BEZEQ THE ISRAEL TELECOMMUNICATION CORP. LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(UNAUDITED)

Condensed Consolidated Interim Financial Statements as at September 30, 2009 (unaudited)

Contents

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Auditors' Report to the Shareholders of
"Bezeq" The Israel Telecommunication Corp. Limited

Introduction
We have reviewed the accompanying financial information of Bezeq The Israel Telecommunication Corporation Ltd**.** and its subsidiaries ("the Group"), including the condensed consolidated interim statement of financial position as of September 30, 2009 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three months then ended. The board of directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 - *Interim Financial Reporting*, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) 5730-1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

We did not review the condensed interim financial statements of equity-accounted investees, the investment in which amounts to NIS 32 million as at September 30, 2009, and the share of the Group in their profits is NIS 5 million and NIS 1 million for the nine and three months then ended, respectively. The condensed interim financial information of those companies were reviewed by other accountants, whose reports have been furnished to us, and our conclusion, insofar as it relates to amounts included for those companies, is based on the reviews of the other accountants.

Review scope
We conducted our review in accordance with Accounting Standard no. 1 – *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* established by the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with accepted accounting principles in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review and the review of other accountants, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with IAS 34.

Additionally, based on our review and the review of other accountants, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports) 5730-1970.

Without qualifying our above opinion, we draw attention to the claims made against the Group of which the exposure cannot yet be assessed or calculated, and other contingencies as described in Note 6B and 6C.

Furthermore, without qualifying our above opinion, we draw attention to Note 3A(5) as well as Note 4, with respect to the discontinued operation and early application of International Financial Reporting Standard 5 (as amended), including the restatement of prior reporting periods with respect to the discontinued operation.

Sincerely,

Somekh Chaikin
Certified Public Accountants
November 4, 2009

Condensed Consolidated Interim Statements of Financial Position

	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**1,278**	1,198	786
Investments (including derivatives and financial reserves)	**181**	61	33
Trade receivables	**2,473**	2,385	2,373
Other receivables	**187**	218	211
Inventory	**196**	159	158
Assets classified as held for sale	**34**	19	34
Total current assets	**4,349**	4,040	3,595
Investments, including derivatives	**161**	210	187
Trade receivables	**809**	584	576
Broadcasting rights, net of rights exercised	**-**	264	253
Property, plant and equipment	**5,323**	5,962	6,036
Intangible assets	**1,874**	2,665	2,674
Deferred and other expenses	**419**	390	411
Investments in equity-accounted investees (mainly in loans)	**1,215**	31	32
Deferred tax assets	**385**	595*	550*
Total non-current assets	**10,186**	10,701	10,719
Total assets	**14,535**	14,741	14,314

	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Liabilities			
Debentures, loans and borrowings	**879**	1,014	1,780
Trade payables	**989**	1,243	1,381
Other payables, including derivatives	**714**	754	850
Current tax liabilities	**251**	119	45
Deferred income	**42**	34	62
Provisions	**365**	345	355
Employee benefits	**273**	434*	412*
Dividend payable	**1,149**	835	-
Total current liabilities	**4,662**	4,778	4,885
Debentures	**2,715**	3,966	3,943
Bank loans	**572**	1,084	214
Loans from institutions	**-**	154	158 **
Loans provided by non-controlling interests in a subsidiary	**-**	436	449
Employee benefits	**271**	253	265
Deferred income and others	**5**	14	27**
Provisions	**70**	57	64
Deferred tax liabilities	**52**	73	65
Total non-current liabilities	**3,685**	6,037	5,185
Total liabilities	**8,347**	10,815	10,070
Equity			
Share capital	**6,181**	6,132	6,132
Share premium	**247**	-	-
Reserves	**604**	721	748
Deficit	**(869)**	(2,461)*	(2,165)*
Total equity attributable to shareholders of the Company	**6,163**	4,392	4,715
Non-controlling interests	**25**	(466)	(471)
Total equity	**6,188**	3,926	4,244
Total equity and liabilities	**14,535**	14,741	14,314

Shlomo Rodav	**Avi Gabbay**	**Alan Gelman**
Chairman of the Board	CEO	Deputy CEO and CFO

Date of approval of the financial statements: November 4, 2009

* Retrospective application by restatement, see Note 3C
** See Note 3D

The attached notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008*	2009	2008*	2008*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Continuing operations					
Revenue (Note 10)	**8,587**	8,314	**2,924**	2,806	11,015
Costs and expenses					
Depreciation and amortization	**1,109**	1,094	**361**	365	1,458
Salary	**1,464**	1,632	**475**	528	2,161
Operating and general expenses (Note 11)	**3,576**	3,439	**1,251**	1,145	4,660
Other operating expenses (income), net	**(54)**	(39)**	**(38)**	(7)**	96
	6,095	6,126	**2,049**	2,031	8,375
Operating profit	**2,492**	2,188	**875**	775	2,640
Financing expenses (income)					
Financing expenses	**331**	428**	**168**	154**	494
Financing income	**(344)**	(303)	**(152)**	(97)	(354)
Financing expenses (income), net	**(13)**	125	**16**	57	140
Profit after financing expenses (income)	**2,505**	2,063	**859**	718	2,500
Share in the profit (loss) of equity-accounted investees	**(8)**	4	**(12)**	2	5
Profit before income tax	**2,497**	2,067	**847**	720	2,505
Income tax	**702**	591	**259**	207	719
Profit for the period from continuing operations	**1,795**	1,476	**588**	513	1,786
Discontinued operations					
Profit (loss) for the period from discontinued operations (see Note 4)	**1,379**	(247)	**1,475**	(82)	(265)
Profit for the period	**3,174**	1,229	**2,063**	431	1,521

* Restatement due to discontinued operations, see Note 4
** See Note 3D.

The attached notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Income (contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008*	2009	2008*	2008*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Attributable to:					
Shareholders of the Company					
Profit for the period from continuing operations	**1,791**	1,472	**586**	509	1,781
Profit (loss) for the period from discontinued operations	**1,446**	(143)	**1,502**	(47)	(154)
	3,237	1,329	**2,088**	462	1,627
Non-controlling interests					
Profit for the period from continuing operations	**4**	4	**2**	4	5
Loss for the period from discontinued operations	**(67)**	(104)	**(27)**	(35)	(111)
	(63)	(100)	**(25)**	(31)	(106)
Profit for the period	**3,174**	1,229	**2,063**	431	1,521
Basic earnings per share (in NIS)					
Profit from continuing operations	**0.68**	0.57	**0.22**	0.2	0.68
Profit (loss) from discontinued operations	**0.55**	(0.06)	**0.57**	(0.02)	(0.06)
	1.23	0.51	**0.79**	0.18	0.62
Diluted earnings per share (in NIS)					
Profit from continuing operations	**0.67**	0.55	**0.22**	0.18	0.68
Profit (loss) from discontinued operations	**0.54**	(0.05)	**0.57**	(0.01)	(0.07)
	1.21	0.50	0.79	0.17	0.61

* Restatement due to discontinued operations, see Note 4

The attached notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	**3,174**	1,229	**2,063**	431	1,521
Other items of comprehensive income including:					
Net change in fair value of available-for-sale financial assets transferred to profit or loss	**-**	(5)	**-**	-	(5)
Actuarial losses from a defined benefit plan (1)	-	-	-	-	(2)
Foreign currency translation differences	**-**	(9)	**(1)**	2	(4)
Taxes in respect of other items of comprehensive income	**-**	1	**-**	-	1
Other comprehensive income for the period, net of tax	**-**	(13)	**(1)**	2	(10)
Total comprehensive income for the period	**3,174**	1,216	**2,062**	433	1,511
Attributable to:					
Shareholders of the Company					
Comprehensive income for the period from continuing operations*	**1,791**	1,459	**585**	511	1,771
Comprehensive profit (loss) for the period from discontinued operations*	**1,446**	(143)	**1,502**	(47)	(154)
	3,237	1,316	**2,087**	464	1,617
Non-controlling interests					
Comprehensive profit for the period from continuing operations *	**4**	4	**2**	4	5
Comprehensive loss for the period from discontinued operations	**(67)**	(104)	**(27)**	(35)	(111)
	(63)	(100)	**(25)**	(31)	(106)
Comprehensive income for the period	**3,174**	1,216	**2,062**	433	1,511

* Restatement due to discontinued operations, see Note 4

(1) The Group does not re-examine its assessments, assumptions and estimates in each interim reporting period to calculate its employee liabilities, unless there are significant changes during the interim period. As a result, actuarial gains or losses in the reporting period are not recognized.

