May 4, 2010

"Bezeq" The Israel Telecommunication Corp. Limited

Quarterly Report for the period ending 31.3.2010

Update of Chapter A (Description of Company Operations) of the Periodic Report for 2009

Directors' Report on the State of the Company's Affairs for the period ended March 31, 2010

Condensed Interim Consolidated Financial Statements as at March 31, 2010

UPDATE OF CHAPTER A (DESCRIPTION OF COMPANY OPERATIONS)[1]
OF THE PERIODIC REPORT FOR 2009 ("THE PERIODIC REPORT")
OF "BEZEQ" – THE ISRAEL TELECOMMUNICATIONS CORP. LTD. (HEREINAFTER: "the Company")

In this report, which contains an update of the chapter regarding the description of the Company's business in the 2009 periodic report, the Company has included forward-looking information, as defined in the Securities Law 5728-1968 (hereinafter: the "Securities Law"). Such information includes, inter alia, forecasts, targets, appraisals and assessments which apply to future events or matters the realization of which is not certain and is not under the Corporation's control and are affected by factors that cannot be assessed in advance, and which are not within the control of the Company. Forward-looking information in this report will usually be identified specifically, or by employing statements such as "the Company expects", "the Company assesses", "it is the Company's intention", and similar statements.

Forward-looking information is not a proven fact and is based only on the Company's subjective assessment, based, inter alia, on a general analysis of the information available at the time of drafting of this report, including public announcements, studies and surveys, and they contain no undertakings as to the correctness or completeness of the information contained therein, and the Company did not independently check the correctness thereof. The Company's assessments vary from time to time, depending on circumstances.

In addition, the occurrence and/or non-occurrence of the forward-looking information will be affected by factors that cannot be assessed in advance, and which are not within the Company's control, including the risk factors that characterize its operations, developments in the general environment, external factors and the regulation that affects the Corporation's operations.

1. Description of General Development of Group Operations

Section 1.1 - Group Activity and Description of its Business Development

Regarding the chart describing the structure of shareholdings of the Company, and the Company's shareholdings in its principal subsidiaries and affiliates, and completion of the transaction for sale of control core of Ap. Sb. Ar. Holdings, Ltd. (hereinafter, "Ap. Sb. Ar.") to B Communications, Ltd.[2] (hereinafter, B Communications), see section 1.3.1(a) below. Regarding the purchase of shares in Walla by Bezeq International, Ltd. see section 4.14.1 below.

Section 1.1.4 - Holdings in the Company

The following are details of the rates of current holdings in the Company as at March 31, 2010 and May 3, 2010, and also at full dilution, (assuming exercise of all of the options allocated to the Group's employees and managers).

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1 The update is pursuant to Article 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the Periodic Report. The update relates to the Company's periodic report for the year 2009 and relates to the section numbers in Chapter A (Description of Company Operations) in such periodic report.

2 On March 16, 2010, 012 Smile Communications changed its name to B Communications, Ltd.

Shareholders	Percentage of holdings			
	March 31, 2010	March 31, 2010 Fully diluted	May 3, 2010	May 3, 2010 Fully diluted
Ap. Sb. Ar.	30.45%	29.76%	0	0
B Communications (SP2), Ltd.	0	0	30.44%	29.76%
Amitim	6.72%	6.57%	6.53%	6.38%
The Public	62.84%	63.67%	63.03%	63.85%

Section 1.3 - Investments in Equity and Share Transactions

Section 1.3.1 - Deals in Bezeq Shares

A. Sale of the control core

On April 14, 2010, the transaction between Ap. Sb. Ar. and B Communications for the sale of all shares belonging to Ap. Sb. Ar. in an off-exchange transaction was completed, whereby Ap. Sb. Ar. held 814,211,545 ordinary shares of the Company, NIS 1 n.v. each, constituting on that day approximately 30.44% of the Company's issued and paid up share capital. According to information provided to the Company, the transaction was completed after all conditions in the agreement, including the regulatory approval required by law, were met. These include the following:

1. Approval of the Minister of Communications for the transaction (including the granting of control permits). The approval was conditional on compliance with several conditions, whose principle points are that transactions for the purchase of end-user equipment between the Eurocom Group[3] and Pelephone be considered exceptional transactions pursuant to section 270(4) of the Companies Law and require, in addition to the internal approval process within Pelephone, an approval process in the Company; discussions of the issue by the Company's Board of Directors be documented in detailed, comprehensive minutes that are to be submitted to the Director General of the Ministry of Communications for his examination (these two conditions also apply to DBS, with regard to purchase of satellite end-equipment, see section 5.17.3 below); an employee of Nokia Cellular Communications, Ltd. may not serve as a Director of Pelephone and an employee of Pelephone may not serve as a Director of Nokia Cellular Communications, Ltd.
2. Approval of the Antitrust Commissioner, which was conditional on compliance with several conditions, whose principle points are imposition of a prohibition forbidding the Eurocom Group[4] from being involved in the determination of commercial conditions that the cellular company purchasing from Eurocom Cellular Communications, Ltd. offers to the public in Israel, other than participation in financing, and obliging the Eurocom Group to sell its holdings in DBS. Prior to completion of the said sale, the Eurocom Group must transfer its shares in DBS to a Trustee who will act as owner of the shares and use its authority and/or rights to the best of its judgment for the benefit of DBS alone.
3. Approval of the Prime Minister and the Minister of Communications in accordance with the provisions of the Communications Law (Telecommunications and Broadcasts), 5742-1982, and the provisions of the Communications Order (Telecommunications and Broadcasts) (determination of an essential service provided by Bezeq the Israel Telecommunications Corp. Ltd), 5767-1997.

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[3] In this regard, "Eurocom Group" means all of the corporations controlled, directly or indirectly, by Eurocom Holdings (1979) Ltd. with the exception of the Company, Pelephone Communications, Ltd., Bezeq International , Ltd. and B.I.P. Communications Solutions LP, as well as the employees of Bezeq and the aforementioned corporations, who do not work in other companies in the group.

[4] In this regard, "Eurocom Group" means all of the corporations controlled, directly or indirectly, by Eurocom Holdings (1979) Ltd. and/or Eurocom Media Net Holdings, Ltd. and any person associated with these corporations, with the exception of the Company and companies in which the Company hold more than 50% of the shares.

Purchase of the shares in the Company was contracted through the company B Communications (SP2) Ltd. which is a private company, registered in Israel, wholly owned and controlled by B Communications (SP1) Ltd. which is wholly owned and controlled by B Communications, Ltd. which is a public Israeli company registered both on the Tel Aviv Stock Exchanges and NASDAQ. The controlling shareholder in B Communications is Internet Gold – Gold Lines, Ltd. Internet Gold – Gold Lines, Ltd. is owned and controlled by Eurocom Communications, Ltd.

For additional information on the completion of the transaction and the parties who have become interested parties in the Company as a result of the transaction, see the Supplementary Immediate Report on Events or Matters not in the Ordinary Course of the Corporation's Business dated April 14, 2010 and the Immediate Report of the same date concerning the parties who have become interested parties in the corporation because of their holdings.

B. Regarding approval of the transaction with the B Communications Group, on March 18, 2010, the Board of Directors of the Company decided to extend the validity of its decision of November 4, 2009, so that the decision regarding transactions in which the controlling shareholder in the Company might have a personal interest with regards to the array of agreements between companies in the B Communications Group will remain in force until July 15, 2010. Further to this point, after transfer of control in the Company, the Audit Committee of the Board Directors (on April 22, 2010 and on April 27, 2010) and the Board of Directors of the Company (on May 4, 2010) approved, on an individual basis, agreements between the Company and its[5] subsidiaries with the B Communications Group. Transactions between Pelephone and Eurocom Cellular Communications Ltd. for the purchase of Nokia instruments (end equipment, replacement parts, accessories and maintenance services) were categorized as exceptional transactions in accordance with section 270(4) of the Companies Law. Therefore, they require approval of the General Meeting of Shareholders in the Company.

1.3.2 <u>Employee option plans</u>

A. Regarding the employee option plan of 2007, in light of the expectation that the exercise price of the options will drop below the nominal value of shares of the Company (NIS 1) due to the adjustment of the exercise price of the options to the distribution of a dividend, on March 18, 2010, the Board Of Directors of the Company gave its approval for the Company to convert part of the premium to share equity, in an amount equal to the difference between the nominal value of a share and the exercise price of the options exercised in the context of this plan, up to a total not exceeding NIS 22,469,081. Conversion of the premium to share equity will be recorded on the Company's books against the actual exercise of options at the time the options are exercised.

B. Regarding the options plan for managers and senior employees of the Group, of November 2007, on March 3, 2010, after the Company published its financial statements for 2009, the Company published an updated outline regarding the securities offered to employees.

Section 1.4 - Payment of Dividends

Section 1.4.2 - Distribution of a dividend

On April 8, 2010 the Company's General Meeting of Shareholders resolved (further to the recommendation of the Company's Board of Directors from March 2, 2010) to distribute a cash dividend to the shareholders of the Company in the total sum of NIS 2,453 million, which were, as of the determining date for the distribution (April 15, 2010) NIS 0.9170679 per share and 91.70679% of the Company's issued and paid capital. The dividend was paid on May 3, 2010.

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[5] Approval of the agreements with the subsidiary companies Pelephone Communications, Ltd. Bezeq International , Ltd. and Bezeq Online, Ltd. was given only after the transactions were approved by the authorized institutions of the said subsidiary companies.

Section 1.5 - Financial Information Regarding Areas of Group Operations

Section 1.5.4 - Principal results and operational data

A. Bezeq Fixed-Line (the Company's activity as domestic operator) (NIS millions except where stated otherwise)

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Revenue	1,304	1,316	1,343	1,318	1,326
Operating profit	490	161	491	434	437
Depreciation and amortization	170	194	184	205	211
EBITDA (Earnings before interest, taxes, depreciation and amortization)	660	355	675	639	648
Cash flow from operating activities	393	652	526	407	635
Payments for investment in property, plant & equipment and intangible assets	238	220	204	191	238
Proceeds from sale of property, plant & equipment and intangible assets	15	10	19	8	49
Number of active subscriber lines at end of period (in thousands)	2,458	2,489	2,518	2,547	2,579
Average monthly revenue per line (NIS)*	80	82	83	81	81
No. of outgoing minutes (in millions)	2,773	2,964	3,096	3,014	3,123
No. of incoming minutes (in millions)	1,627	1,674	1,737	1,664	1,654
No. of ADSL subscribers at end of period (in thousands)	1,045	1,035	1,026	1,016	1,011
Average monthly revenue per ADSL user (NIS)	75	72	72	69	68

* Not including revenue from data transmission and communication services, internet services, services to communication operators, contract work and other revenue.

