

14 August, 2007

**BEZEQ'S FINANCIAL STATEMENTS SHOW
IMPRESSIVE NET EARNINGS GROWTH****NET EARNINGS IN FIRST HALF OF 2007:
NIS 760 MILLION, AN INCREASE OF 26%**

Tel Aviv, Israel – 14th August, 2007 – Bezeq The Israel Telecommunication Corp., Limited (TASE: BEZQ), Israel's largest telecommunications provider, announced today its financial results for the first half and second quarter 2007.

Key highlights:

- **Earnings** attributed to the shareholders of Bezeq **increased in the first half of 2007 by approximately 26% and amounted to NIS 760 million**. In the second quarter of 2007 earnings amounted to NIS 361 million, an increase of 25%.
- The Bezeq Group's **free cash flow** amounted to **NIS 1.2 billion in the first half of 2007, an increase of about 2%**.
- The Group's **EBITDA rose by 7% in the first half of the year and reached NIS 2.1 billion** (34.3% EBITDA margin vs. 32.6% in the first half of last year).
- Group **revenues** amounted to **NIS 6.1 billion in the first half of 2007, an increase of 2%** compared to the same period in 2006.
- The Company's Board of Directors recommended a **distribution of a cash dividend of NIS 760 million**, or approximately NIS 0.29 per share.

- **Bezeq Wireline**: The consistent growth in high-speed internet, data services and value-added services balanced the erosion in revenues from telephony, for the second consecutive quarter.
- **Telephone**: Net earnings increased by over 30% in the first half of the year and by 39% in the second quarter. Telephone continues to lead in 3G with over half a million subscribers (currently about 525,000 3G subscribers).
- **yes** shows improved financial results, with a decent EBITDA growth of 23% and a 33% decline in its net loss.
- **Bezeq International** has once again posted record earnings, with a 55% increase in net earnings in the first half compared to the same period last year.

Dov Weissglas, Chairman of the Board of Bezeq, said the financial results are certainly impressive, despite the difficult period the company has experienced. "The strength of the Bezeq Group is an unquestioned fact. This strength is due to its customers' faith in Bezeq, in all sectors, and its range of abilities. The Group's impressive range of communication products is reinforced, day by day, by the faith of the public that makes Bezeq, Pelephone, yes and Bezeq International their first choice. In the tumultuous Israeli market, Bezeq is an island of stability and consistency."

Weissglas went on to say, "I am pleased to discover constant and consistent improvement in results across the board, throughout my entire term at Bezeq. Bezeq Wireline, whose new growth engines – the internet, data services and value added services – have almost completely compensated for the erosion in revenues from landline telephony; Pelephone and yes, which are constantly improving their performance; and Bezeq International, which has posted record earnings every quarter."

"However, it is difficult to gloss over the regulatory restrictions imposed on Bezeq. Some of these regulations are outdated, and were it not for them, even better results could have been achieved," said Weissglas.

Acting CEO of Bezeq, Avi Gabbay, praised the financial results and thanked the employees for the immense effort they invested in the past few months, which was a difficult period for the company.

Avi Gabbay said, "Bezeq is steadily becoming a service company, and not a supplier of infrastructure only. The decline in landline telephony revenues is a global trend resulting from mobile substitution and competition. Our challenge is to prepare properly by reinforcing new growth engines and constantly improve all components of operations."

Gabby went on to say, "A significant part of Bezeq's future, and of the sector in general, lies in the hands of the Grunau Committee. We hope and believe that a coherent long-term policy will be defined, which will generate proper and healthy competition based on excellence and the consumer's choice and not on regulatory discrimination of some of the players. We hope that the committee's results will enable customers in Israel to benefit from broadband as in other parts of the world," says Gabbay.

