"BEZEQ" THE ISRAEL TELECOMMUNICATION CORP. LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2000

(UNAUDITED)

Contents

The Board of Directors
"Bezeq" The Israel Telecommunication Corp. Limited

Dear Sirs,

Re: Review of the Unaudited Interim Consolidated Financial Statements for the Three Month Period Ended March 31, 2000

At your request we have reviewed the interim consolidated balance sheet of "Bezeq" The Israel Telecommunication Corp. Limited and its subsidiaries as at March 31, 2000, as well as the interim consolidated statements of operations, changes in shareholders' equity and cash flows for the three month period 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 Shareholders Meetings and of meetings 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 as at March 31, 2000 constitute approximately 4.68% of total consolidated assets and whose revenues constitute approximately 7.09% of the total consolidated revenues for the three months then ended. Furthermore, the data included in the financial statements relating to the net asset value of the Company's investments in affiliates and its equity in their operating results is based on their interim financial statements reviewed by other auditors.

As the review is limited in 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 matters, 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.

Yours truly,

Somekh Chaikin
Certified Public Accountants (Isr.)

May 23, 2000

Interim Consolidated Balance Sheets

In terms of shekels of March 2000

	March 31 2000 (Unaudited)	March 31 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current Assets			
Cash and cash equivalents	433,638	717,945	656,137
Short-term investments	135,342	482,124	297,468
Trade receivables	1,373,397	1,574,728	1,504,273
Other receivables and debit balances	591,513	397,071	476,638
Inventory	107,108	110,843	108,866
	2,640,998	3,282,711	3,043,382
Materials and spare parts	191,444	225,538	228,428
Investments and long-term receivables			
Deposits and debit balances	259,649	302,475	272,380
Investee companies	154,690	46,870	74,577
	414,339	349,345	346,957
Fixed assets			
Cost	28,719,258	28,641,558	28,401,039
Less - accumulated depreciation	16,548,922	15,172,174	15,898,938
	12,170,336	13,469,384	12,502,101
Other assets			
Deferred charges and other assets	291,701	49,461	252,117
Deferred taxes	186,800	*429,966	234,838
	478,501	479,427	486,955
	15,895,618	17,806,405	16,607,823

* Reclassified

	March 31 2000 (Unaudited)	March 31 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current liabilities			
Short-term bank credit	446,480	136,931	267,701
Current maturities of:			
Debenture issued to the Government of Israel	233,268	932,214	465,211
Long-term bank loans	1,054,463	925,330	1,040,571
Other debentures	207,098	214,148	222,767
Trade payables	860,371	948,006	1,142,272
Dividend payable	-	-	297,887
Employee severance benefits	232,763	344,764	346,902
Other current liabilities	858,673	1,056,138	815,707
	3,893,116	4,557,531	4,599,018
Long-term liabilities			
Debenture issued to the Government of Israel	-	233,055	-
Long-term loans	3,198,417	3,700,756	3,197,133
Other debentures	1,130,772	1,177,085	1,238,333
Convertible debentures	-	396,879	-
Employee severance benefits	66,820	371,467	77,506
Deferred taxes	21,570	*25,975	19,126
Deferred revenues	75,487	82,898	77,819
	4,493,066	5,988,115	4,609,917
Convertible debentures	82,159	-	230,849
Contingent liabilities			
Shareholders' equity	7,427,277	7,260,759	7,168,039
	15,895,618	17,806,405	16,607,823

Israel Tapoohi	Iris Stark	Ilan Biran	Oren Lieder
Chairman of the Board	Member of the Board	CEO	Chief Financial Officer

Date of approval of the financial statements: May 23, 2000.

