“BEZEQ” THE ISRAEL TELECOMMUNICATION CORP. LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

(UNAUDITED)

The information contained in these financial statements constitutes a translation of the financial statements published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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

At your request, we have reviewed the condensed consolidated interim balance sheet of "Bezeq" - The Israel Telecommunication Corp. Limited ("the Company") at September 30, 2007, as well as the condensed consolidated interim statement of income, the condensed consolidated interim statement of recognised income and expense and the condensed consolidated interim statement of cash flows for the nine 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 investments in associates in which the Company's investments amount to approximately NIS 33 million at September 30, 2007, and the Company's equity in their profits amount to approximately NIS 2.405 million and NIS 761,000 for the nine-month and three-month periods then ended, respectively.

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 condensed consolidated interim 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 to the said interim financial statements in order for them to be in conformity with International Financial Reporting Standards (IFRSs) and in accordance with the provisions of Section 4 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

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

1. The continuing opening of the communications sector to competition and the effects of regulation on the Group's financial position and operating results, as described in Note 1.

2. Contingent claims made against the Group of which the exposure cannot yet be assessed or calculated, and other contingencies as described in Notes 8B and 8C.

3. The financial condition of a subsidiary, as described in Note 7A – At the balance sheet date, DBS is not in compliance with the financial criteria set for it in the financing agreement, and since those criteria are cumulative, DBS will be compelled to seek relief in connection with those conditions also at December 31, 2007. After the balance sheet date, the subsidiary received relief in connection with the financial criteria at September 30, 2007, and therefore, at the date of approval of these financial statements the subsidiary is in compliance with the financial criteria. The subsidiary's management believes that the financial resources available to it will be sufficient for the subsidiary's operating needs in the coming year. If it transpires that additional resources are required for operations in the coming year, the subsidiary will act in accordance with an alternative business plan that does not necessitate additional resources beyond those at its disposal.

Additionally, we draw attention to Note 14L to the Group's condensed consolidated interim financial statements regarding the adjustment by way of restatement of the financial statements at September 30, 2006, in order to retroactively reflect the depreciation of property, plant and equipment and the related tax effects thereon, in respect of the presentation of receipts from interconnect to the cellular networks and in respect of a reduction of lease payments of land from the Israel Lands Administration as described in the aforementioned note. These aforementioned corrections were implemented on the data presented in the Note of restatement to IFRSs in order to properly reflect, according to generally accepted accounting principles in Israel, the financial position of the Group prior to the effect of the transition to IFRSs.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 14, 2007

Condensed Consolidated Interim Balance Sheets at

	September 30, 2007	September 30, 2006	December 31, 2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Cash and cash equivalents	**1,104,769**	1,188,480	2,631,790
Investments and loans, including derivatives	**979,824**	2,335,178	960,561
Trade receivables	**2,335,772**	2,116,297	2,111,451
Other receivables	**192,297**	172,383	250,657
Inventory	**189,040**	193,532	204,669
Broadcasting rights	**223,976**	177,925	169,017
Current tax assets	**12,942**	12,132	11,105
Assets classified as held for sale	**22,562**	-	-
Total current assets	**5,061,182**	6,195,927	6,339,250
Trade and other receivables	**473,249**	363,417	417,144
Investments and loans, including derivatives	**273,751**	383,155	342,175
Property, plant and equipment	**6,075,139**	6,638,321	6,492,362
Intangible assets	**2,526,208**	2,563,121	2,554,242
Deferred and other expenses	**362,759**	381,450	373,749
Investments in associates accounted by the equity method	**33,176**	27,799	32,122
Deferred tax assets	**743,287**	899,712	993,616
Total non-current assets	**10,487,569**	11,256,975	11,205,410
Total assets	**15,548,751**	17,452,902	17,544,660

Condensed Consolidated Interim Balance Sheets at

	September 30, 2007	September 30, 2006	December 31, 2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Loans and credit	**1,970,562**	3,734,392	3,637,347
Trade payables	**1,314,852**	1,340,335	1,393,568
Other payables, including derivatives	**785,239**	856,246	802,747
Current tax liabilities	**50,832**	72,487	121,704
Deferred income	**35,933**	37,496	57,879
Provisions	**357,927**	256,813	288,851
Employee benefits	**823,126**	573,986	906,203
Dividend payable	**760,000**	-	300,000
Total current liabilities	**6,098,471**	6,871,755	7,508,299
Debentures	**4,424,859**	3,224,662	3,169,441
Obligations to banks	**341,906**	544,837	480,830
Loans from others	**132,366**	118,045	169,182
Loans provided by the minority in a subsidiary	**362,275**	558,120	564,250
Employee benefits	**243,980**	346,059	373,036
Deferred income and others	**36,856**	22,313	37,020
Provisions	**53,442**	52,805	51,857
Total non-current liabilities	**5,595,684**	4,866,841	4,845,616
Total liabilities	**11,694,155**	11,738,596	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	**684,698**	386,099	671,820
Deficit	**(2,594,341)**	(2,046,229)	(2,849,381)
Total equity attributable to shareholders of the Company	**4,222,993**	6,272,426	5,754,995
Minority interest in capital deficit of consolidated companies	**(368,397)**	(558,120)	(564,250)
Total shareholders' equity	**3,854,596**	5,714,306	5,190,745
Total shareholders' equity and liabilities	**15,548,751**	17,452,902	17,544,660

Shlomo Rodav	**Avi Gabbay**	**Ran Oz**
Chairman of the Board	Acting CEO	Deputy CEO and CFO

Date of approval of the financial statements: November 14, 2007.

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

Condensed Consolidated Interim Statements of Income

	For the nine-month period ended September 30		For the three-month period ended September 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
Revenue (Note 10)	**9,280,444**	9,114,536	**3,139,090**	3,083,547	12,231,830
Costs and expenses					
Depreciation and amortisation	**1,322,676**	1,400,831	**445,344**	469,201	1,864,035
Salary	**1,757,025**	1,714,759	**597,354**	575,654	2,586,437
Operating and general expenses (Note 11)	**4,307,330**	4,360,539	**1,474,948**	1,503,019	5,966,616
Other operating expenses (income), net	**70,077**	45,988	**25,647**	(24,585)	249,540
	7,457,108	7,522,117	**2,543,293**	2,523,289	10,666,628
Operating profit	**1,823,336**	1,592,419	**595,797**	560,258	1,565,202
Financing costs					
Financing expenses	**689,718**	581,633	**368,802**	154,510	694,393
Financing income	**(424,586)**	(300,188)	**(234,850)**	(65,006)	(356,425)
Net financing expenses	**265,132**	281,445	**133,952**	89,504	337,968
Profit after net financing expenses	**1,558,204**	1,310,974	**461,845**	470,754	1,227,234
Equity in profits of investees accounted by the equity method	**2,405**	6,932	**761**	2,919	11,184
Profit before income tax	**1,560,609**	1,317,906	**462,606**	473,673	1,238,418
Income tax	**504,936**	455,004	**132,240**	177,377	488,393
Profit for the period	**1,055,673**	862,902	**330,366**	296,296	750,025
Attributable to:					
The shareholders of the Company	**1,015,040**	915,742	**255,198**	312,934	808,995
Minority interest in consolidated companies	**40,633**	(52,840)	**75,168**	(16,638)	(58,970)
Profit for the period	**1,055,673**	862,902	**330,366**	296,296	750,025
Earnings per share					
Basic earnings per share (in NIS)	**0.39**	0.35	**0.10**	0.12	0.31
Diluted earnings per share (in NIS)	**0.38**	0.35	**0.09**	0.12	0.31

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

Condensed Consolidated Interim Statements of Recognised Income and Expense

	For the nine-month period ended September 30		For the three-month period ended September 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
Net change in fair value of financial assets classified as available for sale	**9,364**	(186)	**4,751**	(2,073)	(1,464)
Net change in fair value of financial assets classified as available for sale and transferred to profit and loss	**-**	(5,218)	**-**	-	(5,218)
Actuarial gains from a defined benefit plan (1)	**-**	-	**-**	-	3,427
Taxes in respect of income and expenses charged directly to equity	**(2,236)**	1,566	**(559)**	633	2,227
Income and expenses charged directly to equity	**7,128**	(3,838)	**4,192**	(1,440)	(1,028)
Profit for the period	**1,055,673**	862,902	**330,366**	296,296	750,025
Total recognised profits for the period	**1,062,801**	859,064	**334,558**	294,856	748,997
Attributed to:					
The shareholders' of the Company	**1,022,168**	911,904	**259,390**	311,494	807,967
Minority interest in consolidated companies	**40,633**	(52,840)	**75,168**	(16,638)	(58,970)
Total recognised income for the period	**1,062,801**	859,064	**334,558**	294,856	748,997

(1) The Group does not recalculate its actuarial provisions in respect of each interim reporting period, unless there are significant changes in the benefit plan or fundamental changes in market terms during the interim period. As a result, there are no actuarial earnings or losses in the reporting period.

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

Condensed Consolidated Interim Statements of Cash Flows

	For the nine-month period ended September 30		For the three-month period ended September 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 operating activities					
Profit for the period	**1,055,673**	862,902	**330,366**	296,296	750,025
Adjustments:					
Depreciation	**1,115,820**	1,205,721	**375,023**	397,975	1,591,054
Amortisation of intangible assets	**191,372**	176,375	**65,389**	64,544	247,557
Amortisation of deferred and other charges	**15,484**	18,735	**4,932**	6,682	25,424
Loss (gain) from decrease in holdings in associates	**1,372**	(614)	**1,026**	(30)	(595)
Financing costs, net	**416,786**	265,459	**228,870**	25,705	440,429
Equity in profits of investees accounted by the equity method	**(2,405)**	(6,932)	**(761)**	(2,919)	(11,184)
Net capital gain	**(7,154)**	(32,389)	**(1,693)**	(24,415)	(159,017)
Share-based payment transactions	**-**	-	**-**	-	286,506
Payments to a former senior officer	**5,750**	-	**-**	-	-
Income tax expenses	**504,936**	455,004	**132,240**	177,377	488,393
Change in inventory	**12,765**	38,167	**38,352**	36,536	23,014
Change in trade receivables	**(304,013)**	(3,819)	**(195,369)**	(31,064)	109,100
Change in other receivables	**(25,890)**	14,937	**(264)**	24,264	(107,854)
Change in trade payables	**17,607**	65,215	**225**	46,866	(56,778)
Change in suppliers	**(124,995)**	(138,204)	**4,182**	(10,908)	(79,046)
Change in provisions	**67,712**	(2,552)	**22,474**	2,856	27,327
Change in broadcasting rights	**(54,959)**	(23,425)	**(18,649)**	11,061	(14,517)
Change in employee benefits	**(212,133)**	(194,031)	**(20,376)**	(33,920)	168,758
Change in deferred and other income	**(8,501)**	(3,198)	**125**	(3,676)	11,509
	2,665,227	2,697,351	**966,092**	983,230	3,740,105
Interest received	**100,488**	174,582	**30,415**	47,275	220,078
Dividend received	**3,418**	26,010	**334**	-	26,010
Income tax paid	**(326,207)**	(210,188)	**(101,817)**	(66,902)	(277,573)
Net cash from operating activities	**2,442,926**	2,687,755	**895,024**	963,603	3,708,620
Cash flows from investing activities					
Investment in intangible assets	**(132,181)**	(130,693)	**(40,053)**	(48,690)	(209,733)
Proceeds from sale of property, plant and equipment	**133,278**	23,336	**16,883**	10,431	47,804
Proceeds from realisation of deferred expenses	**4,213**	272	**-**	-	-
Current investments, net	**18,667**	78,487	**11,292**	171,156	1,491,439
Purchase of property, plant and equipment	**(680,956)**	(698,667)	**(270,630)**	(187,412)	(953,226)
Investment in deferred expenses and others	**(23,934)**	(12,032)	**(21,319)**	(6,667)	-
Proceeds from realisation of investments and long-term loans	**48,967**	56,598	**15,587**	44,710	62,729
Purchase of investments and long-term loans	**-**	(18,184)	**-**	(5,856)	(19,723)*
Acquisition of a subsidiary	**(12,468)**	-	**-**	-	-
Net cash from (used in) investment activities	**(644,414)**	(700,883)	**(288,240)**	(22,328)	419,290

* Reclassified

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

Condensed Consolidated Interim Statements of Cash Flows (contd.)