B. Pelephone

(NIS millions except where stated otherwise)

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Revenue	1,393	1,393	1,372	1,346	1,265
Operating profit	322	251	316	321	302
Depreciation and amortization	149	158	155	151	139
EBITDA (Earnings before interest, taxes, depreciation and amortization)	471	410	471	472	441
Net profit	259	181	231	233	230
Cash flow from operating activities	350	55	395	290	375
Payments for investment in property, plant & equipment and intangible assets	92	101	146	163	149
No. of subscribers at end of period (in thousands)	2,789	2,766	2,721	2,694	2,669
Average monthly minutes of use (MOU) per subscriber (minutes)	336	339	339	329	323
Average monthly revenue per subscriber (NIS)	133	132	136	131	128
No. of 3G subscribers at end of period (in thousands)	1,619	1,531	1,407	1,307	1,217
% Revenue from value added services and content, of revenues from cellular services (%)	22.6%	20.8%	20.0%	19.1%	18.5%

C. Bezeq International

(NIS millions except where stated otherwise)

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Revenue	343	334	332	327	324
Operating profit	62	67	66	68	60
Depreciation and amortization	23	23	21	21	20
EBITDA (Earnings before interest, taxes, depreciation and amortization)	84	89	88	88	80
Net profit	46	49	51	56	44
Cash flow from operating activities	59	72	82	83	84
Payments for investment in property, plant & equipment and intangible assets*	37	39	33	26	21

* The item also includes long-term investments in assets

D. DBS

(NIS millions except where stated otherwise)

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Revenue	391	390	380	376	384
Operating profit	59	63	61	59	66
Depreciation and amortization	64	63	59	56	57
EBITDA (Earnings before interest, taxes, depreciation and amortization)	122	126	120	115	122
Net profit (loss)	(8)	(38)	(88)	(95)	(1)
Cash flow from operating activities	121	91	135	93	91
Payments for investments in property, plant & equipment & intangible assets *	61	53	87	60	61
No. of ADSL subscribers at end of period (in thousands)	571	571	567	562	560
Average monthly revenue per subscriber (NIS)	229	229	224	224	228

* This item also includes investments in the cost of acquiring subscribers.

2. Bezeq: The Israel Telecommunication Corporation Limited (the Company) – Domestic Fixed-line Communications

Section 2.3 - Breakdown of Revenue and Profitability of Products and Services

For data on the distribution of Company revenues by principal product and service in its areas of operation, see Note 9 to the Company's financial statements and Note 2 to the financial data from the consolidated financial statements attributed to the Company as parent, for the period ended March 31, 2010, which are attached to this Periodic Report.

Section 2.6 - Competition

Section 2.6.1 - Telephony

Subsection A. - On March 22, 2010, the Ministry of Communications published a hearing for HOT regarding the marketing of packages including broadcast, telephony and internet access services, whereby it is considering determining that the maximum commitment period will be 18 months for all of the services in the package, including broadcasts. In the opinion of the Ministry, this limitation will also apply to similar joint packages offered by the Company and its subsidiaries when they are permitted.

Section 2.6.8

Regarding appointment of a committee to consider a new tariff arrangement, the committee's writ of appointment was issued on March 28, 2010. According to the writ, any arrangement for regulated tariffs will also relate to a mechanism for updating that includes a factor for streamlining and a mechanism for preventing cross-subsidization, plus the period for which the arrangement will be in effect. According to the writ of appointment, subjects that are not included therein may be brought for discussion only if the Minister of Communications does not object to the discussion within seven days of the subject having been brought to his attention. Furthermore, if the committee considers adopting recommendations that are not consistent with recommendations of the Gronau Committee, as approved by the Minister of Communications, (see section 2.6.7 in Chapter A of the Company's periodic report dated December 31, 2009), the committee will open the subject to public comment prior to formulating its recommendations.

Section 2.7 - Property, Plant and Equipment, and Installations

Section 2.7.4- Real estate

During the first three months of 2010, the Company sold three properties with a total of area of approximately 6,000 sq. mtrs. of land and approximately 3,500 sq. mtrs. of buildings, for an amount totaling approximately to NIS 33 million.

Section 2.9 - Human Resources

On March 25, 2010, the Company received notice of a strike, in accordance with the Settlement of Labor Disputes Law, 5719-1957, which was declared by the Histadrut Labor Union, as from April 11, 2010. According to the notice, the dispute relates to the Company's disregard of the demand of the workers' union to negotiate for a collective agreement to regulate the rights of employees following transfer of the controlling stake in the Company, before taking steps to transfer control. Consequently, negotiations between the Company's management and the workers' union are underway. It is noted that on May 2, 2010, the workers' union began limited sanctions.

Section 2.9.6 - Employee compensation plans

Regarding section 2.9.6.2, adjustment for an exercise price lower than the nominal value of shares in the Company for the employee option plan of 2007 and regarding section 2.9.6.3, publishing an updated outline of the option plans, see section 1.3.2 above.

Section 2.10 - Raw Materials and Suppliers, Purchase of Equipment, and Suppliers

Section 2.10.3 - Dependence on suppliers

The Company is also dependent on Verse Networks for public switching equipment.

Section 2.13 - Financing

Section 2.13.1 - Average and effective interest rate on loans and section 2.13.4 Credit received after December 31, 2009

On April 15, 2010, the Company completed fund raising for a sum totaling NIS 1.5 billion, through loans from Israeli banks for an average duration of 4.6 years. (For more information on this topic, see Note 13(B) to the financial statements of the Company for the period ending March 31, 2010 which are included in this quarterly report.) Further, please find below up-to-date data regarding the average effective interest rates of the loans the Company has taken from banks as of this date.

Source of financing	Amount at April 15, 2010	Type of currency or linkage	Average interest rate	Effective interest rate
Banks	NIS 1,400 million	Unlinked NIS	Prime + 0.12%	Prime + 0.15%*
Banks	NIS 500 million	Unlinked NIS	5.6%	5.68%

* For prime at 3% in April 2010.

2.16 - Restrictions on and Supervision of the Company's Operations

2.16.2 - The Company's general license

During April 2010, the Ministry of Communications published a hearing for all communications operators regarding the exit fee that a licensee may charge a private customer who does not fulfill the obligations included in the agreement between them. The hearing stated that responses are to be submitted by June 1, 2010. These are the main points of the hearing:

1. Limitation on the maximum fine, according to a uniform formula: the product of 10% of the average monthly payment since the beginning of the commitment period multiplied by the number of months remaining from the time the agreement was violated until its expiry. The said maximum fine will include all types of "benefit return" components and nothing will be paid beyond this amount.

2. "One time" benefits, such as gifts (laptop, free service packages, etc.) will not be included in the framework of the benefit return that may be demanded from the customer.

3. A customer who purchased an end-user instrument in a payment agreement will not be asked to make the remaining payments in a lump-sum upon exiting and violating his obligation. Rather the payment plan will always be continued as initially stated.

Section 2.17 - Substantial Agreements

Section 2.17.5 - Management agreement

Further to sale of the control core in the Company by Ap. Sb. Ar. (see update 1.3.1(a) above), the management agreement with a company owned and controlled by shareholders in Ap. Sb. Ar. was terminated on April 14, 2010.

Furthermore, on May 4, 2010, the Board of Directors of the Company approved (after having received the approval of the Audit Committee) entering into an agreement with Eurocom, Communications, Ltd. for a new management agreement, in which context the Company will receive ongoing management services and consultation for US$ 1.2 million *per annum*. The period of the agreement is three years, beginning on June 1, 2010. The agreement is subject to the approval of the General Meeting of the Company's shareholders.

Section 2.18 - Legal Proceedings

Section 2.18.3 - Regarding the suit and application for certification as a class action filed against the Company in the Tel Aviv District Court in September 2000 claiming that the Company unlawfully collected collection expenses, in March 2010 the District Court approved handling the case as a class action suit. The claim in the suit is for return of the fee that the Company allegedly collected unlawfully, pursuant to section 1 of the Unlawful Enrichment Law, with the class of the claim including everyone who was charged for collection expenses despite having paid their bill before the Company began collections, from March 11, 1999 through December 7, 2006. The Company intends to file a request for leave to appeal this decision.

3. Mobile Radio Telephone – Pelephone Communications Ltd. ("Pelephone")

Section 3.7 – Competition

Section 3.7.2.3 - On May 4, 2010, Pelephone received a notification from the Minister of Communications stating that he is considering introducing an amendment to the communications regulations that would reduce the mobile termination fees for the cellular networks, both for completing calls (from NIS 0.251 to NIS 0.0414 beginning on August 1, 2010 and gradually reducing them to NIS 0.0257 from January 1, 2014) and for completing SMS messages (from NIS 0.0285 to NIS 0.019 and then gradually reducing them to NIS 0.0013 from January 1, 2014). Pelephone was given until June 6, 2010 to submit its response.

Section 3.7.2.4 - Further to the work of the team to formulate conditions for the frequencies tender, the Ministry of Communications published a hearing on communications infrastructure cooperation between cellular licensees, in March 2010. According to the Ministry of Communications' proposal, after the frequencies are allocated to the new operator by tender and during the interim period, until the new operator is able to fully deploy its cellular network, the new operator will be allowed to share the infrastructure of existing operators. The Ministry of Communications has proposed several ways for sharing infrastructure: sharing sites, sharing buildings, sharing imported equipment and sharing antennas. The Ministry of Communications is considering requiring the existing licensees to share communications infrastructure. The current hearing asks to receive the operators' positions on how the cooperation might be implemented. Pelephone is developing its response for the hearing.

Section 3.17.1 - Environmental Quality

The legally required approval of Minister for Communications for the regulations proposed by the Minister for Environmental Protection regarding the safe distances and maximum permissible exposure levels to radiation from radio frequencies has not yet been received. If the said agreement is reached between the ministers according to the current law and the regulations are approved, this is expected to have several types of negative impact on the establishment and operation of broadcast points, as described in section 3.18 of the Company's periodic report as of December 31, 2009.

Section 3.18 - Restrictions on and regulation of Pelephone's operation

Section 3.18.3.2 - Principle Changes to Pelephone's license

During March 2010, the Ministry of Communications published a hearing regarding a list of changes to the cellular license in several consumer fields. The two central and most significant changes for Pelephone are:

1. Receiving the express permission of existing customers for using various content services (for example, receiving paid SMS, sending SMS messages at a special rate, access to the Company's cellular portal, etc.) rather those services being the default situation if instructions to block the services is not relieved from customers.
2. Informing customers by SMS when they have used 75% and 90% of a package of services.

These two changes are likely to have substantive business and operational consequences. Pelephone is preparing its responses to all of the proposed changes and particularly to these two items. Pelephone intends to demand frontal discussions with the Ministry of Communications on these issues.

Regarding a hearing from April 2010 also relating to Pelephone for exit fees permitted to be charged from a private subscriber, see update to section 2.16.2 above.

Sub-section B - Following the Ministry of Communications' notice to the High Court of Justice of a change in its position regarding amendment of the license with respect to the mechanism used for identifying users of erotic services as adults, the petition to the court was erased on February 24, 2010 at the request of the petitioner. Further to the Ministry of Communications' notice, a hearing for operators was issued proposing a stricter identification mechanism than the one currently in use was proposed, requiring the addition of an identifying personal detail. Pelephone has submitted its response to the hearing, stating its opposition to changing the current identification mechanism.

Section 3.18.5 - Site licensing

In March 2010, the State submitted an updated notice to the High Court of Justice saying that the Minister of the Interior had submitted the draft planning and construction (Installation of a wireless access device for cellular communications) 5770-2010 (hereinafter, "access device regulations") to the Knesset Economic Committee. The proposed access device regulations are very limited and set very strict limitations on application of the exemption from the requirement of obtaining a building permit for the construction of wireless access devices. The regulations were also submitted to the National Planning and Construction Committee for consultation. In view of the above, it was determined that the State will issue a revised statement on this matter prior to July 1, 2010, without issuing the requested interim injunction against use of this track.

In the opinion of Pelephone, if the proposed access device regulations are approved, the possibilities for using the track based on the exemption from a building permit for wireless access devices will be extremely limited. Limitation of this track, in conjunction with the Council's proposal for stricter conditions for constructing base stations according to the parallel track of new Master Plan 36/A, can be expected to cause a serious increase in the obstacles limiting new base stations and access devices. These restrictions will make it difficult to maintain the quality of its cellular service and required coverage over the long-term. Furthermore, it might have a detrimental impact on the existing infrastructure, network performance, and the ability to build the new basis stations that the network sometimes requires.