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

Interim Consolidated Statements of Operations

In terms of shekels of March 2000

	For the three months ended March 31		For the year ended December 31
	2000 (Unaudited)	**1999 (Unaudited)**	**1999 (Audited)**
	NIS thousands	**NIS thousands**	**NIS thousands**
Revenues from telecommunications services (Note 7)	2,225,566	*2,321,919	9,031,846
Costs and expenses			
Operating and general expenses (Note 8)	1,216,407	1,203,582	5,049,134
Depreciation	672,744	668,830	2,687,737
Royalties to the Government of Israel	80,891	78,958	297,683
	1,970,042	1,951,370	8,034,554
Operating income	255,524	370,549	997,292
Financing expenses			
On debenture issued to the Government of Israel:	5,943	24,725	55,376
Interest (including erosion)	123,938	103,258	300,305
Banks and others, net (including erosion)			
	129,881	127,983	355,681
Earnings after financing expenses	125,643	242,566	641,611
Other income (expenses), net	89,248	(274,017)	(551,648)
Earnings (loss) before income tax	214,891	(31,451)	89,963
Tax benefit (income tax)	(95,370)	2,159	(62,030)
	119,521	(29,292)	27,933
Equity in losses of affiliates	(26,121)	(392)	(21,287)
Net earnings (loss)	93,400	(29,684)	6,646
Earnings (loss) per NIS 1 par value of ordinary shares (in NIS)			
Basic and diluted earnings (loss) per share	0.12	(0.04)	0.02

* Reclassified

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

Notes to the Interim Consolidated Financial Statements as at March 31, 2000 (Unaudited)

Interim Statement of Changes in Shareholders' Equity

In terms of shekels of March 2000

	Share capital	Receipt from issue of option warrants	Share premium capital reserve	Capital reserve in respect of transactions between the Company and a controlling shareholder	Retained earnings	Total
	NIS thousands					
Three months ended March 31, 2000						
Balance as at December 31, 1999 (audited)	4,082,467	-	643,908	35,215	2,406,449	7,168,039
Net earnings (unaudited)	-	-	-	-	93,400	93,400
Erosion of dividend proposed last year and paid this year (unaudited)	-	-	-	-	(1,404)	(1,404)
Tax benefit in respect of shares to employees (unaudited)	-	-	21,494	-	-	21,494
Conversion of convertible debentures (unaudited) (1)	13,010	-	132,738	-	-	145,748
Balance as at March 31, 2000 (unaudited)	4,095,477	-	798,140	35,215	2,498,445	7,427,277
Three months ended March 31, 1999						
Balance as at December 31, 1998 (audited)	4,064,783	-	473,696	35,215	2,697,690	7,271,384
Net loss (unaudited)	-	-	-	-	(29,684)	(29,684)
Conversion of convertible debentures (unaudited) (2)	1,812	-	17,247	-	-	19,059
Balance as at March 31, 1999 (unaudited)	4,066,595	-	490,943	35,215	2,668,006	7,260,759
Year ended December 31, 1999						
Balance as at December 31, 1998 (audited)	4,064,783	-	473,696	35,215	2,697,690	7,271,384
Net earnings (audited)	-	-	-	-	6,646	6,646
Dividend in respect of previous year (audited)	-	-	-	-	(297,887)	(297,887)
Conversion of convertible debentures (audited) (3)	17,684	-	170,212	-	-	187,896
Balance as at December 31, 1999 (audited)	4,082,467	-	643,908	35,215	2,406,449	7,168,039

(1) 132,655,287 par value convertible debentures were converted to 13,108,230 ordinary shares with a par value of NIS 1 each.
(2) 17,734,409 par value convertible debentures were converted to 1,752,412 ordinary shares with a par value of NIS 1 each.
(3) 178,187,698 par value convertible debentures were converted to 17,607,480 ordinary shares with a par value of NIS 1 each.