Highlights from the consolidated results

Bezeq Group (Consolidated)	Q2			H1		
	2007	Q2 2006	Change	2007	H1 2006	Change
	(NIS millions)			(NIS millions)		
Revenues	3,053	3,019	1.1%	6,141	6,031	1.8%
Operating profit	571	516	10.6%	1,228	1,032	18.9%
EBITDA	1,007	987	2.0%	2,105	1,964	7.2%
EBITDA margin	33.0%	32.7%		34.3%	32.6%	
Net profit attributable to shareholders of the company	361	289	25.1%	760	603	26.1%
Cash flow from operating activities	695	868	-20.0%	1,548	1,724	-10.2%
Capex	178	263	-32.1%	386	580	-33.5%
Free cash flow	517	606	-14.7%	1,162	1,144	1.6%
Net debt/EBITDA* (30.6.07)	1.32					
Net debt/shareholders' equity (end of period)	1.00	0.72				

*EBITDA based on trailing twelve months

Bezeq Group's revenues increased by 1% in Q2 2007 as compared to Q2 2006, and by 2% in H1 2007 as compared to H1 2006. This increase stemmed from a 5% increase in revenues of Pelephone and yes, which was moderated by a minimal decrease in revenues from domestic landline communications (Bezeq Wireline).

The Group's EBITDA in Q2 2007 was about NIS 1 billion (33% EBITDA margin), an increase of 2% compared with Q2 2006 (32.7%). In H1 2007, EBITDA grew by 7.2% and reached NIS 2.1 billion (34.3% EBITDA margin vs 32.6% in H1 2006). The EBITDA growth in H1 2007 resulted primarily from a decline in depreciation costs, operating and general expenses and a decrease in other operational expenses. In H1 2007, all of the Group's sectors showed improved operating profit.

Net profit attributed to Bezeq shareholders amounted to NIS 361 million in Q2 2007, an increase of 25% compared to Q2 2006. In H1 2007, earnings increased by 26% and amounted to NIS 760 million.

CAPEX amounted to NIS 178 million in Q2 2007, a decrease of 32%, and NIS 386 million in H1 2007, a decrease of 34%. This decline was mainly a result of higher proceeds from sale of property, plant and equipment in Q2 2007 as compared to Q2 2006.

The Bezeq Group's free cash flow declined by 15% in Q2 2007 and amounted to NIS 517 million, but increased by 2% to NIS 1.16 billion in H1 2007.

At the end of June 2007, the Group's net financial debt was NIS 4.71 billion, compared with NIS 4.31 billion at the end of June 2006.

The Company's Board of Directors recommended a distribution of a cash dividend amounting to NIS 760 million, which constitutes approximately NIS 0.29 per share.

Highlights from the results of Bezeq Wireline

Bezeq Wireline experienced continued growth in broadband internet subscribers as well as in internet, transmission and data communication services. Bezeq Wireline's revenues, when adjusted for revenues from cellular airtime (collected by Bezeq and paid to the cellular companies), show stability for the second consecutive quarter (a minimal erosion of 0.3%). In fact, in H1 2007 Bezeq Wireline managed to halt the erosion in revenue for the first time in a decade. The decrease in revenues from telephony was balanced by an increase in revenues from high speed internet, data services and value-added services.

In high speed internet services, over 200,000 subscribers upgraded to packages of 2 MB and above. Bezeq also expects to reach a record number of over 200,000 high speed internet upgrades (for all bandwidths). The average monthly revenue per broadband internet user (ARPU) increased by 1% to NIS 57.9 in H1 2007.

Bezeq Wireline	<u>Q2</u>	<u>Q2</u>	<u>Change</u>	<u>H1</u>	<u>H1 2006</u>	<u>Change</u>
	<u>2007</u>	<u>2006</u>		<u>2007</u>	<u>2006</u>	
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	1,393	1,440	-3.3%	2,835	2,895	-2.1%
Operating profit	243	280	-13.1%	612	588	4.2%
EBITDA	478	538	-11.2%	1,085	1,104	-1.7%
EBITDA margin	34.3%	37.4%		38.3%	38.1%	
Number of active subscriber lines at end of period (thousands)				2,778	2,822	-1.6%
Average monthly revenue per line (NIS)*				76.9	80.5	-4.5%
Number of outgoing usage minutes (millions)				7,666	8,524	-10.1%
Number of incoming usage minutes (millions)				2,111	1,758	20.1%
Number of ADSL subscribers at end of period (thousands)				924	844	9.5%
Average monthly revenue per ADSL subscriber (NIS)				57.9	57.2	1.2%