Due to first-time adoption of the revised IAS 1 in these financial statements, the presentation format of the statement of comprehensive income was changed. See also Note 3A(1) for a description of first-time adoption of the new standards.

The attached notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to owners of the Company									
	Share capital	Share premium	Translation reserve	Capital reserve for a transaction between a corporation and a controlling shareholder	Capital reserve for available-for-sale assets	Capital reserve for options for employees	Deficit	Total	Non-controlling interests	Total equity
	NIS millions									
Nine months ended September 30, 2009 (unaudited)										
Balance at January 1, 2009 (audited)	6,132	-	(4)	390	-	362	(2,165)*	4,715	(471)	4,244
Comprehensive income for the period (unaudited)	-	-	-	-	-	-	3,237	3,237	(63)	3,174
Dividend to shareholders of the Company (unaudited)	-	-	-	-	-	-	(1,941)	(1,941)	-	(1,941)
Share-based payments (unaudited)	-	-	-	-	-	35	-	35	-	35
Exercise of options into shares (unaudited)	49	247	-	-	-	(179)	-	117	-	117
Derecognition of non-controlling interests for deconsolidation of a subsidiary (unaudited)	-	-	-	-	-	-	-	-	551	551
Transfers by non-controlling interests (unaudited)	-	-	-	-	-	-	-	-	8	8
Balance at September 30, 2009 (unaudited)	6,181	247	(4)	390	-	218	(869)	6,163	25	6,188
Nine months ended September 30, 2008 (unaudited)										
Balance at January 1, 2008 (audited)	6,132	-	-	390	4	287	(2,276)*	4,537	(373)	4,164
Comprehensive income for the period (unaudited)	-	-	(9)	-	(4)	-	1,329	1,316	(100)	1,216
Dividend to shareholders of the Company (unaudited)	-	-	-	-	-		(1,514)	(1,514)	-	(1,514)
Share-based payments (unaudited)	-	-	-	-	-	53	-	53	-	53
Transfers by non-controlling interests less dividend distributed (unaudited)	-	-	-	-	-	-	-	-	7	7
Balance at September 30, 2008 (unaudited)	6,132	-	(9)	390	-	340	(2,461)*	4,392	(466)	3,926

* Retrospective application by restatement, see Note 3C

The attached notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity (contd.)

	Attributable to owners of the Company									
	Share capital	**Share premium**	**Translation reserve**	**Capital reserve for a transaction between a corporation and a controlling shareholder**	**Capital reserve for available-for-sale assets**	**Capital reserve for options for employees**	**Deficit**	**Total**	**Non-controlling interests**	**Total equity**
	NIS millions									
Three months ended September 30, 2009 (unaudited)										
Balance at July 1, 2009 (unaudited)	**6,172**	**203**	**(3)**	**390**	**-**	**244**	**(1,808)**	**5,198**	**(503)**	**4,695**
Comprehensive income for the period (unaudited)	**-**	**-**	**(1)**	**-**	**-**	**-**	**2,088**	**2,087**	**(25)**	**2,062**
Dividend to shareholders of the Company (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**(1,149)**	**(1,149)**	**-**	**(1,149)**
Share-based payments (unaudited)	**-**	**-**	**-**	**-**	**-**	**7**	**-**	**7**	**-**	**7**
Exercise of options into shares (unaudited)	**9**	**44**	**-**	**-**	**-**	**(33)**	**-**	**20**	**-**	**20**
Derecognition of non-controlling interests for deconsolidation of a subsidiary (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**551**	**551**
Transfers by non-controlling interests (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Balance at September 30, 2009 (unaudited)	**6,181**	**247**	**(4)**	**390**	**-**	**218**	**(869)**	**6,163**	**25**	**6,188**
Three months ended September 30, 2008 (unaudited)										
Balance at July 1, 2008 (unaudited)	6,132	-	(11)	390	-	322	(2,088)*	4,745	(438)	4,307
Comprehensive income for the period (unaudited)	-	-	2	-	-	-	462	464	(31)	433
Dividend to shareholders of the Company (unaudited)	-	-	-	-	-	-	(835)	(835)	-	(835)
Share-based payments (unaudited)	-	-	-	-	-	18	-	18	-	18
Transfers by non-controlling interests less dividend distributed (unaudited)	-	-	-	-	-	-	-	-	3	3
Balance at September 30, 2008 (unaudited)	6,132	-	(9)	390	-	340	(2,461)*	4,392	(466)	3,926

* Retrospective application by restatement, see Note 3C

The attached notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity (contd.)

	Attributable to owners of the Company								
	Share capital	**Translation reserve**	**Capital reserve for a transaction between a corporation and a controlling shareholder**	**Capital reserve for available-for-sale assets**	**Capital reserve for options for employees**	**Deficit**	**Total**	**Non-controlling interests**	**Total equity**
Year ended December 31, 2008 (audited)									
Balance at January 1, 2008 (audited)	6,132	-	390	4	287	(2,276)*	4,537	(373)	4,164
Comprehensive income for the year (audited)	-	(4)	-	(4)	-	1,625	1,617	(106)	1,511
Dividends to shareholders of the Company (audited)	-	-	-	-	-	(1,514)	(1,514)	-	(1,514)
Share-based payments (audited)	-	-	-	-	75	-	75	-	75
Transfers by non-controlling interests less dividends distributed (audited)	-	-	-	-	-	-	-	8	8
Balance as at December 31, 2008 (audited)	6,132	(4)	390	-	362	(2,165)*	4,715	(471)	4,244

* Retrospective application by restatement, see Note 3C

The attached notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31
	2009	**2008**	**2009**	**2008**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Cash flows from operating activities					
Profit for the period	**3,174**	1,229	**2,063**	431	1,521
Adjustments:					
Depreciation	**1,033**	1,061	**331**	354	1,394
Amortization of intangible assets	**202**	183	**60**	59	289
Amortization of deferred and other expenses	**20**	30	**7**	10	20
Profit from deconsolidation of a subsidiary	**(1,538)**	-	**(1,538)**	-	-
Share in losses (gains) of equity-accounted investees	**8**	(4)	**12**	(2)	(5)
Financing costs, net	**367**	538	**195**	217	562
Capital gain, net	**(54)**	(21)	**(30)**	(2)	(68)
Share-based payment transactions	**35**	53	**7**	18	75
Income tax expenses	**702**	591	**259**	207	719
Proceeds (payment) for disposal of derivative financial instruments, net	**14**	(48)	**(2)**	(34)	(38)
Change in inventory	**(47)**	43	**(8)**	28	42
Change in trade receivables	**(489)**	(31)	**(246)**	101	(10)
Change in other receivables	**14**	(14)	**31**	-	(44)
Change in other payables	**117**	(15)	**15**	(19)	15
Change in trade payables	**111**	(280)	**39**	(3)	(225)
Change in provisions	**22**	(48)	**11**	(2)	(34)
Change in broadcasting rights net of rights exercised	**(49)**	(21)	**15**	14	(11)
Change in employee benefits, deferred income and other	**(167)**	(289)	**(64)**	(25)	(252)
Income tax paid	**(346)**	(368)	**(60)**	(140)	(535)
Net cash flows from operating activities	**3,129**	2,589*	**1,097**	1,212*	3,415
Cash flow for investment activities					
Investment in intangible assets and deferred expenses	**(247)**	(385)	**(91)**	(250)	(469)
Proceeds from sale of property, plant and equipment and deferred expenses	**102**	101	**40**	14	147
Change in current investments, net	**(134)**	314	**(40)**	-	321
Purchase of property, plant and equipment	**(1,125)**	(962)	**(369)**	(345)	(1,300)
Proceeds from realization of investments and long-term loans	**43**	13	**2**	2	19
Purchase of investments and long-term loans	**(4)**	(6)	**(1)**	(2)	(8)
Investment in an affiliate	**-**	(1)	**-**	-	-
Dividend received	**5**	12*	**-**	10*	13
Interest received	**26**	46*	**13**	12*	64
Net cash used for investment activities	**(1,334)**	(868)	**(446)**	(559)	(1,213)

* See Note 3D

The attached notes are an integral part of the condensed consolidated interim financial statements.