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

Interim Consolidated Statements of Cash Flows

In terms of shekels of March 2000

	For the three months ended March 31		For the year ended December 31
	2000 (Unaudited)	**1999 (Unaudited)**	**1999 (Audited)**
	NIS thousands	**NIS thousands**	**NIS thousands**
Cash flows generated by operating activities			
Net earnings (loss)	93,400	(29,684)	6,646
Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities (see A below)	606,594	376,618	2,339,543
Net cash flow generated by operating activities	699,994	346,934	2,346,189
Cash flows generated by investing activities			
Acquisition of fixed assets	(524,061)	(329,929)	(1,400,290)
Proceeds from disposal of fixed assets	4,918	4,109	19,867
Investment in long-term deposits	(15,815)	(11,262)	(15,627)
Realization of long-term deposits and investments	30,627	22,380	111,333
Decrease (increase) in short-term investments, net	165,568	(99,279)	83,965
Decrease (increase) in materials and spare parts	14,150	(2,854)	(79,058)
Investments in investee companies	(106,234)	(11,162)	(59,764)
Investment in other assets	(71,091)	(28,682)	(286,888)
Net cash flow used for investing activities	(501,938)	(456,679)	(1,626,462)
Cash flows generated by financing activities			
Repayment of debenture issued to the Government of Israel	(233,702)	(233,543)	(927,166)
Issue of other debentures (after deduction of issue expenses)	-	98,909	260,043
Repayment of other debentures	(126,918)	(117,405)	(204,056)
Receipt of long-term loans	302,550	306,761	712,019
Repayment of long-term loans	(241,973)	(284,880)	(1,093,048)
Receipt of short-term bank credit, net	178,779	136,931	267,701
Dividend paid	(299,291)	-	-
Net cash flow used for financing activities	(420,555)	(93,227)	(984,507)
Decrease in cash and cash equivalents	(222,499)	(202,972)	(264,780)
Cash and cash equivalents at beginning of period	656,137	920,917	920,917
Cash and cash equivalents at end of period	433,638	717,945	656,137

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

Interim Consolidated Statements of Cash Flows (contd.)

In terms of shekels of March 2000

	For the three months ended March 31		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
A - Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities			
Revenues and expenses not involving cash flows:			
Depreciation	672,744	668,830	2,687,737
Provision for decrease in value of fixed assets	-	-	105,083
Deferred taxes	94,747	(55,113)	78,323
Company's equity in losses of investee companies, net	26,121	392	21,287
Decrease in employee severance benefits, net	(124,825)	(5,704)	(297,504)
Gain on disposal of fixed assets	(491)	(629)	(16,191)
Provision for decrease in value of an affiliated company	-	-	(14,737)
Appreciation of and interest on investment in long-term deposits and futures contracts	28,971	24,948	16,727
Appreciation of short-term investments, net	(3,442)	(1,714)	(313)
Appreciation (erosion) of long-term liabilities:			
Debenture issued to the Government of Israel	1,759	4,017	(2,379)
Other debentures	3,688	5,013	807
Long-term loans	(52,713)	(47,212)	(35,780)
Convertible debentures	-	1,219	138
Interest and amortization	28,565	3,554	58,101
Changes in asset and liability items:			
Decrease (increase) in trade receivables	131,523	(40,946)	54,133
Increase in other receivables and debit balances	(137,646)	(31,383)	(104,307)
Decrease (increase) in inventory	5,566	(69,948)	(80,944)
Increase (decrease) in trade payables	(84,288)	(78,894)	91,751
Increase (decrease) in other current liabilities	18,647	1,376	(216,125)
Decrease in deferred revenues	(2,332)	(1,188)	(6,264)
	606,594	376,618	2,339,543

B - Non-cash transactions

Acquisition of fixed assets, materials and spare parts on credit	122,537	296,786	320,218
Sale of fixed assets on credit	22,770	-	22,770
Dividend proposed for payment	-	-	297,887

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

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, 1999 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, 1999. The significant changes which occurred from the date of the annual financial statements to the date of these financial statements are detailed below:

1. In connection with the opening of the domestic communications market to competition and determination of the Company's tariffs, the following developments occurred:

   a. Access fees from the international telecommunications operators were reduced as of January 1, 2000 by approximately 30%, in accordance with the licenses of the operators which determined that the access fees would be reduced each year by that percentage.

   b. The tariff update which was supposed to take effect on January 1, 2000, took effect on May 1, 2000. The update consisted of lowering the Company's tariffs by an average of 2.43%. Furthermore, a number of tariff baskets were offered, mostly for Internet users, the significance of which is lower tariffs. The tariff update was accompanied by a change in the method of charging for calls, principally a change in the method of charging from charging by meter pulses to charging by time (subject to a minimum tariff per call).

   c. 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 monies 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 same Operator also applied for a temporary injunction instructing as aforesaid until a decision would be given in the principal action. In the hearing which was held before the court, it was agreed by the parties that the application for the temporary injunction would be withdrawn, and that the parties reached consensus as to the procedures in the subsequent stages of conducting the action. The results of this proceeding cannot be assessed.

      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 reported period are approximately NIS 280 million (March 31, 1999 - approximately NIS 330 million).

