



BEZEQ GROUP REPORTS SECOND QUARTER 2008 FINANCIAL RESULTS

***Net profit attributable to shareholders rises 21.1% year-over-year to
NIS 437 million on revenues of NIS 3.09 billion***

EBITDA increases 21.4% year-over-year to a record NIS 1.22 billion

***Board of Directors recommends distribution of a cash dividend to
shareholders of NIS 835 million***

Tel Aviv, Israel – August 21, 2008 – Bezeq The Israel Telecommunication Corp., Limited (TASE: BEZQ), Israel's leading telecommunications provider, announced today its financial results for the second quarter 2008, the period ended June 30, 2008. Details regarding today's investor conference call and web cast are included later in this press release.

Bezeq Group Second Quarter 2008 Financial Highlights:

- Revenues of NIS 3.09 billion, up 1.1% compared to the prior year period.
- Operating profit totaled NIS 800 million, up 40.1% compared to the prior year period.
- Net profit attributable to shareholders totaled NIS 437 million, up 21.1% compared to the prior year period.
- Earnings per basic and diluted shares amounted to NIS 0.17, compared to earnings per basic and diluted share of NIS 0.14 for the second quarter of 2007.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled NIS 1.22 billion, up 21.4% compared to the prior year period.
- EBITDA margin was an impressive 39.6% compared to 33.0% in prior year period.
- Capital expenditures (gross) totaled NIS 386 million, up 38.8% year-over-year.
- Free cash flow totaled NIS 416 million, a decline of 19.4% year-over-year and an increase of 25.3% sequentially.

Divisional Highlights:

- **Bezeq Fixed-Line:** Fixed-Line segment results were highlighted by a 76.1% year-over-year increase in operating profit to NIS 428 million, and a 33.4% increase in EBITDA to NIS 639 million. Segment EBITDA margin totaled an impressive 47.2% for the quarter. While Fixed-Line revenues posted a modest and anticipated decline, the improvement in profitability was driven by streamlining efforts that have begun to yield significant benefits to the segment's – and the Group's – bottom lines.
- **Pelephone:** Pelephone's mobile operations delivered double-digit year-over-year and sequential growth in operating profit and EBITDA, as revenues rose 3.1%. EBITDA reached NIS 396 million, yielding an EBITDA margin of 33.3%, the highest for Pelephone in several years. Results were driven by the strength of Pelephone's 3G subscriber growth (977,000 total 3G subscribers as of June 30 and over one million as of today), which helped push total cellular subscribers up to approximately 2.64 million, an increase of 4.9% year-over-year.



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- **Bezeq International:** Operating profit increased 18.9% year-over-year to NIS 63 million and net profit increased 20.5% to NIS 47 million driven by continued focus and enhanced profitability in core businesses such as broadband Internet services, international calls, as well as a doubling in revenues associated with the segment's enterprise integration solutions. EBITDA reached a record NIS 83 million, up 10.7% year-over-year, and reflecting an EBITDA margin of 25.5%.
- **yes:** Multi-channel pay-TV revenue increased 7.3% year-over-year to NIS 380 million driven by a 5.5% improvement in ARPU to NIS 230 and a 1.5% increase in subscribers to 551,000. EBITDA reached NIS 103 million, up 3.0% year-over-year, reflecting an EBITDA margin of 27.1%.

Dividend Highlight: The company's Board of Directors has recommended the distribution of a cash dividend to shareholders of NIS 835 million, or approximately NIS 0.32 per share.

Shlomo Rodav, Chairman of the Board of Bezeq, stated, "The strength of our second quarter financial performance completes an excellent first half of 2008. With strong double-digit year-over-year improvements in Group wide operating profit, net profit attributable to shareholders and EBITDA we are seeing clear evidence that the corporate streamlining and operating efficiency measures we continue to implement are yielding results, as we also continued to see top line growth versus the comparable year ago period. All segments of the business delivered year-over-year growth, with the exception of revenues related to traditional fixed-line telephony which was anticipated to decline modestly and was partially offset by record revenues related to high-speed Internet and data communications services.