Condensed Interim Statements of Cash Flows (contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flow for financing activities					
Receipt of loans	**400**	-	**-**	-	-
Repayment of debentures	**(672)**	(697)	**(63)**	(70)	(714)
Repayment of loans	**(86)**	(112)	**(24)**	(31)	(148)
Short-term borrowing, net	**48**	(5)	**7**	(73)	(50)
Dividend paid	**(792)**	(679)	**-**	-	(1,514)
Interest paid	**(338)**	(266)	**(80)**	(31)	(243)
Payment for disposal of derivative financial instruments, net	**11**	36	**-**	7	52
Transfers by non-controlling interests less dividend distributed, net	**8**	7	**2**	3	8
Proceeds from exercise of employee options	**117**	-	**20**		-
Net cash used for finance activities	**(1,304)**	(1,716)	**(138)**	(195)	(2,609)
Net increase (decrease) in cash and cash equivalents	**491**	5	**513**	458	(407)
Cash and cash equivalents at the beginning of the period	**786**	1,203	**765**	740	1,203
Effect of fluctuations in the rate of exchange on cash balances	**1**	(10)	**-**	-	(10)
Cash and cash equivalents at the end of the period	**1,278**	1,198	**1,278**	1,198	786

The attached notes are an integral part of the condensed consolidated interim financial statements.

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 condensed consolidated financial statements of the Company include those of the Company and its subsidiaries (together – the "Group"), as well as the interests of the Group in associates. The Group is a principal provider of communications services in Israel (see also Note 13 – Segment Reporting).

B. The controlling shareholder of the Company is Ap.Sb.Ar. Holdings Ltd. ("Ab.Sb.Ar.") which held 30.68% of the Company's shares as at September 30, 2009. On October 25, 2009, Ap.Sb.Ar notified the Company that it has entered into an agreement with 012 Smile Communications Ltd for an off-floor sale of all the Company's shares that it holds for NIS 6,513,692,360. Completion of the transaction is subject to the receipt of the regulatory approvals required by law no later than April 25, 2010, including the following: approval of the transaction by the Ministry of Communications (including a control permit), approval of the transaction by the Antitrust Commissioner, approval by the Prime Minister and Minister of Communications according to the Communications (Telecommunications and Broadcasting) Law 5742-1982 and the Communications (Telecommunications and Broadcasting) (Determination of Essential Service Provided by Bezeq, The Israel Telecommunications Corp. Ltd.) Order 5757-1997 and any other approval or consent required by law. Following completion of the transaction, Ap.Sb.Ar. is not expected to hold any shares in the Company.

The Company was declared a monopoly in the main areas in which it operates. All the operating segments of the Group are subject to competition. The Group's operations are subject, as a rule, to official regulation and oversight.

C. The Company is subject to various sets of laws that regulate and restrict its business activities, including its tariffs, The Company's tariffs are regulated by sections 15 to 17 of the Communications Law. The Company's service tariffs which are prescribed in regulations are automatically updated in accordance with a linkage formula, as provided in the regulations and relying on the recommendations of public committees with a mandate to review the Company's tariffs. The intensifying competition and changes in the communications market could have an adverse effect on the business results of the Group.

D. Commencing August 21, 2009, the Company no longer consolidates the reports of DBS in its financial statements and the investment in DBS is stated according to the equity method commencing the abovementioned date. See Note 4 below.

NOTE 2 - BASIS OF PREPARATION

A. The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*, and Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970.

B. The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries at December 31, 2008 and the year then ended, and their accompanying notes ("the annual financial statements"). The notes to the interim financial statements include 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.

C. The condensed consolidated interim financial statements were approved by the Board of Directors on November 4, 2009.

NOTE 2 - BASIS OF PREPARATION (CONTD.)

D. Use of estimates and judgment

The preparation of condensed interim financial statements in accordance with IFRS 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 judgment of Management when applying the Group's accounting policy and the principal assumptions used in assessments that involve uncertainty are consistent with those applied in the annual financial statements.

The value of the investment in DBS was estimated in these financial statements according to the fair value based on the valuation carried out by an independent assessor. See Note 4.

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY

The significant accounting policies applied in these condensed financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2008, except for application of new standards and amendments to standards, as set forth in section A below.

A. Initial implementation of new accounting standards

(1) Commencing from January 1, 2009, the Group applies IAS 1 – *Presentation of Financial Statements*, revised ("the Standard"). The Standard permits the presentation of one statement of comprehensive income (a statement combining profit or loss and other comprehensive income) or two statements (a separate income statement and a statement of comprehensive income). The Group opted to present income and expenses and other comprehensive income in two separate statements. The Group also presents a statement of changes in equity instead of disclosure in the notes, after the statement of comprehensive income. The statement includes changes in equity also arising from transactions with owners in their capacity as owners (such as dividends, transactions with controlling shareholders, and share issues). The Standard is applied retrospectively.

(2) Commencing from January 1, 2009, the Group applies IFRS 8 – *Operating Segments* ("the Standard"). The Standard states that segment reporting should be in accordance with the "management approach", namely – in accordance with the format of the internal reports to the Group's chief operational decision-maker.

An operating segment is a part of the Group that meets the three conditions set forth below:

A. The segment engages in business operations that may generate revenue and may incur expenses.
B. The operational results of the segment are reviewed regularly by the chief operational decision maker of the Group, in order to make decisions regarding resources to be allocated and to assess its performance.
C. Separate financial information is available.

First-time adoption of the Standard did not affect the composition of the Group's reporting segments.

(3) Commencing January 1, 2009, the Group applies IAS 19 – *Employee Benefits*, revised ("the Amendment"), in accordance with Improvements to International Financial Reporting Standards 2008 (Improvements to IFRSs). See section C below.

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY (C0NTD.)

A. Initial implementation of new accounting standards (contd.)

(4) IAS 28 – *Investments in Associates, revised (the Amendment)* In accordance with the Amendment, impairment of an investment in an associate is tested by testing the entire carrying amount of the investment. Accordingly, an impairment loss recognized per the investment is not specifically allocated to the goodwill included in the investment but to the overall investment, and therefore the full amount of an impairment loss that was recognized in the past may be reversed when the conditions for reversal of IAS 36 are met. Application of the standard did not have a material effect on the Group's financial statements.

(5) Since the Company opted for early application of IFRS 3 (as amended) and IAS 27 (2008) (see Note 3V (1) to the financial statements as at December 31, 2008), the Company also opted for early application of IFRS 5 (revised) as required by the Improvements to IFRSs for 2008. According to the revised standard, loss of control of a subsidiary is accounted for as a discontinued operation, when the subsidiary is a disposal group classified as a discontinued operation, regardless of whether the entity will retain a non-controlling interest in its former subsidiary (for example, when the investee becomes, after loss of control, an equity-accounted associate). In the reporting period, the Company lost its control in DBS Satellite Services Ltd. (DBS) (see Note 4), and from the date of the loss of control, DBS is an associate of the Company and the investment therein is accounted for by the equity accounting method. Accordingly, the Company presented the operations of DBS as discontinued operations in the income statement and included the required disclosures in the notes (see Note 4), including restatement of the prior reporting period.

B. New standards and interpretations not yet adopted

(1) In the framework of *Improvements to IFRSs*, in April 2009 the IASB published and approved 15 amendments to various IFRSs on a wide range of accounting issues. The amendments are effective for annual periods commencing on or after January 1, 2010, with an option for early implementation, subject to the terms prescribed for each amendment.

Presented hereunder are the amendments that may be relevant and are expected to have an effect on the financial statements. The Group is assessing the effect of these amendments:

(a) IAS 17 – *Leases: Classification of Leases of Land and Buildings* (revised) ("the Amendment"). The Amendment eliminates the requirement to classify a lease of land as an operating lease when the title is not expected to pass to the lessee at the end of the lease term. Under the Amendment, classification of the land lease should be based on the regular criteria for classifying a lease as a finance or operating lease. The Amendment also states that when a lease includes both land and building elements, an entity should determine the classification of each element, based on the criteria in the Amendment, taking account of the fact that land normally has an indefinite economic life.

The Amendment is effective for annual financial statements commencing on or after January 1, 2010. Early application of the Amendment is permitted, with disclosure. The Amendment is effective retrospectively, that is, classification of the land lease is determined based on the information available when signing the lease. If there is a change in classification of the lease, the instructions of IAS 17 are effective prospectively from the date of the lease. If, however, information necessary to apply the Amendment retrospectively is not available, classification is determined based on the information available at the adoption date of the Amendment and the asset and liability related to a land lease that was classified as a finance lease as a result of the Amendment are recognized at their fair values at that date. Any difference between the fair value of the asset and the fair value of the liability is recognized through retained earnings.