	For the nine-month period ended September 30		For the three-month period ended September 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 for financing activities					
Receipt of loans	**50,000**	-	**-**	-	50,000
Issuance of debentures	**1,814,415**	-	**1,057,602**	-	-
Repayment of debentures	**(1,902,055)**	(262,081)	**(1,805,181)**	(83,025)	(280,350)
Repayment of loans	**(753,825)**	(1,145,132)	**(605,162)**	(757,869)	(1,268,656)
Short-term credit, net	**(55,640)**	65,500	**(32,871)**	9,922	43,146
Dividends paid	**(2,099,920)**	(1,200,000)	**-**	-	(1,600,000)
Distribution of a dividend to the minority interest in a subsidiary , less minority interest transfers, net	**(3,928)**	-	**(3,928)**	-	-
Interest paid	**(357,008)**	(409,509)	**(158,437)**	(173,161)	(601,752)
Net cash used in financing activities	**(3,307,961)**	(2,951,222)	**(1,547,977)**	(1,004,133)	(3,657,612)
Net increase (decrease) in cash and cash equivalents	**(1,509,449)**	(964,350)	**(941,193)**	(62,858)	470,298
Cash and cash equivalents at the beginning of the period	**2,631,790**	2,158,773	**2,063,408**	1,256,603	2,158,773
Effect of fluctuations in the rate of exchange on cash balances	**(17,572)**	(5,943)	**(17,446)**	(5,265)	2,719
Cash and cash equivalents at the end of the period	**1,104,769**	1,188,480	**1,104,769**	1,188,480	2,631,790

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

Appendix to Condensed Consolidated Interim Statements of Cash Flows

	For the nine-month period ended September 30		For the three-month period ended September 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 non-cash activities					
Purchase of property, plant and equipment, and intangible assets	**109,444**	149,958	**109,444**	149,958	141,518
Sale of property, plant and equipment on credit	**55,079**	43,749	**55,079**	43,749	161,800

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

NOTE 1 – REPORTING ENTITY

A. Bezeq – The Israel Telecommunication Corp. Ltd. ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The official address of the Company is 132 Menachem Begin Road, Tel Aviv. The consolidated financial statements of the Company comprise those of the Company and its subsidiaries (jointly referred to as the "Group"), and the Group's interests in affiliated companies. The Group is a principal provider of communications services in Israel (see Note 13 – Segment Reporting).

B. On October 11, 2005, control in the Company was transferred from the State to Ap.Sb.Ar. Holdings Ltd. and the Company ceased to be a government company. The Company was declared a monopoly in the main areas in which it operates. An appeal filed by the Company was pending in the Antitrust Court against the non-revocation of its monopoly status in the basic telephony field; however, at the suggestion of the court (in view of the time elapsed since it was filed), the Company consented to withdraw the appeal and is considering its continued handling of the matter. All the segments of operation of the Group are subject to competition. The activities of the Group are, in general, subject to government regulation and control. It is expected that the said regulation and control, as well as the intensifying competition, including implementation of the number portability program, together with all the changes in the communications market, will have an adverse effect on the business results of the Group, an effect that the Group is unable to estimate.

NOTE 2 – BASIS OF PRESENTATION

A. The interim consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRSs"), as required for the preparation of interim financial statements in accordance with IAS 34 – Interim Financial Reporting, and in accordance with Section 4 of the Securities (Periodic and immediate reports) Regulations, 5730-1970.

B. These reports should be reviewed in the context of the annual financial statements of the Company and its subsidiaries at December 31, 2006 and the year then ended, and their accompanying notes ("the annual financial statements"). The Group states in the notes to the interim financial statements only the material changes that have occurred from the date of the most recent annual financial statements until the date of these interim financial statements.

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY

The significant accounting policies applied in these financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2006, except as described in this Note.

A. Non-current assets held for sale

Non-current assets expected to be realised by way of sale and not by way of ongoing use, are classified as assets held for sale. These assets are presented according to the lower of the carrying value and the fair value, net of selling costs. Losses from impairment at the time of initial classification of an asset held for sale, and subsequent profits or losses as a result of the re-measurement, are charged to profit and loss. Profits are recognised up to the cumulative amount of a loss from impairment recorded in the past.

B. Initial application of accounting standards

Commencing January 1, 2007, the Group applies a number of standards and clarifications of the international accounting standards that have come into effect, as follows:

(1) IFRIC 7 – "Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies", that relates to the application of IAS 29 when an economy becomes hyperinflationary for the first time, and in particular the accounting treatment of deferred tax.

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)

B. Initial application of accounting standards (contd.)

(2) IFRIC 8 – “Scope of IFRS 2 – Share-based Payment”, that relates to the accounting treatment of share-based payment transactions in which some or all of the goods or services received cannot be specifically identified.

(3) IFRIC 9 – “Reassessment of Embedded Derivatives”, that determines that reassessment with regard to the need to separate an embedded derivative from a host contract will arise only when changes occur in the contract.

(4) IFRIC 11 – “Group and Treasury Share Transactions” is an interpretation dealing with the application of “IFRS 2 – Share-based Payment”, in share-based payment transactions related to the equity instruments of the Group.

(5) IFRIC 10 – “Interim Financial Reporting and Impairment”, prohibits the cancellation of an impairment loss that was recognised in a prior interim period in respect of goodwill, investment in an equity instrument or a monetary asset stated on a cost basis.

The implementation of the new standards has no effect on the results of the Group’s operations and its financial position.

C. New standards during the period, prior to their implementation

(1) IFRIC 12 – “Segment Reporting Arrangements”. This interpretation deals with the accounting treatment of operators from the private sector that provide public infrastructure assets and services. IFRIC 12 distinguishes between two types of arrangements for service concessions. In one, the operator receives a financial asset, an unconditional contractual right to receive cash or another financial asset from the government in exchange for the construction or upgrading of a public asset. In the other, the operator receives an intangible asset and the right to collect payment in return for the use of the public asset it constructs or upgrades. The right to collect payment from users is not an unconditional right to receive cash, since the amounts depend on the scope of use the public will make of the service. The interpretation will apply to annual periods commencing January 1, 2008, or thereafter, where early adoption is permitted. The adoption of IFRIC 12 is not expected to affect the financial statements of the Group.

(2) In June 2007 the IFRIC published Interpretation 13 regarding customer loyalty programs. The Interpretation addresses the accounting treatment of companies that grant benefits in the framework of customer loyalty programmes (e.g. “points” or “frequent flyer” plans) upon the purchase of goods or services. IFRIC 13 determines how companies should account for their obligation to provide in the future, free or discounted goods or services (benefits) to customers who are expected to utilize the benefits. The Interpretation will apply to annual periods commencing July 1, 2008, or thereafter. The adoption of IFRIC 13 is not expected to significantly effect the financial statements of the Group.

(3) In July 2007 the IFRIC published Interpretation 14 regarding “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”. The Interpretation addresses three issues: a) When are reductions in future funding requirements or returns considered “available” in the context of IAS 19 – “Employee Benefits”. b) How does a minimum funding requirement affect the availability of future reductions in contributions. c) When does a minimum funding requirement create a liability. The Interpretation will apply to annual periods commencing January 1, 2008, or thereafter. The adoption of IFRIC 14 is not expected to significantly affect the financial statements of the Group.

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD.)

C. New standards during the period, prior to their implementation (contd.)

(4) IFRS 8 – “Segment Reporting” (“the Standard”) determines how a company should report on segment operations in its annual financial statements, and addresses selected details pertaining to segments in interim reports. In addition, the Standard addresses the disclosure required regarding products and services, geographic regions and major customers. The Standard determines that the identification of segments will be based on the reporting to the management that is used to make operational decisions. The Standard will apply to annual periods commencing January 1, 2009, or thereafter. The Standard permits early adoption, and requires amendment of comparative numbers on its adoption. The adoption of IFRS 8 is not expected to significantly affect the financial statements of the Group.

(5) In March 2007 an amendment to IAS 23 – “Borrowing Costs” (“the Standard”) was published. The amendment removes the possibility of immediate recognition of all borrowing costs to profit and loss where the specific borrowing costs were generated from the purchase, establishing or production of a recognised asset. The amendment to the Standard requires that such costs be capitalised as part of the total cost of the asset. The remainder of the borrowing costs will be recorded to profit and loss when they arise. The Standard will apply to annual periods commencing January 1, 2009, or thereafter, and is not expected to have a significant effect on the financial statements of the Group.

(6) In September 2007, the IASB published a revised version of IAS 1 – Presentation of Financial Statements ("The Revised IAS 1"), which replaces the 2003 version of the standard. The changes include a requirement to collate the information in the financial statements on the basis of common criteria, and to present a comprehensive income statement. The Revised IAS 1 permits, in the preparation of financial statements, the presentation of income and expense items in one of the following reports:
Presentation of a single report on comprehensive income (a combined report of profit and loss and other comprehensive income), or presentation in two separate reports – a profit and loss report and a comprehensive income report. The changes also include changes in the headings of some of the reports so as to reflect the purpose more clearly (for example, the name "Balance sheet" will be changed to "Statement of Financial Position"). It should be noted that The Revised IAS 1 will require the presentation of the Statement of Changes to Shareholders' Equity as a principal report. The Revised IAS 1 will apply to annual periods commencing January 1, 2009 or thereafter. Early adoption is permitted. The adoption of the Revised IAS 1 is not expected to significantly affect the financial statements of the Group.

NOTE 4 – ESTIMATES

The preparation of interim financial statements requires Management to make judgments and use estimates, assessments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.
The significant estimates applied in these interim statements do not differ significantly from those applied in the annual financial statements.

NOTE 5 – RATES OF CHANGES IN THE CONSUMER PRICE INDEX AND FOREIGN CURRENCY EXCHANGE RATES

The changes that occurred in the consumer price index and in the exchange rates of the US dollar and the euro during the accounting period are as follows:

	Consumer Price Index	Rate of exchange of the US dollar	Rate of exchange of the euro
	%	%	%
For the nine-month period ended on:			
September 30, 2007	**2.29**	**(5.02)**	**2. 26**
September 30, 2006	0.78	(6.54)	0.16
For the three-month period ended on:			
September 30, 2007	**1.30**	**(5.55)**	**(0.41)**
September 30, 2006	(0.76)	(3.11)	(3.34)
For the year ended December 31, 2006	(0.10)	(8.21)	2.16

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

During the reporting period, the Group companies initiated examination of the useful lives of property, plant and equipment, in order to determine whether significant circumstances exist that justify changing their estimated useful lives.

The findings of the examination to date indicate that the Company's intention to replace switches in its landline network necessitates shortening the useful lives of these switches. As a result, depreciation expenses will increase in 2007 by approximately NIS 18 million, in 2008 by approximately NIS 18 million and in 2009 by approximately NIS 14 million, before tax.

NOTE 7 – GROUP ENTITIES

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

(1) Since commencing its operations, DBS has accumulated considerable losses. Its losses in 2006 amounted to approximately NIS 320 million and the loss in the nine-month period ended September 30, 2007, amounted to approximately NIS 43 million. As a result of these losses, its capital deficit and its working capital deficit at September 30, 2007 amounted to approximately NIS 2,555 million and NIS 1,040 million, respectively. The profit for the three-month period ended September 30, 2007, amounted to approximately NIS 70 million.