"Following the recent decisions concerning the Gronau Committee recommendations by the Minister of Communications on August 13th, we are pleased to have some initial clarity on the regulatory front, although we cannot assess at this stage what will be the exact impact on the Group's business results. Accordingly, we will be moving to adapt Bezeq's strategy and offerings to maximize any new opportunities that are created as well as meet the challenges that arise as we move forward.

"While the details of these decisions, and many other aspects of the new regulatory guidelines, remain to be clarified, we believe that over the long-term the net impact from the expected regulatory changes will benefit service providers that are able to offer a comprehensive range of communications services, which is where Bezeq excels as the market leader. Overall, our aim remains to maintain our position as the leading communications service provider in Israel while continuing to deliver long-term value to our customers, employees and shareholders," concluded Mr. Rodav.

Alan Gelman, Chief Financial Officer and Deputy CEO of Bezeq, commented, "Based on the strength of our second quarter and first half 2008 financial performance, and healthy cash flows from operations, we are pleased to announce that our Board of Directors has recommended the distribution of a cash dividend to shareholders totaling NIS 835 million; this is in addition to the NIS 679 million dividend declared last March and paid during the second quarter. Dividend remuneration to our shareholders remains a key component of our corporate strategy as we also use the strength of our cash flows to reduce debt and reinvest in our core businesses as evidenced through our higher capital investments in our new Pelephone HSPA infrastructure and our fixed-line Next Generation Network project, while maintaining full financial flexibility for the Group. These network investments are expected to open up higher value segments of the communications services market while, in the NGN case, it also offers infrastructure that is expected to deliver new long-term operating efficiencies as well as lower maintenance costs.

"While improvements during the second quarter were evident across our key profitability measures, we did experience an increase in finance expenses during the second quarter, primarily due to the fact that most of the Group's debt is linked to the Israeli consumer price



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index which increased 2.24% during the quarter, resulting in higher financing expenses as compared to the year-ago period. We are pleased with the Group wide performance in the first half of the year and look forward to building on these gains in the second half of 2008," concluded Mr. Gelman.

Bezeq Group Consolidated Results

Bezeq Group (Consolidated)	Q2 2008	Q2 2007	Change	H1 2008	H1 2007	Change
	(NIS millions)			(NIS millions)		
Revenues	3,086	3,053	1.1%	6,186	6,142	0.7%
Operating profit	800	571	40.1%	1,464	1,228	19.2%
EBITDA	1,222	1,007	21.4%	2,315	2,105	10.0%
EBITDA margin	39.6%	33.0%		37.4%	34.3%	
Net profit attributable to shareholders of the company	437	361	21.1%	835	760	9.9%
Diluted EPS (NIS)	0.17	0.14	21.4%	0.32	0.29	10.3%
Cash flow from operating activities	776	697	11.3%	1,413	1,562	-9.5%
Capex, net	360	181	98.9%	665	398	67.1%
Free cash flow	416	516	-19.4%	748	1,164	-35.7%
Net debt/EBITDA (end of period) *				1.22	1.32	
Net debt/shareholders' equity (end of period)				1.11	1.00	

* EBITDA in this calculation refers to trailing twelve months

Bezeq Group's revenues for the second quarter of 2008 were NIS 3.09 billion, up 1.1% from NIS 3.05 billion reported for the second quarter of 2007. Higher revenues were driven by higher sales in our Pelephone, Bezeq International and yes business segments. Strong sales of high speed Internet and data communications services at our Fixed-Line segment mitigated the anticipated decline in revenue associated with fixed-line telephony.

Operating profit for the Group increased 40.1% year-over-year to NIS 800 million, up from NIS 571 in the year ago period, driven mainly by cost reduction and streamlining initiatives in our major operating segments, as well as slightly higher Group revenues.