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

B. New standards and interpretations not yet adopted (contd.)

(1) (contd.)

(b) The appendix to IAS 18 includes an example that lists guidelines for identifying whether an entity is acting as a principle or an agent when selling goods or rendering services. In accordance with the amendment, an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.

(c) Amendment to IAS 39 – *Financial Instruments: Recognition and Measurement* (revised), treating loan prepayment penalties as an embedded derivative ("the Amendment"). Under the Amendment, if an exercise price of a prepayment option (a fine for prepayment) reimburses the lender for an amount not exceeding the approximate present value of the lost interest for the remaining term of the host contract, (the loan), then the economic characteristics and risks of the prepayment option are closely related to the host contract and the embedded derivative is not separated from the host contract. The amendment is to be effective for annual periods commencing on or after January 1, 2010.

(2) Amendments to IFRS 2 – *Share-Based Payment* ("the Amendments") Cash-settled share-based payment transactions in the Group. The Amendments address IFRS 2 and replace IFRIC 8 and IFRIC 11. The Amendments provide guidance for accounting treatment of share-based transactions in the Group, from the perspective of the entity which receives the goods or services as well as from the perspective of the entity settling the transaction.

The Amendment defines conditions for considering a share-based payment transaction as settled in equity instruments and in cash. The Amendment is not expected to have an effect on the financial statements of the Group.

C. Retrospective application by restatement

Commencing January 1, 2009, the Group applies IAS 19 – *Employee Benefits*, revised ("the Amendment"), in accordance with Improvements to IFRSs for 2008. The Amendment addresses the definition of "short-term employee benefits" and "other long-term employee benefits" to refer to when the liabilities are due to be settled. Accordingly, certain benefits are accounted for as short-term benefits. The Amendment is applied retrospectively.

The table below presents the effect of retrospective application of the relevant items.

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD)

C. Retrospective application by restatement (contd.)

(1) Effect on the statement of financial position

	As previously reported	Effect of retrospective application	Following retrospective application
	NIS millions	NIS millions	NIS millions
September 30, 2008 (unaudited)			
Deferred tax assets	592	3	595
Employee benefits (as part of current liabilities)	423	11	434
Deficit	(2,453)	(8)	(2,461)
December 31, 2008 (audited)			
Deferred tax assets	547	3	550
Employee benefits (as part of current liabilities)	401	11	412
Deficit	(2,157)	(8)	(2,165)

(2) Effect on the statement of changes in equity

	As previously reported	Effect of retrospective application	Following retrospective application
	NIS millions	NIS millions	NIS millions
January 1, 2008 (audited)			
Deficit	(2,268)	(8)	(2,276)
July 1, 2008 (unaudited):			
Deficit	(2,080)	(8)	(2,088)

D. Reclassified amounts

The condensed consolidated interim financial statements include reclassification of certain amounts of the comparative figures of the relevant sections.

NOTE 4 – DISCONTINUED OPERATIONS

Further to Note 33(3)B to the financial statements as at December 31, 2008, regarding the merger notice filed by the Company and DBS Satellite Services Ltd. (DBS) to the Antitrust Commissioner ("the Commissioner") in respect of exercise of options for shares in DBS by the Company, on August 20, 2009, the Supreme Court accepted the Commissioner's appeal and ruled against the merger of the companies.

The ruling of the Supreme Court is conclusive. Up to the Supreme Court ruling, the Company consolidated the financial statements of DBS with its financial statements (the Company held 49.8% of the share capital of DBS), even though it did not have legal control of DBS, as due to a number of circumstances, including the additional potential voting rights which the Company had by virtue of the options, the Company believed that it was able to direct the financial and operational policy of DBS. The Company believes that the Supreme Court ruling, which constitutes a final and irrevocable external legal barrier to the possibility of the Company achieving over 50% of the voting rights in DBS, creates a material change in the management between the Company, DBS and its shareholders, and as a result the Company can no longer direct the financial and operational policy of DBS. Therefore, the Company cannot be perceived as controlling DBS (neither legally nor effectively). Accordingly, commencing August 21, 2009, the Company no longer consolidates DBS's financial statements with its reports, and the investment in DBS is stated according to the equity method commencing from that date. The DBS financial statements are attached to these financial statements.

From the deconsolidation date, the Company presented its investment in shares, option warrants and loans it extended to DBS according to the equity method based on the estimated value carried out by an independent assessor whose opinion is attached to these financial statements. According to the opinion, the value of the Company's investment in shares, options warrants and loans to DBS is estimated at between NIS 1.145 billion and 1.234 billion. The Company stated the investment at NIS 1.175 billion and recognized a profit of NIS 1.538 billion.

The Company has asked an external assessor to calculate the allocation of the fair value to the tangible and intangible assets of DBS (PPA). This work has not yet been completed and will be completed at the date of the annual financial statements. The Company's management estimates that this allocation does not have a material impact on the Company's results for the period between August 21, 2009 and September 30, 2009.

The consolidated income statements for the nine and three months ended September 30, 2009 are stated without consolidation of DBS's statements. The operating results of DBS for the period up to August 20, 2009 and the comparative figures were stated as discontinued operations.

The consolidated income statements for the nine months and three months ended September 30, 2008, and the year ended December 31, 2008 were restated in order to reflect the discontinued operations due to deconsolidation separately from continuing operations.

NOTE 4 – DISCONTINUED OPERATIONS (CONTD.)

(1) Results of discontinued operations

	From January 1 to August 20 2009	Nine months ended September 30 2008	From July 1 to August 20 2009	Three months ended September 30 2008	Year ended December 31 2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**970**	1,136	**210**	375	1,513
Cost of revenue	**663**	831	**149**	267	1,091
Gross profit	**307**	305	**61**	108	422
Selling and marketing expenses	**79**	99	**17**	28	128
General and administrative expenses	**74**	84	**15**	28	117
	153	183	**32**	56	245
Operating profit	**154**	122	**29**	52	177
Finance expenses, net	**313**	369	**92**	134	441
Loss before income tax	**(159)**	(247)	**(63)**	(82)	(264)
Income tax	**-**	-	**-**	-	1
Loss after income tax	**(159)**	(247)	**(63)**	(82)	(265)
Profit from deconsolidation of a subsidiary	**1,538**	-	**1,538**	-	-
Profit (loss) for the period from discontinued operations	**1,379**	(247)	**1,475**	(82)	(265)

(2) Cash flow from discontinued operations

	From January 1 to August 20 2009	Nine months ended September 30 2008	From July 1 to August 20 2009	Three months ended September 30 2008	Year ended December 31 2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flow from operating activities	**260**	214	**76**	97	347
Cash flow used for investment activities	**(176)**	(175)	**(55)**	(56)	(237)
Cash flow used for financing activities	**(84)**	(39)	**(21)**	(41)	(110)
Cash flow from discontinued operations	**-**	-	**-**	-	-

NOTE 4 – DISCONTINUED OPERATIONS (CONTD.)

(3) Effect of discontinued operations on the financial situation of the Group

	August 20 2009 (Unaudited) NIS millions
Working capital	**456**
Property, plant and equipment	**(678)**
Broadcasting rights – less rights used	**(302)**
Intangible assets (except for goodwill)	**(59)**
Goodwill	**(760)**
Debentures	**737**
Loans from banks and institutions	**1,019**
Non-controlling interests	**(551)**
Investment in equity-accounted investee (mainly in loans)	**1,175**
Loans from holders of non-controlling interests	**501**
Profit from deconsolidation of a subsidiary	**(1,538)**
Total	**-**

NOTE 5 – GROUP ENTITIES

A detailed description of the Group entities appears in Note 33 to the Group's annual financial statements as at December 31, 2008. Below are details of the material changes that occurred relating to the Group entities since publication of the annual financial statements.

A. Pelephone Communications Ltd.

(1) In May 2009, Pelephone signed an agreement with Apple Sales International ("the Manufacturer") for the acquisition and distribution of iPhone handsets in Israel. According to the agreement, Pelephone undertakes to purchase a minimum number of handsets every year for three years at the prices in effect at the manufacturer at the actual purchase date. Pelephone estimates that these quantities are a significant part of the number of handsets expected to be sold by Pelephone during the agreement period and that their cost will represent approximately 5% of the cost of Pelephone's annual services and sales in these years.