Section 3.21 - Legal Proceedings

In March 2010, a claim was filed together with an application for approval as a class action, in the Tel Aviv District Court. The total amount of the claim is approximately NIS 4.2 billion, of which NIS 2.1 billion is against Pelephone. The plaintiffs allege that Pelephone is violating the terms of its license by not purchasing insurance to cover its responsibility for bodily harm caused by exposure to cellular radiation. The application also includes requested relief for an order instructing the Company to arrange such insurance.

4. Bezeq International Ltd. - International communications and internet services

Section 4.14 - Investments

Section 4.14.1 - Walla Communications Ltd.

Following notice from Ha'aretz Newspaper Publishing, Ltd. (hereinafter, "Ha'aretz") on March 14, 2010 that it had entered into an agreement to sell all its shares in Walla, Bezeq International gave notice on March 18, 2010 that it would exercise its right of first-refusal to purchase the shares in Walla owned by Ha'aretz, meaning 14,807,939 shares (hereinafter, "the purchased shares") for NIS 6.00 per share totaling NIS 88,847,634. The transaction was completed on April 25, 2010 after all of the prior conditions were met. Upon receipt of the purchased shares, Bezeq International transferred 9,902,467 of the purchased shares, to a trustee who will hold the shares in a blind trust. Therefore, when the transfer was completed, Bezeq International holds shares 20,468,231 shares, which are approximately 44.99% of the issued and paid capital of Walla.

Section 4.17 - Restrictions and Supervision of Bezeq International's Operations

Regarding the hearing in April 2010, which was also relevant to Bezeq International, concerning the exit fees which a licensee may charge private subscribers, see the update to section 2.16.2 above.

Section 4.19 - Legal Proceedings

A. Section 4.19.1 - Regarding the lawsuit and petition to recognize a class action filed on September 16, 2001 against Bezeq International and the State of Israel, based on the claim that Bezeq International's tariffs for international telecommunications services for the period from May 10, 1996 through July 8, 1997 were exorbitant and unreasonable, and which was approved as a class action suit on December 25, 2003, on April 26, 2010, the Supreme Court accepted Bezeq International's and the State's appeal (after hearing the application for leave to appeal) and ruled that there is no reason to approve the claim as a class action suit.

B. On April 13, 2010, Partner Communications, Ltd. submitted a petition to the Supreme Court, sitting as the High Court of Justice, in which it asked the Court to instruct that regulation 11(B)(3) of the Communications Regulations (Telecommunications and Broadcast) (Processes and Conditions for Receiving a General License for Providing International Telecommunications Services) 5764-2004 that prevents it, as the holder of a cellular license, or its subsidiary, from receiving a general license for providing international communications services. In its petition, Partner claims, inter alia, that the decision of the Minister of Communications in respect of the subject of the petition was intended to protect the current holders of licenses for providing international telecommunications services. For this reasons, Bezeq International was added as an additional respondent to the petition, which is expected to affect Bezeq International in this area.

5. Multi-Channel Television – D.B.S. Satellite Services (1998) Ltd. (DBS)

Section 5.1.6 - Main entry and exit barriers for the area of operations and Section 5.1.7 - Substitutes for and changes in products in the sector

Regarding the recent erosion in the main entry barriers into the area of operations, Keshet Broadcasting, Ltd., the holder of the license for broadcasting on a second commercial channel, recently launched an application on the Mako site that makes it possible to conveniently view a variety of content channels on a computer.

Section 5.4 - New Products

In March 2010, DBS launched VOD services for its customers. DBS is of the opinion that its offering of VOD services accords with the regulations to which it is currently subject. This position of the company is subject to publication of the conclusions drawn by the committee appointed by the Minister of Communications on the regulation of broadcast using new platforms and technologies (see chapter A, section 5.1.3.6 of the Company's periodic report as of December 31, 2009) which may impose conditions and limitations on the VOD services provided by DBS, including the very fact of their provision.

Section 5.15 - Financing

Sections 5.15.2, 5.15.3

In March 2010, an amendment to DBS bank financing agreement (hereinafter, the "financing agreement") was signed and took effect. According to this agreement, inter alia, an additional Israeli bank joined (hereinafter, "the additional bank") DBS's current bank consortium (hereinafter, the "current banks"). In this context, the additional bank provided DBS with its proportional share of DBS's current credit framework, and also granted DBS long-term credit totaling NIS 255 million, most of which was used for joining (according to its proportional share) the long-term credit framework of DBS, for repayment and early repayment of DBS's debts to the current banks and the balance of NIS 46 million, which will be used to meet DBS's current needs.

Pursuant to the agreed amendment, DBS created a floating charge in favor of the addition banks similar to those listed in favor of the current banks and the additional bank was added to the fixed charge in favor of the current banks. Furthermore, shareholders in DBS[6] signed amendments to the liability deeds, mortgage deeds and guarantees, as relevant, that they have signed in favor of the current banks, to including the additional bank.

According to the amended agreement, the reimbursement period for bank credit (both the long-term loan and at the current credit framework) was extended to the end of 2015. The banks have also agreed that the loans they have given to DBS may be repaid by institutions (chapter A, section 5.18.5 of the Company's periodic report as of December 31, 2009), according to the schedule.

As part of the amended agreement, the financial conditions listed in the financing agreement have been changed. The new conditions that will apply until 2015 and are suited to DBS's business plan, are:

A. Minimal repayment ability

B. Minimal operational cash flow (EBITDA).

C. Maximum and minimum credit from suppliers.

The values for compliance with the financial standards are variable and measured quarterly. Non-compliance with the conditions gives the banks the right to demand early repayment of loans, in accordance with the conditions of the financing agreement.

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[6] Other than Lidan. In this regard, DBS promised to make every effort, as soon as possible after the amended agreement becomes effective to sign Lidan on an amendment to its liabilities deed in favor the banks and mortgage deed in favor of the banks.

Section 5.15.8

In April 2010, the rating agency Maalot announced that it had raised the rating of the debentures (Series A) issued by DBS one grade from (ilBBB-) to (ilBBB), inter alia, due to its evaluation of the substantive improvement in DBS's liquidity because of the new loan received from the additional bank, as described in the update to section 5.15.2 above) and because of the ongoing improvement in the coverage ratios, ability to create cash flows and liquidity of DBS since the previous rating. In addition, the rating company added DBS to the Credit Watch with a positive note and stated that it hopes to complete its consideration of a possible improved rating within three months, after a deeper study of DBS's business plan and its impact on its financial profile.

Section 5.17 - Restrictions on and Supervision of the Corporation

Section 5.17.1 - Subjection of activities to specific laws

In April 2010, the subsidiary company of Bank Leumi notified DBS that it completed the sale of its entire holding in Keshet Broadcasting, Ltd.

Section 5.17.3 - Principal restrictions by virtue of the law and broadcasting license

As of the date of this report, the Council is holding a hearing regarding shortening the period of a special offer offered by DBS (and the cable companies) to their subscribers and setting a uniform special offer period for all service components. In the context of this hearing, the Council is considering, inter alia, amendment of DBS's license so that the period to which a subscriber must make a commitment in order to receive a benefit or discount will be limited to only 18 months. DBS has submitted its opposition to implementation of the said amendment. The Council is yet to make a decision about the hearing. Simultaneous with the hearing process, the Ministry of Communications announced in March 2010, that it is considering amending the license of Hot Telecom LP, whereby a private subscriber who purchased a service package that also includes broadcasts from the cable company, for which the commitment period for the broadcast component is limited by the broadcast license, the limit would also apply to the services included in the said packages.

In March 2010, the Knesset passed, in its first reading, a proposed law that designated channels will be exempt from the payment of transfer fees to Hot and DBS.

In April 2010, in the context of the Ministry of Communications' approval of DBS's request, as required by its license for approval of transferring the means of control in the company (direct and indirect) in respect of the purchase of control in the company (see section 1.3.1a, above) and the transfer of the holdings of Eurocom DBS Ltd. in DBS to a trustee, the Ministry of Communications decided to apply the following main conditions to DBS:

A. No change, direct or indirect, in the trustee's holdings of the means of control in DBS may be made unless the change received the prior written approval of the Minister of Communications, after having consulted with the Council.

B. The trustee will not act in accordance with guidance received from any party who has a direct or indirect interest in a field regulated by the Ministry of Communications, unless it has received the approval for this from the Ministry of Communications.

C. Any transaction between DBS and the Eurocom Group[7] regarding satellite end equipment will be considered an exceptional transaction as defined in section 270(4) of the Companies Law and, in addition to the approval process in DBS institutions, require an approval pursuant process in the Company's institutions to section 275 of the Companies Law.

D. Discussions by the Board of Directors of DBS regarding transactions as described in section C, above, will be documented in detailed, comprehensive minutes that are to be submitted to the C.E.O. of the Ministry of Communications for his examination.

May 4, 2010	
Date	Bezeq – The Israel Telecommunication Corp. Ltd

Names and titles of signatories:

Shlomo Rodav, Chairman of the Board

Avi Gabbay, CEO

[7] Regarding the definition of "Eurocom Group" for this purpose, please see footnote 3, above.

Chapter B of the Periodic Report

Directors' Report on the State of the Company's Affairs for the three-month period ended March 31, 2010

We respectfully present the Directors' Report on the state of affairs of Bezeq - The Israel Telecommunication Corp. Limited ("the Company") and the consolidated Group companies (the Company and the consolidated companies together are hereinafter referred to as “the Group"), for the three-month period ended March 31, 2010.

The Directors' Report contains a condensed review of its subject-matter and it assumes that the Directors' Report for December 31, 2009 is also available to the reader.

Commencing August 21, 2009, the Company ceased to consolidate the financial reports of D.B.S. Satellite Services (1998) Ltd. ("DBS"), and since that date its investment in DBS is stated by the equity method (see Note 4 to the financial statements). However, the Group continues to report the multi-channel television operations as a segment in its financial statements.

The Group's balance sheet at March 31, 2009 includes DBS balances, while the income statement for the first quarter of 2010 was restated and does not contain the results of DBS's operations as an ongoing operation. The Group's cash flow in the corresponding period includes the operations of DBS.

The Group reports in four main segments in its financial statements:

1) **Fixed-line domestic communications**

2) **Cellular**

3) **International communications, internet services and NEP**

4) **Multi-channel television**

Profit in the reporting period amounted to NIS 642 million[1] compared with NIS 609 million in the corresponding period. The increase in profit stemmed primarily from a rise in revenue from NIS 2,791 million to NIS 2,915 million, which was moderated by an increase in total costs from NIS 1,992 million to NIS 2,041 million. The increase in profit was mainly in the fixed-line domestic communications and cellular segments. See below for further details.

A. Board of Directors' explanations for the state of the Company's affairs, the results of its operations, its equity, cash flows and other matters

1. Financial condition

a. The Group's assets at March 31, 2010 amounted to NIS 14.23 billion, compared with NIS 15.38 billion on March 31, 2009, of which NIS 5.44 billion (38%) is property, plant and equipment, compared with NIS 6.23 billion (40%) on March 31, 2009.