The Company's investment in DBS (primarily through shareholders' loans) at the balance sheet date amounts to approximately NIS 1,562 million (without interest and linkage). The balance of the current debt of DBS to the Company and its subsidiaries amounts to approximately NIS 126 million, of which approximately NIS 98 million is owed to the Company. The Company has come to an arrangement with DBS for the collection of a debt balance of approximately NIS 55.6 million which was in arrears. In accordance with the arrangement, the debt is being paid in 60 equal monthly instalments plus interest at prime + 1.5%. At the balance sheet date, the debt balance in the arrangement is approximately NIS 44 million. The remainder of the debt to the Company, over and above the aforementioned arrangement, is a current debt balance, for which the agreed terms of payment are the regular credit terms in effect between the Company and its customers. As of the date of approval of the financial statements, DBS is not in compliance with the arrangement and with the credit terms. Bezeq and its subsidiary are taking action to collect DBS debts in arrears.

During 2005, the banks made available the full credit line to which DBS was entitled under the financing agreements.

NOTE 7 – GROUP ENTITIES (CONTD.)

A. D.B.S. Satellite Services (1998) Ltd. (Contd.)

(1) (Contd.)

The terms of the loans and the credit line that DBS received form the banks, whose balance at September 30, 2007, is NIS 909 million, imposes various restrictions on DBS, which include, *inter alia*, restrictions concerning the lien or sale of certain assets, a restriction on receipt of credit from other banks without prior approval, a restriction on repayment of shareholder loans, and a requirement to meet certain financial criteria ("the Conditions").

On July 22, 2007, DBS and the banks signed the Eighth Addendum ("the Addendum") to the financing agreement. The following issues, among others, are addressed in the Addendum:

(a) The Conditions from the financing agreement were updated.

(b) Under the Addendum, NIS 100 million of the monies raised from DBS's issue of debentures in July 2007 (see below) were assigned to be used by DBS for repayment of part of the bank credit, for repayment of the loan taken by DBS from an institutional body in 2006 (including a bridge loan extended by that body to DBS in June 2007). In addition, the monies would be used for DBS's current operations.

At September 30, 2007, DBS is not in compliance with the financial criteria set for it. Subsequent to the balance sheet date, DBS was granted relief in connection with the criteria at September 30, 2007, and accordingly, at the date of approval of the financial statements, DBS is in compliance with the criteria set in the financing agreement.
Since DBS prepares its financial statements according to IFRSs, which require review of its compliance with the Conditions at the date of the financial statements, the loans are classified at September 30, 2007, as short-term liabilities.
The management of DBS foresees that since the financial stipulations are cumulative, it will be compelled to seek further relief in connection with those stipulations at December 31, 2007.
DBS's management estimates that the sources of financing available to it will provide it with the operational requirements of DBS for the coming year, and if additional resources are required to meet those needs in the coming year DBS will act in accordance with the alternative business plan which does not require additional resources beyond those at its disposal.

On July 31, 2007, DBS issued through a private placement to institutional investors Debentures (Series A) at an inclusive par value of approximately NIS 620 million, that will be registered in the TACT-institutional system (TACT – Tel Aviv Continuous Trading) of the Tel Aviv Stock Exchange. Prior to the issuance, the debentures were rated by Maalot – The Israel Securities Rating Company Ltd. ("the Rating Agency") at BBB-/stable. The proceeds from the issuance amount to approximately NIS 614 million net.

The debentures will be repaid in 8 annual principal and interest payments every 5^{th} of July in each of the years 2010 to 2017. The principal payments in each of the years 2010 to 2013 will be at a rate of 8% of the par value of the debentures, and the principal payments in each of the years 2014 to 2017 will be at a rate of 17% of the par value of the debentures. The debentures are linked to the consumer price index commencing from the June 2007 index, and bear linked annual interest at 7.9% p.a. (subject to various possible adjustments according to the debenture terms), that will be paid in semi-annual payments in January and July of each of the years 2009 – 2017.

DBS did not undertake to list the debentures on the stock exchange, but in the event that they are listed, the annual interest to be paid on them commencing on the listing date will be reduced to 7.4%. Conversely, if the debentures are not listed until July 31, 2008, the linked annual interest paid thereon will be increased to 8.4% as long as they are not listed (and in the event of subsequent listing, the linked annual interest rate will be reduced to 7.4% commencing on the listing date). If the rating of the debentures is lowered by two rating levels while the debentures are not listed, the linked annual interest rate will be increased to 8% until the debentures return to their original rating or until they are listed on the stock exchange (in this case, the aforesaid interest rate decrease will also apply).

NOTE 7 – GROUP ENTITIES (CONTD.)

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

(1) (contd.)

In addition, should DBS fail to comply with the Conditions set in the financing agreement between it and the banks, and as a condition for the banks ceding that breach, DBS will undertake to pay to the banks, for the bank credit, additional interest to that of the banking interest margin, and if the debentures are not listed at that time, then as long as that margin supplement is paid to the banks and the debentures are not listed, DBS will pay the debenture-holders an annual interest supplement at the same rate.

The debentures are secured by an unlimited first ranking floating charge on all of DBS's assets (other than exceptions as dictated by the provisions of the Communications Law) and additionally. an unlimited first ranking fixed charge on DBS's rights and assets that were registered by it in favour of banks (other than exceptions as dictated by the provisions of the Communications Law). These securities are first ranking and *pari passu* to the floating charges and the fixed charge registered by DBS in favour of the banks in order to secure the bank credit.

In October 2007, the Rating Agency announced that the debentures had been placed on the watch list following disruptions in DBS's broadcasts as described in section 3 below, which it claimed had led to expenses being higher than forecast, to deviation from DBS's business plan, and to the filing of a number of legal claims against it. The Rating Agency notes that it will review the effects of the events on the present rating, and will publish its conclusions after doing so.

On October 21, 2007, DBS received an enquiry from the trustee of the debentures, in which, following the disruptions in various broadcasts and the publicity about them, including regarding falling DBS subscriber numbers and regarding the compensation granted by DSB to its subscribers, he has requested various documents and confirmations from DBS in order to clarify whether the aforementioned events and their long-term implications could harm DBS's undertakings towards the debenture holders.

During 2005-2006, DBS received loans from institutional bodies amounting to NIS 100 million.
In December 2006, DBS signed an agreement with another institutional body for receipt of a loan of NIS 50 million. DBS was granted an option for an additional loan in the same amount. DBS exercised the option in June 2007. Following the issue of debentures described above, the loan agreement was amended and the parties agreed that DBS would repay the principal of the loan, NIS 100 million, upon receipt of the proceeds of the issuance, since the institutional body had purchased debentures in the issuance. The loan was repaid during the reporting period in accordance with the foregoing.

Loans provided by shareholders to DBS were included in the financial statements of DBS at their fair value at the date of receipt. The fair value of the loans was determined according to the present value of the anticipated cash flows to be received as repayment of the loans, taking into account the dates on which the shareholders will first be able to demand repayment of the loans (according to the restrictions to which the shareholders agreed in agreements with the banks and the financial institutions), and at the interest rates that applied to loans at a similar risk level on the date of receipt of the loans. The interest rate taken into account as aforesaid, which is the effective interest rate for loans, is 12%.

As part of the DBS debenture rating process with the Rating Agency, it was agreed to defer the dates on which the shareholders could first demand repayment of the loans.
When a change occurs in the terms of the loans which results in a change of more than 10% in the discounted cash flows calculated at the original interest rate, the difference between the cash flows expected before the change, discounted at the rate of interest on the date of providing the loans, and their discounted value at the rate of interest on the date of the change, is charged to financing income. The difference between the present value of the new cash flows when discounted according to the interest rate on the date of the change in the old cash flows, discounted at the interest rate on the date of the change, will be charged to a capital reserve as part of the DBS shareholders' equity. Differences relating to loans provided by the minority shareholders in DBS are expected to influence the financing expenses in the consolidated report in the future, while increasing the loss that will be attributed to the minority in DBS.

NOTE 7 – GROUP ENTITIES (CONTD.)

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

(1) (contd.)

The interest rate on the date of the change was set in accordance with a professional opinion that DBS received from an external adviser, which stated that the interest rate for discounting the interest-free shareholder loans is 15.63%, and the interest rate for discounting the shareholder loans bearing 5.5% interest is 15.58%.
These rates were applied for charging the difference between the cash flows expected before the change, discounted at the interest rate on the date of provision of the loans – 12%, and their discounted value at the interest rate on the date of the change – 15.63% or 15.58%, as the case may be, to financing income in the amount of approximately NIS 213 million in the financial statements of DBS and approximately NIS 96 million in the consolidated financial statements.

The difference between the present value of the expected cash flows according to the new repayment dates and the present value of the cash flows that were expected according to the repayment dates prior to the change, discounted at the interest rate on the date of the change, 15.63% or 15.58%, which amounted to NIS 348 million, was charged to a capital reserve in the financial statements of DBS, of which approximately NIS 159 million was charged as the minority interest in the consolidated financial statements.

(2) On January 2, 2005, the Antitrust Commissioner gave his conditional approval for a merger of the Company and DBS (increasing the Company's holdings in DBS to more than 50%). The merger was not executed within a year from the date of the approval, and a new approval was required. On August 2, 2006, the Company and DBS submitted new merger notices to the Antitrust Commissioner, regarding the Company exercising options for shares in DBS, which would increase the Company’s holdings in DBS from approximately 49.8% to approximately 58%. On December 31, 2006, the Antitrust Authority gave notice of the Commissioner’s opposition to the merger, and on February 18, 2007, it gave its reasons for the opposition. On May 15, 2007, the Company filed an appeal against the decision. The Antitrust Commissioner submitted her response to the appeal and the file has been set for hearing of evidence in January 2008.

Further to Note 32(3) to the financial statements at December 31, 2006, regarding the petition of the Company and DBS to the High Court of Justice against the Minister of Communications in the matter of restrictions imposed on the Company's investments in DBS – the petition was dismissed in September 2007.

(3) On September 5, 2007, sporadic disturbances were observed in DBS's broadcasts, which occurred in waves of various strength and extent, which caused disruptions of varying severity in the quality and availability of those broadcasts, mainly in the north of the country and the coastal plain. The disturbances also resulted in exceptional loads on the DBS's customer service centres, which made it difficult to obtain service. In order to locate the source of the disturbances, DBS, in cooperation with experts and with various government bodies, dispatched crews to identify and pinpoint the disturbances. To the best of DBS's knowledge and as reported to it by government entities following the identification operations, the source of the disturbances was an external entity beyond DBS's control and unrelated to it. The disturbances ceased on October 9, 2007, and have not recurred up to the date of this report.

On October 5, 2007, in a gesture to its customers, DBS opened its DVD BOX for free viewing for two weeks. On October 16, 2007, DBS opened most of its content channels, including various Premium channels for three months, as compensation for the event, and subscribers who purchase separately those Premium channels in their contract with DBS, that were broadcast free of charge will be credited for that payment.

The compensation and other expenses and damages sustained by DBS in connection with the disturbances described above, are liable to have an adverse effect on the financial results of DBS.
These financial statements include an appropriate provision in respect of the expenses incurred by DBS regarding the compensation for the reporting period. Regarding a class action lawsuit filed against DBS in connection with the broadcast disturbances, see Note 8A(12).

NOTE 7 – GROUP ENTITIES (CONTD.)

B. Bezeq International Ltd.

Further to Note 32(4) to the Group's 2006 financial statements, concerning an agreement with Bezeqcall Communication Ltd. for the acquisition of all the operations of Tadiran – Telecom Communication Services in Israel ("Tadiran") in consideration of approximately NIS 93 million, the agreement was cancelled in light of the decision of the Antitrust Authority to withhold approval of the transaction and following Tadiran's announcement of its decision to cancel the agreement.