The Group's earnings before interest, taxes, depreciation and amortization (EBITDA) for the second quarter of 2008 were approximately NIS 1.22 billion (39.6% EBITDA margin), up 21.4% as compared to the second quarter of 2007 (33.0% EBITDA margin).

Net profit attributed to Bezeq shareholders amounted to NIS 437 million in the second quarter of 2008, up 21.1% compared with the NIS 361 million reported in the second quarter of 2007.

Net capital expenditures amounted to NIS 360 million in the second quarter of 2008, an increase of 98.9% compared to the second quarter of 2007, mainly due to the ongoing deployment of Pelephone's HSPA network, and to some extent also due to lower proceeds from the sale of property, plant and equipment as compared to the same period of 2007.

The Bezeq Group's free cash flow totaled NIS 416 million in the second quarter of 2008, a decrease of 19.4% compared to the second quarter of 2007. The decline in free cash flow was primarily the result of significantly higher net capital expenditures, which were partially offset by an 11.3% increase in cash flows from operations.

As of June 30, 2008, the Group's net financial debt was NIS 5.25 billion, compared with NIS 4.71 billion as of June 30, 2007.



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Bezeq Fixed-Line Results

Bezeq Wireline	Q2 2008	Q2 2007	Change	H1 2008	H1 2007	Change
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	1,354	1,393	-2.8%	2,762	2,835	-2.6%
Operating profit	428	243	76.1%	796	612	30.1%
EBITDA	639	479	33.4%	1,225	1,085	12.9%
EBITDA margin	47.2%	34.4%		44.4%	38.3%	
Capex, net	107	5	<i>n.m.</i>	205	100	105.0%
Number of active subscriber lines (end of period, in thousands)	2,682	2,778	-3.5%	2,682	2,778	-3.5%
Average monthly revenue per line (NIS) *	82.6	85.1	-2.9%	83.8	86.7	-3.4%
Number of outgoing usage minutes (millions)	3,413	3,753	-9.1%	3,504	3,834	-8.6%
Number of incoming usage minutes (millions) **	1,191	1,069	11.4%	1,187	1,057	12.3%
Number of ADSL subscribers (end of period, in thousands)	982	924	6.3%	982	924	6.3%
Average monthly revenue per ADSL subscriber (NIS)	57.7	58.1	-0.7%	57.9	57.8	0.3%

* Not including revenues from data communications and transmission services, services to communications providers, and contract and other work. This item has been updated going back to 1.1.2006 in order to present nominal figures instead of normalized

** The increase in incoming minutes compared to the corresponding period in 2007 stems from an increase in traffic minutes from domestic carriers in competition with Bezeq.

Bezeq fixed-line's primary objectives remain to compensate for the predictable erosion in domestic telephony revenues with growing revenues from broadband Internet and value-added services, and solutions for the business segment, as well as reducing costs. While revenues posted a modest decline, the segment posted significant improvements in terms of year-over-year operating profit and EBITDA performance.

Revenue from fixed-line domestic communications declined 2.8% to NIS 1.35 billion in the second quarter of 2008 compared to NIS 1.39 billion in the second quarter of 2007. The decrease in fixed-line revenue was mainly due to a decrease in interconnect fees to the cellular networks as well as a decrease in the number of lines, mainly due to number portability, a reduction in call traffic and a decrease in tariffs. The decrease in revenue was moderated mainly by stronger levels of revenues generated from high-speed Internet service (ADSL) and by an increase in data communication services.

When adjusted for revenues from cellular airtime collected by Bezeq and paid to the cellular companies, Bezeq Fixed-Line's revenues reached NIS 1.14 billion, a decline of just 1.0% year-over-year. This continues to demonstrate Bezeq's ability to compensate for the decline in legacy telephony revenues through growing advanced services and solutions offered to the consumer and business markets.

Bezeq set another new record for the number of customers subscribing to its high-speed Internet service (ADSL), rising 6.3% year-over-year to 982,000 as of June 30, 2008. Even more importantly, Bezeq continued to upgrade its ADSL subscriber base, with 42% of it already enjoying bandwidths of at least 2 MB, as compared to 23% in the prior year period.