The decrease in the Group’s assets stems from termination of consolidation of the results of operations of DBS in the Company's financial statements and the recording of the Company's investment in DBS by the equity method (DBS's assets at March 31, 2009 amounted to NIS 1.17 billion). The decrease was reflected mainly in property, plant and equipment and in broadcasting rights. Intangible assets also decreased, due to the cancellation of goodwill. The decrease was offset by stating the investment in DBS at the date of exit from consolidation by the equity method at NIS 1.175 billion.

In addition, a decrease in the assets of the fixed-line domestic communications segment (excluding investment in associates) was modified by an increase in the assets of the cellular segment and the international communications, internet and NEP segment, as explained below.

[1] In this translation of the Directors' Report, all amounts should be understood by the reader to be rounded to the nearest million or thousand, as the case may be.

In the fixed-line domestic communications segment there was a decrease of NIS 739 million in assets, excluding investment in associates, compared with March 31, 2009, due mainly to a decrease in cash balances and in deferred tax balances.

In the cellular segment, assets increased from NIS 4.54 billion on March 31, 2009 to NIS 4.76 billion at March 31, 2010. Most of the increase stems from a rise in customer short and long-term balances, mainly due to an increase in revenue from sales of terminal equipment on installments. The increase was moderated by a decrease in property, plant and equipment and in cash balances.

In the international communications, internet and NEP services segment, assets increased from NIS 1,051 million on March 31, 2009 to NIS 1,096 million at March 31, 2010, primarily due to additional acquisitions of capacity usage rights.

In the multi-channel television segment there was an increase in assets from NIS 1,174 million on March 31, 2009 to NIS 1,231 million at March 31, 2010, which stemmed mainly from an increase in broadcasting rights, net investment balances, intangible assets and property, plant and equipment.

b. The Group's debt to financial institutions and debenture holders at March 31, 2010 amounted to NIS 3.88 billion, compared with NIS 6.28 billion on March 31, 2009. The decrease stemmed primarily from termination of the consolidation of DBS (DBS's debt to financial institutions and debenture holders on March 31, 2009 was NIS 1.75 billion).
In addition, the debt of the fixed-line domestic communications segment decreased due to repayment of debentures, and the debt of the cellular segment decreased due to repayment of debentures and loans.

2. Results of operations

a. Highlights

Condensed consolidated income statement:

	For the three months ended March 31, 2010 NIS millions	2009 NIS millions	Increase (decrease)	Change (%)
Ongoing operations:				
Income	2,915	2,791	124	4.4%
Costs and expenses	2,041	1,992	49	2.5%
Operating profit	874	799	75	9.4%
Finance income, net	22	30	(8)	(26.7%)
Profit after finance income, net	896	829	67	8.1%
Equity in profits (losses) of affiliates	(23)	2	(25)	-
Profit before income tax	873	831	42	5.1%
Income tax	231	221	10	4.5%
Profit from ongoing operations	642	610	32	5.2%
(Loss) from discontinued operations	-	(1)	1	100%
Profit for the period	642	609	33	5.4%
Attributed to:				
Company owners	642	608	34	5.6%
Non-controlling rights	-	1	(1)	(100%)
Profit for the period	642	609	33	5.4%
Earnings per share:				
Base earnings per share (NIS)	0.24	0.23	0.01	4.3%
Diluted earnings per share (NIS)	0.24	0.23	0.01	4.3%

Most of the increase in the Group's income stems from the cellular segment.

The Group’s depreciation and amortization expenses in the first quarter of 2010 amounted to NIS 343 million, compared with NIS 371 million in the corresponding quarter, a decrease of 7.5%. The decrease stems from the fixed-line domestic communications segment, and was partially offset by an increase in expenses in the cellular segment.

The Group’s salary expense in the first quarter of 2010 amounted to NIS 505 million, unchanged from the corresponding quarter.

The Group’s operating and general expenses in the first quarter of 2010 amounted to NIS 1,218 million compared with NIS 1,136 million in the corresponding quarter, an increase of 7.2%. The increase is due mainly to an increase in expenses in the cellular segment, and was moderated by a decrease in the expenses of the fixed-line domestic communications segment.

b. Segments of operation

Below are data by segment, presented in accordance with the Group’s segments of operation:

	1-3/2010		1-3/2009	
Revenue by operating segment	**NIS millions**	**% of revenue**	**NIS millions**	**% of revenues**
Fixed-line domestic communications	1,304	44.7%	1,326	47.5%
Cellular	1,393	47.8%	1,265	45.3%
International communications, internet services and NEP	343	11.8%	324	11.6%
Multi-channel television	391	13.4%	384	13.8%
Other and offsets*	(516)	(17.7%)	(508)	(18.2%)
Total	2,915	100%	2,791	100%

Operating profit by operating segment	1-3/2010		1-3/2009	
	NIS millions	**% of revenue**	**NIS millions**	**% of revenues**
Fixed-line domestic communications	490	37.6%	437	33.0%
Cellular	322	23.1%	302	23.9%
International communications, internet services and NEP	61	17.8%	60	18.5%
Multi-channel television	59	15.1%	66	17.2%
Other and offsets*	(58)	-	(66)	-
Consolidated operating profit / % of Group’s revenues	874	30%	799	28.6%

* Mainly in respect of a segment that is an associate.

Fixed-line domestic communications segment

Revenue:

Segment revenue in the first quarter of 2010 totaled NIS 1,304 million compared with NIS 1,326 million in the corresponding quarter, a decrease of 1.7%.

The decrease in revenue stemmed primarily from a decrease in interconnect fees to the cellular networks (there was a parallel decrease in expenditure). In addition, revenue from telephony decreased as a result of the decreasing number of lines and the decline in call traffic, which was moderated by an increase in revenue from high-speed internet, data communication and transmission.

Costs and expenses:

Depreciation expenses in the first quarter of 2010 amounted to NIS 170 million compared with NIS 211 million in the corresponding quarter, a decrease of 19.4%. This source of the decrease is the end of depreciation of property, plant and equipment and a change in the scrap value of property, plant and equipment.

Salary expense in the first quarter of 2010 amounted to NIS 277 million, similar to the corresponding quarter. The slight decrease in salary expense, resulting from fewer employees, and the increase in salaries attributed to investment,, were offset by a rise in salaries and a provision for a retirement agreement with a previous CEO.

Operating and general expenses in the first quarter of 2010 amounted to NIS 392 million compared with NIS 420 million in the corresponding quarter, a decrease of 6.7%. The decrease stems from a decrease in operating expenses due to the implementation of efficiency measures, as well as a decrease in revenue royalty expenses following their reduction by 0.5%. In addition, interconnect fees to the cellular networks decreased in parallel with a decrease in revenue from interconnect fees.

Other net operating income in the first quarter of 2010 amounted to NIS 24 million, compared with income of NIS 20 million in the corresponding quarter. The increase stems from a rise in capital gains, mainly from the sale of real estate.

Operating profit:

Operating profit in the segment in the reporting quarter of 2010 amounted to NIS 490 million compared with NIS 437 million in the corresponding quarter, an increase of 12%. The increase stems from the changes described above in the income and expense items.

Cellular segment

Revenue:

Segment revenue in the first quarter of 2010 amounted to NIS 1,393 million compared with NIS 1,265 million in the corresponding quarter, an increase of 10.1%.

The increase in revenue is the result of a rise in revenue from services which is a result of an increase in the number of subscribers as well as a rise in average revenue per customer, most of which stems from increased revenue from content services. Revenue from the sale of terminal equipment also increased, mainly due to the increased volume of sales.

Costs and expenses:

Depreciation and amortization expenses in the first quarter of 2010 amounted to NIS 149 million compared with NIS 139 million in the corresponding quarter, an increase of 7.2%. The increase in these expenses stems primarily from operation of the HSPA/UMTS network alongside the existing network, and from the increase in subscriber acquisition amortization expenses.

Salary expense in the first quarter of 2010 amounted to NIS 150 million compared with NIS 151 million in the corresponding quarter.

Operating and general expenses in the first quarter of 2010 amounted to NIS 771 million compared with NIS 672 million in the corresponding quarter, an increase of 14.7%. The increase stems from a rise in service costs, along with an increase in revenue from services (mainly call termination fees and network costs), as well as from an increase in the cost of selling terminal equipment, which is attributable mainly to the increase in the number of handsets sold.

Operating profit:

Operating profit in the segment in the first quarter of 2010 amounted to NIS 322 million compared with NIS 302 million in the corresponding quarter, an increase of 6.6%. The improvement in operating profit stems from the changes described above in the income and expense items.

International communication, internet and NEP segment

Revenue:

In the first quarter of 2010, revenue in the segment amounted to NIS 343 million compared with NIS 324 million in the corresponding quarter, an increase of 5.8%. The increase stems primarily from increased call transfer activity between communications operators worldwide, an increase in the number of broadband customers, in integration operations and in data operations. Offsetting these was a decrease in revenue from outbound calls as traffic volume declined.

Costs and expenses:

Amortization expenses in the first quarter of 2010 amounted to NIS 23 million, compared with NIS 20 million in the corresponding quarter, an increase of 15%.

Salary expense in the first quarter of 2010 amounted to NIS 63 million compared with NIS 64 million in the corresponding quarter.

Operating and general expenses in the first quarter of 2010 amounted to NIS 196 million compared with NIS 181 million in the corresponding quarter, an increase of 8.3%. The increase in these expenses parallels the increase in the segment's revenue.

Operating profit:

Operating profit in the segment in the first quarter of 2010 amounted to NIS 61 million compared with NIS 60 million in the corresponding quarter, an increase of 1.7%. The improvement in operating profit stems from the changes described above in the income and expense items.

Multi-channel television (stated by the equity method)

Revenue:

Revenue in the first quarter of 2010 amounted to NIS 391 million compared with NIS 384 million in the corresponding quarter, an increase of 1.8%. The increase stems from a rise in revenue from advanced products and premium channels, as well as from an increase in the number of subscribers.

Costs and expenses:

Depreciation expenses in the first quarter of 2010 amounted to NIS 64 million compared with NIS 57 million in the corresponding quarter, an increase of 12.3%. The increase is due to depreciation of assets purchased over the past 12 months, offset by a decrease in depreciation for assets purchased in prior periods.

Salary expense in the first quarter of 2010 amounted to NIS 57 million compared with NIS 53 million in the corresponding quarter, an increase of 7.5%.

Operating and general expenses in the first quarter of 2010 amounted to NIS 213 million compared with NIS 208 million in the corresponding quarter, an increase of 2.4%. Most of the increase stems from a rise in marketing expenses.

Operating profit:

Operating profit in the segment in the first quarter of 2010 amounted to NIS 59 million compared with NIS 66 million in the corresponding quarter, a decrease of 10.6%. The decrease stems primarily from the above-mentioned changes in the income and expense items.

c. **Finance income, net**

The Group’s net finance income in the first quarter of 2010 amounted to NIS 22 million compared with NIS 30 million in the corresponding quarter. The decrease stems from the fixed-line domestic communications segment, and was moderated by a rise in net finance income in the cellular segment.

d. **Income tax**

The Group's tax expenses in the reporting period amounted to NIS 231 million, representing approximately 26.5% of pre-tax profit, compared with NIS 221 million in the corresponding quarter which represented 26.6% of pre-tax profit.

3. Equity

Equity attributed to the Company's shareholders at March 31, 2010 amounted to NIS 7.2 billion, which comprises 51% of the total balance sheet, compared with NIS 5.4 billion on March 31, 2009 and 35% of the balance sheet. The increase in equity stems mainly from the Group's profit, which was partially offset by the distribution of a dividend on NIS 1.94 billion during 2009.

