



Earnings Release

BEZEQ GROUP REPORTS FOURTH QUARTER AND FULL YEAR 2007 FINANCIAL RESULTS

Full year 2007 net profit attributable to shareholders increases 64.4% to a record NIS 1.33 billion

Full year 2007 EBITDA increases 19.7% to a record NIS 4.11 billion

Board of Directors recommends distribution of a cash dividend to shareholders of NIS 679 million

Tel Aviv, Israel – 11th March, 2008 – Bezeq The Israel Telecommunication Corp., Limited (TASE: BEZQ), Israel's leading telecommunications provider, announced today its financial results for the fourth quarter and full year 2007, the period ended December 31, 2007. Details regarding today's investor conference call and web cast are included later in this press release.

Bezeq Group Financial Highlights:

- Revenues set all time record highs of NIS 3.12 billion and NIS 12.40 billion for the fourth quarter and full year 2007, respectively.
- Net profit attributable to shareholders increased to a record NIS 1.33 billion for the full year 2007, an increase of 64.4% year-over-year.
- Basic earnings per share for the full year 2007 amounted to NIS 0.51 per basic share and NIS 0.50 per diluted share compared to basic and diluted earnings per share of NIS 0.31 for the full year 2006, an increase of 60.8% year-over-year.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to a record NIS 4.11 billion for the full year 2007, an increase of 19.7% year-over-year.
- EBITDA margin increased to 33.1% for the full year 2007 versus 28.0% in prior year period.
- Free cash flow from operating activities amounted to NIS 2.00 billion for the full year 2007, a decline of 25.2% year-over-year.
- Regular and special dividends paid to shareholders in 2007 totaled NIS 2.86 billion reflecting an effective full year yield of approximately 13.9%, based on a volume weighted average share price.

The Company's Board of Directors has recommended the distribution of a cash dividend to shareholders of NIS 679 million, or approximately NIS 0.26 per share.

Divisional Highlights:

- **Bezeq Fixed-Line:** Continued growth in revenues from high-speed Internet, data communications, and value added services more than offset the decrease in fixed-line telephony revenues as fourth quarter revenues increased 2.0% sequentially and 1.0% year-over-year. Full year revenues totaled NIS 5.71 billion. ADSL subscribers lines grew 8% in 2007 to reach 963,000 as of year end and full year ADSL ARPU increased 1.8% to NIS 58.0 driven by sales of broadband home networks, bandwidth upgrades and value added services.



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- **Pelephone:** Net profit increased 20.4% for the year on a 4.6% rise in revenue, driven by the strength of Pelephone's 3G subscriber growth (749,000 total 3G subscribers as of year end) which helped push total cellular subscribers up to 2.62 million, an increase of 8.0% year-over-year.
- **Bezeq International:** Continued growth of broadband subscribers and enterprise integration solutions fueled all time high quarterly and full year revenue as well as yearly net profit of NIS 153 million, an increase of 59.4% over 2006.
- **Yes:** Multi-channel pay-TV subscribers reached 549,000, and average revenue per user (ARPU) increased 2.4% year-over-year, driving a 4.6% improvement in full year revenues and a 63.8% reduction in full year net loss.

Shlomo Rodav, Chairman of the Board of Bezeq, stated, "Fiscal 2007 was a year of significant financial and operational achievements which came together to further strengthen Bezeq's position as the leading provider of comprehensive communications services to residential and business customers in Israel. With record group wide revenue and net profit attributable to shareholders in 2007, it is evident that the transformational changes we implemented during the year are yielding clear results. Our success in stabilizing revenue within our fixed-line business segment during the fourth quarter of 2007 was driven by higher revenues from the sale of broadband home networks and value added services, allowing us to report sequential and year-over-year quarterly growth within this core segment. When we combine this with the healthy growth of our Pelephone mobile services and our Bezeq International business we see a diverse range of growth engines across the Bezeq Group. From the new senior management team, to commencing the implementation phase of our December 2006 labor agreement, to our recent re-branding of our fixed-line business, Bezeq is affecting positive change to the benefit of our customers, shareholders and employees.

