"BEZEQ" THE ISRAEL TELECOMMUNICATION CORP. LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2001

Contents

The Board of Directors of
"Bezeq" - The Israel Telecommunications Corp. Limited

Dear Sirs,

Re: **Review of the (Unaudited) Interim Consolidated Financial Statements for the Three Month and Six Month Periods Ended June 30, 2001**

At your request we have reviewed the interim balance sheet of "Bezeq" - The Israel Telecommunication Corp. Limited (the Company) and its consolidated companies as at June 30, 2001, as well as the consolidated statement of operations, the statement of changes in shareholders' equity and of the interim consolidated statement of cash flows for the six month and three month periods then ended.

Our review was carried out in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. The procedures included, inter alia, reading the said financial statements, reading the minutes of meetings of the shareholders and of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

Reports of other auditors were furnished to us which relate to the review of the interim financial statements of subsidiaries, whose assets constitute approximately 17.53% of the total consolidated assets on the interim consolidated balance sheet as at June 30, 2001 and whose revenues constitute approximately 27% of the total revenues included in the interim consolidated statement of operation for the six months and three months then ended. Furthermore, the data contained in the financial statements which relate to the equity of the investments and the Company's share of the results of affiliated companies, are based on financial statements which were reviewed by other auditors.

As the review is limited in is scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the interim consolidated financial statements.

In the course of our review, including reviewing the reports of other auditors as mentioned above, nothing came to our attention which would indicate the necessity of making material changes in the said interim financial statements in order for them to be in conformity with generally accepted accounting principles and in accordance with the provisions of Section 4 of the Securities Regulations (Periodic and immediate reports), - 1970.

We draw attention to the uncertainties relating to the following mattes, for which the maximum possible exposure is significant:

1.The anticipated opening of the communications sector to competition, changes in tariffs and their effect on the Company's financial position and operating results as described in Note 1.

2.A plan for further organizational change, as described in Note 5.

3.Claims made against the Company and against investee companies, as described in Note 6A.

4.The financial situation of an affiliated company, the signing of a financing agreement between the affiliated company and banking corporations, the non-fulfillment of suspending conditions prescribed in the agreement, and the assessment of the management of the affiliated company which relates to fulfillment of those suspending conditions, as explained in Note 4C.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 28, 2001

Interim Consolidated Balance Sheet

In terms of shekels of June 2001

	June 30, 2001 (Unaudited)	June 30, 2000 (Unaudited)	December 31, 2000 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	1,236,654	541,410	1,549,896
Short-term investments	266,607	153,329	190,460
Trade receivables	1,344,733	1,318,570	1,388,018
Other receivables and debit balances	435,254	*513,861	481,251
Inventory	158,894	119,106	135,917
	3,442,142	2,646,276	3,745,542
Materials and spare parts	202,617	208,058	187,239
Investments and long-term receivables			
Investments, deposits and debit balances	1,542,166	268,178	292,708
Investments in investee companies	373,948	252,625	174,593
	1,916,114	520,803	467,301
Fixed assets			
Cost	29,873,998	29,785,301	29,364,292
Less - accumulated depreciation	18,873,335	17,579,996	17,628,253
	11,000,663	12,205,305	11,736,039
Other assets			
Deferred charges and other assets	386,429	*321,723	382,286
Deferred taxes	314,712	152,333	640,377
	701,141	474,056	1,022,663
	17,262,677	16,054,498	17,158,784

	June 30, 2001 (Unaudited)	June 30, 2000 (Unaudited)	December 31, 2000 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current liabilities			
Short-term bank credit	687,775	483,558	743,301
Current maturities of:			
Long-term bank loans	1,034,953	912,952	381,778
Other debentures	232,583	215,325	227,083
Trade payables	817,713	947,695	1,058,506
Employee severance benefits	333,355	215,911	348,607
Other current liabilities	969,096	*795,379	978,116
	4,075,475	3,570,820	3,737,391
Long-term liabilities			
Long-term loans	2,196,160	3,384,500	2,856,138
Other debentures	2,450,144	1,130,493	2,175,962
Employee severance benefits	1,277,263	77,296	1,265,483
Deferred taxes	3,134	19,943	14,592
Deferred revenues	65,663	75,234	70,576
	5,992,364	4,687,466	6,382,751
Convertible debentures	-	81,961	68,847
Contingent liabilities			
Shareholders' equity	7,194,838	7,714,251	6,969,795
	17,262,677	16,054,498	17,158,784

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

* Reclassified

Date of approval of the financial statements: August 28, 2001

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

Interim Consolidated Statement of Operations

In terms of shekels of June 2001

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Revenues from telecommunications services (Note 8)	4,081,007	4,292,244 *	2,018,261	2,010,927 *	8,495,499
Costs and expenses					
Operating and general expenses (Note 9)	2,220,821	2,237,685 *	1,158,551	988,188 *	4,331,383
Depreciation	1,295,073	1,368,382	640,473	679,774	2,730,258
Royalties to the Government of Israel	138,736	158,768	57,996	75,969	318,048
	3,654,630	3,764,835	1,857,020	1,743,931	7,379,689
Operating income	426,377	527,409	161,241	266,996	1,115,810
Financing income (expenses)	(51,486)	(167,362)	1,149	(34,416)	(347,042)
Earnings after financing expenses	374,891	360,047	162,390	232,580	768,768
Other income (expenses), net	23,211	88,062	6,959	(3,292)	(1,286,780)
Earnings (loss) before income tax	398,102	448,109	169,349	229,288	(518,012)
Tax benefit (income tax)	(169,329)	(194,138)	(70,135)	(96,929)	155,025
	228,773	253,971	99,214	132,359	(362,987)
Equity in earnings (losses) of affiliated companies	(75,998)	(50,294)	(16,553)	(23,555)	(197,325)
Minority share in losses of consolidated company	3,396	398	1,449	398	4,950
Net earnings (loss)	156,171	204,075	84,110	109,202	(555,362)
Basic and diluted earnings (loss) per NIS 1 par value of common shares (in NIS)	0.065	0.086 **	0.035	0.045 **	(0.229)

*Reclassified

**Restated due to issue of bonus shares.

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

Interim Statement of Changes in Shareholders' Equity
In terms of shekels of June 2001