4. Cash flow

Consolidated cash flow in the first quarter of 2009 included cash flow from the activities of DBS (see Note 4 to the financial statements for details of the amounts). Consolidated cash flow for the present quarter does not include those activities.

Consolidated cash flow generated by operating activities in the first quarter of 2010 amounted to NIS 806 million, compared with NIS 1,125 million in the corresponding quarter, a decrease of NIS 419 million. Most of the decrease stems from the fixed-line domestic communications segment as a result of a decrease in liabilities for trade and other payables, and from termination of the consolidation of DBS. (in the corresponding quarter, cash flow of NIS 91 million generated by the operating activities of DBS was included).

Cash flow from operating activities is one of the sources for financing the Group's investments. In the reporting quarter these investments included NIS 281 million in the development of communications infrastructure and NIS 88 million in intangible assets and deferred expenses, compared with investment of NIS 408 million and NIS 63 million respectively in the corresponding quarter. In contrast, the cellular segment received proceeds of NIS 140 million from the sale of an investment in a money market fund.

In the reporting period, the Group repaid net debts and paid interest amounting to NIS 245 million, of which NIS 206 million of debentures, NIS 9 million of loans and NIS 30 million of interest payments, compared with net debt repayment and interest payments of NIS 347 million in the corresponding quarter. Conversely, the Group received NIS 15 million in proceeds from the exercise of employee stock options, compared with receipt of a loan of NIS 400 million and proceeds of NIS 36 million from the exercise of employee stock options in the corresponding quarter.

The average of long-term liabilities to financial institutions and debenture holders in the first quarter of 2010 was NIS 4,008 million.

Average supplier credit in the reporting quarter was NIS 1 billion, and average short-term customer credit was NIS 2,532 million. Average long-term customer credit was NIS 845 million.

Surplus working capital in the Group at March 31, 2010 amounted to NIS 522 million, compared with 280 million in the corresponding quarter. Most of the rise in working capital stems from termination of the consolidation of DBS in the Company's financial statements (the working capital deficit of DBS on March 31, 2009 was NIS 536 million). In addition, working capital increased in the cellular segment. The rise was partially offset by the fixed-line domestic communications segment, which transitioned from surplus working capital on March 31, 2009 to a working capital deficit of NIS 483 million at March 31, 2010.

The Board of Directors of the Company reviewed the projected cash flow of the Company, including sources of credit and options for raising it, and determined that despite the deficit in working capital, the Company is not in liquidity difficulties.

The above description includes forward-looking information based on the Company's assessments. Actual results might differ substantially from those assessments if a change occurs in one of the factors taken into account in their making.

5. Explanations of the Board of Directors relating to market risks and their management

a. Further to the description in the Directors' Report for 2009, hedging transactions against market risks associated with exposure to changes in exchange rates and to changes in the CPI, partially reduced that exposure.

b. In April 2010, the Company completed the raising of NIS 1.5 billion of debt by means of loans from Israeli banks, as described in Note 13(b) to the financial statements. As a result, the exposure to changes in the nominal shekel interest rate on December 31, 2009 decreased by NIS 502 million. In addition, the Company made hedging transactions on copper prices during the reporting quarter for 640 tons at USD 7,331 per ton, for a total value of USD 4.7 million. Other than this, the sensitivity tests for the fair value and the effect of the change in the market price on the fair value of the balances in and off the balance sheet for which there is a firm commitment at March 31, 2010, do not differ significantly from the report of December 31, 2009.

c. The linkage bases report at March 31, 2010 does not differ significantly from the report of December 31, 2009.

B. Corporate governance

Disclosure on the proceeding for approving the Company's financial statements

The organ responsible for oversight is the Board of Directors. The Company's Board of Directors appointed the Financial Statements Review Committee, whose tasks and composition are described in the Directors' Report for 2009 (the committee was previously known as the Balance Sheet Committee).

The financial statements were discussed by the Financial Statements Review Committee and submitted to the Board of Directors for approval. The following officers attended the Board discussion: Board members – Shlomo Rodav, Shaul Elovitz, Or Elovitz, Orna Elovitz-Peled, Aryeh Saban, Felix Cohen, Eldad Ben-Moshe, Rami Nomkin, Yehuda Porat, Eliahu Holzman, Yitzchak Idelman and Mordechai Keret. In addition, the following officers attended: Avraham Gabbay – CEO, Alan Gelman – CFO and Deputy CEO, Amir Nachlieli – General Counsel. Representatives of Somekh Chaikin, the Company's auditors, also participated in the discussion.

C. Disclosure concerning the Company’s financial reporting

1. Critical accounting estimates

Preparation of the financial statements in accordance with IFRSs requires management to make assessments and estimates that affect the reported values of assets, liabilities, income and expenses, as well as disclosure in connection with contingent assets and liabilities. Management bases these assessments and estimates on past experience and on valuations, expert opinions and other factors which it believes are relevant in the circumstances. Actual results might differ from these assessments with different assumptions or conditions. The financial statements provide information about primary topics of uncertainty in critical estimates and judgments in the application of the accounting policy. We believe these assessments and estimates to be critical since any change in them and in the assumptions could potentially and materially affect the financial statements.

2. Given the significance of the claims filed against the Group, which cannot yet be assessed or in respect of which the exposure cannot yet be calculated, the auditors drew attention to them in their opinion on the financial statements.

3. Events after the balance sheet date

a. On April 8, 2010, the general meeting of the shareholders of the Company approved (following the recommendation of the Board of Directors on March 2, 2010) the distribution of a cash dividend of NIS 2.453 billion to the Company's shareholders – see Note 7(e) to the financial statements.

b. On April 14, 2010, a transaction was closed for the off-exchange sale of all the shares of Ap.Sb.Ar. Holdings Ltd. In the Company, which at that date accounted for 30.44% of the issued and paid up share capital of the Company, to B Communications (SP2) Ltd. For additional details, see Section 1.3.1(a) in Chapter A of the Periodic Report.

c. See Chapter A, Section 5(b) above on raising debt during April 2010.

D. Details of series of debt certificates

Following are the updated data at March 31, 2010.

		Debentures Series 4	Debentures Series 5
A.	Par value revalued to the reporting date (linked to the CPI)	NIS 679,337,089	NIS 2,702,592,023 [1]
B.	Accrued interest	NIS 27,173,484	NIS 119,364,481
C.	Fair value	NIS 728,340,000	NIS 3,163,924,759
D.	Stock exchange value	NIS 728,340,000	NIS 3,163,924,759

(1) Of which, NIS 996.5 million held by a wholly-owned subsidiary.

We thank the managers, employees and shareholders of the Group's companies.

Shlomo Rodav	Avraham Gabbay
Chairman of the Board	CEO

BEZEQ THE ISRAEL TELECOMMUNICATION CORP. LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
MARCH 31, 2010
(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"), comprising of the condensed consolidated interim statement of financial position as of March 31, 2010 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 **-** "*Interim Financial Reporting"*, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Review scope
We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, 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, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports),1970.

Without qualifying our above conclusion, 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 6.

Sincerely,

Somekh Chaikin
Certified Public Accountants

May 4, 2010

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2010	March 31, 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**944**	1,702	580
Investments including derivatives	**12**	37	154
Trade receivables	**2,573**	2,390	2,491
Other receivables	**249**	234	171
Inventory	**181**	188	263
Assets held for sale	**33**	43	40
Total current assets	**3,992**	4,594	3,699
Investments, including derivatives	**128**	192	130
Trade and other receivables	**915**	637	887
Broadcasting rights, net of rights exercised	**-**	288	-
Property, plant and equipment	**5,444**	6,229*	5,428*
Intangible assets	**1,887**	2,664	1,885
Deferred and other expenses	**294**	235*	301*
Investments in equity-accounted investees (mainly loans)	**1,213**	34	1,219
Deferred tax assets	**361**	503	392
Total non-current assets	**10,242**	10,782	10,242
Total assets	**14,234**	15,376	13,941

	March 31, 2010	March 31, 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Liabilities			
Debentures, loans and borrowings	**753**	1,018	862
Trade payables	**908**	1,471	1,091
Other payables, including derivatives	**739**	962	697
Current tax liabilities	**184**	88	118
Deferred income	**36**	58	36
Provisions	**375**	358	380
Employee benefits	**475**	359	505
Total current liabilities	**3,470**	4,314	3,689
Debentures	**2,596**	3,711	2,716
Bank loans	**531**	1,391	558
Loans from institutions	**-**	161	-
Loans from non-controlling interests in a subsidiary	**-**	462	-
Employee benefits	**301**	267	294
Deferred income and others	**5**	25	5
Provisions	**72**	70	71
Deferred tax liabilities	**59**	63	70
Total non-current liabilities	**3,564**	6,150	3,714
Total liabilities	**7,034**	10,464	7,403
Equity			
Total equity attributable to Company shareholders	**7,206**	5,377	6,544
Non-controlling interests	**(6)**	(465)	(6)
Total equity	**7,200**	4,912	6,538
Total liabilities and equity	**14,234**	15,376	13,941

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

Date of approval of the financial statements: May 4, 2010

* Retrospective application by restatement, see Note 3

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

Condensed Consolidated Interim Statements of Income

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Continuing operations			
Revenue (Note 9)	**2,915**	2,791	11,519
Costs and expenses			
Depreciation and amortization	**343**	371	1,485
Salary	**505**	505	1,990
Operating and general expenses (Note 10)	**1,218**	1,136	4,871
Other operating expenses (income), net	**(25)**	(20)	201
	2,041	1,992	8,547
Operating profit	**874**	799	2,972
Finance income			
Finance income	**85**	82	429
Finance expenses	**(63)**	(52)	(398)
Finance income, net	**22**	30	31
Profit after finance income	**896**	829	3,003
Share in profits (losses) of equity-accounted investees	**(23)**	2	(34)
Profit before income tax	**873**	831	2,969
Income tax	**231**	221	807
Profit for the period from continuing operations	**642**	610	2,162
Discontinued operations			
Profit (loss) for the period from discontinued operations (Note 4)	**-**	(1)	1,379
Profit for the period	**642**	609	3,541
Attributable to:			
Company shareholders			
Profit for the period from continuing operations	**642**	609	2,157
Profit (loss) for the period from discontinued operations	**-**	(1)	1,446
	642	608	3,603
Non-controlling interests			
Profit for the period from continuing operations	**-**	1	5
Loss for the period from discontinued operations	**-**	-	(67)
	642	1	(62)
Profit for the period	**642**	609	3,541

*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 Income (Contd.)

	Three months ended March 31		Year ended December 31
	2010	**2009***	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Earnings per share			
Basic earnings per share (NIS)			
Profit from continuing operations	**0.24**	0.23	0.82
Profit from discontinued operations	**-**	-	0.55
	0.24	0.23	1.37
Diluted earnings per share (NIS)			
Profit from continuing operations	**0.24**	0.23	0.80
Profit from discontinued operations	**-**	-	0.54
	0.24	0.23	1.34

* 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

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit for the period	**642**	609	3,541
Items of other comprehensive income			
Actuarial losses from a defined benefit plan (1)	**-**	-	(13)
Sundry	**(1)**	3	(1)
Taxes for items of other comprehensive income	**-**	-	3
Other comprehensive income (loss) for the period, net of tax	**(1)**	3	(11)
Total comprehensive income for the period	**641**	612	3,530
Attributable to:			
Company shareholders			
Comprehensive income for the year from continuing operations	**641**	612	2,146
Comprehensive income (loss) for the year from discontinued operations	**-**	(1)	1,446
	641	611	3,592
Non-controlling interests			
Comprehensive income for the year from continuing operations	**-**	1	5
Comprehensive loss for the year from discontinued operations	**-**	-	(67)
	-	1	(62)
Total comprehensive income for the period	**641**	612	3,530

(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.