(2) In September 2009, Pelephone submitted a proposal for the acquisition of Mirs Communications Ltd., under the relevant terms. It is emphasized that the proposal is still in the submission stage and there is no certainty that the proposal will be accepted. Additionally, the final conditions and restrictions of the transaction, should it materialize, are yet to be defined. Should the transaction materialize, it will be subject to regulatory approvals, and there is no certainty that these approvals will be obtained. According to media reports, other entities are competing and there are negotiations with another offering entity.

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

(1) Commencing from August 21, 2009, the Company no longer consolidates the DBS reports with its financial statements and the investment in DBS shares is stated according to the equity method commencing from the abovementioned date. See Note 4.

(2) The terms of the loans and the credit facility that DBS received from the banks, amounting to NIS 960 million at September 30, 2009, impose various restrictions on DBS that include, inter alia, restrictions on providing a lien on or sale of certain assets, a restriction on receipt of credit from other banks without prior approval, a restriction concerning repayment of shareholders' loans, and a requirement for compliance with financial covenants ("the Covenants").

A. In January 2009, DBS applied to the banks requesting a revision of the stipulations for 2009 so as to adapt them to the 2009 budget. On March 15, 2009, the banks agreed to amend the stipulations.

B. As at September 30, 2009, DBS is in compliance with the covenants determined.

C. The DBS management believes that the sources of financing available to DBS will suffice for its operational requirements in the coming year, based on the projected cash flow approved by DBS's Board of Directors. If additional resources are required to meet its operational requirements during the year, DBS will adapt its operations to preclude the need for additional resources beyond those available to it.

(3) DBS's balance of current debt to the Company and its subsidiaries amounts to approximately NIS 69 million, of which approximately NIS 51 million is owed to the Company. The Company and DBS reached an agreement for collection of part of DBS's debt to the Company, which was in arrears. Under the arrangement, the debt is being paid in 60 equal monthly instalments plus interest at prime + 1.5%. As at balance sheet date, the balance of the debt covered by the arrangement is approximately NIS 22 million. The balance of the debt to the Company outside the above arrangement is a current debt. The parties are formulating another arrangement for payment of this debt.

(4) Digital Terrestrial TV (DTT) started broadcasting on August 2, 2009. The management of DBS believes that DTT could have a negative effect on its revenue.

NOTE 6 – 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 Group companies' managements, which is based, *inter alia*, on legal opinions regarding the risks related to the claims, including the application for certification of the class actions, appropriate provisions have been included in the financial statements in the amount of NIS 352 million (not including provisions included in the financial statements of DBS), where warranted, to cover the exposure resulting from such claims.

In the opinion of the Group companies' managements, the additional exposure (in addition to the above provisions) at September 30, 2009, due to claims filed against the companies in the Group on various matters and in which the likelihood of realization is possible, amounts to approximately NIS 11.8 billion (not including the additional amount of exposure for claims against DBS), of which approximately NIS 3.3 billion relates to salary claims filed by groups of employees or by individual claims with wide ramifications. The above amounts are prior to addition of interest.

For applications for certification as class actions, regarding which the Group has exposure beyond the aforesaid (since the claims do not state an exact amount), see claims in Note 17A(5)a and b, (21) and (36) to the financial statements as at December 31, 2008.

For a detailed description of these claims, see Note 17A to the Group's annual financial statements as at December 31, 2008. Details of the significant changes to the status of the material contingent liabilities of the Group since December 31, 2008 are provided below.

(1) Further to Note 17A(2)(c). to the financial statements as at December 31, 2008, concerning the claim for the inclusion of a number of components in the salary used for the determination of pay for pension and the appeal filed following the dismissal of the claim, on September 23, 2009, the court dismissed all the items of the appeal.

(2) Further to Note 17A(6) to the financial statements as at December 31, 2008, regarding the claim for payment of monetary compensation of approximately NIS 60 million and for writs of mandamus filed by an international communications operator against the Company and Bezeq International, on January 27, 2009, the plaintiff filed a motion for amendment of the claim, so as to extend the claim period, change the method for calculating the damage and include a number of new facts, and alternately, a motion for splitting up of remedies. On May 15, 2009, the court approved, with the defendants' consent, partial acceptance of the plaintiff's motion, so as to include damages incurred by the plaintiff subsequent to the date of filing the statement of claim and to change the calculation method of the principle damage of diverting allocated customers and giving an advantage to Bezeq International in public telephones. Regarding other matters for which an amendment to the statement of claim was requested, the court ruled that should the plaintiff insist on amending the statement of claim for these issues as well, a motion for a hearing of the matter must be filed. If the motion for the amendment is approved in full, the scope of the claim (for fee purpose) will be updated to NIS 77 million. The parties were referred to another arbitration procedure in the case.

(3) Further to Note 17A(11) to the financial statements as at December 31, 2008, regarding the claim and application for certification as a class action against HOT and against the Company for a fault in the telephone line in the HOT network, on August 6, 2009, the settlement between the parties was given the validity of judgment. Under the settlement, HOT will grant the eligible members of the group the right to receive voice mail for one year, free of charge, or alternately, the right to another line for one year, free of charge, as they choose. Additionally, the Company will pay the representative plaintiff and his attorney NIS 170,000.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

A. Claims (contd.)

(4) Further to Note 17A(20) to the financial statements as at December 31, 2008, regarding the claim filed in November 1997, together with an application for certification as a class action, against Bezeq International, the chairman of the board of directors of Bezeq International and the then CEO of Bezeq International, alleging that Bezeq International had abused its status in the international calls market and had implemented a deliberate policy of misleading the public on the subject of international call tariffs, on May 6, 2009, the Supreme Court dismissed the plaintiff's appeal of the district court ruling, which denied the application for certification of the claim as a class action.

On June 15, 2009, the plaintiff filed a motion for another hearing at the Supreme Court. At the reporting date, the court has yet to hand down a decision on the hearing of the motion.

(5) Further to Note 17A(24) to the financial statements as at December 31, 2008, regarding the claim and application for certification as a class action against Bezeq International, an associate of Bezeq International and members of the board of directors of those two companies in the matter of sending an advertisement without the consent of the recipient, violating the provisions of Amendment 40 to the Communications Law, Bezeq International filed an application for a summary dismissal of the application for certification as a class action, claiming lack of cause, as the law does not permit a claim for compensation without proof of harm, in this cause, under a class action. The plaintiff filed a response to the application for a summary dismissal and requested to amend the application for certification as a class action, such that the damage claimed will be compensation for harassing the plaintiff, wasting her time and curtailing her autonomy. The amount of damages claimed remained unchanged.

In the pre-trial hearing in May 2009, the plaintiff withdrew the claim at the recommendation of the court. The plaintiff informed the Bezeq International's attorney that she undertakes not to file a new motion, directly or indirectly, instead of the motion that was withdrawn.

(6) Further to Note 17A(29) to the financial statements as at December 31, 2008, regarding the claim against Pelephone, Cellcom and Partner in a total amount of NIS 449 million, of which NIS 167 million was attributed to Pelephone, for an excess amount charged for international calls, in August 2009 the claim was dismissed at the plaintiff's request.

(7) On May 4, 2009, a claim was filed in the Jerusalem District Court against Bezeq International, together with an application for certification as a class action. The plaintiff, who is a subscriber of Bezeq International's internet services, claims that he was overcharged for the internet services he received from Bezeq International, in violation of the agreement and the law. According to the plaintiff, Bezeq International breached the contract with him, misled him and acted in bad faith in the negotiations and its relations with him. The plaintiff applied for certification as a class action on behalf of a group that includes any subscriber to Bezeq International's internet services who does not have a written agreement and/or for whom the tariffs for services were increased after the initial agreement period, beyond any reasonable or acceptable amount and/or without their agreement or without notice and/or who had a uniform agreement with Bezeq International which does not comply with the requirements of the law, allowing price increases without notice and at a rate that is beyond the normal rate, for the period between November 2005 and December 2008. The total amount of the class action is NIS 217 million (the personal amount of the claim is NIS 2,802).

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

B. Claims which cannot yet be assessed or for which the exposure cannot be calculated

For a detailed description of the claims in respect of which the exposure cannot yet be assessed or calculated, see Note 17B to the Group's annual financial statements as at December 31, 2008. Details of material changes since December 31, 2008 are provided below.