	Share capital	Capital reserve for distribution of bonus shares	Capital reserve share premium	Capital reserve in respect of transactions between the Company and a controlling shareholder	Retained earnings	Total
	NIS thousands					
Six months ended June 30, 2001						
Balance as at December 31, 2000 (audited)	4,193,559	1,616,242	832,321	36,045	291,628	6,969,795
Net earnings (unaudited)	-	-	-	-	156,171	156,171
Conversion of convertible debentures (unaudited) (1)	6,000	-	62,872		-	68,872
Distribution of bonus shares (unaudited) (5)	1,636,856	(1,616,242)	-	-	(20,614)	-
Balance as at June 30, 2001 (unaudited)	5,836,415	-	895,193	36,045	427,185	7,194,838
Three months ended June 30, 2001						
Balance as at April 1, 2001 (unaudited)	5,836,415	-	895,193	36,045	343,075	7,110,728
Net profit (unaudited)	-	-	-	-	84,110	84,110
Balance as at June 30, 2001 (unaudited)	5,836,415	-	895,193	36,045	427,185	7,194,838
Six months ended June 30, 2000						
Balance as at December 31, 1999 (audited)	4,178,742	-	659,092	36,045	2,464,670	7,338,549
Erosion of dividend proposed in a previous year and paid this year (unaudited)	-	-	-	-	(1,438)	(1,438)
Net profit (unaudited)	-	-	-	-	204,075	204,075
Tax benefit in respect of shares to employees (unaudited)	-	-	22,000	-	-	22,000
Conversion of convertible debentures (unaudited) (2)	13,501	-	137,564	-	-	151,065
Balance as at June 30, 2000 (unaudited)	4,192,243	-	818,656	36,045	2,667,307	7,714,251

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

Interim Statement of Changes in Shareholders' Equity (Contd.)

In terms of shekels of June 2001

	Share capital	Capital reserve for distribution of bonus shares	Capital reserve share premium	Capital reserve in respect of transactions between the Company and a controlling shareholder	Retained earnings	Total
	NIS thousands					
Three months ended June 30, 2000						
Balance as at April 1, 2000 (unaudited)	4,192,021	-	816,961	36,045	2,558,105	7,603,132
Net earnings (unaudited)	-	-	-	-	109,202	109,202
Conversion of convertible debentures (unaudited) (3)	222		1,695	-	-	1,917
Balance as at June 30, 2000 (unaudited)	4,192,243	-	818,656	36,045	2,667,307	7,714,251
Year ended December 31, 2000						
Balance as at December 31, 1999 (audited)	4,178,742	-	659,092	36,045	2,464,670	7,338,549
Net loss (audited)	-	-	-	-	(555,362)	(555,362)
Erosion of dividend proposed in a previous year and paid this year (audited)	-	-	-	-	(1,438)	(1,438)
Tax benefit in respect of shares to employees (audited)	-	-	22,000	-	-	22,000
Conversion of convertible debentures (audited) (4)	14,817	-	151,229	-	-	166,046
Capitalization of undesignated earnings to a reserve fund for the distribution of bonus shares (audited) (5)	-	1,616,242	-	-	(1,616,242)	-
Balance as at December 31, 2000 (audited)	4,193,559	1,616,242	832,321	36,045	291,628	6,969,795

(1) 59,754,681 par value convertible debentures were converted into 5,904,612 ordinary shares with a par value of NIS 1 each.
(2) 134,870,728 par value convertible debentures were converted into 13,327,147 ordinary shares with a par value of NIS 1 each.
(3) 2,215,441 par value convertible debentures were converted into 218,917 ordinary shares with a par value of NIS 1 each.
(4) 147,652,429 par value convertible debentures were converted into 14,590,161 ordinary shares with a par value of NIS 1 each.
(5) See Note 7

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

Interim Consolidated Statement of Cash Flows

In terms of shekels of June 2001

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Cash flows generated by operating activities					
Net earnings (loss)	156,171	204,075	84,110	109,202	(555,362)
Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities (see A below)	1,358,411	1,365,878	591,717	744,196	3,856,823
Net cash inflow generated by operating activities	1,514,582	1,569,953	675,827	853,398	3,301,461
Cash flows generated by investing activities					
Acquisition of fixed assets	(715,388)	(830,712)	(318,302)	(294,271)	(1,744,794)
Proceeds from disposal of fixed assets	41,565	12,468	29,790	7,434	34,978
Proceeds from disposal of investment in affiliated company	-	-		-	173,020
Investment in investee companies	(256,605)	(226,583)	(52,748)	(117,840)	(328,324)
Investment in long-term deposits and investments	(1,035,830)	(27,292)	(8,797)	(11,104)	(60,490)
Proceeds from long-term deposits and investments	10,486	35,284	6,530	3,934	60,686
Decrease (increase) in short-term investments, net	(72,224)	153,302	(44,336)	(16,177)	116,987
Decrease (increase) in materials and spare parts	28,409	12,530	37,576	(1,954)	58,603
Investment in other assets	(106,518)	(127,900)	(51,336)	(55,130)	(265,920)
Net cash outflow generated by investment activities	(2,106,105)	(998,903)	(401,623)	(485,108)	(1,955,254)
Cash flows generated by financing activities					
Repayment of debentures issued to the Government of Israel	-	(476,873)	-	(237,650)	(476,854)
Issue of other debentures (after deduction of issue expenses)	509,045	-	-	-	1,105,982
Repayment of other debentures	(133,830)	(146,486)	(20,854)	(16,570)	(228,765)
Receipt of long-term loans	154,692	664,698	152,721	355,001	811,850
Repayment of long-term loans	(196,100)	(645,762)	(120,094)	(398,074)	(1,843,072)
Receipt (repayment) of short-term bank credit, net	(55,526)	209,534	(175,505)	26,532	469,287
Dividend paid	-	(306,361)	-	-	(306,349)
Net cash inflow (outflow) generated by financing activities	278,281	(701,250)	(163,732)	(270,761)	(467,921)
Increase (decrease) in cash and cash equivalents	(313,242)	(130,200)	110,472	97,529	878,286
Cash and cash equivalents at beginning of period	1,549,896	671,610	1,126,182	443,881	671,610
Cash and cash equivalents at end of period	1,236,654	541,410	1,236,654	541,410	1,549,896

The notes to the financial statements are integral part thereof.

Interim Consolidated Statement of Cash Flows (Contd.)