* 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 Changes in Equity

	Share capital	Premium on share capital	Translation reserve	Capital reserve for a transaction between a corporation and a controlling shareholder	Capital reserve for options for employees	Retained earnings (deficit)	Total	Non-controlling interests	Total equity
	NIS millions								
	Attributable to owners of the Company								
Three months ended March 31, 2010									
Balance at January 1, 2010 (audited)	**6,187**	**275**	**(5)**	**390**	**210**	**(513)**	**6,544**	**(6)**	**6,538**
Comprehensive income for the period (unaudited)	**-**	**-**	**(1)**	**-**		**642**	**641**	**-**	**641**
Share-based payments (unaudited)	**-**	**-**		**-**	**6**	**-**	**6**	**-**	**6**
Exercise of options into shares (unaudited)	**14**	**63**		**-**	**(62)**	**-**	**15**	**-**	**15**
Balance at March 31, 2010 (unaudited)	**6,201**	**338**	**(6)**	**390**	**154**	**129**	**7,206**	**(6)**	**7,200**
Three months ended March 31, 2009									
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	-	-	608	611	1	612
Share-based payments (unaudited)	-	-	-	-	15	-	15		15
Exercise of options into shares (unaudited)	14	26	-	-	(4)	-	36	-	36
Transfers by non-controlling interests (unaudited)	-	-	-	-	-	-	-	5	5
Balance at March 31, 2009 (unaudited)	6,146	26	(1)	390	373	(1,557)	5,377	(465)	4,912

See Note 7 for the approval of the general meeting of the Company's shareholders to distribute a cash dividend of NIS 2.45 billion subsequent to the reporting date.
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The attached notes are an integral part of the condensed consolidated interim financial statements.

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

	Share capital	Premium on share capital	Translation reserve	Capital reserve for a transaction between a corporation and a controlling shareholder	Capital reserve for options for employees	Deficit	Total	Non-controlling interests	Total equity
					NIS millions				
				Attributable to owners of the Company					
Balance at January 1, 2009 (audited)	6,132	-	(4)	390	362	(2,165)	4,715	(471)	4,244
Comprehensive income for the year (audited)	-	-	(1)	-	-	3,593	3,592	(62)	3,530
Dividends to Company shareholders (audited)	-	-	-	-	-	(1,941)	(1,941)	-	(1,941)
Share-based payments (audited)	-	-	-	-	49	-	49	-	49
Exercise of options into shares (audited)	55	275	-	-	(201)	-	129	-	129
De-recognition of non-controlling interests for deconsolidation of a subsidiary (audited)	-	-	-	-	-	-	-	551	551
Dividend paid to non-controlling interests less transfer of funds (audited)	-	-	-	-	-	-	-	(24)	(24)
Balance at December 31, 2009 (audited)	6,187	275	(5)	390	210	(513)	6,544	(6)	6,538

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2010	**2009***	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cash flows from operating activities			
Net profit for the period	**642**	609	3,541
Adjustments:			
Depreciation	**272**	347*	1,343*
Amortization of intangible assets	**65**	72	266
Amortization of deferred and other expenses	**6**	5*	22*
Profit from deconsolidation of a subsidiary	**-**	-	(1,538)
Share in profits (losses) of equity-accounted investees	**23**	(2)	34
Finance expenses (income), net	**(6)**	77	362
Capital gain, net	**(27)**	(20)	(64)
Share-based payments	**6**	15	49
Income tax expenses	**231**	222	807
Proceeds (payment) for derivatives, net	**(1)**	9	11
Change in inventory	**78**	(33)	(114)
Change in trade receivables	**(110)**	(77)	(583)
Change in other receivables	**(61)**	(51)	37
Change in other payables	**23**	197	55
Change in trade payables	**(165)**	116	192
Change in provisions	**(4)**	7	36
Change in broadcasting rights	**-**	(34)	(49)
Change in employee benefits	**(22)**	(50)	115
Change in deferred and other income	**1**	(46)	(41)
Income tax paid, net	**(145)**	(138)	(565)
Net cash flows from operating activities	**806**	1,225	3,916
Cash flow used in investment activities			
Investment in intangible assets and deferred expenses	**(88)**	(63)	(349)
Proceeds from sale of property, plant and equipment	**15**	51	90
Change in current investments, net	**141**	6	(134)
Purchase of property, plant and equipment	**(281)**	(408)	(1,363)
Proceeds from disposal of investments and long-term loans	**2**	7	93
Investments and long-term loans	**(1)**	(1)	(4)
Dividend received	**-**	-	6
Interest received	**-**	5	29
Net cash used for investment activities	**(212)**	(403)	(1,632)

* Retrospective application by restatement, see Note 3

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

Condensed Interim Statements of Cash Flows (contd.)

	Three months ended March 31		Year ended December 31
	2010	**2009***	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cash flow for financing activities			
Bank loans received	**-**	400	400
Repayment of debentures	**(206)**	(206)	(682)
Repayment of loans	**(9)**	(31)	(109)
Short-term borrowing, net	**-**	-	48
Dividend paid	**-**	-	(1,941)
Interest paid	**(30)**	(110)	(354)
Proceeds for derivatives, net	**-**	-	43
Transfer of funds by non-controlling interests less dividend distributed, net	**-**	5	(24)
Proceeds from exercise of options into shares	**15**	36	129
Net cash from (used for) financing activities	**(230)**	94	(2,490)
Net increase (decrease) in cash and cash equivalents	**364**	916	(206)
Cash and cash equivalents at the beginning of the period	**580**	786	786
Cash and cash equivalents at the end of the period	**944**	1,702	580

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements as at March 31, 2010

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 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 communication services in Israel (see also Note 11 – Segment Reporting).

B. At March 31, 2010, the controlling shareholder of the Company was Ap.Sb.Ar. Holdings Ltd. (“Ap.Sb.Ar.”). On April 14, 2010, the Company completed a transaction for an off-exchange sale of all of the shares of Ab.Sp.Ar. in the Company, representing 30.44% of the issued and paid up share capital of the Company at that date, to B Communications (SP2) Ltd., which is wholly owned and controlled by B Communications (SP1). B Communications (SP1) is wholly owned and controlled by B Communications Ltd. (formerly 012 Smile Communications Ltd.).

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 provisions in the Communications Law. The Company’s service fees are regulated and updated according to a linkage formula. 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 operations of the Group are subject, in general, to government regulations and supervision. The intensifying competition and changes in the communications market could have an adverse effect on the business results of the Group.

D. From August 21, 2009, the Company no longer consolidates the reports of DBS Satellite Services (1998) Ltd. (“DBS) in its financial statements and the investment in DBS is stated according to the equity method commencing from that 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, 2009 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 May 4, 2010, 2009.

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 the estimates used.

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 used in the annual financial statements.

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, 2009, except for application of new standards and amendments to standards, as set out below.

Initial implementation of new accounting standards

Commencing from January 1, 2010, the Group applies the amendment to IAS 17 – *Leases: Classification of Leases of Land and Buildings* ("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.
The Company leases land from the Israel Land Administration, accounted for as an operating lease. Subsequent to adoption of the Amendment, the Company classified the lease of the land retrospectively as a finance lease. Accordingly, the land is stated as property, plant and equipment in the statement of financial position as at March 31, 2009 and December 31, 2009, in the amount of NIS 163 million and NIS 125 million, respectively.

NOTE 4 – DISCONTINUED OPERATIONS

Following the aforesaid in Note 5 to the financial statements as at 2009, commencing from August 21, 2009, the Company no longer consolidates the reports of DBS in its financial statements and the investment in DBS shares is stated according to the equity method commencing from that date. The financial statements of DBS are attached to these financial statements.
The consolidated statements of income for the three months ended March 31, 2010 and for the year ended December 31, 2009 are stated without consolidation of the statements of DBS. The operational results of DBS for the period up to August 20, 2009 and comparative figures were presented as discontinued operations. The consolidated statement of income for the three months ended March 31, 2009 was restated in order to retrospectively reflect the discontinued operations, following deconsolidation, separately from continuing operations. The statement of financial position as at March 31, 2009 and statement of cash flow for the three months ended March 31, 2010 were not restated.

(1) Results of discontinued operations

	Three months ended March 31, 2009	From January 1 to August 20, 2009
	(Unaudited)	(Unaudited)
	NIS millions	NIS millions
Revenue	384	970
Cost of revenue	259	663
Gross profit	125	307
Selling and marketing expenses	28	79
General and administrative expenses	31	74
	59	153
Operating profit	66	154
Finance expenses, net	67	313
Loss after financing expenses	(1)	(159)
Profit from deconsolidation of a subsidiary	-	1,538
Profit (loss) for the period from discontinued operations	(1)	1,379

NOTE 4 – DISCONTINUED OPERATIONS (CONTD.)

(2) Cash flow from discontinued operations

	Three months ended March 31, 2009	From January 1 to August 20, 2009
	(Unaudited)	(Unaudited)
	NIS millions	NIS millions
Cash flow from operating activities	91	260
Cash flow used for investment activities	(62)	(176)
Cash flow used for finance activities	(29)	(84)
Cash flow from discontinued operations	-	-

NOTE 5 – GROUP ENTITIES

A detailed description of the Group entities appears in Note 13 to the Group's annual financial statements as at December 31, 2009. Below are details of the material changes that occurred in connection with the Group entities since publication of the annual financial statements.

Equity-accounted associates

A. DBS Satellite Services (1998) Ltd.

1. On March 18, 2010, the Board of Directors of the Company, as a shareholder in DBS Satellite Services (1998) Ltd. ("DBS"), approved the amendment to the financing agreement between DBS and the banks that provide financing for the operations of DBS ("the banks"). Under the amendment, another bank will join the banks and the amount and terms of the financing provided to DBS will be adjusted. Concurrently, amendments were approved to the deed of amendment to the shareholders' loans and the deed of amendment to the guarantee provided by the Company in favor of the banks, in order that they would apply to the adjusted financing arrangement. These amendments do not significantly increase the Company's exposure (if at all).

2. At March 31, 2010, the balance of DBS's current debt to the Company and its subsidiaries amounts to NIS 65 million, of which NIS 52 million is to the Company. Further to Note 13(A)(2) to the financial statements as at December 31, 2009 in respect of DBS's current debt to the Group companies, the Company formulated an arrangement for DBS's debt to the Company for communication services, amounting to NIS 31.5 million at July 31, 2009 (reflecting a compromise between the Company's position and that of DBS). Under the arrangement, DBS will repay the debt to the Company in 36 equal monthly payments of NIS 875,000 each plus VAT and interest at prime + 1.5% plus VAT for the interest. The debt arrangement is subject to approval of the general meeting of the Company which was convened for May 20, 2010.

B. Walla! Communications Ltd.

On April 25, 2010, Bezeq International acquired 14,807,939 ordinary shares of Walla (representing 32.55% of the issued and paid up share capital of Walla) in an off-exchange transaction, at a price of NIS 6 per share and a total of NIS 89 million. Upon receipt of the acquired shares, Bezeq International transferred 9,902,467 shares out of the acquired shares (representing 21.77% of the issued and paid up share capital of Walla) to a trustee that will hold them in a blind trust. Following the transfer, Bezeq International holds 20,468,231 shares, representing 44.99% of the issued and paid up share capital of Walla. The Group will assess the accounting implications of the transaction in accordance with IFRS 3 – *Business Combinations* (revised) and IAS 27 – *Consolidated and Separate Financial Statements (2008)* and in accordance with the Company's accounting policy as set out in Note 3(A) to the financial statements as at December 31, 2009.