* Not including revenues from data communications and transmission services, services to communications providers, contract and other work, and revenues from incoming traffic

Highlights from the results of Pelephone

Pelephone results continued to improve in Q2 2007 and displayed an increase in revenues, operating profit, EBITDA and net profit. This was a result, amongst other, of the marketing operations that led to a notable increase in the number of subscribers in the quarter and continued increase in revenues from content services and products. Net profit in Q2 2007 grew by 39% compared to Q2 2006. In H1 2007 earnings grew by 31% compared to H1 2006.

Pelephone added 35,000 subscribers (net) in the quarter and at the end of June 2007 it had 2.513 million active subscribers. Pelephone is a market leader in 3G subscribers and already has 525,000 subscribers, which represent 20% of all the company's subscribers. Pelephone revenues from value added and content services constituted 12.5% of all revenues from cellular services in Q2 2007, compared to 10.3% in the same quarter last year.

Pelephone	Q2 2007	Q2 2006	Change	H1 2007	H1 2006	Change
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	1,151	1,097	4.9%	2,299	2,186	5.2%
Operating profit	240	199	20.8%	453	373	21.3%
EBITDA	355	319	11.4%	685	614	11.6%
EBITDA margin	30.8%	29.1%		29.8%	28.1%	
Net profit	173	124	39.2%	327	251	30.6%
Cash flows from operating activities	238	395	-39.7%	567	641	-11.5%
Capex	117	82	42.9%	178	180	-1.2%
Free cash flow	121	313	-61.3%	389	461	-15.5%
Number of subscribers at end of period (millions)	2.513	2.323	8.2%			
Average revenue per user (NIS)	129	132	-2.3%	130	137	-5.1%
Average monthly minutes of use per subscriber	350	346	1.2%	347	345	0.6%

Highlights from the results of yes

yes announced improved results for the third consecutive quarter, with an increase in revenues, operating profit and EBITDA, and a significant decrease in the net loss (see table). The company posted a positive EBITDA of NIS 100 million in Q2 2007, compared to NIS 81 million Q2 2006. The EBITDA rose to 28.3% in Q2 2007 vs. 24.1% in Q2 2006.

The number of yes customers at the end of June 2007 was approximately 543,000.

yes	Q2 2007	Q2 2006	Change	H1 2007	H1 2006	Change
	(NIS millions)			(NIS millions)		
Revenues	354	338	4.9%	708	670	5.7%
Operating profit	31	7	343.0%	56	2	
EBITDA	100	81	23.2%	192	149	29.1%
EBITDA margin	28.3%	24.1%		27.1%	22.2%	
Net profit	(65)	(97)	-33.0%	(113)	(181)	-37.6%
Cash flows from operating activities	3	49	-94.8%	66	64	2.0%
Capex	45	54	-17.5%	90	108	-17.2%
Free cash flow	(42)	(5)	740.3%	(24)	(44)	-45.3%
Number of subscribers at end of period (thousands)	543	534	1.7%			

* Including subscriber acquisition costs

Highlights from the results of Bezeq International

Bezeq International, Israel's largest supplier of internet and international calls in Israel, posted another record for net earnings in the first half of the year, amounting to NIS 76 million, an increase of 55% compared to H2 2006. The surge in earnings reflects the successful mergers between Bezeq International and Bezeq Call, Goldnet and Actcom in the last year. The surge in net earnings can be attributed to the growth in the company's main areas of business alongside cost-cutting measures, and in particular the cancellation of unprofitable operations and reduction of expenses.

