

B Communications Reports Financial Results For The Third Quarter of 2012

- *Progress In Line With Our Strategic Plan Driven By Bezeq's Continued Strong Cash Generation* -

Ramat Gan, Israel – November 8, 2012 – B Communications Ltd. (NASDAQ Global Market and TASE: BCOM) today reported its financial results for the third quarter ended September 30, 2012.

Bezeq's Results: For the third quarter of 2012, the Bezeq Group reported revenues of NIS 2.5 billion (\$ 638 million) and operating profit of NIS 667 million (\$ 171 million). Bezeq's EBITDA for the third quarter totaled NIS 1 billion (\$ 262 million), representing an EBITDA margin of 41%. Net income for the period attributable to the shareholders of Bezeq totaled NIS 342 million (\$ 87 million). Bezeq's cash flow from operating activities totaled NIS 1 billion (\$ 262 million) during the third quarter of 2012.

Dividend from Bezeq: On October 10, 2012, B Communications received two dividend payments from Bezeq which together totaled NIS 464 million (\$ 119 million). These dividend payments included a current dividend of NIS 309 million (\$ 79 million), representing B Communications' share of Bezeq's net profit for the first half of 2012, and a special dividend of NIS 155 million (\$ 40 million), representing B Communications' share of the fourth installment of six special dividend payments declared by Bezeq and approved by its shareholders last year.

Cash Position: As of September 30, 2012, B Communications' unconsolidated cash and cash equivalents (including dividend receivable) totaled NIS 853 million (\$ 218 million), its unconsolidated total debt was NIS 4.2 billion (\$ 1.1 billion), and its net debt totaled NIS 3.3 billion (\$ 849 million).

B Communications' Unconsolidated Balance Sheet Data*

	<u>September 30,</u> <u>2012</u> <u>(NIS millions)</u>	<u>December 31,</u> <u>2011</u>	<u>September 30,</u> <u>2012</u> <u>(\$ millions)</u>	<u>December 31,</u> <u>2011</u>
Short term liabilities	470	526	120	134
Long term liabilities	3,705	3,874	947	991
Total liabilities	4,175	4,400	1,067	1,125
Cash and cash equivalents	389	354	99	91
Dividend receivable	464	-	119	-
Total net debt	<u>3,322</u>	<u>4,046</u>	<u>849</u>	<u>1,034</u>

* Does not include the balance sheet of Bezeq.

B Communications' Third Quarter Consolidated Financial Results

B Communications' revenues for the third quarter of 2012 were NIS 2,494 million (\$ 638 million), a 15% decrease compared with NIS 2,917 million (\$ 746 million) reported in the third quarter of 2011. For both the current and the prior-year periods, B Communications' revenues consisted entirely of its share of Bezeq's revenues.

B Communications' net loss attributable to shareholders for the third quarter totaled NIS 55 million (\$ 14 million), compared to NIS 31 million (\$ 8 million) reported in the third quarter of 2011. This reflects the impact of two significant expenses:

- Amortization of tangible and identifiable intangible assets resulting from the Bezeq acquisition:** According to the rules of business combination accounting, the total purchase price of the Bezeq acquisition was allocated to Bezeq's tangible and identifiable intangible assets based on their estimated fair values as determined by an analysis performed by an independent valuation firm. B Communications is amortizing certain of the acquired identifiable intangible assets in accordance with the economic benefit expected from such assets using an accelerated method of amortization.

During the third quarter of 2012, B Communications recorded amortization expenses related to the Bezeq purchase price allocation ("Bezeq PPA") of NIS 307 million (\$78 million), net. From the Bezeq acquisition date (April 14, 2010) until the end of the reporting quarter, B Communications has amortized approximately 53% of the total Bezeq PPA. It expects to amortize an additional 5% in the fourth quarter of 2012.

The Company's Bezeq PPA amortization expense is a non-cash expense that is subject to adjustment. If, for any reason, the Company finds it necessary or appropriate to make adjustments to amounts already expensed, it may result in significant changes to future financial statements.