NOTE 6 – CONTINGENT LIABILITIES

During the normal course of business, legal claims were filed or are pending against the Group companies ("hereinafter in this section: "the claims").

In the opinion of the managements of the Group companies, based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 358 million, where provisions are required to cover the exposure resulting from such claims.
In the opinion of the managements of the Group companies, the additional exposure at March 31, 2010, due to claims filed against the Group companies on various matters and which are unlikely to be realized, amounts to NIS 12.3 billion. This amount and all the amounts of the additional exposure in this note are before the addition of interest.

Regarding the application for certification as class action of lawsuits to which the Group has exposure beyond the aforesaid (since the claims do not state an exact amount), see sections B and D below.

The claims against the Group are described in detail in Note 18 to the financial statements of the Group as at December 31, 2009. Following is a detailed description of the Group's contingent liabilities as at March 31, 2010, classified into groups with similar characteristics.

A. Employee claims

At March 31, 2010, the additional exposure (beyond the provisions included in these financial statements) for employee claims amounts to NIS 1.4 billion and relates mainly to claims filed by groups of employees or individual claims with wide ramifications. In the opinion of the management of the Company, based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 138 million, where provisions are required to cover the exposure resulting from such claims.

B. Customer claims

At March 31, 2010, customer claims amounted to NIS 8.2 billion. There are additional claims for which the Group has additional exposure beyond the aforesaid, which cannot by quantified, as the exact amount of the claim is not stated in the claim. In the opinion of the managements of the Group companies, based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 44 million, where provisions are required to cover the exposure resulting from such claims. Of these claims, there are claims amounting to NIS 233 million, which, at this stage, cannot yet be estimated.

C. Supplier and communication provider claims

At March 31, 2010, the total amount of claims filed by suppliers and communication providers amounted to NIS 831 million. In the opinion of the managements of the Group companies, which is based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions amounting to NIS 11 million, where provisions are required to cover the exposure resulting from such claims.

D. Claims for punitive damages

At March 31, 2010, the amounts of punitive damages amounted to NIS 1.1 billion. This amount does not include claims for which the insurance coverage is not disputed. In the opinion of the managements of the Group companies, based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 2.4 million, where provisions are required to cover the exposure resulting from such claims. In addition, there are other claims for which the Group has additional exposure beyond the aforesaid, which cannot be quantified, as the exact amount of the claim is not stated in the claim.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

E. Claims by entrepreneurs and companies

At March 31, 2010, the total amount of claims filed by entrepreneurs and companies amounted to NIS 313 million. In the opinion of the managements of the Group companies, which is based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions amounting to NIS 10 million, where provisions are required to cover the exposure resulting from such claims.

F. Claims by the State and authorities

At March 31, 2010, the amount of the exposure for claims filed by the State of Israel and various authorities amounted to NIS 509 million, beyond the provisions of NIS 152 million in the financial statements. In the opinion of the managements of the Group companies, which is based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions, where provisions are required to cover the exposure resulting from such claims.

For claims against DBS, see Note 5 to the financial statements of DBS as at March 31, 2010, which are attached to these financial statements.

NOTE 7 – CAPITAL AND SHARE-BASED PAYMENTS

A. Share capital

Registered			Issued and paid up		
March 31, 2010	**March 31, 2009**	**December 31, 2009**	**March 31, 2010**	**March 31, 2009**	December 31, 2009
(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	**2,674,293,490**	2,618,984,237	2,659,727,630

B. In January and March 2010, the Board of Directors of the Company approved the allotment of 1,000,000 options to senior employees in the Group, under the plan set out in Note 27(A)(3) to the financial statements as at December 31, 2009. The theoretical economic value of the allotted options, calculated at the date of approval of the allotment by the board of directors, according to a weighted Black and Scholes model, is NIS 3.2 million.

C. Following the exercise of options by employees in accordance with the options plans described in Note 27 to the financial statements as at December 31, 2009, in the three months ended March 31, 2010, the Company issued 14,565,860 ordinary shares of NIS 1 par value each.

D. Subsequent to the date of the report and up to May 3, 2010 following the exercise of options by the employees, in accordance with the options plans set out in Note 27 to the financial statements as at December 31, 2009, the Company issued 739,216 ordinary shares of NIS 1 par value each.

E. Subsequent to the date of the financial statements, on April 8, 2010, the general meeting of the shareholders of the Company approved the recommendation of the Board of Directors of the Company of March 2, 2010 to distribute a cash dividend to the shareholders of the Company in the amount of NIS 2.453 billion, representing NIS 0.9170679 per share and 91.70679% of the Company's issued and paid up capital on the record date (April 15, 2010). The dividend was paid on May 3, 2010.

NOTE 8 – TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

A. Further to Note 30(B) to the financial statements as at December 31, 2009, in respect of the sale by Ap.Sb.Ar. of its controlling stake in the Company (as stated in Note 1(B) above), on April 14, 2010, the management agreement between the Company and a company owned and controlled by the shareholders in Ap.Sb.Ar. was terminated.
In addition, on May 4, 2010, subsequent to approval of the audit committee, the Board of Directors of the Company approved a new management agreement between the Company and Eurocom Communications Ltd. (“Eurocom”). Under the agreement, Eurocom will provide the Company ongoing management and consultation services for an annual fee of USD 1.2 million. The term of the agreement is from June 1, 2010. The agreement is subject to the approval of the general meeting of the Company's shareholders.

B. Further to Note 30(C) to the financial statements as at December 31, 2009 regarding the agreements of the Group companies, as a supplier and/or customer, with B Communications Ltd. (formerly 012 Smile), in March 2010, the Board of Directors of the Company approved an extension to the validity of its approval of November 4, 2009. This will extend the validity of its approval for transactions in which the controlling shareholder in the Company could have a personal interest in respect of the series of agreements with companies in the B Communications Group Ltd. to July 15, 2010. Consequently, subsequent to transfer of control in the Company and subsequent to the reporting date, the audit committee and the Board of Directors approved, specifically, agreements between the Company and its subsidiaries with the B Communications Group. The agreement between Pelephone and Eurocom Cellular Communications Ltd. for the acquisition of Nokia products (terminal equipment, spare parts, accessories and maintenance services) was classified as an extraordinary transaction under section 270(4) of the Companies Law. Accordingly, it also requires the approval of the general meeting of the Company’s shareholders.

C. Further to Note 30(F)(3) to the financial statements as at December 31, 2009, on April 8, 2010, the general meeting of the shareholders of the Company approved a maximum bonus for 2009 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 3.44 million.

D. Further to Note 30(G)(11) to the financial statements as at December 31, 2009 regarding the conversion of the D&O insurance policy to a runoff policy, in March 2010, the general meeting of the Company’s shareholders approved the agreement for acquisition of the runoff policy. Additionally, subsequent to the transfer of control in the Company (as set out in Note 1(B) above) and the appointment of new directors, on May 4, 2010, after the approval of the audit committee, the Board of Directors approved a letter of indemnity for the directors, in the format that is accepted in the Company as approved by the general meeting. This transaction also requires approval of the general meeting.

E. Subsequent to the reporting date, on April 14, 2010, after approval of the compensation and audit committees, the Board of Directors of the Company approved the settlement agreement between the Company and the former CEO of the Company, in which all of the mutual claims of the parties are dismissed, including claims against other Group companies and their representatives. Under the agreement, the Company will pay the former CEO a lump sum of NIS 9 million (gross). The settlement agreement is subject to the approval of the general meeting of the Company’s shareholders, which was convened for May 20, 2010. These financial statements include provisions for this settlement agreement.

Notes to the Financial Statements as at March 31, 2010

NOTE 9 – REVENUE

	Three months ended March 31		Year ended December 31
	2010	**2009***	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Domestic fixed-line communications			
Fixed line telephony	**763**	815	3,247
Internet - infrastructure	**236**	207	862
Transmission, data communication and other	**237**	236	940
	1,236	1,258	5,049
Cellular			
Cellular services and terminal equipment	**1,042**	959	4,013
Sale of terminal equipment	**286**	245	1,119
	1,328	1,204	5,132
International communications, internet services and NEP	**335**	315	1,276
Other	**16**	14	62
	2,915	2,791	11,519

* Restatement due to discontinued operations, see Note 4

NOTE 10 – OPERATING AND GENERAL EXPENSES

	Three months ended March 31		Year ended December 31
	2010	**2009***	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cellular telephone expenses	**436**	415	1,750
General expenses	**283**	250	1,140
Materials and spare parts	**263**	218	1,003
Services and maintenance by sub-contractors	**33**	39	146
Building maintenance	**64**	69	295
International communication expenses	**85**	81	313
Vehicle maintenance expenses	**31**	31	124
Royalties to the State of Israel	**16**	24	66
Collection fees	**7**	9	34
	1,218	1,136	4,871

* Restatement due to discontinued operations, see Note 4

NOTE 11 – SEGMENT REPORTING

A. Operating segments

	Three months ended March 31, 2010 (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 from external sources	1,235	1,328	335	391	13	(391)	2,911
Inter-segment revenue	69	65	8	-	6	(144)	4
Total revenue	1,304	1,393	343	391	19	(535)	2,915
Depreciation and amortization	170	149	23	64	1	(64)	343
Segment results – operating profit	490	322	61	59	1	(59)	874
Finance income	52	34	2	39	-	(42)	85
Finance expenses	(51)	(12)	(3)	(106)	-	109	(63)
Total finance income (expenses), net	1	22	(1)	(67)	-	67	22
Segment profit (loss) after finance expenses, net	491	344	60	(8)	1	8	896
Share in the profits (losses) of equity-accounted investees	-	-	1	-	-	(24)	(23)
Segment profit (loss) before income tax	491	344	61	(8)	1	(16)	873
Income tax	(131)	(85)	(15)	-	-	-	(231)
Segment results – net profit (loss)	360	259	46	(8)	1	(16)	642

NOTE 11 – SEGMENT REPORTING (CONTD.)

A. Operating segments (contd.)

	Three months ended March 31, 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 from external sources	1,253	1,204	310	384	13	(384)	2,780
Inter-segment revenue	73	61	14	-	4	(141)	11
Total revenue	1,326	1,265	324	384	17	(525)	2,791
Depreciation and amortization	211	139	20	57	1	(57)	371
Segment results – operating profit	437	302	**60**	66	-	(66)	799
Finance income	58	39	**-**	20	-	(35)	82
Finance expenses	(37)	(28)	(2)	(87)	-	102	(52)
Total finance income (expenses), net	21	11	(2)	(67)	-	67	30
Segment profit (loss) after finance expenses, net	458	313	58	(1)	-	1	829
Share in earnings of equity-accounted investees	-	-	2	-	-	-	2
Segment profit (loss) before income tax	458	313	60	(1)	-	1	831
Loss from discontinued operations	-	-	-	-	-	(1)	(1)
Income tax	(122)	(83)	(16)	-	-	-	(221)
Segment results – net profit (loss)	336	230	44	(1)	-	-	609

* Restatement due to discontinued operations, see Note 4

NOTE 11 – SEGMENT REPORTING (CONTD.)

