	1,147	1,088	5.4%
Operating income	213	175	21.9%
EBITDA	330	295	11.9%
EBITDA margin	28.7%	27.1%	
Net earnings	154	126	22.0%
Free cash flow	268	145	84.9%
No. of subscribers on 31.3.07 (in millions)	2.478	2.306	7.5%
Average monthly revenue per customer (ARPU) (in NIS)	132	136	-2.9%
Average monthly no. of minutes per customer (MOU)	344	323	6.5%

Highlights from the results of yes

yes shows in its financial statements for the first quarter of 2007 that it is maintaining the improving trend it also showed in the previous quarter. It posted a positive **EBITDA** of NIS 92 million, an increase of about 37% over the corresponding period last year, as well as a **net loss** of NIS 48 million, a decrease of 42.9% compared with the same period last year. **Operating income** also increased, to NIS 24 million in the quarter, compared with an operating loss of NIS 6 million in the same quarter in 2006.

The number of customers of yes at the end of March 2007 was approximately 542,000.

yes	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>Change</u>
	(in NIS millions)		
Revenue	354	332	6.5%
Operating income (loss)	24	6	
EBITDA	92	67	37.3%
EBITDA margin	26.0%	20.2%	
Net loss	48	84	-42.9%
No. of subscribers on 31.3.07 (in thousands)	542	528	2.7%

Highlights from the results of Bezeq International

Bezeq International has once again broken all records for revenue and profitability. In its financial statements for the first quarter of the year, the company posted higher revenue than its competitors in internet and international calls. Bezeq International's merger and acquisition activities are reflected in all parameters: **revenue** amounted to NIS 323 million, an increase of 34% compared with the first quarter of 2006, and an increase of 5% if the results of the merged companies were included commencing January 2006. In addition, Bezeq International's **operating income** increased to NIS 51 million, an increase of 54% (44% if the results of the merged companies were included) compared with the first quarter of 2006.

Bezeq International	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>Change</u>
	(NIS millions)		
Revenue	323	309	5%
Operating income	51	35	44%
EBITDA	73	58	26%
EBITDA margin	22.7%	18.9%	
Net earnings	37	19	95%

Note: Q1 2006 data reflects a situation as if the BezeqCall merger took place on 1.1.06 (proforma data)



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About Bezeq The Israel Telecommunication Corp.

Bezeq is Israel's largest 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 telecommunication services including domestic, international and cellular phone services; Internet, ADSL, and other data communications; leased lines, and corporate networks.

For more information about Bezeq please visit the corporate Web site 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.

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Press Release

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Balance Sheets

	<u>March 31, 2007</u> <u>(Unaudited)</u> <u>NIS thousands</u>	<u>March 31, 2006</u> <u>(Unaudited)</u> <u>NIS thousands</u>	<u>December 31, 2006</u> <u>(Audited)</u> <u>NIS thousands</u>
Assets			
Cash and cash equivalents	1,032,988	2,290,704	2,631,790
Trade receivables	2,106,158	2,074,193	2,111,451
Other receivables	295,568	174,513	250,657
Inventory	252,356	219,225	204,669
Broadcasting rights	200,486	173,601	169,017
Investments and loans, including derivatives	850,686	2,461,631	960,561
Current tax assets	11,944	13,254	11,105
Total current assets	4,750,186	7,407,121	6,339,250
Trade and other receivables	442,939	373,016	417,144
Investments and loans, including derivatives	325,687	497,964	342,175
Property, plant and equipment	6,334,974	7,046,082	6,492,362
Intangible assets	2,563,374	2,595,231	2,554,242
Deferred and other expenses	366,260	386,177	373,749
Investments in associates accounted by the equity method	32,089	22,418	32,122
Deferred tax assets	870,712	1,019,882	993,616
Total non-current assets	10,936,035	11,940,770	11,205,410
Total assets	15,686,221	19,347,891	17,544,660



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"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Balance Sheets (cont'd)

	<u>March 31, 2007</u>	<u>March 31, 2006</u>	<u>December 31, 2006</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Liabilities			
Loans and borrowing	3,706,678	3,065,140	3,637,347
Trade payables	1,467,210	1,311,106	1,393,568
Other payables, including derivatives	883,095	920,664	802,747
Current tax liabilities	68,096	15,467	121,704
Deferred income	35,705	34,960	57,879
Provisions	302,487	280,539	288,851
Employee benefits	833,945	715,606	906,203
Proposed dividend	-	1,200,000	300,000
Total current liabilities	7,297,216	7,543,482	7,508,299
Debentures	2,939,578	4,899,855	3,169,441
Obligations to banks	434,904	650,857	480,830
Loans from others	171,675	110,609	169,182
Loans provided by the minority in a subsidiary	577,933	521,320	564,250
Employee benefits	359,888	375,447	373,036
Deferred income and others	74,870	24,328	37,020
Provisions	53,570	53,020	51,857
Total non-current liabilities	4,612,418	6,635,436	4,845,616
Total liabilities	11,909,634	14,178,918	12,353,915
Shareholders' Equity			
Share capital	6,132,636	6,309,133	6,309,133
Share premium	-	1,623,423	1,623,423
Reserves	672,515	405,606	671,820
Deficit	(2,450,631)	(2,647,869)	(2,849,381)
Total equity attributable to shareholders of the Company	4,354,520	5,690,293	5,754,995
Minority equity in capital deficit of a consolidated company	(577,933)	(521,320)	(564,250)
Total shareholders' equity	3,776,587	5,168,973	5,190,745
Total shareholders' equity and liabilities	15,686,221	19,347,891	17,544,660