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The growth in Bezeq's ADSL customer base helped offset a 3.5% decline in total telephony access lines during the same period which totaled 2.68 million as of June 30, 2008. The pace of decline in telephony access lines has slowed down to 31,000 lines lost during the second quarter of 2008, from 48,000 lines lost during the first quarter of 2008, which reflects a more moderate impact from fixed-line number portability.

ADSL ARPU in the second quarter was NIS 57.7, down just 0.7% from the prior year period, while fixed-line telephony ARPL fell 2.9% year-over-year to NIS 82.6.

Bezeq's fixed-line segment posted positive EBITDA of NIS 639 million (47.2% EBITDA margin) in the second quarter of 2008, compared to NIS 479 million (34.4% EBITDA margin) in the second quarter of 2007. This significant improvement was driven by an 8% decline in wages, and almost a 16% reduction in general and operating expenses. These reflect the success of cost-cutting measures that have been taken in this segment over the past year and have now begun to yield results.

During the second quarter the company announced the formal launch and deployment of its Next Generation Network (NGN) project, including full coverage in two operational trials as well as the purchase of soft switches. The project will be deployed on a modular basis, and the Company will evaluate the completion of each stage, and update the development and deployment strategy, timeline on an annual basis.

Telephone Results

Telephone	Q2 2008	Q2 2007	Change	H1 2008	H1 2007	Change
	(NIS millions)			(NIS millions)		
Revenues	1,188	1,152	3.1%	2,361	2,299	2.7%
Operating profit	266	240	10.8%	481	453	6.2%
EBITDA	396	355	11.5%	740	685	8.0%
EBITDA margin	33.3%	30.8%		31.3%	29.8%	
Net profit	180	173	4.0%	343	327	4.9%
Cash flows from operating activities	351	246	42.7%	615	605	1.7%
Capex, net	181	117	54.7%	283	178	59.0%
Free cash flow	170	129	31.8%	332	427	-22.2%
Number of subscribers (end of period, in millions)	2.636	2.513	4.9%	2.636	2.513	4.9%
Average revenue per user (ARPU, NIS)	128	129	-0.8%	127	131	-2.7%
Average monthly minutes of use per subscriber (MOU)	358	350	2.3%	357	347	2.7%

Telephone generated double-digit percentage improvements year-over-year in operating profit, and EBITDA performance driven by growth in its subscriber base, in revenues related to data, content and value added services, lower handset subsidies, as well as a continued focus on cost efficiencies.

As of June 30, 2008, Telephone had approximately 2.64 million active subscribers, an increase of 4.9% year-over-year, and a net addition of 41,000 subscribers from the first quarter of 2008. Telephone remains the market leader in 3G subscribers with a record 977,000 3G subscribers as of June 30, 2008, representing over 37% of all Telephone subscribers (and over one million 3G subscribers as of today, or about 38% of its total subscriber base). Telephone revenues from data and value added and content services constituted a record 15.5% of revenues from



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cellular services in the second quarter, compared to approximately 12.5% in the year ago period.

Pelephone's revenues increased 3.1% year-over-year to NIS 1.19 billion in the second quarter of 2008. The rise is mainly attributable to an increase in the number of subscribers, which was partially offset by a decrease in average revenue per user, mainly due to erosion of fees for outgoing calls and a decrease in interconnect fees. There was also an increase in revenue from sale of terminal equipment, due to an increase in the number of handsets sold and upgraded.

Pelephone posted positive EBITDA of NIS 396 million (33.3% EBITDA margin) in the second quarter of 2008, compared to NIS 355 million (30.8% EBITDA margin) in the second quarter of 2007. Pelephone's net profit in the second quarter of 2008 increased 4.0% year-over-year to NIS 180 million.