NOTE 8 – CONTINGENT LIABILITIES

A. Claims

During the normal course of business, legal claims were filed against the companies in the Group, including applications for certification as class action lawsuits.

In the opinion of the managements of the Group companies, which is based, *inter alia*, on legal opinions regarding the probability of success of the claims, including the applications for certification of the class action lawsuits, appropriate provisions in the amount of NIS 355 million, where such provisions were required, have been included in the financial statements to cover the exposure resulting from such claims.

In the opinion of the managements of the Company and the consolidated companies, the additional exposure (in addition to the above provisions) at September 30, 2007, due to claims filed against the companies in the Group on various matters and the probability of realisation of which is remote or likely, amounts to approximately NIS 29 billion, of which approximately NIS 3.4 billion relates to claims filed by employees.

Concerning applications for certification as class action lawsuits in respect to which the Group has exposure beyond the aforesaid (since the claims do not state a specific amount), see claims in Note 17A(4), (5), (7) and (19) to the financial statements at December 31, 2006.

For a detailed description of these claims, see Note 17A to the Group's annual financial statements at December 31, 2006. Details of the significant changes to the status of the material contingent liabilities of the Group since December 31, 2006, are provided below:

(1) Further to Note 17A(4) to the financial statements at December 31, 2006, on April 10, 2007, a decision was given, granted effect to the procedural arrangement in which the Company and Bezeq International will be struck off the claim (after undertaking to transfer any sum transferred to them by the Department of Customs and VAT, if transferred, in connection with the claim, as instructed by the court).

(2) Further to Note 17A(15) to the financial statements at December 31, 2006, concerning a claim filed by subscribers of the Company, Cellcom, Partner and HOT against those companies, with an application for its certification as a class action lawsuit, on September 10, 2007, a court decision validated a procedural arrangement whereby the claim against the cellular companies would be struck off and the hearing of the application for certification of the claim would be combined with another application for certification which was filed against the cellular companies.

(3) Further to Note 17A(2)(c) to the financial statements at December 31, 2006, concerning a claim in the matter of the inclusion of a number of components as part of the regular wage for pension, following a court decision dismissing the claim, an appeal on the matter is being heard.

NOTE 8 – CONTINGENT LIABILITIES (CONTD.)

A. Claims (contd.)

(4) Further to Note 17A(18) to the financial statements at December 31, 2006, on June 11, 2007, a hearing was held at which the court proposed that Bezeq International publish an apology and make some kind of contribution to the community. On June 24, 2007, Bezeq International delivered a notice to the court, stating that there is no room for an apology or such an apology or contribution is misplaced, since there was no deceit and/or misleading advertising. Bezeq International also stated that in view of its respect for the court, it would make a donation, unrelated to the class action lawsuit. On August 23, 2007, the Supreme Court ruled that the parties should give notice of whether they see need for a hearing in the presence of the parties. On August 26, 2007, Bezeq International gave notice that it sees a need for an additional hearing, in order to present the facts relevant to the proceeding and to explain that in view of the gravity of the evidence, the claim should not be certified as a class action lawsuit.

(5) Further to Note 17A(27) to the financial statements at December 31, 2006, regarding application for certification of a class action against Pelephone concerning the deception to subscribers who reside in Eilat, who were charged VAT for cellular communication service, the claim was dismissed without an order to pay costs.

(6) Further to Note 17A(8) to the financial statements at December 31, 2006, regarding a claim and application for certification as a class action concerning the installation of splitters for high speed internet lines which was dismissed, and an appeal filed against that decision, in October 2007 a decision was given to strike out the petition by consent.

(7) In May 2007, the Company received a claim, together with an application for its certification as a class action that was filed with the District Court in Tel Aviv by a plaintiff claiming to have purchased shares of the Company in 2006. The claim was filed against the Company, two former CEOs of the Company, directors who served or are serving in the Company during the relevant period, as well as Ap.Sb.Ar. Holdings Ltd., which holds 30% of the Company's shares.

The claim alleges that the Company's financial statements for the years 2004 and 2005 contained false and misleading material information, including with regard to the annual profit, the property, plant and equipment and the shareholders' equity, in light of a retroactive deduction of approximately NIS 320 million in respect of property, plant and equipment that was not in use by the subsidiary Pelephone Communications Ltd.

The amount of the personal claim is NIS 194, and the total amount of the claim for the group is NIS 56.5 million.

(8) In April 2007, an application was filed with the District Court for certification of a class action against DBS and against Sports Channel Ltd. (the producer of Channel 5, Channel 5+, Channel 5 live and Channel 5 Gold) and its managers, in connection with the broadcasts of Channel 5 live ("the Certification Application"). According to the applicant, the broadcasts of Channel 5 live involve the transfer of content from Channel 5+ to Channel 5 live, which contravenes "the basic promise of DBS as ratified in earlier legal proceedings". The applicant, whose cause of claim against DBS is violation of a contractual undertaking, breach of the duty of good faith in a contractual engagement and unjust enrichment, estimates the amount of the action at approximately NIS 63 million.

(9) In June 2007, a financial action and application for certification as a class action was filed against Pelephone in the Tel Aviv District Court. The aggregate amount of the claim is approximately NIS 239 million, and it relates to a group of Russian customers and the bundles of services offered to them.

NOTE 8 – CONTINGENT LIABILITIES (CONTD.)

A. Claims (contd.)

(9) (contd.)

The action alleges deceit when making the agreement with the customer, conduct of bad faith and continuous misleading in that the customer was offered a subscription to the service track without being warned that the charge is based on rounding up to 60 seconds, rather than on 12 second units (which, according to the plaintiffs, is required by the provisions of the license). In addition, it is alleged that Pelephone did not attach the price list to the track as required by its license, and did so to reinforce the purpose of the deceit.

(10) In August 2007, the Company received a claim together with an application for certification as a class action, which was filed against the Company in the Tel Aviv District Court by a plaintiff alleging to be a customer of the Company who signed a contract with the subsidiary DBS for receipt of high-speed internet infrastructure services (ADSL). The plaintiff is seeking reimbursement of all the fixed monthly payments he made for maintaining a landline for which he no longer has any use, since he contends that these payments were collected unlawfully since from the technological aspect, high-speed internet can be provided without the landline being used. According to the plaintiff, all the Company's customers and/or of DBS who subscribed to the Company's high-speed internet service during the past two years and who requested that the Company's landline be disconnected and/or who ceased to use it but continued making the fixed monthly payments for it, have the right of such a claim. The plaintiff is seeking certification of the claim as a class action in the name of the customers referred to above, and he estimates the amount of the class action at approximately NIS 108 million.

(11) In September 2007, a financial claim was filed against Pelephone in the Be'er Sheva District Court, with an application for its certification as a class action. The amount of the claim is approximately NIS 600 million, and it concerns restitution of amounts at which Pelephone customers were charged for calls transferred to the internal answering service of the handset called, and without an announcement as required by Pelephone's license, On October 28, 2007, an application was filed by the plaintiff's lawyer to strike the claim, in which it states that it is withdrawing the claim with the consent of Pelephone, without an order for costs.

(12) Subsequent to the balance sheet date, two applications were filed in the District Court against DBS, for certification of filed claims as class action lawsuits concerning disruptions in broadcasts, as described in Note 7A(3) above.
The plaintiffs in these claims allege that DBS subscribers were subjected to daily disruptions and long interruptions in television broadcasts, which were reflected, *inter alia*, in severe picture and voice distortion, and that DBS's service centre was not operating and neither service nor assistance were available.
The plaintiffs are seeking approval, on behalf of all DBS subscribers at that time, for restitution, compensation or credit of the full amount of the monthly subscription fees paid to DBS for September 2007. The plaintiffs assess the total amount of one claim at NIS 122 million, and of the other claim at approximately NIS 66 million.

(13) In July 2007, a statement of defence was filed on behalf of an entity sued by DBS, and together with that statement the entity also filed a statement of counter-claim for the sum of approximately NIS 43 million against DBS and another company. The statements of defence and counter-claim alleged that the liability for failures in decoders provided to DBS is not that of the entity but of DBS and/or the other company, since, *inter alia*, the decoders were not properly characterised by the defendants, were not properly inspected, and in at least some of the cases were not properly installed in DBS subscribers' homes. Due to these allegations, various losses were allegedly sustained by the counter-claimant, related to repair of the decoders even after the contractual warranty period, for the supply of spare parts, providing service and manpower, and various payments made to the other company. Alternatively, the counter-claimant is suing for its lost expenses and loss of profit, which is alleges are due to the acts of commission and omission of DBS and/or the other company.

NOTE 8 – CONTINGENT LIABILITIES (CONTD.)

A. Claims (contd.)

(13) (contd.)

On November 1, 2007, DBS filed an application for amendment of the statement of defence and statement of counter-claim filed by the aforementioned entity, since they are not in compliance with civil procedures. Concurrently, DBS filed an application to postpone the date for filing a response and the statement of counter-claim on their behalf until a decision is made on the application for such an order. No decisions have yet been given on these applications.

B. Claims which cannot yet be assessed or in respect of which exposure cannot yet be calculated

For a detailed description of the claims which cannot yet be assessed or in respect of which the exposure cannot yet be calculated, see Note 17B to the Group's annual financial statements at December 31, 2006. Details of material changes since December 31, 2006 are provided below:

In September 2007, a claim was filed against the Company in the Tel Aviv District Court, with an application for certification as a class action, concerning the collection of VAT on arrearage interest and on charging collection expenses and commissions. The amount of the class action lawsuit is estimated at approximately NIS 114 million.

C. Other contingencies

For a detailed description of other contingencies, see Note 17C to the Group's annual financial statements at December 31, 2006. Details of material changes since December 31, 2006, are provided below:

(1) In May 2007, the Company received a letter pursuant to Section 194 of the Companies Law, which was sent by a claimant who said she is a holder of the Company's publicly owned shares. According to the request, following the findings of the external examiner appointed by the Company to examine the manner in which various decisions are made and as well as the management of the Company, that point to a multitude of shortcomings and failures related directly to the work of the Board of Directors, its committees, its members and the former CEO of the Company, the Company is requested to institute legal proceedings against the Board of Directors and the Company's other officers who were responsible for those shortcomings and failures. The Company's Board of Directors rejected the demand outright, and informed the claimant to that effect.

(2) Further to Note 17C(2) to the Group's annual financial statements for the year 2006, regarding commissions paid to DBS and the debts of DBS to the Company, the Company's Board of Directors rejected the demand and informed the claimant to that effect. In addition, the Company received another letter, dated September 20, 2007, from the same shareholder, made pursuant to Section 194 of the Companies Law, demanding that the Company institute legal proceedings against members of the Board of Directors of the Company who, according to the writer, approved injections of funds from the Company to DBS, contrary to the decisions of the Ministers of Communications, as a result of which the Company suffered losses of NIS 10 million (which is the amount that the Ministry of Communications notified at the time that it is considering foreclosing from the Company's guarantee). The Board of Directors of the Company discussed this letter and decided to reject it. It is noted that the petitions of the Company and DBS to the High Court of Justice against the Minister of Communications in the matter of the Company's injections of funds into DBS, were dismissed *in limine* in September 2007.

NOTE 8 – CONTINGENT LIABILITIES (CONTD.)

C. Other contingencies (contd.)

(3) Further to Note 17C(1) to the Group's annual financial statements for the year 2006, the Antitrust Authority announced that its investigation was complete. On May 27, 2007, the Antitrust Commissioner announced that the Authority was considering taking action under Section 43(A)(5) of the Antitrust Law, 5748-1988, to determine that the Company had abused its status, thereby violating the provisions of Section 29A of that law. This is in view of the findings of an investigation carried out by the Investigation Department of the Antitrust Authority.