NOTE 1 - GENERAL (CONTD.)
B. (contd.)

d. At the beginning of April 2000, the Attorney General made a decision in the dispute between the Ministries of Justice and Communications on the question of whether the Minister of Communications may award to cable broadcasting franchisees, a license to provide fixed-line domestic communication services by means of the cable infrastructure which exists today, without a tender, or alternatively, without receipt of special consideration. The main thrust of the Attorney General's decision was that according to the current legal situation, the Minister of Communications is not authorized to award licenses of which the practical significance is unlimited extension of the franchises, and that for implementation of a decision to change the policy for awarding franchises to a policy of awarding licenses, legislative action would be required.

The decision of the Attorney General is likely to have a material effect on the communications market in a way which cannot be assessed by the Company.

NOTE 2 - ACCOUNTING POLICIES

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, except for the following:

A. As of January 1, 2000, the provisions of Accounting Standard Number 3 - Capitalization of Credit Costs apply. Pursuant to the standard, credit costs relating to assets in the process of installation are capitalized until the date on which all the essential activities required for preparing them for their designated use are completed. In the reported period, credit costs amounting to NIS 4.4 million were capitalized at an interest rate of 2.3% in the quarter.

B. The cost of inventory up to December 31, 1999 was determined by the "first in first out" method. As at March 31, 2000, the cost of inventory was determined by the rolling average method. The cumulative effect as at the beginning of the year in respect of the change in the accounting method as aforesaid, is not material.

NOTE 3 - ADJUSTED FINANCIAL STATEMENTS

The financial statements are prepared on the basis of the historical cost convention adjusted for changes in the general purchasing power of the Israeli currency. Below are details of the changes which occurred in the Consumer Price Index and the exchange rate of the US dollar:

	Consumer Price Index	US dollar exchange rate
	%	%
For the three month period ended:		
March 31, 2000	(1.22)	(3.06)
March 31, 1999	(1.44)	(3.03)
For the year ended December 31, 1999	1.34	(0.17)

NOTE 4 - INVESTMENTS IN INVESTEE COMPANIES

A. Emitel Telecommunication Corp. Ltd. (hereinafter: "Emitel")

On April 17, 2000, Aphrodite B.V. (hereinafter: "Aphrodite"), which is held indirectly by the Company (66.7%), signed a memorandum of understanding whereby, subject to receipt of various approvals, including approvals of authorities and its signature on a final agreement, Aphrodite will sell all of its holdings in Emitel. In consideration of the sale, Aphrodite will receive a sum which will be calculated according to a determined formula and which will in any case not be less than the sum of 50 million US dollars. The indirect investment in Emitel is recorded in the Company's books at equity value and amounts to approximately NIS 38 million as at March 31, 2000. If the sale is actually made, and assuming payment of the minimum consideration, the Company expects to include in its financial statements a pre-tax gain of approximately NIS 93 million.

B. Cellular communications project in India

During the report period, the Company increased its investment in the joint venture company in India by approximately NIS 22.3 million, recorded its equity in the joint venture company's losses as well as the liability in its favor in the books of the joint company, in the amount of approximately NIS 23 million, in respect of the guarantees which were called in during 1999.

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

Under the shareholders' agreement which the Company and other principals signed in December 1998, the Company is entitled to hold approximately 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 is a venture in the process of development, and foresees considerable losses and negative cash flow from operations in the first years of its activities. A bank with which DBS entered into a long-term financing agreement refused to grant further credit. DBS is negotiating with other banks for long-term credit lines to finance its ongoing activities.

After the report date, the Company increased its investment in DBS by approximately NIS 48 million, so that its investment in that company is now approximately NIS 138 million.

According to a decision of the Ministerial Committee for Privatization, the maximum cumulative exposure of the Company in connection with this investment shall not exceed, at any time, the rate of the company's actual holding in DBS, multiplied by $ 216 million (approximately NIS 864 million).

The Company's equity in the cumulative loss of DBS amounts to approximately NIS 40 million, of which approximately NIS 16 million were recorded in the report period.

D. Agreement to establish an investee company

On March 16, 2000, an agreement was signed between a proportionally-consolidated company and Sunycom Ltd., to establish GoNext Ltd. (hereinafter: "GoNext"), which will be involved principally in setting up a portal with links to the cellular medium. The proportionally-consolidated company will hold 51% of the shares of GoNext. As at the date of the financial statements, GoNext was not yet operative.