"While the current restrictive regulatory environment continues to prevent the bundling of our individual business segment services to the ultimate benefit of Israeli consumers and businesses, we continue to offer our customers the most comprehensive communications solutions through our various operating businesses and subsidiaries covering voice telephony, broadband, mobile, multi-channel pay-TV as well as ISP and enterprise business offerings. As we await the Minister of Communications' decision with regards to the adoption of the Gronau Committee's recommendations concerning policy and principles of competition in 2008, we continue to focus on our cost and network optimization efforts to reinforce Bezeq's long-term competitiveness," concluded Mr. Rodav.

Alan Gelman, Chief Financial Officer and Deputy CEO of Bezeq, commented, "As we look ahead to 2008 we remain dedicated to maximizing group wide synergies and targeted cost efficiency measures at the operating units as we continue to evolve the Company from one that mainly focused on infrastructure to one focused on customized, next generation communications products and services. In addition, we distributed a record NIS 2.86 billion in dividends to our shareholders in fiscal 2007, including a NIS 1.8 billion special dividend. We will look to continue to build upon the strong cash flow generation of our business in order to continue returning value to our shareholders.

"During 2008, based on current business conditions, we estimate the Bezeq Group full year revenues to remain stable, reflecting the combination of continued erosion in domestic telephony with a combined single digit growth rate across the rest of the business segments. In addition, we expect to continue focusing on reducing costs and expanding our margins. Regarding the Group's gross capital expenditures in 2008, we foresee an increase of approximately 50% mainly due to the deployment of Pelephone's next generation HSPA network infrastructure," concluded Mr. Gelman.



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Bezeq Group Consolidated Results

Bezeq Group (Consolidated)	Q4 2007*	Q4 2006*	Change	2007*	2006*	Change
	(NIS millions)			(NIS millions)		
Revenues	3,119	3,117	0.1%	12,400	12,232	1.4%
Operating profit	512	(27)	<i>n.m.</i>	2,336	1,565	49.3%
EBITDA	959	436	120.0%	4,105	3,429	19.7%
EBITDA margin	30.7%	14.0%		33.1%	28.0%	
Net profit attributable to shareholders of the company	315	(107)	<i>n.m.</i>	1,330	809	64.4%
Diluted EPS (NIS)	0.12	(0.04)	<i>n.m.</i>	0.50	0.31	60.8%
Cash flow from operating activities	623	1,097	-43.2%	3,066	3,785	-19.0%
Capital expenditures, net	389	308	26.3%	1,069	1,115	-4.1%
Free cash flow	234	789	-70.3%	1,997	2,670	-25.2%
Net debt/EBITDA (end of period)				1.21	1.03	
Net debt/shareholders' equity (end of period)				1.09	0.61	

* In Q4-06 a provision for early retirement in the amount of NIS 309 million was made in relation to the December 2006 labor agreement; stock-based compensation totaled NIS 286 million in Q4-06. In Q4-07 an additional provision in the amount of NIS 91 million was recorded in relation to the same labor agreement.

Bezeq Group's revenues for the fourth quarter of 2007 were NIS 3.12 billion, in line with the NIS 3.12 billion reported for the fourth quarter of 2006. Revenue for the full year 2007 increased 1.4% year-over-year to NIS 12.40 billion. Higher revenues in the full year period were driven by increased sales of high speed Internet service as well as higher sales in Pelephone, Bezeq International and yes which more than offset the decline in revenue within the Company's fixed-line telephony offering.

The Group's earnings before interest, taxes, depreciation and amortization (EBITDA) for the fourth quarter 2007 was approximately NIS 959 million (30.7% EBITDA margin), an increase of 120.0% compared with the fourth quarter of 2006 (14.0% EBITDA margin). EBITDA for the full year 2007 increased 19.7% to NIS 4.11 billion (33.1% EBITDA margin) compared with the full year 2006 (28.0% EBITDA margin). In the fourth quarter of 2006, a provision for early retirement of Bezeq Fixed-Line permanent employees in the amount of NIS 309 million was made in relation to the December 2006 labor agreement; stock-based compensation totaled NIS 286 million. In the fourth quarter of 2007, an additional provision of NIS 91 million was recorded in relation to the same December 2006 agreement.