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Income Statements

	For the three month period ended March 31		For the year ended December 31
	2007	2006	2006
	(Unaudited) NIS thousands	(Unaudited) NIS thousands	(Audited) NIS thousands
Revenue	3,088,679	3,012,099	12,231,830
Costs and expenses			
Depreciation and amortisation	441,199	460,080	1,864,035
Salary	575,397	567,214	2,586,437
Operating and general expenses	1,422,770	1,456,434	5,966,616
Other operating expenses (income), net	(7,676)	12,010	249,540
	2,431,690	2,495,738	10,666,628
Operating income	656,989	516,361	1,565,202
Financing costs			
Financing expenses	162,387	246,086	694,393
Financing income	(104,519)	(164,104)	(356,425)
Net financing expenses	57,868	81,982	337,968
Profit after financing expenses	599,121	434,379	1,227,234
Equity in profits of investees accounted by the equity method	473	1,591	11,184
Profits before income tax	599,594	435,970	1,238,418
Income tax	214,527	137,908	488,393
Profit for the period	385,067	298,062	750,025
Attributable to:			
The shareholders' of the Company	398,750	314,102	808,99
Minority in a consolidated company	(13,683)	(16,040)	(58,97)
Profit for the period	385,067	298,062	750,02
Earnings per share			
Basic and diluted earnings per share (in NIS)	0.15	0.12	0.31

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Statements of Cash Flows

	For the three month period ended		For the year ended
	March 31		December 31
	2007	2006	2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Net earnings for the period	385,067	298,062	750,025
Adjustments:			
Depreciation	376,109	413,912	1,591,054
Amortisation of intangible assets	59,762	40,145	247,557
Amortisation of deferred and other charges	5,328	6,023	25,424
Loss (Gain) from decrease in holdings in associates	318	(523)	(595)
Net financing costs	11,857	61,191	440,429
Equity in earnings of associates accounted by the equity method	(473)	(1,591)	(11,184)
Net capital gain principally due to disposal of property	(16,843)	(10,565)	(159,017)
Share-based payment transactions	-	-	286,506
Income tax expenses	214,527	137,908	488,393
Change in inventory	(47,663)	10,215	23,014
Change in trade receivables	(12,959)	38,249	109,100
Change in other receivables	(52,256)	(32,579)	(107,854)
Change in trade payables	55,475	50,633	(56,778)
Change in suppliers	32,653	(159,510)	(79,046)
Change in provisions	15,349	21,389	27,327
Change in broadcasting rights	(31,469)	(19,101)	(14,517)
Change in employee benefits	(84,906)	(23,023)	168,758
Change in deferred and other income	37,850	(1,183)	11,509
	947,726	829,652	3,740,105
Interest received	43,068	94,129	220,078
Dividend received	-	-	26,010
Income tax paid	(137,888)	(68,058)	(277,573)
Net cash from operating activities	852,906	855,723	3,708,620
Cash flows from investing activities			
Investment in intangible assets	(49,499)	(23,840)	(209,733)
Proceeds from sale of property, plant and equipment	19,311	13,383	47,804
Proceeds from realisation of deferred expenses	4,213	272	-
Current investments, net	115,816	(47,426)	1,491,439
Purchase of property, plant and equipment	(177,493)	(307,170)	(953,226)
Investment in deferred expenses and others	(825)	(2,041)	-
Proceeds from sale of investments and long-term loans	7,870	4,264	62,729
Purchase of investments and long-term loans	-	(9,507)	(19,723)*
Purchase of a subsidiary	(12,468)	-	-
Net cash from (used for) investment activity	(93,075)	(372,065)	419,290

* Reclassified



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"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Statements of Cash Flows (cont'd)

	For the three month period ended March 31		For the year ended December 31
	2007	2006	2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Receipt of loans	-	-	50,000
Repayment of debentures	(81,633)	(148,968)	(280,350)
Repayment of loans	(69,017)	(161,081)	(1,268,656)
Short-term credit, net	(32,023)	46,316	43,146
Dividends paid	(2,099,920)	-	(1,600,000)
Interest paid	(75,373)	(89,335)	(601,752)
Net cash used for financing activities	(2,357,966)	(353,068)	(3,657,612)
Net increase (decrease) in cash and cash equivalents	(1,598,135)	130,590	470,298
Cash and cash equivalents at January 1	2,631,790	2,158,773	2,158,773
Effect of fluctuations in the rate of exchange on cash balances	(667)	1,341	2,719
Cash and cash equivalents at the end of the period	1,032,988	2,290,704	2,631,790