Bezeq International continues to lead the industry in revenues and it has grown in most of its business areas, with emphasis on internet and international calls. "When companies are successfully merged, the whole is larger than the sum of its parts," said acting CEO of Bezeq International, Itzik Benvenishty.

Bezeq International	Q2 2007	* Q2 2006	Change	H1 2007	* H1 2006	Change
	(NIS millions)			(NIS millions)		
Revenues	322	332	-3.1%	644	649	-0.7%
Operating profit	54	41	31.7%	104	76	37.4%
EBITDA	77	64	19.0%	150	123	22.0%
EBITDA margin	23.8%	19.4%		23.2%	18.9%	
Net profit	39	30	31.5%	76	49	55.0%
Cash flows from operating activities	32	32	1.3%	31	82	-61.9%
Capex	17	11	50.6%	24	22	8.4%
Free cash flow	16	21	-24.5%	7	60	-87.7%

* Income statement data includes results of merged companies

About Bezeq The Israel Telecommunication Corp.

Bezeq is Israel's largest telecommunications service provider. Established in 1984, the company has led Israel into the new era of communications, based on the most advanced technologies and services. Bezeq and its subsidiaries offer the full range of telecommunication services including domestic, international and cellular phone services; Internet, ADSL, and other data communications; leased lines, and corporate networks.

For more information about Bezeq please visit the corporate Web site at www.bezeq.co.il.

This press release contains general data and information as well as forward looking statements about Bezeq. Such statements include expressions of management's expectations about new and existing programs, opportunities, technology and market conditions. Although Bezeq believes its expectations are based on reasonable assumptions, these statements are subject to numerous risks and uncertainties. These statements should not be regarded as a representation that anticipated events will occur or that expected objectives will be achieved. These forward-looking statements are made only as of the date hereof and the company assumes no obligation to update any forward-looking statement.

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"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Income Statements

	For the six month period ended June 30		For the three month period ended June 30		For the year ended December 31
	2007 (Unaudited) NIS thousands	2006 (Unaudited) NIS thousands	2007 (Unaudited) NIS thousands	2006 (Unaudited) NIS thousands	2006 (Audited) NIS thousands
Revenues (Note 10)	6,141,354	6,030,989	3,052,675	3,018,890	12,231,830
Costs and expenses					
Depreciation and amortisation	877,332	931,630	436,133	471,550	1,864,035
Salary	1,159,671	1,139,105	584,274	571,891	2,586,437
Operating and general expenses (Note 11)	2,832,382	2,857,520	1,409,612	1,401,086	5,966,616
Other operating expenses (income), net	44,430	70,573	52,106	58,563	249,540
	4,913,815	4,998,828	2,482,125	2,503,090	10,666,628
Operating income	1,227,539	1,032,161	570,550	515,800	1,565,202
Financing costs					
Financing expenses					694,393
	320,916	427,123	158,529	181,037	
Financing income					(356,425)
	(189,736)	(235,182)	(85,217)	(71,078)	
Net financing expenses	131,180	191,941	73,312	109,959	337,968
Profit after financing expenses	1,096,359	840,220	497,238	405,841	1,227,234
Equity in profits of investees accounted by the equity method	1,644	4,013	1,171	2,422	11,184
Profits before income tax	1,098,003	844,233	498,409	408,263	1,238,418
Income tax	372,696	277,627	158,169	139,719	488,393
Profit for the period	725,307	566,606	340,240	268,544	750,025
Attributable to:					
The shareholders of the Company	759,842	602,808	361,092	288,706	808,995
Minority in a consolidated company	(34,535)	(36,202)	(20,852)	(20,162)	(58,970)
Profit for the period	725,307	566,606	340,240	268,544	750,025
Earnings per share					
Basic and diluted earnings per share (in NIS)	0.29	0.23	0.14	0.11	0.31



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"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Balance Sheets