The Commissioner announced that she is considering ruling that:

a. In the first half of 2006, and in particular in April and May 2006, the Company's employees instituted sanctions, in which they delayed or failed to carry out works involving the connection of domestic operators (Cellcom, Globecall, Golden Lines) to the Company's network.
b. During the afternoon of May 17, 2006, the existing connection between HOT Telecom and the Company's network was disconnected and was not repaired, due to sanctions of Company employees, until the night of May 18, 2006.
c. The Company failed to act as required in order to prevent or minimise these events and the ensuing damage to domestic operators, to competition and to the public.
d. In this way, the Company abused its status, in contravention of Section 29A of the Law.

It is noted that under Section 43(e) of the Antitrust Law, the Antitrust Commissioner's aforementioned ruling, if and insofar as made, shall serve as *prima facie* evidence of its contents in any legal proceeding.

In September 2007, the Company submitted its position with regard to the Commissioner's notice, in which it contends, *inter alia*, that the proscriptions against a monopoly to make unreasonable refusal and to abuse its status in the market, do not apply to a monopoly operating as an employer in a labour dispute with its employees.

It is noted that in May 2006, a claim and application for its certification as a class action was filed against the Company and the cable companies, concerning a fault in the telephone line in the HOT network on May 17, 2006. On this matter, see Note 17A12 to the financial statements of the Company at December 31, 2006. The Commissioner's determination as noted above, if and insofar as will be made, will mean re-examination of the assessment in that claim, this being based on the contents of the determination and the extent of its implications on the matter in dispute.

(4) Further to Note 17C(7) to the Group's annual financial statements for the year 2006, concerning number portability, on May 24, 2007 the Company received a notice from the Director General of the Ministry of Communications, stating that he is considering imposing on the Company a financial sanction due to the alleged violation of the duty to provide number portability commencing September 1, 2006, as follows:

a. For the period from September 1, 2006 to the date of the Director General's notice – a financial sanction in the amount of NIS 2,031,750.
b. For the period from May 25, 2007 to November 30, 2007 or until the date of remedy of the alleged violation (the earlier of the two) by the Company – NIS 6,450 for each additional day on which the violation continues.
c. For the period from December 1, 2007 (which, according to the notice, allows the relevant licensees reasonable time to remedy the alleged violation) to the date of remedy of the alleged violation – a financial sanction as specified in Sections 37B(b) and 37C(a) of the Communications Law after Amendment 36 (it is noted that according to the provisions of these Sections, the relevant sanction rate is seven times the penalty set in Section 61(a)(4) of the Penal Law (i.e. NIS 202,000), plus 0.25% of the annual income of the Company, plus a financial sanction of one fiftieth of such sanction for each day on which the violation continues.)

NOTE 8 – CONTINGENT LIABILITIES (CONTD.)

C. Other contingencies (contd.)

(4) (contd.)

The subsidiaries Pelephone and Bezeq International received similar notices. According to the notices from the Ministry of Communications, Pelephone and Bezeq International were given the opportunity to present their arguments to the Director General of the Ministry of Communications by September 24, 2007. In its response, the Company argued that its position does not constitute violation of the provisions of the Law or of its license, that the matter is pending before the High Court of Justice, and that in any case, in the circumstances, it would be unreasonable to impose sanctions on the Company, including in view of the date set by the Ministry of Communications as reasonable for the implementation of number portability (December 1, 2007). Pelephone and Bezeq International also responded to the notices of the Ministry of Communications. As noted in the financial statements at December 31, 2006, the Company and Pelephone (together with other cellular operators) petitioned the High Court of Justice on this matter, contending, *inter alia*, that it was the Ministry of Communications that had failed to prepare a number portability plan as required by the provisions of the law.

(5) Further to Note 17C(6) to the Group's annual financial statements for 2006, in the first half of 2007, the Company took steps to obtain operating permits from the Supervisor of Non-Ionizing Radiation at the Ministry of the Environment, pursuant to the Radiation Law that came into force at the beginning of 2007. Following these steps, the Company received operating permits for the communication facilities that it operates, with the exception of a small number which still have a valid radiation permit by virtue of the Pharmacists Regulations. The Company is taking steps to obtain operating permits under the Radiation Law for these few facilities.

D. Claims against an affiliated company

(1) In July 2007, a statement of claim was filed in the Jerusalem District Court against an affiliate of Bezeq International, the Israeli Police, the State of Israel, and 7 other defendants from the communications' field, for a total amount of more than NIS 65 million, for injuries allegedly sustained by the plaintiff, following publication of untruths and slander regarding the plaintiff's involvement in securities violations and conspiracy to commit murder. On October 22, 2007, the affiliate filed an application for deferral of the date for filing a statement of defence. In the opinion of the affiliated company and its legal advisors, since the claim is not supported by concrete evidence and since the affiliated company is not the principal party in the claim, the likelihood of success of the claim against the affiliated company is low, and therefore the affiliated company made no provision for this claim in its financial statements.

(2) On September 4, 2007, an application was filed in the Tel Aviv District Court for certification of a class action lawsuit against 70 respondents who include operators of e-trade sites, among them an affiliate of Bezeq International and suppliers who offered products for sale through those sites. According to the applicants, the respondents operate "fictitious bidders" who submit "fictitious bids" in auctions conducted on the sites, in order to prevent participants in the auctions from wining at prices the respondents consider to be too low, and in so doing, the applicants claim, they are acting in breach of contractor and deceit according to the Consumer Protection Law. The reliefs applied for by the applicants include orders prohibiting the respondents from interfering in auctions and financial reliefs which cannot be assessed.
On October 15, 2007 the court issued a temporary restraining order which includes prohibiting the deletion or changing of the sale data. In view of the preliminary stage of the proceeding, it is not possible to estimate the likelihood of the request being allowed.

NOTE 9 – TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

A. Further to Note 29D to the Company's financial statements at December 31, 2006, concerning the cancellation of discount arrangements included in the agreement between the Company and the Ministry of Defence dated May 8, 2005 ("the 2005 agreement"), on April 22, 2007, the Company informed the Ministry of Communications and the Ministry of Defence of its decision to comply with this demand. It should be noted that the Company received a copy of the letter sent by the Ministry of Defence to the Ministry of Communications, that contained a request to freeze the instruction regarding cancellation of the discount arrangements set in the agreement between the parties, until the convening of a work meeting between the Ministry of Defence and the Ministry of Communication to discuss the matter. However, at the date of publication of this report, the Company has yet to receive a different instruction from the Ministry of Communications. It should be noted that in the Company's opinion, it was entitled to enter into the agreement in accordance with its general license. In addition, according to the Antitrust Authority's notice from August 2006, the agreement does not contravene the provisions of the Antitrust Law, and the Authority saw no justification, at that time, to insist on cancellation of the agreement. The Company notified the Ministry of Communications of the Antitrust Authority's position in August 2006.

It is further noted, that according to the agreement between the Company and the Ministry of Defence, whereby if one of the parties is unable to fulfil its undertakings as provided in the agreement due to a legal directive or a resolution of a competent authority, this shall not constitute a breach, and the parties will negotiate another agreement, the terms of which will reflect, to the extent possible, the wishes of the parties pursuant to the agreement. The Company requested an urgent negotiation meeting with the Ministry of Defence, but the request was not granted. On July 22, 2007 the Company informed the Ministry of Defence that commencing April 22, 2007, the Ministry of Defence would be charged based on rates set in a prior agreement with it, dated July 21, 2002 (hereinafter "the 2002 agreement"), and that this arrangement will apply unless otherwise agreed between the parties, or alternatively, unless an explicit directive is received from the Ministry of Communications, freezing or cancelling its previous directive to cancel the discount arrangement as provided in the agreement from May 8, 2005.. On August 5, 2007, the Ministry of Defence informed the Company that the settling of accounts between the Company and the Ministry of Defence according to the fees in the 2002 agreement, contradicts the provisions of the 2005 agreement, and that the Ministry of Defence pays its suppliers only according to agreements signed under the State Property Law. The Company is continuing to send invoices to the Ministry of Defence at the tariffs of the 2002 Agreement.

The Company is unable to assess the developments at this stage, and therefore the financial statements include income from the Ministry of Defence that is based on the rates provided in the 2005 agreement, which are estimated to be lower than the rates in the 2002 agreement and lower than the Company's regular rates (for the period from October 2005 to June 30, 2007).

B. Further to Note 26B to the financial statements at December 31, 2006, regarding stock options for the two employee-directors, on October 25, 2007, after approval by the Audit Committee, the Board of Directors of the Company discussed and resolved to approve an allocation of 59,574 stock options to the two aforementioned directors. The options constitute 0.00229% of the issued and paid up capital of the Company, and 0.00222% of the fully diluted issued and paid up capital of the Company. The value of the benefit for the two directors is estimated at approximately NIS 237,000. The allocation requires the approval of the general meeting of the Company.

C. Further to Note 29E to the financial statements at December 31, 2006, on July 29, 2007, an agreement was signed with a company owned and controlled by Ap.Sb.Ar., whereby the Company is granted regular management and consulting services in consideration of an annual fee of USD 1.2 million, during the period from October 11, 2005 to December 31, 2008.

NOTE 9 – TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (CONTD.)

D. Further to Note 29H to the financial statements at December 31, 2006, on June 28, 2007, Ap.Sb.Ar., which owns 30% of the Company's shares, notified the Company that it has signed an agreement with the former CEO of the Company, Mr. Amnon Dick, whereby Ap.Sb.Ar. will pay him special compensation in the amount of NIS 5.750 million, as a gesture for his contribution to the Company. The compensation is recorded in the Company's books as a salary expense, and concurrently in a capital reserve from operations between a corporation and a controlling shareholder.

E. Further to Note 29G to the financial statements at December 31, 2006, in the matter of cancellation of the bonus for the former CEO, Mr. Yacov Gelbard, the Company resolved that if this bonus is not returned to the Company, it will institute legal proceedings for its recovery.

F. On October 25, 2007, after approval by the Audit Committee, the Board of Directors of the Company resolved to approve a retirement bonus of NIS 1.5 million for the former chairman of the Board, this being over and above the terms provided in the employment agreement with him. It is noted that payment of the bonus is contingent upon the approval of the general meeting of the shareholders of the Company. These financial statements include a provision for the bonus.

G. On November 14, 2007, the Board of Directors of the Company approved (after approval by the Board's Audit Committee) the continued engagement of the Company and the companies in the Group with an insurance company, in a policy insuring the liability of officers for a period of one year commencing October 11, 2007, at a limit of liability of up to $150 million per claim and in total for each year of insurance, plus cover of up to $30 million per claim and for all claims for the period of insurance in respect of litigation expenses in Israel only. The limit of liability for subsidiaries is up to $50 million (as part of the aforementioned limit of liability). The annual premium for the policy is $510,000. (It is noted that the scope of the insurance cover is the same as the officers insurance existing today in the Company, while the annual premium is significantly lower that the premium paid in the past, due to run-off insurance concurrent with this insurance.)

The engagement will be in the format of a "framework transaction", meaning three periods of 12 months each, on the same terms as the officers insurance existing in the Company today, except for reduction of the premium to $510,000 and the inclusion of the officers in the subsidiaries Pelephone and Bezeq International in the insurance, as well as senior employees who are not officers, for managerial actions taken by them. The renewal of the insurance also requires the approval of the general meting of the shareholders of the Company.