NOTE 5 - LIABILITIES FOR EMPLOYEE SEVERANCE BENEFITS

Restructuring plan

In March 2000, the Company's management presented to the Board of Directors a plan based on a material change in its organizational and functional concept, in a pattern similar to the change already made in several similar communications companies in other countries, with the transition to operating in a competitive environment. The Board of Directors of the Company approved the plan after receiving clarification from the Company's management. It is estimated that the retirement of some 500 to 600 employees is needed for implementation of the plan. The estimated cost of this retirement plan, which is pursuant to an agreement which remains in effect until June 30, 2000, is approximately NIS 288 million, which were included in the financial statements for 1999. By March 31, 2000, 122 workers had retired as part of the plan. The Company has approached the Companies Authority for its consent to extend the term of the agreement to March 31, 2001. The Companies Authority has not yet approved the requested extension. The management of the Company remains in contact with the Companies Authority for receipt of its approval. In accordance with an agreement which was validated as a decision of the Labor Tribunal, the term of the agreement has been extended, at this stage, to July 15, 2000.

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, 1999. No material changes occurred in the contingent liabilities up to the date of signing these financial statements, except for the following:

1. In connection with the change of tariffs on May 1, 2000, as described in Note 1, a petition was filed in the High Court of Justice against the Minister of Communications as the principal respondent, and the Minister of Finance, the Chairman of the Knesset Finance Committee and the Company as "formal" respondents. The subject of the petition is faults which allegedly occurred in the process of approval of the Telecommunications Regulations relating to the tariffs and a change in the method of charging. An application for an interim injunction to prevent implementation of the tariff change, was dismissed by the court, and the new tariffs took effect on the designated date. At this stage, the legal advisors of the Company are unable to estimate the chances of the petition.

2. In April 2000, a company for the provision of cable television broadcasts filed a claim against the Company, in which it petitioned for a writ of permanent mandatory order to enforce an agreement to upgrade its cable network, or alternatively, to enable it to carry out the works itself or through a contractor on its behalf. The claim alleged that as a result of Company sanctions, the upgrade works were interrupted and that this constitutes breach of contract. The same company also petitioned the court for a writ of temporary mandatory order against the Company. The court instructed the Company to respond in writing to the petition. The Company has filed a statement of response, and a statement of defense will be filed in the near future.

NOTE 6 - CONTINGENT LIABILITIES (CONTD.)

A. Claims and contingent liabilities (contd.)

3. After the date of the financial statement, and further to the contents of Note 9E to the financial statements as at December 31, 1999, the application for leave to appeal which was filed in the Supreme Court by the software supplier, against calling in the bank guarantee by the Company, was dismissed and the temporary injunction which was given in the framework of the request for leave to appeal, was canceled. Consequently, the Company recorded earnings in the amount of the guarantee, approximately NIS 83 million, in the report period, which is included as part of the other earnings item.

4. In connection with the claim of a cellular communications service operator, see Note 1B1c.

B. Forward currency contracts

The Company has entered into forward exchange contracts as a hedge against exposure resulting from changes in the exchange rate of the US dollar in relation to changes in the CPI. As at March 31, 2000, the Company is contracted to purchase approximately US $366 million (approximately NIS 1,473 million) for which it will pay approximately NIS 1,501 million linked to the CPI. The contracts mature on various dates, the last of which is March 2002. The Company also contracted to purchase approximately US $375 million (approximately NIS 1,510 million) for which it will pay, at an agreed rate, approximately NIS 1,517 million.

NOTE 7 - REVENUES FROM TELECOMMUNICATIONS SERVICES

	For the three months ended March 31		For the year ended December 31
	2000 (Unaudited)	1999* (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues from telephone services -			
Domestic calls	662,015	821,443	2,716,950
Cellular telephone	653,716	665,690	2,802,984
Usage fees	487,068	396,270	1,796,853
International communications	197,894	219,340	881,630
Installation and sale of equipment to subscribers	129,823	139,735	473,326
Other	39,448	28,066	139,715
	2,169,964	2,270,544	8,811,458
Other revenues	55,602	51,375	220,388
	2,225,566	2,321,919	9,031,846

* Reclassified

NOTE 8 - OPERATING AND GENERAL EXPENSES

Notes to the Interim Consolidated Financial Statements as at March 31, 2000 (unaudited)