Net profit attributed to Bezeq shareholders amounted to NIS 315 million in the fourth quarter of 2007 compared to a net loss of NIS 107 million in the fourth quarter of 2006, which were a result of the aforementioned charges. Net profit for the full year 2007 increased 64.4% year-over-year to NIS 1.33 billion.

Net capital expenditures amounted to NIS 389 million in the fourth quarter of 2007, an increase of 26.3% compared to the fourth quarter of 2006, mainly due to the initial deployment of Pelephone's HSPA network. Net capital expenditures for the full year 2007 decreased 4.1% year-over-year to NIS 1.07 billion.



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The Bezeq Group's free cash flow totaled NIS 234 million in the fourth quarter of 2007, a decrease of 70.3% compared to the fourth quarter of 2006. Free cash flow for the full year 2007 decreased to NIS 2.00 billion from NIS 2.67 billion in the year ago period. The decline in free cash flow was primarily the result of lower cash flow from operations due to payments made in relation to early retirement as per the December 2006 labor agreement and temporary billing delays as a result of the transition into a new billing platform at Bezeq Fixed-Line.

As of December 31, 2007, the Group's net financial debt was NIS 4.95 billion, compared with NIS 3.52 billion as of December 31, 2006. This increase was mainly a result of cash dividends in the amount of NIS 2.86 billion paid during 2007, partially offset by a reduction in the total group debt balance.

The Company's Board of Directors recommended a distribution of a cash dividend to shareholders amounting to NIS 679 million, which constitutes approximately NIS 0.26 per share.

(see next page for divisional results)



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Bezeq Fixed-Line Results

Bezeq Fixed-Line	<u>Q4 2007*</u>	<u>Q4 2006*</u>	<u>Change</u>	<u>2007*</u>	<u>2006*</u>	<u>Change</u>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	1,453	1,439	1.0%	5,713	5,799	-1.5%
Operating profit	340	(197)	-272.6%	1,279	754	69.6%
EBITDA	573	54	961.1%	2,220	1,780	24.7%
EBITDA margin	39.4%	3.8%		38.9%	30.7%	
Capital expenditures, net	118		<i>n.m.</i>	351	539	-34.9%
Number of active subscriber lines at end of period (thousands)	2,761	2,808	-1.7%	2,761	2,808	-1.7%
Average monthly revenue per line (NIS) **	83.3	86.2	-3.4%	84.2	87.0	-3.2%
Number of outgoing usage minutes (millions)	3,738	4,005	-6.7%	15,254	16,786	-9.1%
Number of incoming usage minutes (millions) ***	1,164	990	17.6%	4,426	3,715	19.1%
Number of ADSL subscribers at end of period (thousands)	963	892	8.0%	963	892	8.0%
Average monthly revenue per ADSL subscriber (NIS)	58.1	57.0	1.9%	58.0	57.0	1.8%
<p>* In Q4-06 a provision for early retirement in the amount of NIS 309 million was made in relation to the December 2006 labor agreement; stock-based compensation totaled NIS 286 million in Q4-06. In Q4-07 an additional provision in the amount of NIS 91 million was recorded in relation to the same labor agreement.</p> <p>** Not including revenues from data communications and transmission services, services to communications providers, and contract and other work.</p> <p>*** The increase in incoming minutes compared to the corresponding period in 2006 stems from an increase in traffic minutes from domestic carriers in competition with Bezeq.</p>						

Bezeq Fixed-Line's main objective during 2007 was to compensate for the predictable decline in domestic telephony revenues with growing revenues from broadband Internet and value-added services, solutions for the business segment, as well as reduced costs. The 2007 results reflect a successful implementation on all of these fronts.