Notes to the Financial Statements at September 30, 2007

NOTE 10 – REVENUE

	For the nine-month period ended September 30		For the three-month period ended September 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
Domestic fixed-line communications	**3,694,483**	3,829,078	**1,225,821**	1,293,215	5,086,022
Cellular telephone	**2,712,154**	2,612,522	**944,458**	904,490	3,493,541
Multi-channel television	**1,010,548**	944,772	**339,871**	318,407	1,284,337
Sale of equipment to subscribers, installations and miscellaneous	**945,932**	861,918	**314,406**	297,680	1,170,771
International communications and internet services	**747,385**	706,461	**258,206**	237,356	963,942
	9,110,502	8,954,751	**3,082,762**	3,051,148	11,998,613
Other income	**169,942**	159,785	**56,328**	32,399	233,217
	9,280,444	9,114,536	**3,139,090**	3,083,547	12,231,830

NOTE 11 – OPERATING AND GENERAL EXPENSES

	For the nine-month period ended September 30		For the three-month period ended September 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
General expenses	**840,953**	814,122	**289,849**	282,521	1,169,107
Cellular telephone expenses	**1,359,147**	1,389,798	**467,885**	472,883	1,854,347
Materials and spare parts	**646,796**	631,789	**217,441**	218,625	922,449
Consumption of satellite services content	**325,947**	333,900	**124,211**	117,743	441,268
Services and maintenance by sub-contractors	**286,206**	326,383	**93,946**	114,524	428,424
Building maintenance	**246,840**	258,995	**81,087**	88,791	347,849
International communication expenses	**275,232**	299,604	**89,781**	108,197	383,496
Motor vehicle maintenance expenses	**143,124**	142,888	**49,913**	51,370	190,079
Royalties to the State of Israel	**145,063**	125,741	**49,060**	36,319	179,589
Collection fees	**38,022**	37,319	**11,775**	12,046	50,008
	4,307,330	4,360,539	**1,474,948**	1,503,019	5,966,616

NOTE 12 – CONDENSED DATA FROM THE SEPARATE INTERIM FINANCIAL STATEMENTS OF THE COMPANY

A. Income statement

	For the nine-month period ended September 30		For the three-month period ended September 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
Revenue (See B below)	**4,259,884**	4,359,533	**1,424,721**	1,465,002	5,798,996
Costs and expenses					
Depreciation and amortisation	**708,582**	775,010	**236,064**	258,914	1,026,469
Salary	**963,531**	943,322	**327,763**	307,328	1,557,000*
General and operating expenses	**1,576,128**	1,649,320	**509,157**	558,104	2,233,167*
Other expenses (income), net	**72,328**	41,101	**24,889**	(22,316)	228,893
	3,320,569	3,408,753	**1,097,873**	1,102,030	5,045,529
Operating profit for the period	**939,315**	950,780	**326,848**	362,972	753,467

* Reclassified

B. Revenue segmentation

	For the nine-month period ended September 30		For the three-month period ended September 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
Telephony	**2,909**	3,085	**967**	1,035	4,088
Internet	**515**	450	**179**	152	608
Transmission and data communication	**557**	532	**192**	181	711
Other services	**279**	293	**87**	97	392
Total	**4,260**	4,360	**1,425**	1,465	5,799

NOTE 13 –SEGMENT REPORTING

The Company and the investee companies operate in various segments of the communications sector. Data on activities by segment are stated by the segments of operation of these companies.

	For the nine-month period ended September 30, 2007 (unaudited)						
	Domestic fixed–line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenue							
Revenue from external sources	**4,015,760**	**3,273,208**	**916,662**	**1,058,898**	**15,916**	**-**	**9,280,444**
Inter-segment revenue	**244,124**	**228,758**	**53,418**	**8,780**	**30,728**	**(565,808)**	**-**
Total revenue	**4,259,884**	**3,501,966**	**970,080**	**1,067,678**	**46,644**	**(565,808)**	**9,280,444**
Segment results	**939,315**	**671,799**	**158,814**	**51,541**	**1,867**	**-**	**1,823,336**

	For the nine-month period ended September 30, 2006 (unaudited)						
	Domestic fixed–line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenue							
Revenue from external sources	4,146,223	3,074,213	895,129	984,175	14,796	-	9,114,536
Inter-segment revenue	213,310	255,803	61,926	25,221	27,325	(583,585)	-
Total revenue	4,359,533	3,330,016	957,055	1,009,396	42,121	(583,585)	9,114,536
Segment results	950,780	534,889	109,138	(2,663)	275	-	1,592,419

NOTE 13 –SEGMENT REPORTING (CONTD.)

	For the three-month period ended September 30, 2007 (unaudited)						
	Domestic fixed–line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenue							
Revenue from external sources	**1,341,486**	**1,128,860**	**302,713**	**358,636**	**7,395**	**-**	**3,139,090**
Inter-segment revenue	**83,235**	**74,217**	**23,155**	**1,176**	**9,640**	**(191,423)**	**-**
Total revenue	**1,424,721**	**1,203,077**	**325,868**	**359,812**	**17,035**	**(191,423)**	**3,139,090**
Segment results	**326,848**	**218,760**	**54,394**	**(4,141)**	**(64)**	**-**	**595,797**

	For the three-month period ended September 30, 2006 (unaudited)						
	Domestic fixed–line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenue							
Revenue from external sources	1,392,654	1,058,803	294,208	332,455	5,427	-	3,083,547
Inter-segment revenue	72,348	85,518	22,108	7,319	9,403	(196,696)	-
Total revenue	1,465,002	1,144,321	316,316	339,774	14,830	(196,696)	3,083,547
Segment results	362,972	170,258	39,332	(12,362)	58	-	560,258

NOTE 13 –SEGMENT REPORTING (Contd.)

	For the year ended December 31, 2006 (audited)						
	Domestic fixed–line communications	**Cellular telephone**	**International communications, internet and NEP services**	**Multi-channel television**	**Others**	**Adjustments**	**Consolidated**
	NIS thousands	**NIS thousands**	**NIS thousands**	**NIS thousands**	**NIS thousands**	**NIS thousands**	**NIS thousands**
Revenue							
Revenue from external sources	5,514,799*	4,140,771*	1,218,568*	1,338,826	18,866*	-	12,231,830
Inter-segment revenue	284,197*	337,216*	82,175*	23,563	36,889*	(764,040)	-
Total revenue	5,798,996	4,477,987	1,300,743*	1,362,389	55,755*	(764,040)	12,231,830
Segment results	746,320	691,682	118,922*	7,707	571*	-	1,565,202

* Reclassified.

NOTE 14 – TRANSITION TO INTERNATIONAL STANDARDS (IFRSs) – EXPLANATION

As noted in the financial statements for the year 2006, the Group first adopted IFRSs in 2006, with January 1, 2005 set as the transition date. In preparing its opening balance sheet in accordance with IFRSs and in the Group balance sheet at January 1, 2006, the Group adjusted amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (Israeli GAAP).

Explanations of the material effects of the transition from Israeli GAAP to IFRSs on the Group's financial position and results of operations as of September 30, 2006 and for the nine-month and three-month periods then ended, are provided below. For the full explanations in respect to the transition from Israeli GAAP to IFRSs on the transition date and in respect to the reserves balance at January 1, 2006, see Note 33 to the Group's financial statements for the year 2006.

Material adjustments to the balance sheet line items

		Israeli GAAP	Effect of transition to IFRSs	IFRSs
		September 30, 2006		
		(Unaudited)	(Unaudited)	(Unaudited)
	Note	NIS thousands	NIS thousands	NIS thousands
Property, plant and equipment	a-f, k, l	8,813,942*	(2,175,621)	6,638,321
Intangible assets	d, f, g	2,083,224	479,897	2,563,121
Deferred tax assets	a-c, g, h, l	456,894*	442,818	899,712
Shareholders' equity	a-c, f-g, j, l	7,315,230*	(1,600,924)	5,714,306

Material adjustments to the income statement line items for the nine-month period ended September 30, 2006

		Israeli GAAP	Effect of transition to IFRSs	IFRSs
		For the nine-month period ended September 30, 2006		
		(Unaudited)	(Unaudited)	(Unaudited)
	Note	NIS thousands	NIS thousands	NIS thousands
Income	l	9,133,186*	(18,650)	9,114,536
Costs and expenses	a-c, f-g, j, l	7,798,386*	(276,269)	7,522,117
Net profit for the period (attributable to shareholders of the Company)	a-c, f-g, j, l	727,537*	188,205	915,742
Earnings per share				
Basic and diluted earnings per share (in NIS)		0.28*	0.07	0.35

* Restated – see section (l) below.

NOTE 14 – TRANSITION TO INTERNATIONAL STANDARDS (IFRSs) – EXPLANATION (CONTD.)

Material adjustments to the income statement line items for the three-month period ended September 30, 2006

	Note	Israeli GAAP	Effect of the transition to IFRSs	IFRSs
		For the three-month period ended September 30, 2006		
		NIS thousands	NIS thousands	NIS thousands
Revenue	l	3,087,963*	(4,416)	3,083,547
Costs and expenses	a-c, f-g, j, l	2,621,517*	(98,228)	2,523,289
Net profit for the period (attributable to shareholders of the Company)	a-c, f-g, j, l	256,132*	56,802	312,934
Earnings per share				
Basic and diluted earnings per share in NIS)		0.10*	0.02	0.12

* Restated – see section (l) below.

Notes to the material adjustments

a. In accordance with the relief under IFRS 1, as of the transaction date, the Group chose to state some of the property, plant and equipment items (the switching, transmission and power group) at their fair value and to determine this value as deemed cost. The deemed cost was based on an external expert opinion. As a result, the property, plant and equipment balance decreased by NIS 1,168 million at September 30, 2006, to a deemed cost of approximately NIS 1,210 million at that date, while the deferred tax balances deriving from the differences in the measurement of the property, plant and equipment for tax purposes, changed compared with the statement of the property, plant and equipment for accounting purposes, by approximately NIS 340 million at September 30, 2006. The reserves balance was reduced on that date by the net amounts. The depreciation expenses for the nine-month and three-month periods ended September 30, 2006, decreased by NIS 247 million and NIS 78 million, respectively.

b. On the date of transition to IFRSs, in accordance with the directives of IAS 16, the residual value of the property, plant and equipment not included in the calculation of depreciation according to accepted accounting principles in Israel was measured. The residual value was based on an opinion of an external expert. The effect was to increase the property, plant and equipment balances by approximately NIS 66 million and to reduce the depreciation expense for the nine-month and three-month periods ended on September 30, 2006 by approximately NIS 34 million and NIS 11 million, respectively. Another effect was to change the deferred tax balances derived from the differences in measurement of the property, plant and equipment for tax purposes as compared with the statement of property, plant and equipment in the financial statements. The reserve balances were reduced by the same net amounts at that date.

c. Under IAS 37, the Group is required to recognise liabilities in respect of bearing the costs of site decommissioning and clearing. Pursuant to IFRS 1, the Group selected a relief that allowed it to discount the costs of decommissioning and clearing sites at the transition date at historical discount rates.
As a result, the property, plant and equipment balance at September 30, 2006 increased by NIS 15 million, and the reserves balance decreased by approximately NIS 7 million (net of tax) at the same date.

NOTE 14 – TRANSITION TO INTERNATIONAL STANDARDS (IFRSs) – EXPLANATION (CONTD.)

Notes to the material adjustments (contd.)

d. Under IFRSs, computer software and capitalised software development costs that are not an integral part of the hardware related to them, are treated as intangible assets. Accordingly, with the transition to IFRSs, the carrying balances in the books at September 30, 2006, of approximately NIS 466 million, relating to computer software and discounted software development costs, were reclassified from the property, plant and equipment item to the intangible assets item.

e. Under accepted accounting principles in Israel, agreements granting the Group an indefeasible right of use of sea-bed cable capacity were treated as a finance lease and accordingly, a related asset was recognised in the balance sheet in the property, plant and equipment item. Under IFRSs and as provided in IFRIC 4, which determines whether an arrangement includes a lease, there are criteria for determining whether a right to use an asset is an arrangement having the form of a lease. If it is not a lease, the arrangement should be classified as an arrangement for receipt of services. The effect of application of the provisions of IFRSs and in the absence of the criteria required for those arrangements to be defined as a lease, the amounts paid to the suppliers for a future right of use of sea-bed cable capacity were classified as deferred and other long-term expenses.