- Financial expenses:** B Communications' unconsolidated financial expenses for the third quarter totaled NIS 65 million (\$ 17 million). These expenses consisted primarily of NIS 64 million (\$ 16 million) of interest and CPI linkage expense on the long-term loans incurred to finance the Bezeq acquisition and NIS 14 million (\$ 4 million) of expenses related to the Company's debentures. These expenses were offset by financial income of NIS 13 million (\$ 3 million) generated by our short term investments. The significant financial expenses recorded in the third quarter were due primarily to high CPI linkage expenses attributed to the 0.85% increase in the Israeli CPI, to which approximately half of B Communications' total debt is linked.

B Communications' Unconsolidated Financial Results

	Quarter ended September 30,		Quarter ended September 30,	
	2012	2011	2012	2011
	(NIS millions)		(US\$ millions)	
Revenues	-	-	-	-
Financial expenses	(65)	(93)	(17)	(24)
Other expenses	(1)	(2)	-	-
PPA amortization, net	(95)	(107)	(24)	(27)
Interest in Bezeq's net income	106	171	27	43
Net loss	(55)	(31)	(14)	(8)

Comments of Management

Commenting on the results, Doron Turgeman, CEO of B Communications' said, "The third quarter of 2012 was another stable period for Bezeq, demonstrating the cash flow-generating power of its formidable position in Israel's telecommunications market. Due to the continued uninterrupted payment of both regular and special dividends, including the latest installment which we received last month, we have succeeded in building our cash reserves to their current strong level, and are on track with plans to continue expanding our financial stability and liquidity in the quarters to come. Despite current conditions in the Israeli capital market, as a long-term communications player with loans that are not burdened by share price-related covenants, we are able to manage our cash position entirely according to plan, relying upon steady and visible cash flow to fulfill all loan commitments while continuing to accelerate our repayments."

Bezeq Group Results (Consolidated)

To provide further insight into its results, the Company has provided the following summary of the consolidated financial report of the Bezeq Group's quarter ended September 30, 2012. For a full discussion of Bezeq's results for the quarter, please refer to <http://ir.bezeq.co.il>.

Bezeq Group (consolidated)	<u>Q3 2012</u>	<u>Q3 2011</u>	<u>Change</u>
	<i>(NIS millions)</i>		
Revenues	2,494	2,917	-14.5%
Operating profit	667	944	-29.3%
EBITDA	1,026	1,301	-21.1%
EBITDA margin	41.1%	44.6%	
Net profit attributable to Company shareholders	342	550	-37.8%
Diluted EPS (NIS)	0.13	0.20	-35.0%
Cash flow from operating activities	1,024	882	16.1%
Payments for investments, net	270	374	-27.8%
Free cash flow ¹	754	508	48.4%
Net debt/EBITDA (end of period) ²	1.64	1.24	
Net debt/shareholders' equity (end of period)	3.69	2.93	

¹ Free cash flow is defined as cash flows from operating activities less net payments for investments.

² EBITDA in this calculation refers to the trailing twelve months.

Revenues of the Bezeq Group in the third quarter of 2012 amounted to NIS 2.49 billion compared with NIS 2.92 billion in the corresponding quarter of 2011, a decrease of 14.5%. Most of the decrease in the Bezeq Group's revenues was due to lower revenues from the sale of cellular handsets and the erosion of revenues from cellular services.

Operating profit of the Bezeq Group in the third quarter of 2012 amounted to NIS 667 million, compared with NIS 944 million in the corresponding quarter of 2011, a decrease of 29.3%. **Earnings before interest, taxes, depreciation and amortization (EBITDA)** in the third quarter of 2012 amounted to NIS 1.03 billion (EBITDA margin of 41.1%), compared with NIS 1.30 billion (EBITDA margin of 44.6%) in the corresponding quarter of 2011, a decrease of 21.1%. **Net profit** attributable to Bezeq shareholders in the third quarter of 2012 amounted to NIS 342 million compared with NIS 550 million in the corresponding quarter of 2011, a decrease of 37.8%. The decrease in profitability metrics was primarily due to a decrease in profitability in the cellular segment as well as lower capital gains from real estate and copper sales in the Fixed-line segment compared to the corresponding quarter of 2011.

Cash flow from operating activities in the third quarter of 2012 amounted to NIS 1.02 billion compared with NIS 882 million in the corresponding quarter of 2011, an increase of 16.1% mainly due to improved working capital in the cellular segment. **Free cash flow** in the third quarter of 2012 amounted to NIS 754 million compared with NIS 508 million in the corresponding quarter of 2011, an increase of 48.4%. The increase in free cash flow was due to an increase in cash flow from operating activities as well as the completion of large infrastructure projects initiated in prior years .