	June 30, 2007 (Unaudited) NIS thousands	June 30, 2006 (Unaudited) NIS thousands	December 31, 2006 (Audited) NIS thousands
Assets			
Cash and cash equivalents	2,063,408	1,256,603	2,631,790
Trade receivables	2,161,238	2,079,960	2,111,451
Other receivables	230,984	165,257	250,657
Inventory	228,844	231,115	204,669
Broadcasting rights	205,327	188,986	169,017
Investments and loans, including derivatives	1,007,495	2,478,899	960,561
Current tax assets	11,886	11,147	11,105
Total current assets	5,909,182	6,411,967	6,339,250
Trade and other receivables	452,413	368,690	417,144
Investments and loans, including derivatives	279,271	458,662	342,175
Property, plant and equipment	6,210,952	6,833,535	6,492,362
Intangible assets	2,540,921	2,571,682	2,554,242
Deferred and other expenses	362,862	389,075	373,749
Investments in associates accounted by the equity method	33,231	24,890	32,122
Deferred tax assets	788,750	990,123	993,616
Total non-current assets	10,668,400	11,636,657	11,205,410
Total assets	16,577,582	18,048,624	17,544,660



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"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Balance Sheets (cont'd)

	June 30, 2007	June 30, 2006	December 31, 2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Loans and credit	4,187,307	2,873,564	3,637,347
Trade payables	1,332,783	1,324,091	1,393,568
Other payables, including derivatives	856,971	881,132	802,747
Current tax liabilities	70,206	55,516	121,704
Deferred income	37,142	38,306	57,879
Provisions	331,806	255,040	288,851
Employee benefits	758,716	617,889	906,203
Proposed dividend	-	-	300,000
Total current liabilities	7,574,931	6,045,538	7,508,299
Debentures	3,350,062	4,918,177	3,169,441
Obligations to banks	391,914	595,399	480,830
Loans from others	125,772	114,791	169,182
Loans provided by the minority in a subsidiary	598,785	541,482	564,250
Employee benefits	328,766	336,076	373,036
Deferred income and others	28,394	25,989	37,020
Provisions	54,140	51,722	51,857
Total non-current liabilities	4,877,833	6,583,636	4,845,616
Total liabilities	12,452,764	12,629,174	12,353,915
Shareholders' Equity			
Share capital	6,132,636	6,309,133	6,309,133
Share premium	-	1,623,423	1,623,423
Reserves	680,506	387,539	671,820
Deficit	(2,089,539)	(2,359,163)	(2,849,381)
Total equity attributable to shareholders of the Company	4,723,603	5,960,932	5,754,995
Minority equity in capital deficit of a consolidated company	(598,785)	(541,482)	(564,250)
Total shareholders' equity	4,124,818	5,419,450	5,190,745
Total shareholders' equity and liabilities	16,577,582	18,048,624	17,544,660

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Interim Consolidated Statements of Cash Flows