In terms of shekels of June 2001

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
A - Adjustments to reconcile net earnings to net cash flows generated by operating activities					
Revenues and expenses not involving cash flows:					
Depreciation	1,295,073	1,368,382	640,473	679,774	2,730,258
Provision for decrease in value of fixed assets	-	-		-	11,135
Deferred taxes	5,212	153,379	(9,569)	56,804	(311,614)
Company's equity in losses (earnings) of investee companies, net	75,998	50,294	16,553	23,555	197,325
Minority share in losses of a consolidated company	(3,396)	(398)	(1,449)	(398)	(4,950)
Increase (decrease) in employee severance benefits, net	(3,472)	(141,227)	(1,128)	(13,453)	1,179,673
Gain on disposal of fixed assets	(30,712)	(1,651)	(12,327)	(1,148)	(1,355)
Loss (gain) on disposal of investment in affiliated company	3,470	-	3,470	-	(140,277)
Erosion (appreciation) of and interest on long-term deposits and investments and futures contracts	(17,568)	23,122	60,471	(6,534)	15,596
Erosion (appreciation) of short-term investments, net	(3,923)	(2,137)	(779)	1,387	(2,965)
Appreciation (erosion) of long-term liabilities:					
Debenture issued to the Government of Israel	-	673	-	(1,128)	673
Other debentures	(95,533)	(3,309)	(75,170)	(7,085)	27,238
Long-term loans	33,663	(67,389)	(49,747)	(13,431)	(74,607)
Amortization of deferred expenses and other adjustments	107,462	65,201	57,402	34,768	152,127
Changes in asset and liability items:					
Decrease in trade receivables	51,153	222,112	54,008	87,481	152,827
Decrease (increase) in other receivables and debit balances	125,339	(71,154)	85,593	69,743	(83,503)
Decrease (increase) in inventory	(20,634)	(1,400)	14,496	(7,098)	(14,877)
Decrease in trade payables	(148,585)	(171,010)	(133,790)	(84,731)	(87,658)
Increase (decrease) in other current liabilities	(10,223)	(53,187)	(53,984)	(72,274)	120,855
Decrease in deferred revenues	(4,913)	(4,423)	(2,806)	(2,036)	(9,078)
	1,358,411	1,365,878	591,717	744,196	3,856,823
B - Non-cash transactions					
Acquisition of fixed assets, materials and spare parts on credit	224,618	277,235	224,618	277,235	304,328
Acquisition of other assets on credit	1,666	-	1,666	-	-
Sale of fixed assets on credit	15,632	23,308	15,632	23,308	8,955

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

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

NOTE 1 - GENERAL

A. The interim statements have been prepared in accordance with generally accepted accounting principles, applicable to the preparation of interim periodic financial statements. These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as at December 31, 2000 and for the year then ended.

B. The Company presents in the notes to the interim financial statements only the significant changes in its business and legal environment which occurred between the date of the previous annual financial statements and the date of these interim financial statements. The extensive and detailed description, including significant changes and developments which occurred in recent years, particularly in the fields of cellular services, international communications services, domestic communications services, the opening of these markets to competition, and the decisions of the Ministerial Committee for Privatization to reduce the State's holdings in the Company, appears in Note 1 to the Company's annual financial statements as at December 31, 2000. The significant changes which occurred from the date of the annual financial statements to the date of these financial statements are detailed below:

1. Access fees from the international telecommunications operators were reduced as of January 1, 2001 by approximately 30%, in accordance with the licenses of the operators which determined that the access fees would be reduced every year by that percentage.

2. The annual updated tariffs took effect on March 1, 2001, including a reduction of the Company's call tariffs by an average of 1.4%, an increase in the tariffs for links to the cellular operators by an average of some 33%, and the tariffs for other services were reduced by approximately 2.79%.

3. Pursuant to notification from the Company to the cellular communication service operators, (hereinafter - the Operators), starting on March 1, 2000, the billing arrangement which was in effect between them was canceled and a new arrangement commenced, whereby the Company transfers to the operators only the amounts which it actually collected in respect of airtime less a collection fee, in contrast to the existing arrangement in which the transfer of moneys was made on the basis of customer charges without deduction of a collection fee. The Operators expressed their objection to the change in the existing arrangement and one of them also filed a legal claim in which it requested that the Company be instructed to continue to act in accordance with the arrangement which had existed until then. The court denied the claim and confirmed the validity of the new arrangement instituted by the Company. The Operator appealed to the High Court. Concurrently, the Company and the Operators negotiated in an attempt to arrive at an agreed arrangement. During the negotiations, the Company reached an agreement with Pelephone Communications Ltd. (a proportionally consolidated company), defining the relations between the companies with regard to billing, from March 1, 2001 to December 31, 2002, and with MIRS Communications Ltd. upon he start of its operations as a cellular service operator. The Company included in its financial statements a provision of approximately NIS 48 million to cover its obligations deriving from the agreement.

   As a result of the change in the billing arrangements, as described above, starting on March 1, 2000, the Company's revenues and expenses from mobile wireless telephone do not include airtime. The airtime which is included in the revenues and expenses from mobile wireless telephone in the corresponding reported period last year, amount to approximately NIS 293 million.

4. In April 2001 the Anti-Trust Commissioner rescinded the notice naming Bezeq International Ltd. a monopoly in the provision of international telephone services.

The request of the Company to consider rescinding the notice naming it a monopoly in basic telephone services, which includes, according to the Company, both fixed and mobile telephony, was rejected by the Anti-Trust Commissioner. The

NOTE 1 - GENERAL (CONTD.)

Company is considering what action to take.

5. In July 2001, regulations effective from January 2001 were published, which changed the arrangements which existed until that date for payment of royalties to the State by communications companies. Under the new regulations, the basis of revenues from which the royalties are calculated was broadened, along with a gradual reduction of the rate of royalties paid, until arriving at a uniform rate for all communications operators. The rates in effect for 2001 are 4% for fixed-line domestic telecommunication services, 4.5% for international telecommunication services, and 5% for cellular services. The rate of royalties for domestic telecommunication services will remain in effect through 2003, and in 2004 will be lowered to 3.5%. The rates of royalties for international and cellular services will be gradually lowered to 3.5% by 2004.