	For the three months ended March 31		For the year ended December 31
	2000 (Unaudited)	1999* (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Salaries and related expenses	433,577	419,092	1,650,750
Cellular telephone expenses	310,334	290,752	1,348,281
International communications expenses	67,415	62,027	261,374
Materials and spare parts	68,596	109,796	276,076
Building maintenance	94,117	98,945	391,855
Services and maintenance by sub-contractors	97,506	114,941	464,963
General expenses	157,416	135,456	707,495
Vehicle maintenance expenses	16,454	13,942	64,659
Collection fees	9,552	10,651	41,601
	1,254,967	1,255,602	5,207,054
Less - salaries charged to investments in fixed assets	38,560	52,020	157,920
	1,216,407	1,203,582	5,049,134

* Reclassified

NOTE 9 - CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD.

1. BEZEQ INTERNATIONAL LTD.

A. Balance sheet

	March 31 2000 (Unaudited)	March 31 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	321,553	581,925	408,143
Investments	23,049	19,225	-
Fixed assets	324,430	278,901	310,402
Other assets	16,024	13,270	12,109
	685,056	893,321	730,654
Current liabilities	383,132	425,572	380,414
Long-term liabilities	-	19,674	-
Quasi-capital receipt	156,546	156,546	156,546
Shareholders' equity	145,378	291,529	193,694
	685,056	893,321	730,654

B. Statement of Operations

	For the three months ended March 31		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues from international communications services	166,755	182,684	688,207
Operating expenses	150,944	149,303	587,492
Gross profit	15,811	33,381	100,715
Marketing expenses	35,645	21,561	110,067
General and administration expenses	14,191	11,257	49,694
	49,836	32,818	159,761
Operating income (loss)	(34,025)	563	(59,046)
Financing income, net	1,710	9,783	35,637
Earnings (loss) after financing income, net	(32,315)	10,346	(23,409)
Other expenses, net	(14,533)	-	(76,595)
Earnings (loss) before income tax	(46,848)	10,346	(100,004)
Tax benefit (income tax)	-	(3,166)	8,893
Earnings (loss) after income tax	(46,848)	7,180	(91,111)
Company's equity in losses of investee company, net	(1,468)	-	-
Net earnings (loss)	(48,316)	7,180	(91,111)

Note 9 - CONDENSED FINANCIAL STATEMENTS OF BEZEQ INTERNATIONAL LTD. AND PELEPHONE COMMUNICATIONS LTD. (CONTD.)

2. PELEPHONE COMMUNICATIONS LTD.

A. Balance sheet

	March 31 2000 (Unaudited)	March 31 1999 (Unaudited)	December 31 1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	942,017	877,073	919,399
Fixed assets	2,540,685	2,447,702	2,544,026
Long-term trade receivables	39,425	33,869	11,213
Compensation fund reserve, net	2,510	-	3,440
Other assets	532,550	33,536	453,890
	4,057,187	3,392,180	3,931,968
Current liabilities	1,517,174	870,514	1,171,750
Provision for losses of investee company	6,330	-	3,929
Long-term liabilities	579,539	562,897	786,989
Shareholders' equity	1,954,144	1,958,769	1,969,300
	4,057,187	3,392,180	3,931,968

B. Statement of Operations

	For the three months ended March 31		For the year ended December 31
	2000 (Unaudited)	1999 (Unaudited)	1999 (Audited)
	NIS thousands	NIS thousands	NIS thousands
Income from cellular services, sales and services	818,619	753,740	2,938,848
Cost of cellular services, sales and services	662,538	615,199	2,348,873
Gross profit	156,081	138,541	589,975
Sales and marketing expenses	88,485	55,326	276,979
General and administration expenses	49,944	38,921	181,435
	138,429	94,247	458,414
Income from ordinary operations	17,652	44,294	131,561
Financing expenses, net	34,529	7,220	64,943
Capital losses (gains)	247	102	(515)
Earnings (loss) before income tax	(17,124)	36,972	67,133
Income tax (tax benefit)	(4,369)	15,351	31,050
Earnings (loss) after income tax	(12,755)	21,621	36,083
Company's equity in losses of investee company	2,401	-	3,929
Net earnings (loss)	(15,156)	21,621	32,154