Revenue from fixed-line domestic communications increased 1.0% to NIS 1.45 billion in the fourth quarter of 2007 compared to NIS 1.44 billion in the fourth quarter of 2006. For the full year period, revenue from fixed-line domestic communications decreased to NIS 5.71 billion in 2007, a decline of approximately 1.5%. However, when adjusted for revenues from cellular airtime collected by Bezeq and paid to the cellular companies, Bezeq Fixed-Line's revenues reached NIS 4.67 billion and were flat as compared with 2006. This achievement was a result of ongoing growth in the number of customers who subscribe to Bezeq's high-speed Internet service (ADSL) as well as an increase in revenue derived from data communication services. Total ADSL subscribers reached 963,000 as of December 31, 2007, an increase of 8.0% year-over-year and 1.8% sequentially.

Bezeq's Fixed-Line segment posted positive EBITDA of NIS 573 million (39.4% EBITDA margin) in fourth quarter of 2007, compared to NIS 54 million (3.8% EBITDA margin) reported for the fourth quarter of 2006. In the fourth quarter of 2006, a provision for early retirement in the amount of NIS 309 million was made in relation to the December 2006 labor agreement; stock-



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based compensation totaled NIS 286 million in the fourth quarter of 2006. In the fourth quarter of 2007, an additional provision of NIS 91 million was recorded in relation to the same December 2006 agreement. Bezeq's Fixed-Line segment posted positive EBITDA of NIS 2.22 billion (38.9% EBITDA margin) for the full year 2007 as compared to positive EBITDA of NIS 1.78 billion (30.7% EBITDA margin) for the full year 2006, an increase of 24.7% year-over-year.

In light of the introduction of number portability on December 2007, Bezeq Fixed-Line will further focus on leveraging its superior technology, reliability and customer service to address residential and business customers' needs in an increasingly competitive marketplace. Thus far, the vast majority of our customers continue to prefer Bezeq to the competitors.

Pelephone Results

Pelephone	Q4 2007	Q4 2006	Change	2007	2006	Change
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	1,182	1,148	3.0%	4,684	4,478	4.6%
Operating profit	133	157	-15.3%	805	701	14.8%
EBITDA	258	271	-4.8%	1,283	1,171	9.6%
EBITDA margin	21.8%	23.6%		27.4%	26.2%	
Net profit	104	125	-16.8%	585	486	20.4%
Cash flows from operating activities	252	294	-14.3%	1,249	1,324	-5.7%
Capital expenditures, net	117	102	14.7%	376	346	8.7%
Free cash flow	135	192	-29.7%	873	978	-10.7%
Number of subscribers at end of period (millions)	2.622	2.427	8.0%	2.622	2.427	8.0%
Average revenue per user (ARPU, NIS)	130	136	-4.4%	131	138	-5.1%
Average monthly minutes of use per subscriber (MOU)	358	347	3.2%	354	349	1.4%

Pelephone improved its revenues and profitability during 2007 due to marketing initiatives which led to a significant increase in its subscriber base and in revenues from data, content and value added services; and to increased focus on operational efficiencies.

As of December 31, 2007, Pelephone had a record 2.62 million active subscribers, an increase of approximately 62,000 net subscribers since September 30, 2007. During all of 2007, Pelephone added approximately 195,000 net subscribers. Pelephone is the market leader in 3G subscribers with 749,000 3G subscribers as of December 31, 2007, which represent over 28% of all Pelephone subscribers. As of today, Pelephone has approximately 820,000 3G subscribers. Pelephone revenues from data and value added and content services constituted 12.7% of all revenues from cellular services in 2007, compared to approximately 10.7% in 2006. In the fourth quarter of 2007, this figure reached 13.6%, as compared to 11.6% in the fourth quarter of 2006.

Pelephone's revenues increased 3.0% to NIS 1.18 billion in the fourth quarter of 2007. For the full year 2007 revenues increased 4.6% to a record NIS 4.68 billion. The increase was due to higher revenue from cellular services, following an increase in content revenue and an 8% increase in the annual number of subscribers, and from the sale of terminal equipment, due to an increase in the quantity of handsets sold and upgraded. The aforementioned factors more



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than offset the impact of lower average monthly revenue per user (ARPU) due to a decrease in tariffs.