6. Further to Note 1E(3) in the financial statements of December 31, 2000, in July 2001 the Communications Law (Telecommunications and Broadcasts), 5742-1982 was amended. The amendment regulates, inter alia, the opening of the domestic communications market and the field of cable broadcasts to competition, by way of granting licenses for providing communication services. The amendment includes a large number of subjects which will affect the Company and other companies in the Group. The Law enables the cable companies to switch from a regime of franchises to one of licenses, so that they or companies with an interest in the cable companies will be able to receive a general license for providing telecommunication services. If an applicant for a license currently holds a franchise, the granting of the license will be contingent upon transfer of the activities involved in providing broadcasting services to such a company with an interest, and if the license applicant is such a company with an interest, the franchisee will transfer to that company the rights in the cable network used for the broadcasts. Upon granting the licenses in accordance with the law and the start of operations of the new licensees, full competition will commence in fixed-line domestic telecommunications, which is expected to have an materially adverse effect on the business results of the Company which cannot be estimated at this stage.

7. In August 2001 a draft of the amendment of the Telecommunications Order (Determining an essential service provided by Bezeq, The Israel Telecommunication Corp. Ltd.), 5757-1997, was submitted to the Company for its comments, following the privatization decisions of June 17, 2001 and August 27, 2001. The draft Order refers, inter alia, to the inclusion of additional services which the Company provides under the definition of "Essential Services", and an extension of the limitations on control and holding in the Company. The draft also includes a proposal for amendment of the Company's license following the privatization decision of June 17, 2001. The Company submitted its reservations and remarks on the draft to the Ministry of Communications. In the opinion of the Company, the Telecommunications Order in its proposed text restricts the Company's activities and also the chances of privatization.

8. In August 2001, the Ministry of Communications published a Request For Position in connection with the policy for regulating international telecommunication services. The document discusses the possibility of approving a merger between the competitors of the subsidiary Bezeq International Ltd., granting licenses to additional international telecommunications operators, and a structural separation of Internet activities of an international communications operator. The Company and its subsidiary, Bezeq International Ltd., have submitted their remarks, which include reservations as to the main points of the document.

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

NOTE 2 - ACCOUNTING POLICIES

A. The significant accounting policies used in preparation of the financial statements, are the same as those used in the preparation of the latest annual financial statements.

B. In the report period, the Israeli Institution for Standardization in Accounting published the following new regulations:
Accounting Standard No. 7 – Events after the balance sheet date. The new standard determines, in addition to the requirements to report on events after the balance sheet date, when a corporation must make adjustments in its financial statements for events after the balance sheet date, and the disclosure required of a corporation concerning the date on which the financial statements are approved for publication.
Accounting Standard No. 8 – Terminated operations. The standard sets out rules for the separate statement of information relating to a material business operation which is terminated by a corporation, from information relating to ongoing operations, and also determines the minimum disclosure of information concerning a termination operation.
Accounting Standard No. 11 – Sectoral reporting. The standard requires the inclusion of information in respect of business sectors and geographical sectors, and also gives detailed guidelines for the identification of business and geographical sectors.

Accounting Standard No. 7 will apply to financial statements for periods ending on December 31, 2001 or thereafter.
Accounting Standards Nos. 8 and 11 will apply to financial statements for periods starting on January 1, 2002 or thereafter.

In the opinion of the Company, the effects of the new standards will not be material.

C. On July 17, 2001, the Professional Committee of the Israeli Institution for Standardization in Accounting approved Standard No. 12, which deals with the termination of inflationary adjustments in financial statements. Following the approval, the Institute of Certified Public Accountants in Israel requested that publication of the standard be delayed for a specified period. An additional public hearing of the standard was then scheduled for September. As at the date of publication of these financial statements, the standard is not final and has no legally binding effect. If the standard is approved in the future in its current text, it is liable to have a materially adverse effect on the reported results of the Company. The extent of that effect depends on the rate of inflation and on the Company's sources of finance.

NOTE 3 - FINANCIAL STATEMENTS IN ADJUSTED VALUES

The financial statements have been prepared on the agreed basis of historical cost adjusted for the effect of the changes in the general purchasing power of the Israeli currency. Comparative data in the financial statements have been adjusted to the shekel of June 2001. The changes which occurred in the consumer price index and the rates of exchange of the US dollar:

	Consumer price index	Exchange rate of the US dollar
	%	%
In the six-month period ended on		
June 30, 2001	1.10	3.07
June 30, 2000	0.37	(1.66)
In the three-month period ended on		
June 30, 2001	1.60	(0.64)
June 30, 2000	1.61	1.44
In the year ended December 31, 2000	0.00	(2.69)

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES

A. PELEPHONE COMMUNICATIONS LTD. ("PELEPHONE")

In September 2000 notice was received from Motorola Israel Ltd. ("Motorola"), informing the Company of negotiations between Motorola and a third party for the sale of its holdings in Pelephone. Under the Pelephone shareholders agreement, if one party to the agreement wishes to sell its shares in Pelephone, it must offer them to the other party, and the other party is entitled, inter alia, to propose an alternative offeree to buy the shares. At its meeting on November 22, 2000, the Board of Directors of the Company selected Shamrock Holdings of California Inc. as the alternative offeree to purchase the shares of the Pelephone shareholder and sign an option agreement with the Company, and the share purchase transaction was subsequently made by a corporation registered in the United States (hereinafter – the Corporation) indirectly owned by Shamrock.

On February 27, 2001, after approval of the Ministry of Communications and the Anti-Trust Commissioner, the transaction was closed. The main points of the transaction are these:

1. Motorola's shares in Pelephone were transferred to the Corporation in consideration of 591 million dollars. The consideration was partially financed by a loan of 240 million dollars extended by the Company, for which it received debentures, linked to the US dollar exchange rate, bearing interest and convertible, for up to four years, for 80% of the shares of the Corporation. These debentures are presented in the balance sheet under the Investments, deposits and long-term debit balances item.

2. The Company was given a call option to purchase the remaining 20% of the share capital of the Corporation together with conversion of the debentures to shares as aforesaid ("the Options").

3. The Company can exercise the Options within six months of the date of purchase of the shares ("the Short Option"), or starting from the end of 24 months from the date of purchase of the shares until the elapse of four years from the date of the purchase ("the Long Option"). As at the report date, the Company had not exercised the Short Option.

4. The exercise price of the Short Option is return on the nominal investment plus 8 million US dollars, and of the Long Option is the higher of return on the nominal investment or a valuation of the market value of 20% of the Corporation's shares.