The company is continuing with the deployment of the new HSPA wireless network infrastructure and expects this network to be operational by the beginning of 2009. The HSPA network initiative is central to Pelephone's commitment to leading edge technologies, leveraging new higher value segments of the mobile communications market and delivering our customers additional choice when selecting a mobile solution that best meets their needs.

Bezeq International Results

Bezeq International	<u>Q2 2008</u>	<u>Q2 2007</u>	<u>Change</u>	<u>H1 2008</u>	<u>H1 2007</u>	<u>Change</u>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	326	321	1.6%	640	644	-0.6%
Operating profit	63	53	18.9%	117	104	12.5%
EBITDA	83	75	10.7%	157	149	5.4%
EBITDA margin	25.5%	23.4%		24.5%	23.1%	
Net profit	47	39	20.5%	88	76	15.8%
Cash flows from operating activities	51	32	59.4%	59	31	90.3%
Capex, net	31	18	72.2%	59	26	126.9%
Free cash flow	20	14	42.9%	-	5	<i>n.m.</i>

Bezeq International, Israel's leading supplier of Internet services, direct-dial international calls in Israel and network end-point (NEP) services, posted second quarter 2008 segment revenue of NIS 326 million, up 1.6% compared to the second quarter of 2007. The increase in year-over-year revenue was driven by higher revenue from Bezeq International's core business areas, primarily those related to Internet broadband service, outgoing calls and enterprise integration solutions. Gains in these areas were partially offset by a decline in hubbing traffic between foreign operators using Bezeq International's switching equipment.

Bezeq International posted a record EBITDA of NIS 83 million (25.5% EBITDA margin) in the second quarter of 2008, up 10.7% compared to NIS 75 million (23.4% EBITDA margin) in the second quarter of 2007.

Bezeq International generated an operating profit of NIS 63 million and a net profit of NIS 47 million in the second quarter of 2008, up 18.9% and 20.5% respectively year-over-year. The rise in net profit year-over-year came as a result of growth in all core business areas, combined with a decrease in general and operating expenses.

As reflected in its quarterly and half-year results, Bezeq International continues to lead the ISP and direct-dial international calls markets in terms of revenues, profits and profit margins.



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yes Results

yes	<u>Q2 2008</u>	<u>Q2 2007</u>	<u>Change</u>	<u>H1 2008</u>	<u>H1 2007</u>	<u>Change</u>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	380	354	7.3%	761	708	7.5%
Operating profit	43	31	38.7%	69	56	23.2%
EBITDA	103	100	3.0%	194	193	0.5%
EBITDA margin	27.1%	28.2%		25.5%	27.3%	
Net profit	(99)	(65)	52.3%	(165)	(113)	46.0%
Cash flows from operating activities	32	25	28.0%	116	118	-1.7%
Capex, net *	40	45	-11.1%	119	90	32.2%
Free cash flow	(8)	(20)	-60.0%	(3)	28	-110.7%
Number of subscribers (end of period, in thousands)	551	543	1.5%	551	543	1.5%
Average revenue per user (ARPU, NIS)	230	218	5.5%	231	218	5.7%

* Including subscriber acquisition costs

Revenue from the yes multi-channel pay-TV segment increased 7.3% to NIS 380 million in the second quarter of 2008 from NIS 354 million in the year ago period. The rise in revenue was primarily related to a 5.5% year-over-year increase in ARPU to NIS 230 as well as a 1.5% net increase in subscribers.

Net loss for the yes segment in the second quarter of 2008 totaled NIS 99 million compared to a net loss of NIS 65 million in the second quarter of 2007, an increase of 52.3% year-over-year. This increase stemmed mainly from higher finance expenses related to debt linked to the Israeli consumer price index (CPI), an increase in content costs due to broadcasts of original productions and an increase in maintenance services by subcontractors.

yes posted positive EBITDA of NIS 103 million (27.1% EBITDA margin) in the second quarter of 2008 as compared to EBITDA of NIS 100 million (28.2% EBITDA margin) in the second quarter of 2007.