Gross capital expenditures (CAPEX), in the third quarter of 2012 amounted to NIS 346 million compared with NIS 437 million in the corresponding quarter of 2011, a decrease of 20.8%. The Bezeq Group's CAPEX to consolidated sales ratio in the third quarter of 2012 was 13.9%, compared with 15.0% in the corresponding quarter of 2011.

As of September 30, 2012, **gross financial debt** of the Bezeq Group was NIS 8.94 billion, compared with NIS 9.61 billion as of September 30, 2011. The **net financial debt** of the Bezeq Group was NIS 7.19 billion compared with NIS 5.99 billion as of September 30, 2011. At the end of September 2012, the Bezeq Group's net financial debt to EBITDA ratio was 1.64, compared with 1.24 at the end of September 2011.

Notes:

- A. Convenience Translation to Dollars:** For the convenience of the reader, certain of the reported NIS figures of September 30, 2012 have been presented in millions of U.S. dollars, translated at the representative rate of exchange as of September 30, 2012 (NIS 3.912 = U.S. Dollar 1.00). The U.S. dollar (\$) amounts presented should not be construed as representing amounts receivable or payable in U.S. dollars or convertible into U.S. dollars, unless otherwise indicated.
- B. Use of non-IFRS Measurements:** We and the Bezeq Group's management regularly use supplemental non-IFRS financial measures internally to understand, manage and evaluate our business and make operating decisions. We believe these non-IFRS financial measures provide consistent and comparable measures to help investors understand the Bezeq Group's current and future operating cash flow performance.

These non-IFRS financial measures may differ materially from the non-IFRS financial measures used by other companies.

EBITDA is a non-IFRS financial measure generally defined as earnings before interest, taxes, depreciation and amortization. The Bezeq Group defines EBITDA as net income before financial income (expenses), net, impairment and other charges, expenses recorded for stock compensation in accordance with IFRS 2, income tax expenses and depreciation and amortization. We present the Bezeq Group's EBITDA as a supplemental performance measure because we believe that it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structure, tax positions (such as the impact of changes in effective tax rates or net operating losses) and the age of, and depreciation expenses associated with, fixed assets (affecting relative depreciation expense).

EBITDA should not be considered in isolation or as a substitute for net income or other statement of operations or cash flow data prepared in accordance with IFRS as a measure of profitability or liquidity. EBITDA does not take into account our debt service requirements and other commitments, including capital expenditures, and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. In addition, EBITDA, as presented in this press release, may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated.

Reconciliation between the Bezeq Group's results on an IFRS and non-IFRS basis is provided in a table immediately following the Bezeq Group's consolidated results. Non-IFRS financial measures consist of IFRS financial measures adjusted to exclude amortization of acquired intangible assets, as well as certain business combination accounting entries. The purpose of such adjustments is to give an indication of the Bezeq Group's performance exclusive of non-cash charges and other items that are considered by management to be outside of its core operating results. The Bezeq Group's non-IFRS financial measures are not meant to be considered in isolation or as a substitute for comparable IFRS measures, and should be read only in conjunction with its consolidated financial statements prepared in accordance with IFRS.

About B Communications Ltd.

B Communications is a telecommunications-oriented holding company and its primary holding is its controlling interest in Bezeq, The Israel Telecommunication Corp., Israel's largest telecommunications provider (TASE: BZEQ). B Communications shares are traded on NASDAQ and the TASE under the symbol BCOM For more information please visit the following Internet sites:

www.bcommunications.co.il

www.ir.bezeq.co.il

www.eurocom.co.il

www.igld.com

Forward-Looking Statements

This press release contains forward-looking statements that are subject to risks and uncertainties. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, general business conditions in the industry, changes in the regulatory and legal compliance environments, the failure to manage growth and other risks detailed from time to time in B Communications' filings with the Securities Exchange Commission. These documents contain and identify other important factors that could cause actual results to differ materially from those contained in our projections or forward-looking statements. Stockholders and other readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statement.