B. Emitel Telecommunication Corp. Ltd.

In December 2000, Aphrodite B.V. ("Aphrodite"), which is indirectly held by the Company (66.7%), signed an agreement for the sale of all its holdings in Emitel. Closing of the transaction was made contingent upon receipt of approvals from the Hungarian Minister of Communications and from the Hungarian Anti-Trust Authority. All the requisite approval were obtained by June 30, 2001 and the transaction was closed. In consideration of the sale, Aphrodite received approximately 49 million US dollars and recorded a capital gain of approximately 32 million dollars in the second quarter of the year

C. D.B.S. Satellite Services (1998) Ltd.

The Company holds 30% of the shares of D.B.S. Satellite Services (1998) Ltd. (hereinafter - DBS). In January 1999, DBS received a license from the Ministry of Communications for satellite television broadcasts, in exchange for payment of NIS 30 million and a guarantee in the amount of NIS 30 million. DBS foresees considerable losses and negative cash flow from operations in the first years of its activities. Its losses in 2000 amounted to approximately NIS 550 million, and for the six months ended June 30, 2001 amounted to approximately NIS 394 million. These losses have led to an increase in its working capital deficit to NIS 1,112 million (including NIS 694 million in short-term bank credit). The sources of finance for DBS's operations are shareholders' loans and bank credit.

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES (CONTD.)

C. D.B.S. Satellite Services (1998) Ltd. (contd.)

The Company's investment in DBS as at the balance sheet date is approximately NIS 504 million. The Company's share in the accumulated loses of DBS is about NIS 309, of which NIS 118 million were recorded in the six months ended June 30, 2001.

According to a decision of the Ministerial Committee for Privatization on January 21, 2001, the maximum cumulative exposure of the Company in connection with this investment shall at no time exceed the rate of the Company's actual holding in DBS, multiplied by $400 million (approximately NIS 1.6 billion). The Committee also approved an increase of the Company's holding in DBS to 50% of DBS's share capital, the approval being contingent upon amendment of the Telecommunications Regulations (or the Telecommunications Law) in the matter of limitations on a holding of means of control in DBS by anyone who is a controlling interest in a broadcasting franchisee. The Regulations were amended on March 14, 2001.

On June 24, 2001, the Ministerial Committee for Privatization approved an infusion of up to 40 million dollars by the Company in DBS, without changing the actual holdings ratio. The Company undertook to endeavor that not later than 120 days from the date of the Committee's decision, the ratio of exposure to the rate of the Company's holdings would comply with the decision of January 21. 2001. The Company further undertook to convey to the Ministerial Committee, within 120 days of the date of the decision, the position of the Board of Directors and the Management of the Company on the financial viability of the DBS venture for the Company, and its implications for its strategic plan and privatization.

On May 23, 2001 a financing agreement between DBS and three banks was signed, determining, inter alia, preconditions for withdrawing funds from the credit lines, including an undertaking by DBS to meet the cumulative milestones stipulated in the agreement. The agreement also determines that if by June 30, 2001, all the suspending conditions in the agreement are not met, the agreement will be canceled. The last date for full compliance with the suspending conditions was postponed to July 31, 2001. As at the date of approval of these financial statements, not all the suspending conditions had been met. The Company and the banks are continuing with the last actions required for completion of the suspending conditions. In the opinion of DBS's management, completion of the suspending conditions is imminent, and the present delay should not prejudice the terms of the financing agreement.

On May 6, 2001, the Anti-Trust Authority notified the Company that in view of the domestic operator license received by a company in the Eurocom Group, as a result of which the Company and the Eurocom Group can be seen as competitors, the cross-holding of the companies in DBS is liable to reduce the competition between them and as such, can be construed as constituting a cartel. The parties were requested to act as quickly as possible to approve their joint venture in one of the way prescribed in the Anti-Trust Law. The Anti-Trust Commissioner also stated that without derogating from the aforesaid, he was willing to try to arrive at an agreed solution within 60 days. In response, the Company notified the Anti-trust Commissioner that the partnership between it and Eurocom in the satellite enterprise does not constitute a cartel, that all its activities in this field were accomplished in accordance with lawful approvals, and that without derogating therefrom, it has no objection to discussing and clarifying the matter with the Commissioner. A first meeting on the subject was held shortly after the dispatch of the Company's response.

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES (CONTD.)

D. WALLA! COMMUNICATIONS LTD.

Upon receipt of all the requisite approvals, the merger of Walla! Communications Ltd. ("Walla") and AOL Israel On Line (2000) Ltd.)("IOL") was completed. Following the merger, the rate of the holdings of Bezeq International Ltd. in Walla decreased from 38.5% to 24.8% (as a result of an issue of shares to a third party), and Bezeq International Ltd. generated a loss from disposal of an investment. This loss, of approximately NIS 3.5 million, is included in the Other expenses item in the financial statements. Based on the IOL – Walla value ratio determined immediately prior to the merger and the amortization of goodwill at Walla following the merger, Bezeq International Ltd. set its investment in Walla while further amortizing in accordance with the value ratio and the additional elements connected with the investment. The amortization made as a result, about NIS 7.7 million, and the part of Bezeq International Ltd. in amortization of the investment made in Walla following the merger, which was about NIS 6.2 million, were included in the financial statements under Losses of affiliated companies.

NOTE 5 - EMPLOYEE SEVERANCE BENEFITS

Early Retirement Plan

A. As part of the plan for organizational change in the Company, which was approved by the Board of Directors in March 2000, 438 employees retired from the Company between December 31, 1999 and June 30, 2001.

B. In the wake of privatization of the Company and the opening of the telecommunications market to competition, additional workforce changes are required at the Company; accordingly, the Company reached agreement with the workers' representatives in September 2000, to extend the early retirement collective agreement from 1997. The new arrangement states that from April 1, 2001 to December 31, 2006 (with an option to extend the final retirement date for certain employees to December 31, 2008), another 1,770 employees will take early retirement. Furthermore, pursuant to the agreement, the Company's management will be able to dismiss employees under a compensation arrangement over and above the number stated in the agreement. The retirement of workers under this plan has not yet started.

The financial statements for the year 2000 include an expense of approximately NIS 1,393 million in respect of the expected cost of implementation of this plan. The Company's management estimates that the possibility of additional employees retiring under a compensation arrangement is slight, and accordingly, no provision was made therefor in the financial statements.