Claims for which exposure cannot be calculated

(1) Further to Note 17B(1) to the financial statements as at December 31, 2008, regarding the claim filed against the Company and against the Makefet Fund by employees who retired under a retirement agreement signed in November 1997, which was dismissed by the court on December 11, 2008, the plaintiffs filed an appeal, which the Company received on April 5, 2009.

(2) In August 2009, a claim was filed in the Central District Court against Pelephone, together with an application for certification as a class action. The claim is for the refund of amounts collected by Pelephone by a stop order, alleging that this collection is in violation of Pelephone's license and the law. The personal amount of the claim is NIS 173. The amount of the class action is not stated. The claim includes a motion for remedy of a mandatory injunction ordering the defendant to stop collecting the amount, and a declarative remedy that the collection is in violation of the law.

Claims which cannot yet be assessed

(3) Further to Note 17B(7) to the financial statements as at December 31, 2008, regarding the application for certification of a class action in the amount of NIS 80 million against Pelephone in respect of deletion of messages from the voice mail box after a certain time, the plaintiff announced the withdrawal from the claim and the claim was terminated.

(4) In August 2009, a claim was filed in the Petach Tikva District Court against Pelephone, together with an application for certification as a class action. The claim refers to saving text messages sent via the Pelephone network, in Pelephone systems. The plaintiffs allege that saving the messages is a contravention of the law and Pelephone's license. The remedies requested are a declarative remedy that the information is held in contravention of the law, a mandatory injunction for its deletion, a mandatory injunction to prevent saving messages in the future and a monetary remedy of an undefined amount (to be determined by the court).

(5) In August 2009, a claim was filed in the Tel Aviv District Court against Pelephone, together with an application for certification as a class action, The total amount of the claim is NIS 19 million. The claim is for the refund of the amounts collected by defendant from its subscribers for the telephone book backup service provided to those subscribers.

(6) In August 2009, a claim was filed in the Tel Aviv District Court together with an application for certification as a class action. The claim was filed against Pelephone, another cellular operator and against a company providing services through the cellular telephone. The amount of the claim is NIS 33 million (without distribution among the respondents). The claim is for the refund of the amounts collected by the respondents (charged through the cellular account), for the service supplied by the third defendant through the cell phone. According to the claim, the plaintiff did not ask to join the service, and therefore the charge for the service is illegal.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

B. Claims which cannot yet be assessed or for which the exposure cannot be calculated (contd.)

Claims which cannot yet be assessed (contd.)

(7) In August 2009, a claim was filed in the Tel Aviv District Court together with an application for certification as a class action, The claim was filed against Pelephone and against two other companies providing services through the cellular telephone (“the Other Defendants”). The total amount of the claim is NIS 200 million (without distribution among the defendants). The claim is for the refund of amounts collected by the respondents (charged through the cellular account) and for the services supplied by the other defendants through the cell phone information sent by SMS). The claim includes a motion for remedy of a mandatory injunction ordering the respondents to discontinue the charge. The applicant alleges that she did not ask to join the services of the other defendants, and therefore the charge for the services is illegal..

(8) In October 2009, a claim was filed in the Tel Aviv District Court against Pelephone, together with an application for certification as a class action. The amount of the claim is NIS 331 million. The applicant alleges that Pelephone is violating its license by offering benefits for the purchase of a handset and reimbursement of fines by competitors, for a period that is longer than the 18-month commitment period (36 months). The claim is for payment of compensation by Pelephone to its customers, in the amount of the benefit granted by Pelephone to these customers for the period exceeding 18 months, and for an injunction ordering Pelephone to restrict the benefit to 18 months.

(9) Further to Note 17B(5) and (6) to the financial statements as of December 31, 2008, a risk assessment for these claims was received and they include further exposure for claims filed against the Group companies for various subjects. The likelihood for the realization of these claims is described in section A above.

C. Other contingencies

For a detailed description of other contingencies, see Note 17C to the Group’s annual financial statements as at December 31, 2008. Details of material changes since December 31, 2008 are provided below.

(1) Further to Note 17C(2) to the financial statements as at December 31, 2008, regarding the application for approval of the derivative claim against former members of the Company’s Board of Directors, for the transfer of funds from the Company to DBS contrary to the decisions of the Minister of Communications, on October 15, 2009, the court ruled to dismiss the application.

(2) Further to Note 17C(9) to the financial statements as at December 31, 2008, regarding the claim filed by Pelephone in January 2009 against the Israel Land Administration, the court approved the settlement between the parties, according to which the claim would be dismissed and the parties would negotiate by December 31, 2009 with the aim of settling their disagreement out of court.

(3) Further to Note 17C(10) to the financial statements as at December 31, 2008, regarding the letter from the Director General of the Ministry of Communications announcing that he intends to consider the imposition of financial sanctions on the Company in the amount of NIS 15 million for the alleged violation of provisions of the Company's general license relating to structural separation, on April 26, 2009, the Company submitted its detailed argument stating that the Company did not violate the provisions of its license relating to structural separation, and the aforesaid violation cannot be attributed to the Company, and under these circumstances and the circumstances described in the Company's document, financial sanctions cannot be imposed on the Company. The Company requested an oral hearing as well.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

D. Claims against affiliates

Following the deconsolidation of DBS, as set forth in Note 4 above, these reports describe claims against DBS within this section – Claims against affiliates. Details of material changes in claims against DBS since December 31, 2008 are provided below.

(1) Further to Note 17A(45) to the financial statements as at December 31, 2008, regarding the application for certification of a class action against DBS relating to the termination of the Discovery Science and Adventure 1 channels, in July 2009, the district court approved the claim filed by the applicant as a class action solely for the contractual reason. Regarding the damage, the court ruled that the alleged damage relates to the proportionate amounts that were collected for the channels whose broadcasts were terminated, after termination of the broadcasts on January 15, 2008.

The court defined the group (including DBS customers who paid for viewing the science and nature package and whose charge was not terminated or reduced after the channels were no longer broadcasted up to August 18, 2008), and ruled that the remedy claimed is the refund of the proportionate payment paid by the group members for viewing both channels. The court further ruled that the key question common to the group members is whether the wording of the relevant instructions in the subscriber agreement credits the group members by reducing their charge (proportionately) after terminating the broadcast of the channels that were included in the package up to January 15, 2008. The parties are in the preliminary stages of negotiations for a settlement.

(2) Further to Note 17B(3) to the financial statements as at December 31, 2008, regarding the class action against DBS relating to communication with customers by telephone and not in writing, in September 2009, the application for certification as a class action was summarily dismissed, without an order to pay costs.

(3) Further to Note 17B(8) to the financial statements as at December 31, 2008 regarding the class action against DBS relating to non-disconnection of the applicant from HOT television services, in August 2009, the parties filed (with consent) a motion to approve the dismissal of the application and dismiss the claim, with payment of a symbolic amount to the applicant and her attorney.

(4) In June 2009, Israel Aerospace Industries (IAI) demanded immediate payment of the balance of DBS's debt for the use of the Amos 1 satellite and payment of interest and other amounts allegedly due to IAI by virtue of the agreement. DBS has counter claims against some of the amounts claimed by IAI. In September 2009, DBS and IAI signed an agreement settling all the financial disputes that arose between the parties.

NOTE 7 – EQUITY

A. Share capital

Registered			Issued and paid up		
September 30, 2009	September 30, 2008	December 31, 2008	September 30, 2009	September 30, 2008	December 31, 2008
(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
2,749,000,000	2,749,000,000	2,749,000,000	2,653,896,660	2,605,045,611	2,605,045,611

1. Following the exercise of options by employees in accordance with the options plans described in Note 26 to the financial statements as at December 31, 2008, in the nine months ended September 30, 2009, the Company issued 48,851,049 ordinary shares of NIS 1 par value each.

2. Subsequent to the reporting date and up to November 3, 2009, following the exercise of options by the employees, in accordance with the options plans set forth in Note 26 to the financial statements as at December 31, 2008, the Company issued another 3,459,373 ordinary shares of NIS 1 par value each.