The effect of the transition to IFRSs was to decrease property, plant and equipment by approximately NIS 185 million at September 30, 2006, against an increase in the following items:

(1) Other accounts receivable (prepaid expenses), of approximately NIS 19 million at September 30, 2006.
(2) Other long-term assets (long-term prepaid expenses in respect of a right of use of capacity), of approximately NIS 151 million.

f. Under accepted accounting principles in Israel, part of the customer acquisition costs of a subsidiary was partially capitalised to property, plant and equipment and depreciated over 6 years, and partially charged as a current expense to profit and loss. Under IFRSs, these costs were capitalised stated as intangible assets, and are depreciated over the term of the contractual engagement of the subscriber, which is usually one year.

The difference between the accumulated depreciation under Israeli GAAP and the accumulated depreciation under IFRSs for the three-month period ended September 30, 2006, amounts to approximately NIS 278 million (decrease of property, plant and equipment), and the effect on the depreciation expenses in the nine-month and three-month periods ended September 30, 2006 is a decrease in depreciation expenses of approximately NIS 28 million and NIS 9 million, respectively.

g. Under Israeli GAAP, the Group recognised as an asset the net direct costs paid to a third party in respect of sale to subscribers who signed a commitment to remain customers of the Group, as well as losses in respect of handset subsidies. These costs included the commissions paid to external dealers, as well as losses in respect of subsidising the terminal equipment for customers (“Subscriber Acquisition”). This Subscriber Acquisition was depreciated to profit and loss over the term of the customer commitment, which is up to 36 months.

Under IAS 38, the Group defers only the direct sales commissions paid to employees and to external dealers in respect of sales to those subscribers who signed a commitment to remain customers of the Group. These costs are depreciated to profit and loss over the term of the commitment of the subscribers, which is up to 36 payments. Losses in respect of handset subsidies are charged to profit and loss and are not deferred. As a result, the Subscriber Acquisition asset at September 30, 2006, was reduced by approximately NIS 90 million. The effect on profit and loss for the nine-month and three-month periods ended September 30, 2006 is a decrease of approximately NIS 22 million and NIS 18 million before tax, respectively,.

h. Under IFRSs, deferred tax assets are classified as non-current assets, even if the date of their realisation is expected to be in the short term. Under Israeli GAAP, deferred tax assets were classified as current or non-current assets, depending on the classification of the assets in respect of which they were generated.

NOTE 14 – TRANSITION TO INTERNATIONAL STANDARDS (IFRSs) – EXPLANATION (CONTD.)

Notes to the material adjustments (contd.)

Accordingly, with the transition to IFRSs, the balance of short-term deferred taxes at September 30, 2006, in the amount of approximately NIS 188 million, was reclassified from the accounts receivable and debit balances item under current assets, to the deferred tax item under non-current assets (in this Note, the deferred tax balance is stated after the reclassification).

i. Under IFRSs, bank loans to a subsidiary, of approximately NIS 1,245 million, were stated as short-term loans, while under Israeli GAAP these loans were classified as long-term loans. The classification was changed due to the transition to IFRSs, since the subsidiary failed to meet financial criteria set by the banks for these loans at balance sheet date.

j. Under Israeli GAAP, the minority interest item in the Company is measured at the amount of the loans provided by the minority interest in a subsidiary, at their carrying value in that company, and stated net of those loans.

Under IFRSs, the minority rights are stated in the consolidated balance sheet as a separate component of the shareholders' equity, in the amount of the loans, at fair value, provided by the minority in a subsidiary, plus the financing costs in respect of those loans, accumulated from the acquisition date to the balance sheet date. The minority interest share in the capital deficit of the subsidiary is stated as part of distribution of profits between the majority shareholders and the minority interest shareholders.

k. Other material classifications made in accordance with the provisions of IFRSs:
1. Leases of land from Israel Lands Administration classified as operating leases, of approximately NIS 222 million at September 30, 2006, were reclassified from the property, plant and equipment item to the deferred expenses item.
2. Materials and spare parts that were stated in a separate item between the current assets item and the property, plant and equipment item, were reclassified to property, plant and equipment in the amount of NIS 78 million at September 30, 2006.
3. Other income, net, was classified under other operating income, net.

l. Restatement

The financial statements at September 30, 2006, according to Israeli GAAP were adjusted by way of restatement in order to retroactively reflect the following changes:

(1) Recording of amortisation of lease payments in respect of land from Israel Lands Administration over the term of the lease, and not as amortised since the establishment of the Company (at a rate of 4%). The effect of this amendment is the addition of approximately NIS 109 million to property, plant and equipment, and of approximately NIS 82 million to the balance of shareholders' equity at September 30, 2006. The amendment does not have a material effect on the profit for the nine-month and three-month periods ended September 30, 2006.

(2) Statement of receipts from interconnect to the cellular networks, which were not stated commencing 2000 as part of the Company's income, and correspondingly as an operating expense in the same amount, following examination of the criteria under international standards and in order to state them as accepted in Israel and worldwide. The effect of this amendment for the nine-month and three-month periods ended September 30, 2006 is an increase in income and a corresponding increase in operating and general expenses of approximately NIS 607 million and NIS 207 million, respectively.

(3) Amendment of the accounting treatment of the depreciation of property, plant and equipment not used by Pelephone, and the resulting tax implications. The effect of this amendment is to depreciate property, plant and equipment by approximately NIS 252 million, and to reduce the balance of shareholders' equity by approximately NIS 181 million at September 30, 2006, as well as to reduce depreciation expenses by approximately NIS 31 million and NIS 11 million

NOTE 14 – TRANSITION TO INTERNATIONAL STANDARDS (IFRSs) – EXPLANATION (CONTD.)

Notes to the material adjustments (contd.)

I. Restatement (contd.)

and to increase net profit by approximately NIS 24 and NIS 9 million for the nine-month and three month periods ended September 30, 2006, respectively.

The table below shows the effect of restatement as aforesaid on the comparative numbers according to Israeli GAAP at September 30, 2006, before the effects of IFRSs.

(1) Effect on the consolidated balance sheet

	As previously reported	Effects of restatement	As reported in these financial statements prior to their adjustment to IFRSs
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS thousand	NIS thousand	NIS thousand
Property, plant and equipment	8,957,533	(143,591)	8,813,942
Deferred tax assets	412,501	44,393	456,894
Shareholders' equity	7,414,428	(99,198)	7,315,230

(2) Effect on undesignated retained earnings (deficit)

	At September 30 2006
	(Unaudited)
	NIS thousand
As previously reported	(957,138)
Effect of restatement	(99,198)
	(1,056,336)

(3) Effect on net profit

	For the nine-month period ended September 30, 2006	For the three-month period ended September 30, 2006
	(Unaudited)	(Unaudited)
	NIS thousand	NIS thousand
Profit as reported in the past	700,568	244,990
Effect of restatement:		
Increase in revenue	606,655	206,559
Decrease in depreciation and amortisation expenses	35,099	13,683
Decrease in other operating expenses (income), net	1,241	1,241
Increase in operating and general expenses	(606,655)	(206,559)
Increase in income tax	(9,371)	(3,782)
Profit as reported in these financial statements in the note on adjustment to IFRSs	727,537	256,132

NOTE 15 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD., D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD.

1. Pelephone Communications Ltd.

A. Balance sheet

	September 30, 2007	September 30, 2006	December 31, 2005
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	**1,909,312**	1,473,997	1,451,006
Non-current assets	**2,340,609**	2,577,435	2,520,473
	4,249,921	4,051,432	3,971,479
Current liabilities	**1,086,653**	1,224,177	1,089,973
Long-term liabilities	**1,185,758**	1,457,554	1,383,859
Total liabilities	**2,272,411**	2,681,731	2,473,832
Shareholders' equity	**1,977,510**	1,369,701	1,497,647
	4,249,921	4,051,432	3,971,479

B. Income statement

	For the nine-month period ended September 30		For the three-month period ended September 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
Revenue from services and sales	**3,501,966**	3,330,016	**1,203,077**	1,144,321	4,477,987
Cost of services and sales	**2,450,621**	2,400,438	**847,559**	831,324	3,250,303
Gross profit	**1,051,345**	929,578	**355,518**	312,997	1,227,684
Sales and marketing expenses	**308,208**	304,605	**111,738**	107,496	417,178
General and administrative expenses	**71,337**	81,270	**25,019**	35,246	110,008
	379,545	385,875	**136,757**	142,742	527,186
Operating profit	**671,800**	543,703	**218,761**	170,255	700,498
Financing costs					
Financing expenses	**97,488**	116,322	**54,269**	29,709	114,775
Financing income	**(84,446)**	(72,459)	**(41,480)**	(20,930)	(97,088)
Net financing costs	**13,042**	43,863	**12,789**	8,779	17,687
Profit before income tax	**658,758**	499,840	**205,972**	161,476	682,811
Income tax	**177,156**	138,495	**51,565**	50,721	196,910
Net profit for the period	**481,602**	361,345	**154,407**	110,755	485,901

NOTE 15 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD., D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD. (CONTD.)

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

A. Balance sheet

	September 30, 2007	September 30, 2006	December 31, 2005
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	**387,100**	355,358	338,662
Non-current assets	**681,020**	702,864	679,783*
	1,068,120	1,058,222	1,018,445
Current liabilities	**1,426,806**	2,002,498	1,889,416
Non-current liabilities	**2,196,838**	1,876,395	1,989,685*
Total liabilities	**3,623,644**	3,878,893	3,879,101
Capital deficit	**(2,555,524)**	(2,820,671)	(2,860,656)
	1,068,120	1,058,222	1,018,445

B. Income statement

	For the nine-month period ended September 30		For the three-month period ended September 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
Revenue	**1,067,678**	1,009,396	**359,812**	339,774	1,355,735
Cost of income	**835,915**	856,864	**300,867**	293,521	1,139,308
Gross profit	**231,763**	152,532	**58,945**	46,253	216,427
Sales and marketing expenses	**104,331**	91,460	**36,767**	31,191	122,996
General and administrative expenses	**75,914**	70,062*	**26,329**	26,192*	92,398*
	180,245	161,522	**63,096**	57,383	215,394
Operating profit (loss)	**51,518**	(8,990)	**(4,151)**	(11,130)	1,033
Financing costs					
Financing expenses	**304,481**	276,963	**136,909**	90,459	345,669
Financing income	**(215,930)**	(9,480)	**(211,448)**[1]	(4,432)	(26,774)
Net financing costs (income)	**88,551**	267,483	**(74,539)**	86,027	318,925
Loss before income tax	**(37,033)**	(276,473)	**70,388**	(97,157)	(317,892)
Income tax	**6,251**	1,915*	**728**	247*	1,915*
Loss for the period	**(43,284)**	(278,388)	**69,660**	(97,404)	(319,807)

* Reclassified
(1) See Note 7A1.

NOTE 15 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD., D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD. (CONTD.)

3. Bezeq International Ltd.*

A. Balance sheet

	September 30, 2007	September 30, 2006	December 31, 2005
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets	**447,943**	311,731	332,526
Non-current assets	**435,616**	353,684	340,734
	883,559	665,415	673,260
Current liabilities	**350,595**	321,035	307,724
Long-term liabilities	**22,399**	14,894	15,613
Total liabilities	**372,994**	335,929	323,337
Shareholders' equity	**510,565**	329,486	349,923
	883,559	665,415	673,260

* The above financial statements are presented solely in accordance with International Financial Reporting Standards (IFRSs). In addition, commencing January 1, 2007, the financial statements include the operations of BezeqCall Communications Ltd.