NOTE 6 - CONTINGENT LIABILITIES

A. Claims and contingent liabilities

The Company and investee companies have contingent liabilities in respect of which the maximum possible exposure is considerable. A detailed description of these contingent liabilities appears in Note 21A to the annual financial statements of the Company as at December 31, 2000. No material changes occurred in the contingent liabilities up to the date of signing these financial statements, except for the following:

1. Further to Note 21A(4) to the financial statements of December 31, 2000 concerning a class action in which the plaintiff alleges that the tariffs for international telecommunications services in the years 1996 and 1997 were exorbitant and unreasonable, the Supreme Court allowed the appeal of the Company and Bezeq International Ltd. and the decision of the District Court in the matter of approval of the action as a class action was overruled. The class action was stricken, while reserving the right of the plaintiff to file it anew and while

NOTE 6 - CONTINGENT LIABILITIES (CONTD.)

A. Claims and contingent liabilities (contd.)

retaining all the allegations of the litigants.

2. Further to Note 21A(21) to the financial statements of December 31, 2000, the (first) action was amended, as was the application for approval of the action as a class action, so that the amount of the action is now estimated at more than one billion shekels (rather than about 750 million shekels as in the original application). In addition, the application for combining the hearing of the two claims referred to in the Note was approved, and the plaintiffs filed a revised action and application for approval of the action as a class action.

3. Further to Note 21A(12) to the financial statements of December 31, 2000, concerning a financial claim and class action of Company workers and pensioners, on May 8, 2001, the District Court dismissed the claim, partly due to limitation and partly due to absence of cause. The plaintiffs have appealed this decision in the Supreme Court.

4. Further to Note 21A(26) to the financial statements of December 31, 2000, concerning a petition in the High Court of Justice for the provision of a blocking service for every Company subscriber against outgoing calls to the area code of cellular phones, as a positive default, the Company gave notice that it does not oppose providing such a service, but emphasized that it would require the approval of the Ministry of Communications. The Ministry of Communications stated that it sees no reason for approving a block to cellular phones or for the promulgation of regulations in the matter. The Company has flied an application to expedite the hearing of the petition.

5. On May 10, 2001 a claim was served to an affiliate in which the plaintiff alleges that the affiliate is misleading consumers in its advertisements in connection with the possibility for the consumer to purchase certain channels only, and with regard to the number of channels offered. It is also alleged that the affiliate requires its subscribers to consume a maximum channel package even if they do not choose that package. The plaintiff filed the claim as the representative of the subscribers of the affiliate, and together with the claim also filed an application for recognition of the claim as a class action under the Consumer Protection Law. The alleged personal losses of the plaintiff are negligible, and the sum stated as accumulated loss for all members of the class is approximately NIS 177 million. The legal advisers of the affiliate believe that the affiliate has a good defense against the action as a class action.

6. Further to note 20A(6) to the financial statements of December 31, 2000 concerning a class action in connection with actions of Bezeq International Ltd. upon the start of competition, the District Court decided, on June 19, 2001, to reject the application for approval as a class action.

NOTE 6 - CONTINGENT LIABILITIES (CONTD.)

A. Claims and contingent liabilities (contd.)

7. Further to Note 21A(2) to the financial statements of December 31, 2000 concerning the prices of direct dial international calls, the Supreme Court ruled, on July 2, 2001, to allow the appeal of the Company and Bezeq International Ltd.. On July 17, 2001 the plaintiff filed an application for an additional hearing of the case. The Company's legal advisers are unable to estimate whether the plaintiff's application for an additional hearing will be allowed, and if so, what might be the results of the proceeding.

8. Further to Note 11E(2) to the financial statements of December 31, 2000 concerning assessments issued to the Company for the years 1994-1999, an agreement was signed in June 2001 between the Company and the Income Tax Authorities for final assessments for those years. Under the agreement, the Company's claim to increase the depreciation rate of exchanges was recognized, and several other issues were also agreed, principally postponement of the dates of recognition of certain expenses. As a result of the above, the Company recorded tax expenses in its financial statements as at June 30, 2001 in respect of preceding years, amounting to approximately NIS 12 million, as well as financing income of approximately NIS 73 million (tax exempt) deriving from the rebate payable to the Company.

9. Further to Note 21A(16) to the financial statements of December 31, 2000, on July 25, 2001 a decision was given which strikes the claim, following a consensual application which was filed on behalf of both parties.

10. Further to Note 21A(22) to the financial statements of December 31, 2000 concerning a class action filed against the Company in respect of unlawful collection of VAT for some collect calls received by subscribers in Israel from abroad, the plaintiffs have filed an application to add the Director of Customs and VAT as a defendant. Furthermore, the Attorney General gave notice that he will present himself in this proceeding.

11. In July 2001 a claim was filed in the District Court against Pelephone Communications Ltd. ("Pelephone"). The plaintiffs allege that Pelephone's pre-paid service constitutes infringement of their patent. Among the reliefs claimed are that Pelephone be instructed to refrain from infringing the patent, ordered to submit a report on the number of cards, the revenues and profits. etc., received in respect of the sale of the cards, and ordered to pay NIS 100,000 in compensation. At this stage, Pelephone is unable to estimate the outcome and the implications of the claim.

12. In August 2001 a application was filed in the Tel Aviv District Court for approval of a class action against Pelephone Communications Ltd. ("Pelephone"). The applicant, through its legal representatives, alleges that Pelephone acted unlawfully when it collected from it and its other subscribers who were in arrears, arrearage interest and linkage differentials at a rate exceeding the provisions of the license it was awarded by the Ministry of Communications, whereby it should have collected linkage differentials and linked annual interest at 4%, rather than the rate actually collected. The plaintiff alleges that the amount of the action if recognized as a class action could be as much as NIS 2.5 million (and could even reach NIS 23 million). Pelephone and its legal advisers are studying the claim material and are unable to estimate, at this stage, its chances and its implications.

13. In August 2001 an application was filed in the Tel Aviv District Court for approval of a class action against Pelephone Communications Ltd. ("Pelephone"). The applicant alleges that the Pelephone collected payment for a change of discounted destination, despite the fact that when the contract was made with him, he was

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

NOTE 6 - CONTINGENT LIABILITIES (C0NTD.)