3. In the reporting period, the Company granted options to senior employees in the Company (see Note 8).

B. Dividends

(1) The Company paid dividends as follows:

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash dividend paid in May 2009 (NIS 0.3 per share)	**792**	-	**-**	-	-
Cash dividend paid in October 2009 (NIS 0.43 per share) (2)	**1,149**	-	**1,149**	-	-
Cash dividend paid in April 2008 (NIS 0.26 per share)	**-**	679	**-**	-	679
Cash dividend paid in October 2008 (NIS 0.32 per share) (3)	**-**	835	**-**	835	835
	1,941	1,514	**1,149**	835	1,514

(2) On August 4, 2009, the Board of Directors of the Company resolved to recommend to the general meeting of the shareholders of the Company the distribution of a cash dividend to the shareholders in the total amount of NIS 1.149 billion. On September 2, 2009, the general meeting approved payment of the dividend and it was paid on October 5, 2009.

(3) On August 20, 2008, the Board of Directors of the Company resolved to recommend to the general meeting of the shareholders of the Company the distribution of a cash dividend to the shareholders in the total amount of NIS 835 million (which is approximately NIS 0.32 per share). On September 28, 2008, the general meeting approved payment of the dividend and it was paid on October 29, 2008.

NOTE 8 – SHARE-BASED PAYMENT

A. Further to Note 26(B) and (I) to the financial statements as at December 31, 2008, in the first nine months of 2009, the Board of Directors approved the allocation of 2,500,000 options exercisable into 2,500,000 ordinary shares of NIS 1 par value each to other senior employees in the Group. In addition, on May 3, 2009 the general meeting of the shareholders of the Company approved the allocation of 100,000 options exercisable into 100,000 ordinary shares of NIS 1 par value each to an employee-director.

The exercise price at the grant date of the options is between NIS 5.9703 and NIS 6.669 (adjusted to distribution of a dividend in cash or a dividend in kind) and the theoretic economic value, based on the weighted Black and Scholes model, is NIS 5.9 million based, inter alia, on the share price at the allocation date of between NIS 6.5 and NIS 7.172, annual risk-free interest of between 3.65% and 4.9%, expected life of between 4.5 and 8 years and annual standard deviation of between 24.56% and 26.63%.

B. Further to Note 26H to the financial statements as at December 31 2008, in July 2009 the board of directors of DBS approved an amendment to the employment agreement of DBS's CEO. Under the amendment, the undertaking to grant option warrants of DBS was cancelled and it was determined that the CEO is entitled to financial bonuses. Consequently, DBS included a liability in its financial statements that reflects the amounts of the unpaid bonuses according to this amendment.

NOTE 9 – TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

A. Further to Note 26(B) and (I) to the financial statements as at December 31, 2008, on May 3, 2009, the general meeting of the shareholders of the Company approved the allocation of 100,000 options exercisable into 100,000 ordinary shares of NIS 1 par value each to an employee-director. See Note 8.

B. Further to Note 29(F)(3) to the financial statements as at December 31, 2008, on May 3, 2009, the general meeting of the shareholders of the Company approved a maximum bonus for 2008 for the chairman of the Company's board of directors, under the terms of his employment agreement, as approved by the general meeting on June 1, 2008, of 18 monthly salaries, amounting to NIS 3.2 million.

NOTE 10 - REVENUE

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008*	2009	2008*	2008*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Domestic fixed-line communications					
Fixed line telephony	**2,440**	2,632	**810**	858	3,472
Internet - infrastructure	**638**	585	**230**	194	790
Transmission, data communication and other	**717**	743	**239**	272	981
	3,795	3,960	**1,279**	1,324	5,243
Cellular					
Cellular services and terminal equipment	**2,987**	2,824	**1,040**	969	3,758
Sale of terminal equipment	**813**	549	**271**	179	692
	3,800	3,373	**1,311**	1,148	4,450
International communications, internet services and NEP	**949**	937	**319**	318	1,263
Other	**43**	44	**15**	16	59
	8,587	8,314	**2,924**	2,806	11,015

* Restatement due to discontinued operations, see Note 4

NOTE 11 – OPERATING AND GENERAL EXPENSES

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008*	2009	2008*	2008*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cellular telephone expenses	**1,309**	1,303	**457**	437	1,725
General expenses	**796**	743	**305**	266	1,008
Materials and spare parts	**718**	615	**236**	174	831
Services and maintenance by sub-contractors	**104**	126	**31**	40	204
Building maintenance	**218**	227	**77**	80	312
International communication expenses	**242**	198	**81**	65	272
Vehicle maintenance expenses	**91**	118	**30**	40	158
Royalties to the State of Israel	**74**	85	**26**	36	116
Collection fees	**24**	24	**8**	7	34
	3,576	3,439	**1,251**	1,145	4,660

* Restatement due to discontinued operations, see Note 4

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

A. Profit or loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue (see B below)	**3,987**	4,150	**1,343**	1,388	5,498
Costs and expenses					
Depreciation and amortization	**600**	643	**184**	214	852
Salary	**797**	905	**255**	289	1,202
General and operating expenses	**1,282**	1,398	**451**	464	1,873
Operating expenses (income), net	**(54)**	(39)*	**(38)**	(7)*	96
	2,625	2,907	**852**	960	4,023
Operating profit for the period	**1,362**	1,243*	**491**	428*	1,475

* See Note 3D. Reclassification of NIS 25 million for the nine months ended September 30, 2008, of which NIS 6 million is for the three months then ended, for financing expenses in respect of a provision for severance in early retirement formerly stated under operating expenses (income), net.

B. Revenue segmentation

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Telephony	**2,510**	2,708	**843**	899	3,572
Internet	**638**	585	**221**	194	790
Transmission and data communication	**637**	596	**217**	200	811
Other services	**202**	261	**62**	95	325
	3,987	4,150	**1,343**	1,388	5,498

NOTE 13 – SEGMENT REPORTING

Division of the Company's operations into reportable operating segments, under IFRS 8, is derived from management reports. Commencing August 21, 2009, the Company ceased to consolidate its financial statements with DBS's statements, and its investment in DBS is stated according to the equity method from that date (see Note 4). The Group continues to report on four segments in its financial statements, including multichannel television.

Details of operating segments and reconciliation between segment information and the consolidated statement:

A. Reporting segments

	Nine months ended September 30, 2009 (unaudited)						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	3,795	3,800	949	1,140	43		
Revenue from inter-segment sales	192	183	35	-	11		
Total revenue	3,987	3,983	984	1,140	54	(1,561)	8,587
Profit from operating segments	1,362	939	194	186	3	(192)	2,492
Segment assets at September 30, 2009	11,940	4,902	1,056	1,206	99	(4,668)	14,535

NOTE 13 –SEGMENT REPORTING (CONTD.)

A. Reporting segments (contd.)

	Nine months ended September 30, 2008 (unaudited)*						
	Domestic fixed-line communications	**Cellular telephone**	**International communications, internet and NEP services**	**Multi-channel television**	**Others**	**Adjustments**	**Consolidated**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Revenue							
Total revenue from external sources	3,960	3,373	937	1,136	44		
Revenue from inter-segment sales	190	202	32	-	13		
Total revenue	4,150	3,575	969	1,136	57	(1,573)	8,314
Profit from operating segments	1,243	774	176	122	1	(128)	2,188
Segment assets at September 30, 2008	11,257	4,538	961	1,150	105	(3,270)	14,741

* Restatement due to discontinued operations, see Note 4

NOTE 13 –SEGMENT REPORTING (CONTD.)

A. Reporting segments (contd.)

	Three months ended September 30, 2009 (unaudited)						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	**1,279**	**1,311**	**319**	**380**	**15**		
Revenue from inter-segment sales	**64**	**61**	**13**	**-**	**3**		
Total revenue	**1,343**	**1,372**	**332**	**380**	**18**	**(521)**	**2,924**
Profit from operating segments	**491**	**316**	**66**	**61**	**2**	**(61)**	**875**
Segment assets at September 30, 2009	**11,940**	**4,902**	**1,056**	**1,206**	**99**	**(4,668)**	**14,535**

NOTE 13 –SEGMENT REPORTING (CONTD.)

A. Reporting segments (contd.)

	Three months ended September 30, 2008 (unaudited)*						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	1,324	1,148	318	375	16		
Revenue from inter-segment sales	64	66	11	-	4		
Total revenue	1,388	1,214	329	375	20	(520)	2,806
Profit from operating segments	428	293	59	52	1	(58)	775
Segment assets as at September 30, 2008	11,257	4,538	961	1,150	105	(3,270)	14,741

* Restatement due to discontinued operations, see Note 4

NOTE 13 –SEGMENT REPORTING (CONTD.)