NOTE 15 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD., D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD. (CONTD.)

3. Bezeq International Ltd.* (Contd.)

B. Income statement

	For the nine-month period ended September 30		For the three-month period ended September 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
Revenue	**970,082**	755,414	**325,870**	259,033	1,021,573
Operating expenses	**(635,714)**	(490,097)	**(209,003)**	(170,753)	(662,244)
Gross profit	**334,368**	265,317	**116,867**	88,280	359,329
Sales and marketing expenses	**(104,317)**	(109,868)	**(36,350)**	(38,006)	(148,594)
General and administrative expenses	**(71,729)**	(50,822)	**(25,358)**	(16,811)	(71,806)
Other expenses (income), net	**494**	2,031	**(763)**	2,226	(7,064)
Operating profit	**158,816**	106,658	**54,396**	35,689	131,865
Financing costs					
Financing income	**(8,919)**	(21,137)	**(5,908)**	(2,431)	(19,752)
Financing expense	**9,663**	13,753	**5,717**	4,304	12,787
Net financing costs (income)	**744**	(7,384)	**(191)**	1,873	(6,965)
Equity in profits of an associate accounted by the equity method	**2,405**	6,902	**761**	2,889	11,051
Profit before income tax	**161,965**	106,176	**54,966**	40,451	135,951
Income tax	**(47,263)**	(31,088)	**(16,230)**	(11,769)	(40,391)
Profit for the period	**114,702**	75,088	**38,736**	28,682	95,560

* The above financial statements are presented solely in accordance with International Financial Reporting Standards (IFRSs). In addition, commencing January 1, 2007, the financial statements include the operations of BezeqCall Communications Ltd.

NOTE 16 – MATERIAL EVENTS DURING THE REPORTING PERIOD AND EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

A. On February 27, 2007, the Company's Board of Directors approved the allocation to the Company's executives of 56,836,888 options, exercisable for 56,836,888 ordinary shares of the Company, par value NIS 1 each, each representing 2.1818% of the Company's issued capital before issue of the shares.

Following an enquiry of the Securities Authority into this matter and the results of the Company's review of the plan approval process, the Company's Board of Directors resolved, on March 15, 2007, to cancel the plan and its published outline.

B. During May – July 2007, the subsidiary Bezeq Zahav (Holdings) Ltd. ("Bezeq Zahav") sold 1,069,900,000 debentures (Series 5) of the Company in private placements and on the Tel Aviv Stock Exchange, out of the debentures (Series 5) it purchased from the Company prior to publication of the Company's prospectus of May 24, 2004 ("the Prospectus"), and that had been listed for trading in accordance with the Prospectus, and out of the debentures (Series 5) it had purchased from the Company in a private placement in December 2004 (under legal lockout restrictions). The execution prices of the sales ranges between 111.8 and 112.5 (reflecting a yield to redemption of approximately 3.6% - 3.9%).

The proceeds from those sales, approximately NIS 1,199,961million, were transferred to the Company by Bezeq Zahav in (partial) repayment of the loan granted to Bezeq Zahav by the Company for purchasing the Debentures (Series 5), as provided in the loan agreements between the parties.

C. Following an enquiry of the Securities Authority, it was decided to appoint an external examiner to investigate the matter of compensation granted to officers in the Company since the transfer of control in the Company from the State to Ap.Sb.Ar. Holdings Ltd. (including approval of the stock option plan for employees and managers, and approval of bonuses for officers), and to investigate the matter of restatement in the Group's financial statements at December 31, 2004 and 2005. On April 26, 2007, the examiner submitted a report setting out the findings of his examination. The report specifies the shortcomings in the Company’s operations, and ways to prevent their recurrence in the future, in respect of all matters examined. The Company's Board of Directors discussed the findings of the reports and resolved, *inter alia*, to act towards implementation of the recommendations and to draw the necessary conclusions, as required by the report. The Board of Directors also approved a joint announcement to the Company and its then CEO, stating that the CEO will end his tenure as CEO of the Company, and as of June 26, 2007 Mr Avi Gabbay is the Company's Acting CEO. Decisions were made concerning, *inter alia*, the work procedures of the Board of Directors and the composition of its committees. Further to the aforementioned, after obtaining the approval of the Audit Committee, the Board of Directors of the Company discussed and approved the grant of bonuses to officers in respect of 2005 and 2006 and on June 28, 2007, adopted a new working procedure, that pertains to its meetings and to their management and to the management of Board committees, their powers and their work principles. On complaints submitted to the Company in respect of the aforementioned, see Notes 8A and 8C.

D. On September 4, 2007, the annual general meeting of the shareholders of the Company elected members of the Board, including a number of new members, and on the same date the Board of Directors appointed a new chairman for the Company. It was also resolved to establish Board committees, their nature and composition, as part of the implementation of the recommendations and conclusions drawn from the external examiner's report. In addition, the Company approved the appointment of new directors in the subsidiaries.

E. On August 13, 2007, the Board of Directors of the Company resolved to recommend to the general meeting of the shareholders of the Company, payment of a cash dividend to the shareholders of a total amount of NIS 760 million (representing NIS 0.29 per share). On 19 September, 2007, the general meeting approved payment of the dividend and it was paid in October 2007. The resolution of the general meeting is expected to be approved in an additional general meeting which will be convened for this matter.

NOTE 16 – MATERIAL EVENTS DURING THE REPORTING PERIOD AND EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (CONTD.)

F. On October 25, 2007, the Board of Directors of the Company approved a resolution of the board of directors of Pelephone regarding the setting up of a network using HSPA / UMTS technology for a total sum of approximately one billion shekels. Following the resolution, the general meeting of Pelephone approved the set-up of the network. Ericsson was chosen as supplier of the system. The new network is expected to commence operations at the beginning of 2009. Investment in the network will be over a period of four years.

NOTE 17 – DETAILS OF ADDITIONAL MOVEMENTS IN SHAREHOLDERS' EQUITY

	Share capital	Premium on shares	Capital reserve in respect of a transaction between a corporation and a controlling shareholder	Capital reserve in respect of financial assets available for sale	Capital reserve in respect of option warrants for employees	Balance of deficit	Total	Minority interest in capital deficit of consolidated companies	Total shareholders' equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
	Refers to shareholders of the Company								
Nine-month period ended September 30, 2007									
Balance at January 1, 2007 (audited)	**6,309,133**	**1,623,423**	**384,684**	**630**	**286,506**	**(2,849,381)**	**5,754,995**	**(564,250)**	**5,190,745**
Total profits recognised during the period (unaudited)	**-**	**-**	**-**	**7,128**	**-**	**1,015,040**	**1,022,168**	**40,633**	**1,062,801**
Change in the repayment date of a loan provided by a minority interest in a subsidiary (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**159,148**	**159,148**
Dividends to shareholders of the Company which do not comply with the profits test* (unaudited)	**(176,497)**	**(1,623,423)**	**-**	**-**	**-**	**-**	**(1,799,920)**	**-**	**(1,799,920)**
Dividends to Company shareholders** (unaudited)	**-**	**-**	**-**	**-**	**-**	**(760,000)**	**(760,000)**	**-**	**(760,000)**
Distribution of a dividend to the minority interest in a subsidiary, less minority transfers, net (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,928)**	**(3,928)**
Payments to a former senior officer (Note 9C) (unaudited)	**-**	**-**	**5,750**	**-**	**-**	**-**	**5,750**	**-**	**5,750**
Balance at September 30, 2007 (unaudited)	**6,132,636**	**-**	**390,434**	**7,758**	**286,506**	**(2,594,341)**	**4,222,993**	**(368,397)**	**3,854,596**
Nine-month period ended September 30, 2006									
Balance at January 1, 2006 (audited)	6,309,133	1,623,423	384,684	5,253	-	(1,761,971)	6,560,522	(505,280)	6,055,242
Total profits (losses) recognised for the period (unaudited)	-	-	-	(3,838)	-	915,742	911,904	(52,840)	859,064
Dividends to shareholders of the Company (unaudited)	-	-	-	-	-	(1,200,000)	(1,200,000)	-	(1,200,000)
Balance at September 30, 2006 (unaudited)	6,309,133	1,623,423	384,684	1,415	-	(2,046,229)	6,272,426	(558,120)	5,714,306

* On December 28, 2006, the general meeting of the shareholders of the Company approved the proposal of the Board of Directors regarding distribution of a cash dividend of approximately NIS 1.8 billion (representing NIS 0.69 per share) as a dividend which does not meet the income test. On February 4, 2007 a court approved the dividend and the distribution was subsequently made on February 26, 2007.

** See Note 16D.

NOTE 17 – DETAILS OF ADDITIONAL MOVEMENTS IN SHAREHOLDERS' EQUITY (CONTD.)

	Share capital	Premium on shares	Capital reserve in respect of a transaction between a corporation and a controlling shareholder	Capital reserve in respect of financial assets available for sale	Capital reserve in respect of option warrants for employees	Balance of deficit	Total	Minority interest in capital deficit of consolidated companies	Total shareholders' equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
	Refers to shareholders of the Company								
Three-month period ended September 30, 2007									
Balance at July 1, 2007 (unaudited)	**6,132,636**	**-**	**390,434**	**3,566**	**286,506**	**(2,089,539)**	**4,723,603**	**(598,785)**	**4,124,818**
Total profits recognised during the period (unaudited)	**-**	**-**	**-**	**4,192**	**-**	**255,198**	**259,390**	**75,168**	**334,558**
Dividends to Company shareholders* (unaudited)	**-**	**-**	**-**	**-**	**-**	**(760,000)**	**(760,000)**	**-**	**(760,000)**
Change in the repayment date of a loan provided by a minority interest in a subsidiary (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**159,148**	**159,148**
Distribution of a dividend to the minority interest in a subsidiary, less minority transfers, net (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,928)**	**(3,928)**
Balance at September 30, 2007 (unaudited)	**6,132,636**	**-**	**390,434**	**7,758**	**286,506**	**(2,594,341)**	**4,222,993**	**(368,397)**	**3,854,596**
Three-month period ended September 30, 2006									
Balance as at July 1, 2006 (unaudited)	6,309,133	1,623,423	384,684	2,855	-	(2,359,163)	5,960,932	(541,482)	5,419,450
Total profits (losses) recognised for the period (unaudited)	-	-	-	(1,440)	-	312,934	311,494	(16,638)	294,856
Balance at September 30, 2006 (unaudited)	6,309,133	1,623,423	384,684	1,415	-	(2,046,229)	6,272,426	(558,120)	5,714,306

* See Note 16D

Notes to the Financial Statements at September 30, 2007

NOTE 17 – DETAILS OF ADDITIONAL MOVEMENTS IN SHAREHOLDERS' EQUITY (CONTD.)

	Share capital	Premium on shares	Capital reserve in respect of a transaction between a corporation and a controlling shareholder	Capital reserve in respect of financial assets available for sale	Capital reserve in respect of option warrants for employees	Balance of deficit	Total	Minority interest in capital deficit of consolidated companies	Total shareholders' equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
	Refers to shareholders of the Company								
Year ended December 31, 2006									
Balance at January 1, 2006 (audited)	6,309,133	1,623,423	384,684	5,253	-	(1,761,971)	6,560,522	(505,280)	6,055,242
Profits (losses) recognised during the period (audited)	-	-	-	(4,623)	-	812,590	807,967	(58,970)	748,997
Dividends to shareholders of the Company (audited)	-	-	-	-	-	(1,900,000)	(1,900,000)	-	(1,900,000)
Share-based payments made by the Company (audited)	-	-	-	-	286,506	-	286,506	-	286,506
Balance at December 31, 2006 (audited)	6,309,133	1,623,423	384,684	630	286,506	(2,849,381)	5,754,995	(564,250)	5,190,745