A. Claims and contingent liabilities (contd.)

notified that changing a discounted destination does not involve payment (even though this is not written in the contract). The plaintiff is requesting to represent all the customers who signed contracts with Pelephone for the receipt of cellular communication services, and he alleges that they too were promised that the change of destination service is free of charge. Pelephone and its legal advisers are studying the claim material and are unable to estimate, at this stage, its chances and its implications.

14. In August 2001 an application was filed in the Tel Aviv District Court for approval of a class action against Pelephone Communications Ltd. ("Pelephone"). The applicant, through his lawyer, alleges that Pelephone collected from its customers excess amounts for reciprocal connection fees, in contravention of the regulations applicable thereto and/or of its license. Pelephone and its legal advisers are studying the claim material and are unable to estimate, at this stage, its chances and its implications.

15. Further to Note 21A(14) to the financial statements of December 31, 2000 concerning a class action against Pelephone Communications Ltd. on the matter of charging value added tax within the territory of the Eilat free trade zone, in light of the consensual application filed by the parties, a decision was given whereby the application for approval of the action as a class action will be stricken with no order to pay costs.

B. Forward Exchange Contracts

The Company has entered into forward exchange contracts as a hedge against exposure resulting from changes in the CPI and from changes in the exchange rates of foreign currencies. As at June 30, 2001, the Company contracted to purchase approximately US $316 million (approximately NIS 1,316 million) for which it will pay approximately NIS 1,318 million linked to the CPI, and approximately 107 million euros (approximately NIS 379 million), for which it will pay approximately NIS 400 million linked to the CPI. The contracts mature on various dates, the last of which is April 2003. The Company also contracted to purchase approximately US $61 million (approximately NIS 254 million), for which it will pay approximately NIS 255 million at predetermined rates, and approximately 195 million euros (NIS 688 million), for which it will pay approximately NIS 720 million at predetermined rates, and approximately NIS 502 million linked to the CPI, for which it will pay approximately NIS 508 million.

NOTE 7 - SHARE CAPITAL

A. The General Meeting which convened on November 23, 2000 resolved to approve the recommendation of the Board of Directors of the Company to increase the registered capital of the Company by NIS 1.6 billion of ordinary shares and to distribute bonus shares in the amount of 1.6 billion shares, so that in respect of each share of a par value of NIS 1, two bonus shares of a par value of NIS 1 each will be distributed. For this purpose, it was resolved to capitalize undesignated earnings to a reserve fund which will be earmarked for the distribution of bonus shares, and to authorize the Board of Directors to issue those bonus shares. In January 2001, approval was received from the Ministerial Committee for Privatization for the increase of the registered capital for allotment of the bonus shares. The increase in the registered capital and the allotment of the bonus shares as aforesaid, were implemented in February 2001.

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

NOTE 7 - SHARE CAPITAL (CONTD.)

B. The General Meeting which convened on April 30, 2001 resolved to approve an increase in the registered capital of the Company by 130 million of ordinary shares, which will be designated for raising capital as defined in the privatization resolution of the Company dated August 27, 2001. The terms for the cancellation of capital that is not allotted were also resolved. On June 11, 2001 the Ministerial Committee for Privatization approved the resolution of the General Meeting stated above.

NOTE 8 - REVENUES FROM TELECOMMUNICATION SERVICES

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Revenues from telephone services -					
Domestic fixed-line communications	1,201,999	1,281,744	582,215	604,117	2,553,733
Cellular telephone (1)	1,029,841	1,159,136	528,794	490,003	2,169,353
Fixed fees	1,035,929	996,728	514,037	498,174	2,010,724
International communications and Internet services	384,681	410,073 *	190,074	204,247 *	855,765
Installation and sale of equipment to subscribers	219,244	254,088	105,903	121,203	501,777
Other	64,673	72,478	28,024	32,099	141,947
	3,936,367	4,174,247	1,949,047	1,949,843	8,233,299
Other revenues	144,640	117,997	69,214	61,084	262,200
	4,081,007	4,292,244	2,018,261	2,010,927	8,495,499

* Reclassified

(1) See Note 1B(3)

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

NOTE 9 - OPERATING AND GENERAL EXPENSES

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Salaries and related expenses	954,659	867,690	482,766	423,888	1,694,787
Cellular telephone expenses (1)	229,570	350,123	156,530	58,112	515,386
General expenses	336,903	306,819 *	163,117	141,895 *	687,870
Materials and spare parts	243,713	214,211	130,327	117,748	422,742
Services and maintenance by sub-contractors	162,545	193,594	85,074	93,789	402,523
Building maintenance	195,634	185,290	94,588	88,953	392,974
International communications expenses	108,616	143,217	49,923	74,212	253,852
Vehicle maintenance expenses	39,753	35,322	20,053	18,480	73,404
Collection fees	18,979	20,003	9,621	10,226	39,442
	2,290,372	2,316,269	1,191,999	1,027,303	4,482,980
Less – salaries charged to investment in fixed assets	69,551	78,584	33,448	39,115	151,597
	2,220,821	2,237,685	1,158,551	988,188	4,331,383

* Reclassified

(1) See Note 1B(3)

NOTE 10 - CONDENSED INTERIM FINANCIAL STATEMENTS OF THE COMPANY

A. STATEMENTS OF OPERATIONS

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Revenues from telecommunication services (Note 10B)	2,980,600	3,255,779	1,472,715	1,461,720	6,321,662
Costs and expenses					
Operating and general expenses (Note 10C)	1,278,508	1,428,615	678,035	543,158	2,564,330
Depreciation	1,071,017	1,141,083	527,948	569,107	2,271,231
Royalties to the Government of Israel	95,837	102,222	43,613	47,876	203,105
	2,445,362	2,671,920	1,249,596	1,160,141	5,038,666
Operating income	535,238	583,859	223,119	301,579	1,282,996
Debentures:					
Financing income (expenses), net	(17,397)	(147,309)	11,983	(28,428)	(297,605)
Earnings after financing expenses	517,841	436,550	235,102	273,151	985,391
Other income (expenses), net	19,211	114,853	672	7,708	(1,246,541)
Earnings (losses) before taxes on income	537,052	551,403	235,774	280,859	(261,150)
Tax benefit (income tax)	(187,572)	(200,423)	(73,271)	(102,724)	140,333
	349,480	350,980	162,503	178,135	(120,817)
Company's equity in losses of affiliated companies	(193,309)	(146,905)	(78,393)	(68,933)	(434,545)
Net earnings (loss)	156,171	204,075	84,110	109,202	(555,362)