	For the six month period ended June 30		For the three month period ended June 30		For the year ended December 31
	2007	2006	2007	2006	2006
	(Unaudited) NIS thousands	(Unaudited) NIS thousands	(Unaudited) NIS thousands	(Unaudited) NIS thousands	(Audited) NIS thousands
Cash flows from operating activities					
Net earnings for the period	725,307	566,606	340,240	268,544	750,025
Adjustments:					
Depreciation	740,797	807,746	364,688	393,834	1,591,054
Amortisation of intangible assets	125,983	111,831	66,221	71,686	247,557
Amortisation of deferred and other charges	10,552	12,053	5,224	6,030	25,424
Gain from decrease in holdings in associates	346	(584)	28	(61)	(595)
Net financing costs	187,916	239,754	176,059	178,563	440,429
Equity in earnings of associates accounted by the equity method	(1,644)	(4,013)	(1,171)	(2,422)	(11,184)
Net capital (gain) loss	(5,461)	(7,974)	11,382	2,591	(159,017)
Share-based payment transactions	-	-	-	-	286,506
Payments to a former senior officer	5,750	-	5,750	-	-
Income tax expenses	372,696	277,627	158,169	139,719	488,393
Change in inventory	(25,587)	1,631	22,076	(8,584)	23,014
Change in trade receivables	(108,644)	27,245	(95,685)	(11,004)	109,100
Change in other receivables	(25,626)	(9,327)	26,630	23,252	(107,854)
Change in trade payables	17,382	18,349	(38,093)	(32,284)	(56,778)
Change in suppliers	(129,177)	(127,296)	(161,830)	32,214	(79,046)
Change in provisions	45,238	(5,408)	29,889	(26,797)	27,327
Change in broadcasting rights	(36,310)	(34,486)	(4,841)	(15,385)	(14,517)
Change in employee benefits	(191,757)	(160,111)	(106,851)	(137,088)	168,758
Change in deferred and other income	(8,626)	478	(46,476)	1,661	11,509
	1,699,135	1,714,821	751,409	884,469	3,740,105
Interest received	70,073	127,307	27,005	33,178	220,078
Dividend received	3,084	26,010	3,084	26,010	26,010
Income tax paid	(224,390)	(143,286)	(86,502)	(75,228)	(277,573)
Net cash from operating activities	1,547,902	1,724,152	694,996	868,429	3,708,620
Cash flows from investing activities					
Investment in intangible assets	(92,128)	(82,003)	(42,629)	(58,163)	(209,733)
Proceeds from sale of property, plant and equipment	116,395	12,905	97,084	4,847	47,804
Proceeds from realisation of deferred expenses	4,213	272	-	-	-
Current investments, net	7,375	(92,669)	(108,441)	(45,243)	1,491,439
Purchase of property, plant and equipment	(410,326)	(511,255)	(232,833)	(209,410)	(953,226)
Investment in deferred expenses and others	(2,615)	(5,365)	(1,790)	(3,324)	-
Proceeds from sale of investments and long-term loans	33,380	11,888	25,510	7,624	62,729
Purchase of investments and long-term loans	-	(12,328)	-	(2,821)	(19,723)*
Purchase of a subsidiary	(12,468)	-	-	-	-
Net cash from (used for) investment activities	(356,174)	(678,555)	(263,099)	(306,490)	419,290



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"Bezeq" The Israel Telecommunication Corp., Limited

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

	For the six month period ended June 30		For the three month period ended June 30		For the year ended December 31
	2007	2006	2007	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities					
Receipt of loans	50,000	-	50,000	-	50,000
Issue of debentures	756,813	-	756,813	-	-
Repayment of debentures	(96,874)	(179,056)	(15,241)	(30,088)	(280,350)
Repayment of loans	(148,663)	(387,263)	(79,646)	(226,182)	(1,268,656)
Short-term credit, net	(22,769)	55,578	9,254	9,262	43,146
Dividends paid	(2,099,920)	(1,200,000)	-	(1,200,000)	(1,600,000)
Interest paid	(198,571)	(236,348)	(123,198)	(147,013)	(601,752)
Net cash from (used for) financing activities	(1,759,984)	(1,947,089)	597,982	(1,594,021)	(3,657,612)
Net increase (decrease) in cash and cash equivalents	(568,256)	(901,492)	1,029,879	(1,032,082)	470,298
Cash and cash equivalents at the beginning of the period	2,631,790	2,158,773	1,032,988	2,290,704	2,158,773
Effect of fluctuations in the rate of exchange on cash balances	(126)	(678)	541	(2,019)	2,719
Cash and cash equivalents at the end of the period	2,063,408	1,256,603	2,063,408	1,256,603	2,631,790

Appendix to Condensed Interim Statements of Cash Flows

	For the six month period ended June 30		For the three month period ended June 30		For the year ended December 31
	2007	2006	2007	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Appendix of activities not affecting cash flows					
Purchase of property, plant and equipment, and intangible assets	199,549	120,140	199,549	120,140	141,518
Sale of property, plant and equipment on credit	74,506	13,996	74,506	13,996	161,800