Pelephone posted positive EBITDA of NIS 258 million (21.8% EBITDA margin) in the fourth quarter of 2007, compared to NIS 271 million (23.6% EBITDA margin) in the fourth quarter of 2006. This decline was mainly due to expenses related to the implementation of mobile number portability on December 2, 2007. For the full year 2007, Pelephone posted positive EBITDA of NIS 1.28 billion (27.4% EBITDA margin), up from NIS 1.17 billion (26.2% EBITDA margin) in the full year 2006 period.

Pelephone's net profit in the fourth quarter of 2007 declined by 16.8% to NIS 104 million compared to the fourth quarter of 2006, again due to mobile number portability-related activities. For the full year 2007 net profit grew by 20.4% to NIS 585 million.

Based on Pelephone's information systems, since the implementation of mobile number portability Pelephone has had approximately 6,000 net subscriber additions. This result reflects Pelephone's preparation, in terms of technological capabilities and marketing initiatives, for such a major event in the cellular market.

Bezeq International Results

Bezeq International	<u>Q4 2007</u>	<u>Q4 2006</u>	<u>Change</u>	<u>2007</u>	<u>2006</u>	<u>Change</u>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	333	265	25.7%	1,304	1,021	27.7%
Operating profit	45	25	80.0%	204	132	54.5%
EBITDA	66	51	28.6%	291	213	36.4%
EBITDA margin	19.7%	19.2%		22.3%	20.9%	
Net profit	38	20	90.0%	153	96	59.4%
Cash flows from operating activities	30	72	-58.4%	95	209	-54.6%
Capital expenditures, net	34	14	142.9%	87	55	58.2%
Free cash flow	(4)	58	-106.9%	8	154	-94.8%

Bezeq International, Israel's largest supplier of Internet services, international calls in Israel and network end-point (NEP) services, posted in the fourth quarter of 2007 segment revenue of NIS 333 million, up 25.7% over the fourth quarter of 2006. Bezeq International revenue for the full year 2007 totaled NIS 1.30 billion, up 27.7% over 2006. The increase in full year revenue was driven by higher sales of Internet broadband services, outgoing calls and the consolidation of Bezeq Call following the closing of its acquisition on February 2007. The combined positive impact of all these factors more than offset a decline in hubbing revenues, which is a global trend. Bezeq International increased its market share in both Internet and international calls segments.

Bezeq International posted positive EBITDA of NIS 66 million (19.7% EBITDA margin) in the fourth quarter of 2007, compared to NIS 51 million (19.2% EBITDA margin) in the fourth quarter of 2006, an increase of 28.6% year-over-year. Bezeq International posted positive EBITDA of NIS 291 million (22.3% EBITDA margin) for the full year 2007, up 36.4% year-over-year from NIS 213 million (20.9% EBITDA margin) in the full year 2006 period.



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Including pro-forma results of companies merged during 2007, revenues, operating profit and EBITDA increased 2%, 72% and 28%, respectively, for the full year 2007. This reflects continued growth in the core business areas of the merged entity, while discontinuing certain non-profitable operations at the acquired companies.

Bezeq International generated net profit of NIS 38 million in the fourth quarter of 2007, rising 90.0% year-over-year. For the full year 2007 net profit grew by 59.4% to NIS 153 million.

yes Results

yes	<u>Q4 2007</u>	<u>Q4 2006</u>	<u>Change</u>	<u>2007</u>	<u>2006</u>	<u>Change</u>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	347	345	1.2%	1,415	1,355	4.6%
Operating profit	5	10	-50.0%	56	1	<i>n.m.</i>
EBITDA	75	82	-8.5%	329	294	11.9%
EBITDA margin	21.5%	23.8%		23.2%	21.7%	
Net profit	(75)	(42)	73.8%	(118)	(320)	-63.8%
Cash flows from operating activities	76	96	-20.8%	250	244	2.5%
Capital expenditures, net*	81	38	113.2%	255	186	37.1%
Free cash flow	(5)	58	-108.6%	(5)	58	-108.6%
Number of subscribers (end of period, in thousands)	549	540	1.7%	549	540	1.7%
Average revenue per user (ARPU, NIS)	212	214	-0.9%	217	212	2.4%

* Including subscriber acquisition costs

Revenue from the yes multi-channel pay-TV segment increased 1.2% to NIS 349 million in the fourth quarter of 2007. yes' segment revenue for the full year 2007 increased 4.6% to a record NIS 1.42 billion. The full year rise in revenue was primarily related to a 1.7% net increase in subscribers as well as a 2.4% increase in the average revenue per user partially offset by a one-off customer discount in the second half of 2007.