A. Reporting segments (contd.)

	Year ended December 31, 2008 (audited)*						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	5,243	4,450	1,263	1,513	59		
Revenue from inter-segment sales	255	263	43	-	16		
Total revenue	5,498	4,713	1,306	1,513	75	(2,090)	11,015
Profit from operating segments	1,475	933	242	177	-	(187)	2,640
Segment assets as at December 31, 2008	10,752	4,644	994	1,132	100	(3,308)	14,314

* Restatement due to discontinued operations, see Note 4

NOTE 13 –SEGMENT REPORTING (CONTD.)

B. Adjustments for segment reporting of revenue, profit or loss and assets

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008*	2009	2008*	2008*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue					
Total revenue from reporting segments	**10,094**	9,830	**3,427**	3,306	13,030
Total revenue from external sources in other segments	**54**	57	**18**	20	75
Cancellation of revenue for a segment that is an affiliate (up to August 20, 2009 – a discontinued operation)	**(1,140)**	(1,136)	**(380)**	(375)	(1,513)
Cancellation of revenue from inter-segment sales	**(421)**	(437)	**(141)**	(145)	(577)
Total consolidated revenue	**8,587**	8,314	**2,924**	2,806	11,015

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008*	2009	2008*	2008*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit or loss					
Total operating profit or loss for reporting segments	**2,675**	2,309	**934**	826	2,817
Profit or loss for other categories	**3**	1	**2**	1	-
Cancellation of expenses for a segment that is an affiliate (up to August 20, 2009 – a discontinued operation)	**(186)**	(122)	**(61)**	(52)	(177)
Financing income (expenses), net	**13**	(125)	**(16)**	(57)	(140)
Share in the profits (losses) of equity-accounted investees	**(8)**	4	**(12)**	2	5
Consolidated profit before income tax	**2,497**	2,067	**847**	720	2,505

* Restatement due to discontinued operations, see Note 4

NOTE 13 –SEGMENT REPORTING (CONTD.)

B. Adjustments for segment reporting of revenue, profit or loss and assets (contd.)

	September 30		December 31
	2009	**2008***	**2008***
	(Unaudited) NIS millions	**(Unaudited) NIS millions**	**(Audited) NIS millions**
Assets			
Total assets from reporting segments	**19,104**	17,906	17,522
Assets attributable to activities in other categories	**99**	105	100
Investment in equity-accounted investees reported as a segment (mainly in loans)	**1,183**	-	-
Cancellation of assets for a segment classified as an affiliate	**(1,206)**	-	-
Less inter-segment assets	**(4,645)**	(3,270)	(3,308)
Total consolidated assets	**14,535**	**14,741**	**14,314**

* Restatement due to discontinued operations, see Note 4

NOTE 14 – CONDENSED DATA FROM THE FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. AND BEZEQ INTERNATIONAL LTD.

1. Pelephone Communications Ltd.

A. Data from the statement of financial position

	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**2,030**	1,912	1,898
Non-current assets	**2,872**	2,626	2,746
	4,902	4,538	4,644
Current liabilities	**1,251**	1,092	1,502
Long term liabilities	**909**	1,075	1,050
Total liabilities	**2,160**	2,167	2,552
Shareholders' equity	**2,742**	2,371	2,092
	4,902	4,538	4,644

B. Data from the income statement

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue from services and sales	**3,983**	3,575	**1,372**	1,214	4,713
Cost of services and sales	**2,612**	2,404	**904**	778	3,216
Gross profit	**1,371**	1,171	**468**	436	1,497
Selling and marketing expenses	**340**	298	**122**	107	424
General and administrative expenses	**92**	99	**30**	36	140
	432	397	**152**	143	564
Operating profit	**939**	774	**316**	293	933
Financing expenses	**75**	105	**36**	33	115
Financing income	**(67)**	(92)	**(22)**	(28)	(117)
Net financing expenses (income)	**8**	13	**14**	5	(2)
Profit before income tax	**931**	761	**302**	288	935
Income tax	**237**	207	**71**	77	253
Profit for the period	**694**	554	**231**	211	682

NOTE 14 – CONDENSED DATA FROM THE FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. AND BEZEQ INTERNATIONAL LTD. (CONTD.)

2. Bezeq International Ltd.

A. Data from the statement of financial position

	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**513**	471	496
Non-current assets	**543**	490	498
	1,056	961	994
Current liabilities	**279**	269	254
Long term liabilities	**37**	22	30
Total liabilities	**316**	291	284
Shareholders' equity	**740**	670	710
	1,056	961	994

B. Data from the income statement

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**984**	969	**332**	329	1,306
Operating expenses	**584**	582	**195**	200	780
Gross profit	**400**	387	**137**	129	526
Selling and marketing expenses	**131**	132	**47**	43	181
General and administrative expenses	**75**	79	**24**	27	103
	206	211	**71**	70	284
Operating profit	**194**	176	**66**	59	242
Financing expenses	**8**	11	**2**	2	8
Financing income	**(13)**	(13)	**(4)**	(2)	(7)
Net financing expenses (income)	**(5)**	(2)	**(2)**	-	1
Share in earnings of equity-accounted affiliates	**5**	4	**1**	1	5
Profit before income tax	**204**	182	**69**	60	246
Income tax	**53**	49	**18**	16	68
Profit for the period	**151**	133	**51**	44	178

NOTE 15 – MATERIAL EVENTS DURING THE REPORTING PERIOD AND EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

A. In March 2009, the Company raised bank credit amounting to NIS 400 million and the Company created a negative pledge in favor of the creditors. The debt is repayable in 2010-2013 and bears variable interest at prime + 0.85% to 1%.

B. On July 25, 2005, the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 5765-2005. The Law includes provisions for a gradual decrease in the corporate tax rate to a rate of 25%, commencing from the 2010 tax year.

On July 14, 2009, the Knesset passed the Economic Arrangements (Amendments for the Implementation of the 2009 and 2010 Economic Plan) Law, 5769-2009. The Law includes provisions for a further gradual decrease in the corporate tax rate to a rate of 18%, commencing from the 2016 tax year. Pursuant to the amendments, corporate tax rates applicable from the 2009 tax year onwards are as follows: 2009 tax year – 26%; 2010 tax year – 25%; 2011 tax year – 24%; 2012 tax year – 23%; 2013 tax year - 22%; 2014 tax year - 21%; 2015 tax year - 20%; and from the 2016 tax year onwards – 18%.

In the third quarter of 2009, following the change in the tax rate, there was a decrease of NIS 38 million in deferred tax assets, a decrease of NIS 9 million in deferred tax liabilities and an increase of NIS 29 million in tax expenses.

C. On October 27, 2009, the Finance Committee of the Knesset ratified an amendment to the Communications (Telecommunications and Broadcasts) (Royalties) Regulations, 5761-2001, which, to the best of the Company's knowledge, has not yet been published. The regulations include clarification of the royalties that a licensee owes the State. The amendment also includes an exemption for payment of royalties for revenue from high-speed communication services which commenced on January 1, 2004. As a result of this exemption, the Company received a refund of royalties estimated at NIS 30 million. Royalty expenses will be reduced accordingly in the fourth quarter.

D. On November 4, 2009, the Board of Directors approved an early retirement plan for employees for 2010. Under the plan, 171 employees will retire from the Company at a total cost of NIS 225 million, according to the terms of the collective agreement of December 2006.
On the same date, the Board of Directors also resolved to approve an additional cost of NIS 41 million to complete the early retirement plan for 2009. See Note 16H(1) to the financial statements as at December 31, 2008.
In view of the aforesaid, the Company is expected to record a provision of NIS 266 million in its financial statements for the fourth quarter of 2009.

E. Further to Ap.Sb.Ar.'s agreement for the sale of its holdings in 012 Smile Communications Ltd. (012 Smile), as described in Note 1B above, for the sake of caution, and in view of the possibility of the existence of a personal interest for Ap.Sb.Ar. in agreements of Group companies, as a supplier and/or customer, with companies of the 012 Smile Group, on November 4, 2009, the Board of Directors of the Company approved the agreements between the parties for a period of six months.
The transactions are in an annual volume of NIS 745 million, mainly in the acquisition and sale of equipment and services, service agreements and agreements for marketing alliances, which were routine prior to the date of signing the agreement between Ap.Sb.Ar. and 012 Smile and are continuing and/or renewed after that date as well. There are many agreements, none of which will have a material effect on the Company's profitability, assets or liabilities. In addition, all the transactions are during the regular course of business between the parties and according to market conditions.