The number of yes subscribers as of June, 2008 was 551,000, up 8,000 subscribers from the year ago period and up from 549,000 as compared to March 31, 2008.

Outlook

Based on current business conditions, Bezeq continues to expect Group wide full year 2008 revenues to remain stable, reflecting the combination of continued erosion in domestic fixed-line telephony with growth across the rest of the business segments. In addition, the company expects to continue focusing on reducing costs and expanding margins. Regarding Group level gross capital expenditures, in 2008 the company is reiterating its forecast for an increase of approximately 50% year-over-year mainly due to the deployment of Pelephone's HSPA network infrastructure as well as the initial stages of the company's NGN project.



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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, August 21, 2008, 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 <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 Thursday, August 28, 2008. Participants are invited to listen to the conference call replay by dialing:

International Phone Number: +972-3-925-5937

Israel Phone Number: 03-925-5937

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 <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.

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2008	2007	2008	2007	2007
	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Audited) NIS millions
Revenues	6,186	6,141	3,086	3,053	12,400
Costs and expenses					
Depreciation and amortization	851	877	422	436	1,769
Salary	1,201	1,160	585	584	2,375
Operating and general expenses	2,683	2,833	1,313	1,410	5,841
Other operating expenses (income), net	(13)	44	(34)	52	79
	4,722	4,914	2,286	2,482	10,064
Operating income	1,464	1,227	800	571	2,336
Financing costs					
Financing expenses	392	321	230	159	796
Financing income	(109)	(190)	(48)	(85)	(487)
Net financing expenses	283	131	183	74	309
Profit after financing expenses	1,181	1,096	617	497	2,027
Equity in profits of investees accounted by the equity method	2	2	1	1	6
Profits before income tax	1,183	1,098	618	498	2,033
Income tax	385	373	205	158	672
Profit for the period	798	725	413	340	1,361
Attributable to:					
The shareholders of the Company	835	760	437	361	1,330
Minority rights	(37)	(35)	(24)	(21)	31
Profit for the period	798	725	413	340	1,361
Earnings per share					
Basic earnings per share (in NIS)	0.32	0.29	0.17	0.14	0.51
Diluted earnings per share (in NIS)	0.32	0.29	0.17	0.14	0.50



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

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>December 31, 2007</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Assets			
Cash and cash equivalents	740	2,063	1,203
Investments and loans, including derivatives	66	1,008	389
Trade receivables	2,497	2,115	2,403
Other receivables	233	231	247
Inventory	186	229	203
Current tax assets	16	12	11
Assets classified as available for sale	23	-	17
Total current assets	3,761	5,658	4,473
Trade and other receivables	574	498	535
Investments and loans, including derivatives	226	279	233
Broadcasting rights	278	206	243
Property, plant and equipment	5,971	6,211	6,064
Intangible assets	2,668	2,541	2,526
Deferred and other expenses	394	363	367
Investments in associates accounted by the equity method	30	33	37
Deferred tax assets	605	789	678
Total non-current assets	10,746	10,920	10,683
Total assets	14,507	16,578	15,156



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

	June 30, 2008 (Unaudited) NIS millions	June 30, 2007 (Unaudited) NIS millions	December 31, 2007 (Audited) NIS millions
Liabilities			
Loans and credit	1,094	4,187	1,913
Trade payables	1,450	1,333	1,533
Other payables, including derivatives	742	843	745
Current tax liabilities	75	70	57
Deferred income	32	37	47
Provisions	348	332	392
Employee benefits	446	773	705
Total current liabilities	4,187	7,575	5,392
Debentures	3,941	3,350	4,420
Obligations to banks	1,102	392	307
Loans from others	147	126	136
Loans provided by the minority in a subsidiary	413	599	375
Employee benefits	259	329	261
Deferred income and others	13	28	36
Provisions	56	54	57
Deferred taxes	74	-	-
Total non-current liabilities	6,005	4,878	5,592
Total liabilities	10,192	12,453	10,984
Shareholders' Equity			
Share capital	6,132	6,132	6,132
Funds	701	681	681
Deficit	(2,112)	(2,089)	(2,268)
Total equity attributable to shareholders of the Company	4,721	4,724	4,545
Minority equity	(406)	(599)	(373)
Total shareholders' equity	4,315	4,125	4,172
Total shareholders' equity and liabilities	14,507	16,578	15,156