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Consolidated Statement of Financial Position

(In millions)

	Convenience translation into U.S. dollars		September 30 2011 (Unaudited) NIS	December 31 2011 (Audited) NIS
	September 30 2012 (Unaudited) NIS	September 30 2012 (Unaudited) US\$		
Assets				
Cash and cash equivalents	679	173	1,595	1,369
Investments including derivatives	1,456	372	2,411	1,284
Trade receivables	3,044	778	3,007	3,059
Other receivables	261	67	236	295
Inventory	149	38	199	204
Assets classified as held-for-sale	164	42	102	158
Total current assets	5,753	1,470	7,550	6,369
Investments including derivatives	94	24	115	119
Long-term trade and other receivables	1,193	305	1,594	1,499
Property, plant and equipment	6,811	1,741	7,392	7,143
Intangible assets	7,189	1,838	8,342	8,085
Deferred and other expenses	406	104	385	412
Investments in equity-accounted investee (mainly loans)	984	251	1,031	1,059
Deferred tax assets	144	37	218	223
Total non-current assets	16,821	4,300	19,077	18,540
Total assets	22,574	5,770	26,627	24,909

Consolidated Statement of Financial Position (cont'd)

(In millions)

	Convenience translation into U.S. dollars		September 30 2011 (Unaudited) NIS	December 31 2011 (Audited) NIS
	September 30 2012 (Unaudited) NIS	September 30 2012 (Unaudited) US\$		
Liabilities				
Short-term bank credit, current maturities of long-term liabilities and debentures	934	239	1,442	1,185
Trade payables	772	197	918	892
Other payables including derivatives	741	189	997	784
Dividend payable	1,366	349	1,542	669
Current tax liabilities	564	144	521	499
Deferred income	60	15	52	56
Provisions	172	44	220	186
Employee benefits	288	74	467	389
Total current liabilities	4,897	1,251	6,159	4,660
Debentures	5,043	1,289	5,397	5,403
Bank loans	6,524	1,668	6,876	6,753
Loans from institutions and others	546	140	548	544
Dividend payable	326	83	771	636
Employee benefits	228	58	271	229
Other liabilities	86	22	157	186
Provisions	71	18	70	69
Deferred tax liabilities	1,107	283	1,249	1,426
Total non-current liabilities	13,931	3,561	15,339	15,246
Total liabilities	18,828	4,812	21,498	19,906
Equity				
Total equity attributable to equity holders of the Company	833	213	914	936
Non-controlling interests	2,913	745	4,215	4,067
Total equity	3,746	958	5,129	5,003
Total liabilities and equity	22,574	5,770	26,627	24,909

Consolidated Statements of Income

(In millions, except per share data)

	Nine months period ended September 30			Three months period ended September 30			Year ended December 31
		Convenience translation into U.S. dollars			Convenience translation into U.S. dollars		
	2012	2012	2011	2012	2012	2011	2011
	(Unaudited) NIS	(Unaudited) US\$	(Unaudited) NIS	(Unaudited) NIS	(Unaudited) US\$	(Unaudited) NIS	(Audited) NIS
Revenues	7,829	2,001	8,723	2,494	638	2,917	11,373
Cost and expenses							
Depreciation and amortization	2,267	579	2,113	757	194	715	2,984
Salaries	1,528	391	1,622	511	131	549	2,114
General and operating expenses	3,015	771	3,447	963	246	1,183	4,462
Other operating expenses, net	52	13	283	19	5	1	326
	6,862	1,754	7,465	2,250	576	2,448	9,886
Operating income	967	247	1,258	244	62	469	1,487
Finance expenses, net	287	73	401	107	27	162	498
Income after financing expenses, net	680	174	857	137	35	307	989
Share in losses of equity-accounted investee	233	60	203	93	24	66	216
Income before income tax	447	114	654	44	11	241	773
Income tax	279	71	340	75	19	136	653
Net income	168	43	314	(31)	(8)	105	120
Income (loss) attributable to:							
Owners of the Company	(105)	(27)	(98)	(55)	(14)	(31)	(219)
Non-controlling interests	273	70	412	24	6	136	339
Net income	168	43	314	(31)	(8)	105	120
Net loss per share, basic	(3.53)	(0.90)	(3.39)	(1.84)	(0.47)	(1.10)	(7.34)
Net loss per share, diluted	(3.55)	(0.91)	(3.44)	(1.84)	(0.47)	(1.11)	(7.38)