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

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

B. REVENUES FROM TELECOMMUNICATIONS SERVICES

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Revenues from telephone services -					
Domestic fixed-line communications	1,213,009	1,290,839	587,784	608,585	2,574,883
Cellular telephone (1)	347,033	556,575	185,267	153,778	851,843
Fixed fees	985,146	932,351	489,394	464,742	1,903,256
International communications	162,950	185,293	82,125	95,289	392,779
Installation and sale of equipment to subscribers	71,226	103,935	33,391	47,769	213,628
Other	64,614	73,219	27,829	32,454	145,722
	2,843,978	3,142,212	1,405,790	1,402,617	6,082,111
Other revenues	136,622	113,567	66,925	59,103	239,551
	2,980,600	3,255,779	1,472,715	1,461,720	6,321,662

C. OPERATING AND GENERAL EXPENSES

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Salaries and related expenses	752,459	697,890	377,646	337,380	1,327,229
Cellular telephone expenses (1)	70,297	294,613	70,297	-	306,199
General expenses	123,750	111,127	65,395	52,382	236,242
Materials and spare parts	35,782	16,506	16,369	8,287	39,454
Services and maintenance by sub-contractors	136,779	167,602	70,020	77,912	344,497
Building maintenance	172,348	163,375	83,952	77,655	347,708
International communications expenses	5,016	6,200	2,417	3,130	12,280
Vehicle maintenance expenses	32,819	30,060	15,906	15,353	63,105
Collection fees	18,809	19,826	9,481	10,174	39,213
	1,348,059	1,507,199	711,483	582,273	2,715,927
Less - salaries charged to investments in fixed assets	69,551	78,584	33,448	39,115	151,597
	1,278,508	1,428,615	678,035	543,158	2,564,330

(1) See Note 1B(3).

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

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

1. BEZEQ INTERNATIONAL LTD.

A. Balance sheet

	June 30, 2001	June 30, 2000	December 31, 2000
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	204,118	335,881	269,758
Investments	14,586	-	38,593
Fixed assets	376,463	348,960	363,696
Other assets	20,224	15,311	18,403
	615,391	700,152	690,450
Current liabilities	329,219	422,595	504,969
Long-term liabilities	191,913	1,451	33,106
Quasi-capital receipt	160,242	160,242	160,242
Shareholders' equity (deficit)	(65,983)	115,864	(7,867)
	615,391	700,152	690,450

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

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

1. BEZEQ INTERNATIONAL LTD. (CONTD.)

B. Statement of Operations

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001	2000	2001	2000	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands		NIS thousands		NIS thousands
Revenues from international telecommunications services	325,440	343,646 *	161,749	166,422 *	679,181
Operating expenses	252,408	295,110	124,831	140,603	571,203 *
Gross profit	73,032	48,536	36,918	25,819	107,978
Marketing expenses	58,247	63,382	26,776	26,896	167,233
General and administrative expenses	50,518	41,818 *	25,338	20,759 *	91,292 *
	108,765	105,200	52,114	47,655	258,525
Operating loss	(35,733)	(56,664)	(15,196)	(21,836)	(150,547)
Financing income (expenses), net	(6,167)	3,550	(3,073)	1,799	(3,214)
Loss after financing, net	(41,900)	(53,114)	(18,269)	(20,037)	(153,761)
Other revenues (expenses), net	4,321	(26,037)	5,845	(11,160)	(40,158)
Loss before taxes on income	(37,579)	(79,151)	(12,424)	(31,197)	(193,919)
Income tax	-	-	-	-	(1,638)
Loss after taxes on income	(37,579)	(79,151)	(12,424)	(31,197)	(195,557)
Company's equity in losses of affiliated company	(20,537)	(3,251)	(16,652)	(1,749)	(10,576)
Net loss	(58,116)	(82,402)	(29,076)	(32,946)	(206,133)

* Reclassified

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

NOTE 12 - CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD. (CONTD.)

2. PELEPHONE COMMUNICATIONS LTD.

A. Balance sheet

	June 30, 2001	June 30, 2000	December 31, 2000
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	1,113,588	1,070,725	1,142,469
Long-term trade receivables	90,837	47,586	72,044
Investment in affiliate	66	-	1,456
Reserve for compensation fund, net	-	1,560	-
Fixed assets, net	2,800,782	2,688,446	2,894,659
Other assets	688,660	590,716	686,943
	4,693,933	4,399,033	4,797,571
Current liabilities	1,919,436	1,710,833	2,106,724
Provision for losses of investee company	-	9,205	-
Long-term liabilities	1,022,510	713,070	796,625
Minority rights	13,717	477	5,699
Shareholders' equity	1,738,270	1,965,448	1,888,523
	4,693,933	4,399,033	4,797,571

Notes to the Interim Consolidated Financial Statements as at June 30, 2001 (Unaudited)

NOTE 12 - CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD. (CONTD.)

2. PELEPHONE COMMUNICATIONS LTD. (CONTD.)

B. Statement of Operations

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)	2000 (Audited)
	NIS thousands		NIS thousands		NIS thousands
Revenues from Pelephone services, sales and services	1,768,718	1,700,824	885,270	862,924	3,480,237
Cost of Pelephone services, sales and services	1,542,055	1,412,604	786,971	733,246	2,908,169
Gross profit	226,663	288,220	98,299	129,678	572,068
Sales and marketing expenses	241,355	206,061	115,840	114,432	453,348
General and administrative expenses	112,113	100,571	60,269	49,451	202,340
	353,468	306,632	176,109	163,883	655,688
Operating loss	(126,805)	(18,412)	(77,810)	(34,205)	(83,620)
Financing expenses, net	(55,218)	(50,753)	(15,117)	(15,411)	(99,086)
Other income, net	1,601	401	1,053	654	1,734
Loss before taxes on income	(180,422)	(68,764)	(91,874)	(48,962)	(180,972)
Tax benefit	26,767	19,969	1,427	14,678	52,010
Loss after taxes on income	(153,655)	(48,795)	(90,447)	(34,284)	(128,962)
Minority equity in losses of a consolidated company	6,793	796	2,897	796	9,900
Company's equity in losses of an investee company	(3,390)	(5,183)	(1,350)	(2,725)	(11,044)
Net loss	(150,252)	(53,182)	(88,900)	(36,213)	(130,106)