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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Net earnings for the period	798	725	413	340	1,361
Adjustments:					
Depreciation	707	741	356	365	1,482
Amortization of intangible assets	124	126	56	66	270
Amortization of deferred and other charges	20	10	10	5	17
Gain from decrease in holding in companies accounted by the equity method	-	-	-	-	1
Equity in earnings of associates accounted by the equity method	(2)	(2)	(1)	(1)	(6)
Net financing costs	320	179	191	161	372
Net capital (gain) loss	(19)	(5)	(18)	11	(88)
Share-based payment transactions	35	-	22	-	-
Payments to a former senior officer	-	6	-	6	6
Income tax expenses	385	373	205	158	672
Payment in respect of clearance of financial derivative instruments, net	(14)	(4)	(4)	(9)	(9)
Change in inventory	15	(25)	52	22	(6)
Change in trade receivables	(132)	(109)	(28)	(96)	(437)
Change in other receivables	(14)	(25)	39	27	4
Change in other payables	4	38	(69)	(18)	(18)
Change in suppliers	(277)	(129)	(134)	(162)	36
Change in provisions	(46)	45	(42)	30	105
Change in broadcasting rights	(35)	(36)	(7)	(5)	(74)
Change in employee benefits	(262)	(192)	(179)	(107)	(300)
Change in deferred and other income	(2)	(3)	(3)	(40)	(11)
	1,605	1,713	859	753	3,377
Interest received	34	70	15	27	116
Dividend received	2	3	2	3	3
Income tax paid	(228)	(224)	(100)	(86)	(430)
Net cash from operating activities	1,413	1,562	776	697	3,066



Press Release

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2008	2007	2008	2007	2007
	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Unaudited) NIS millions	(Audited) NIS millions
Cash flows from investing activities					
Investment in intangible assets and in other expenses	(135)	(105)	(76)	(43)	(273)
Proceeds from sale of property, plant and equipment and deferred expenses	87	121	26	97	177
Proceeds from realization of financial assets held for trade, net	314	7	257	(108)	647
Purchase of property, plant and equipment	(617)	(413)	(310)	(235)	(973)
Proceeds from sale of investments and long-term loans	11	33	5	26	66
Purchase of investments and long-term loans	(4)	-	(4)	-	(8)
Investment in an associated company	(1)	-	-	-	-
Net cash from (used for) investment activities	(345)	(357)	(102)	(263)	(364)
Cash flows from financing activities					
Issue of debentures	-	757	-	757	1,814
Receipt of loans	-	50	-	50	50
Repayment of debentures	(627)	(97)	(398)	(15)	(1,927)
Repayment of loans	(81)	(149)	(41)	(80)	(840)
Short-term credit, net	68	(23)	56	9	(37)
Dividends paid	(679)	(2,100)	(679)	-	(2,860)
Interest paid	(235)	(198)	(179)	(123)	(389)
Receipt (payment) in respect of clearance of financial derivative instruments, net	29	(14)	25	(2)	77
Investment of a minority in a subsidiary	4	-	4	-	-
Net cash from (used for) financing activities	(1,521)	(1,774)	(1,212)	596	(4,112)
Net increase (decrease) in cash and cash equivalents					
	(453)	(569)	(538)	1,030	(1,410)
Cash and cash equivalents at the beginning of the period	1,203	2,632	1,283	1,033	2,632
Effect of fluctuations in the rate of exchange on cash balances	(10)	-	(5)	-	(19)
Cash and cash equivalents at the end of the period	740	2,063	740	2,063	1,203