Net loss for the yes segment in the fourth quarter of 2007 totaled NIS 73 million compared to a net loss of 42 million in the fourth quarter of 2006. For the full year 2007 yes' net loss declined to NIS 116 million, a 63.8% improvement as compared to the full year 2006. During the second half of 2007, yes experienced a temporary reduction in revenues and increase in expenses related to a disruption of broadcasting services. However, yes has emerged from this event with minimal damage to its brand and with no change incremental customer churn.

Yes posted positive EBITDA of NIS 75 million (21.5% EBITDA margin) in the fourth quarter of 2007, compared to NIS 82 million (23.8% EBITDA margin) in the fourth quarter of 2006. yes posted positive EBITDA of NIS 329 million (23.2% EBITDA margin) for the full year 2007, up 11.9% year-over-year from NIS 294 million (21.7% EBITDA margin) in the full year 2006 period.

The number of yes' subscribers at the end of December 2007 was 549,000, up from 545,000 in the prior quarter and up from 540,000 at the end of 2006.



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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, today Tuesday, March 11, 2008, at 3:00 PM Israel Time / 1:00 PM Greenwich Mean 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 <http://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 two hours after the completion of the live call through Monday, March 17, 2008. Participants are invited to listen to the conference call replay by dialing:

International Phone Number: +972-3-925-5936
Israel Phone Number: 03-925-5936

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 website at <http://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.

Investor Relations Contact:

Mr. Naftali Sternlicht
Bezeq
Phone: +972 2 539 5441
Email: ir@bezeq.co.il

Media Relations Contact:

Mr. Guy Hadass
Bezeq
Phone: +972-3-626-2600
Email: doover@bezeq.co.il



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

	<u>2007</u>	<u>2006</u>
	<u>NIS millions</u>	<u>NIS millions</u>
Revenue	12,400	12,232
Costs and expenses		
Depreciation and amortisation	1,769	1,864
Wages	2,375	2,586
Operating and general expenses	5,841	5,967
Other operating expenses (income), net	79	250
	10,064	10,667
Operating income	2,336	1,565
Finance costs		
Finance expenses	796	694
Finance income	(487)	(356)
Finance expenses, net	309	338
Profit after finance expenses	2,027	1,227
Equity in profits (losses) of associates accounted by the equity method	6	11
Profit before income tax	2,033	1,238
Income tax	672	488
Profit for the year	1,361	750
Attributable to:		
The shareholders' of the Company	1,330	809
Minority interest	31	(59)
Profit for the year	1,361	750
Earnings per share		
Basic earnings per share (in NIS)	0.51	0.31
Diluted earnings per share (in NIS)	0.50	0.31



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

	2007	2006
	NIS millions	NIS millions
Assets		
Cash and cash equivalents	1,203	2,632
Investments and loans, including derivatives	389	961
Trade receivables	2,403	2,065*
Other receivables	247	251
Inventory	203	205
Broadcasting rights	243	169
Current tax assets	11	11
Assets classified as held for sale	17	-
Total current assets	4,716	6,294
Trade and other receivables	535	463*
Investments and loans, including derivatives	233	342
Property, plant and equipment	6,064	6,492
Intangible assets	2,526	2,554
Deferred and other expenses	367	374
Investments in associates accounted by the equity method	37	32
Deferred tax assets	678	994
Total non-current assets	10,400	11,251
Total assets	15,156	17,545

* Reclassified



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"Bezeq" The Israel Telecommunication Corp., Limited Condensed Interim Consolidated Balance Sheets (cont'd)

	<u>2007</u>	<u>2006</u>
	NIS millions	NIS millions
Liabilities		
Loans and borrowings	1,913	3,637
Trade payables	1,533	1,393
Other payables, including derivatives	745	803
Current tax liabilities	57	122
Deferred income	47	58
Provisions	392	289
Employee benefits	705	906
Proposed dividend	-	300
Total current liabilities	<u>5,392</u>	<u>7,508</u>
Debentures	4,420	3,170
Obligations to banks	307	481
Loans from others	136	169
Loans provided by the minority in a subsidiary	375	564
Employee benefits	261	373
Deferred income and others	36	37
Provisions	57	52
Total non-current liabilities	<u>5,592</u>	<u>4,846</u>
Total liabilities	<u>10,994</u>	<u>12,354</u>
Shareholders' equity		
Share capital	6,132	6,309
Share premium	-	1,623
Reserves	681	672
Deficit balance	(2,268)	(2,849)
Total equity attributable to shareholders of the Company	<u>4,545</u>	<u>5,755</u>
Minority equity	<u>(373)</u>	<u>(564)</u>
Total shareholders' equity	<u>4,172</u>	<u>5,191</u>
Total shareholders' equity and liabilities	<u><u>15,156</u></u>	<u><u>17,545</u></u>

* Reclassified



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

	2007	2006
	NIS millions	NIS millions
Cash flows from operating activities		
Net profit for the year	1,361	750
Adjustments:		
Depreciation	1,482	1,591
Amortization of intangible assets	270	248
Amortization of deferred and other charges	17	25
Loss (gain) from decrease in holdings in associates accounted by the equity method	1	(1)
Net financing costs	372	512*
Share in losses (profits) of associates accounted by the equity method	(6)	(11)
Net capital gain	(88)	(159)
Share-based payment transactions	-	287
Payments to a former senior officer	6	-
Income tax expenses	672	488
Revenue (payment) for the removal of derivative financial instruments, net	(9)	(27)*
Change in inventory	(6)	23
Change in trade receivables	(437)	109
Change in other receivables	4	(108)
Change in other payables	(18)	(14)*
Change in suppliers	36	(79)
Change in provisions	105	27
Change in broadcasting rights	(74)	(15)
Change in employee benefits	(300)	169
Change in deferred and other income	(11)	1*
	3,377	3,816
Interest received	116	220
Dividend received	3	26
Income tax paid	(430)	(277)
	3,066	3,785
Cash flows from investment activities		
Investment in intangible assets and in deferred expenses	(273)	(210)
Proceeds from sale of property, plant and equipment and deferred expenses	177	48
Investment in financial assets available for sale	-	-*
Financial assets held for trade, net	647	1,491
Purchase of property, plant and equipment	(973)	(953)
Investment in associates including by way of loans	-	-
Proceeds from sale of investments and long-term loans	66	63
Purchase of investments and long-term loans	(8)	(20)*
	(364)	419
Net cash from (used for) investment activities		
* Reclassified		



Earnings Release

"Bezeq" The Israel Telecommunication Corp., Limited Condensed Interim Consolidated Statements of Cash Flows (cont'd)

	<u>2007</u>	<u>2006</u>
	NIS millions	NIS millions
Cash flows from financing activities		
Proceeds from issue of debentures	1,814	-
Receipt of loans	50	50
Repayment of debentures	(1,927)	(280)
Repayment of loans	(840)	(1,269)
Short-term credit, net	(37)	43
Dividend paid	(2,860)	(1,600)
Interest paid	(389)	(602)
Revenue (payment) for the removal of derivative financial instruments, net	77	(76)*
Net cash from (used for) financing activities	<u>(4,112)</u>	<u>(3,734)</u>
Net increase (decrease) in cash and cash equivalents	(1,410)	470
Cash and cash equivalents at January 1	2,632	2,159
Effect of fluctuations in the rate of exchange on cash balances	(19)	3
Cash and cash equivalents at December 31	<u>1,203</u>	<u>2,632</u>

Appendix to Condensed Interim Statements of Cash Flows

	<u>2007</u>	<u>2006</u>
	NIS millions	NIS millions
Appendix of non-cash activities		
Purchase of property, plant and equipment and other assets on credit	183	142
Sale of property, plant and equipment on credit	126	162