A. Operating segments (contd.)

	Year ended December 31, 2009						
	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 from external sources	5,039	5,130	1,273	1,529	54	(1,529)	11,496
Inter-segment revenue	264	246	45	1	20	(553)	23
Total revenue	5,303	5,376	1,318	1,530	74	(2,082)	11,519
Depreciation and amortization	794	603	84	234	4	(234)	1,485
Segment results – operating profit	1,523	1,190	261	248	4	(254)	2,972
Finance income	310	90	15	8	23	(17)	429
Finance expenses	(295)	(100)	(12)	(478)	-	487	(398)
Total finance income (expenses), net	15	(10)	3	(470)	23	470	31
Segment profit (loss) after finance expenses, net	1,538	1,180	264	(222)	27	216	3,003
Share in earnings of equity-accounted investees	-	-	7	-	-	(41)	(34)
Segment profit (loss) before income tax	1,538	1,180	271	(222)	27	175	2,969
Loss from discontinued operations	-	-	-	-	-	1,379	1,379
Income tax	(431)	(305)	(71)	(1)	(2)	3	(807)
Segment results – net profit (loss)	1,107	875	200	(223)	25	1,557	3,541

NOTE 11 – SEGMENT REPORTING (CONTD.)

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

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue			
Revenue from reporting segments	**3,431**	3,299	13,527
Revenue from other segments	**19**	17	74
Cancellation of revenue from inter-segment sales except for revenue from sales to an associate reporting as a segment	**(144)**	(141)	(553)
Cancellation of revenue for a segment classified as an associate (up to August 20, 2009 – discontinued operations)	**(391)**	(384)	(1,529)
Consolidated revenue	**2,915**	2,791	11,519

* Restatement due to discontinued operations, see Note 4

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit or loss			
Operating profit or loss for reporting segments	**932**	865	3,216
Profit or loss for other categories			
Other	**1**	-	4
Cancellation of expenses from a segment classified as an associate			
(up to August 20, 2009 – discontinued operations)	**(59)**	(66)	(248)
Finance income, net	**22**	30	31
Share in the profits (losses) of equity-accounted investees	**(23)**	2	(34)
Consolidated profit before income tax	**873**	831	2,969

* Restatement due to discontinued operations, see Note 4

NOTE 12 – SELECTED CONDENSED INFORMATION FROM THE FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. AND BEZEQ INTERNATIONAL LTD.

1. Pelephone Communications Ltd.

A. Statement of financial position

	March 31, 2010	March 31, 2009	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**1,885**	1,713	2,102
Non-current assets	**2,876**	2,825	2,888
	4,761	4,538	4,990
Current liabilities	**1,120**	1,241	1,519
Long term liabilities	**832**	972	921
Total liabilities	**1,952**	2,213	2,440
Equity	**2,809**	2,325	2,550
	4,761	4,538	4,990

B. Statement of income

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue from services	**1,106**	1,019	4,256
Revenue from sale of terminal equipment	**287**	246	1,120
Total revenue from services and sales	**1,393**	1,265	5,376
Cost of services and sales	**923**	818	3,592
Gross profit	**470**	447	1,784
Selling and marketing expenses	**119**	113	461
General and administrative expenses	**29**	32	133
	148	145	594
Operating profit	**322**	302	1,190
Finance expenses	**12**	28	100
Finance income	**(34)**	(39)	(90)
Net finance expenses (income)	**(22)**	(11)	10
Profit before income tax	**344**	313	1,180
Income tax	**85**	83	305
Profit for the period	**259**	230	875

NOTE 12 – SELECTED CONDENSED INFORMATION FROM THE FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. AND BEZEQ INTERNATIONAL LTD. (CONTD.)

2. Bezeq International Ltd.

A. Statement of financial position

	March 31, 2010	March 31, 2009	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**541**	545	547
Non-current assets	**555**	506	559
	1,096	1,051	1,106
Current liabilities	**310**	291	367
Long term liabilities	**37**	35	37
Total liabilities	**347**	326	404
Equity	**749**	725	702
	1,096	1,051	1,106

B. Statement of income

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue	**343**	324	1,318
Operating expenses	**210**	199	777
Gross profit	**133**	125	541
Selling and marketing expenses	**44**	41	175
General and administrative expenses	**28**	24	105
Operating profit	**61**	60	261
Finance expenses	**3**	2	12
Finance income	**(2)**	-	(15)
Net finance expenses (income)	**1**	2	(3)
Share in earnings of equity-accounted investees	**1**	2	7
Profit before income tax	**61**	60	271
Income tax	**15**	16	71
Profit for the period	**46**	44	200

NOTE 13 – MATERIAL EVENTS DURING THE REPORTING PERIOD AND EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

A. On March 25, 2010, the Company received notice of a strike, in accordance with the Settlement of Labor Disputes Law, 5719-1957, which was declared by the Histadrut Labor Union, as from April 11, 2010. According to the notice, the dispute relates to the Company's disregard of the demand of the workers' union to negotiate for a collective agreement to regulate the rights of employees following transfer of the controlling stake in the Company, before taking steps to transfer control. Consequently, negotiations between the Company's management and the workers' union are underway. It is noted that on May 2, 2010, the workers' union began limited sanctions.

B. In April 2010, the Company completed debt financing amounting to NIS 1.5 billion, through loans from banks in Israel. The loans were received for 80 months and are repayable in four equal annual payments of the principal between 2013 and 2016. The interest on the loans are payable twice a year. The loans of NIS 500 million are unlinked and bear fixed interest of 5.6%. The balance of the loans of NIS 1 billion are unlinked and bear variable interest at an average of prime minus 0.205%. To secure the repayment of the loans, the Company created a negative pledge in favor of the banks.

DBS Satellite Services (1998) Ltd.

Condensed Interim Financial Statements
As at March 31, 2010
(Unaudited)

Condensed Interim Financial Statements as at March 31, 2010

Contents

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Auditors' Report to the Shareholders of
DBS Satellite Services (1998) Ltd.

Introduction
We have reviewed the accompanying financial information of DBS Satellite Services (1998) Ltd ("the Company"), comprising of the condensed interim statement of financial position as of March 31, 2010 and the related condensed interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 - "*Interim Financial Reporting"*, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Review scope
We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, 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, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports),1970.

Without qualifying our above conclusion, we draw attention to Note 4 regarding the financial situation of the Company. The continuation of the Company's activities depends on its compliance with the stipulations as set forth in the financing agreements with the banks.

Additionally, we draw attention to Note 22B to the Company's annual financial statements as at December 31, 2009, regarding the class action filed against the Company in respect of disruptions to the Company's broadcasts. In accordance with the assessment of the Company's management, which is based on the opinion of its legal counsels, the Company has included an appropriate provision in its financial statements

Somekh Chaikin
Certified Public Accountants

April 22, 2010

Condensed Interim Statements of Financial Position

	March 31 2010 (Unaudited) NIS thousands	March 31 2009 (Unaudited) NIS thousands	December 31 2009 (Audited) NIS thousands
Assets			
Short-term deposits	**148**	3,000	3,020
Trade receivables	**154,815**	155,501	160,152
Other receivables	**10,624**	16,016	8,177
Total current assets	**165,587**	174,517	171,349
Broadcasting rights, net of rights exercised	**313,722**	287,581	284,766
Property, plant and equipment, net	**680,098**	662,707	682,473
Intangible assets, net	**72,089**	49,183	67,043
Total non-current assets	**1,065,909**	999,471	1,034,282
Total assets	**1,231,496**	1,173,988	1,205,631

Condensed Interim Statements of Financial Position

	March 31 2010 (Unaudited) NIS thousands	March 31 2009 (Unaudited) NIS thousands	December 31 2009 (Audited) NIS thousands
Liabilities			
Borrowings from banks	**168,777**	150,996	283,698
Current maturities for debentures	**54,291**	-	54,812
Trade payables	**439,999**	409,565	406,389
Other payables	**123,143**	140,481	143,343
Provisions	**7,582**	8,980	8,079
Total current liabilities	**793,792**	710,022	896,321
Debentures	**619,901**	650,214	625,741
Loans from institutions	**184,693**	160,642	181,729
Loans from banks	**704,156**	788,171	607,036
Loans from shareholders	**2,025,174**	1,722,813	1,981,887
Other liabilities	**12,651**	27,788	14,288
Employee benefits	**7,437**	6,111	7,389
Total non-current liabilities	**3,554,012**	3,355,739	3,418,070
Total liabilities	**4,347,804**	4,065,761	4,314,391
Capital deficit			
Equity	**29**	29	29
Share premium	**85,557**	85,557	85,557
Option warrants	**48,219**	48,219	48,219
Capital reserves	**1,537,271**	1,537,271	1,537,271
Capital reserve for share-based payments	**7,650**	3,154	6,931
Accumulated deficit	**(4,795,034)**	(4,566,003)	(4,786,767)
Total capital deficit	**(3,116,308)**	(2,891,773)	(3,108,760)
Total liabilities and capital	**1,231,496**	1,173,988	1,205,631

(Authorized to sign as chairman of the Board of Directors)*	**Ron Eilon** **CEO**	**Katriel Moriah** **CFO**

* See Note 6.

Date of approval of the financial statements: April 22, 2010

The accompanying notes are an integral part of the financial statements.

Condensed Interim Income Statements

	Three months ended		Year ended
	March 31 2010	March 31 2009	December 31 2009
	(Unaudited)	(Unaudited)	(Audited)
Revenue	**391,416**	383,782	1,530,435
Cost of revenue	**261,553**	258,454	1,042,101
Gross profit	**129,863**	125,328	488,334
Selling and marketing expenses	**38,936**	28,421	122,312
General and administrative expenses	**32,236**	30,957	117,805
	71,172	59,378	240,117
Operating profit	**58,691**	65,950	248,217
Finance expenses	**62,804**	45,238	177,900
Finance income	**(39,215)**	(19,632)	(8,347)
Shareholders' finance expenses	**43,287**	41,298	300,373
Finance expenses, net	**66,876**	66,904	469,926
Loss before income tax	**(8,185)**	(954)	(221,709)
Income tax	**82**	199	745
Loss for the period	**(8,267)**	(1,153)	(222,454)
Basic and diluted loss per share (in NIS)	**277**	39	7,441

The accompanying notes are an integral part of the financial statements.

Condensed Interim Statements of Comprehensive Income

	Three months ended		Year ended
	March 31 2010	**March 31 2009**	**December 31 2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
Loss for the period	**(8,267)**	(1,153)	(222,454)
Other items of comprehensive income:			
Actuarial gains from a defined benefit plan (1)	**-**	-	537
Other comprehensive income for the period	**-**	-	537
Total comprehensive loss for the period	**(8,267)**	(1,153)	(221,917)

(1) The Company does not recalculate its actuarial commitments in each interim reporting period, unless there are significant changes in the benefit plans or fundamental changes in market conditions during the interim period, which affect the Company's commitments. As a result, actuarial gains or losses in the reporting period are not recognized.

The accompanying notes are an integral part of the financial statements.

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Option warrants	Capital reserve	Capital reserve for share-based payments	Accrued deficit	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Three months ended March 31, 2010 (unaudited):							
Balance at January 1, 2010 (audited)	29	85,557	48,219	1,537,271	6,931	(4,786,767)	(3,108,760)
Activity in the period (unaudited):							
Comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(8,267)**	**(8,267)**
Share-based payments	**-**	**-**	**-**	**-**	**719**	**-**	**719**
Balance at March 31, 2010 (unaudited)	**29**	**85,557**	**48,219**	**1,537,271**	**7,650**	**(4,795,034)**	**(3,116,308)**
Three months ended March 31, 2009 (unaudited):							
Balance at January 1, 2009 (audited)	29	85,557	48,219	1,537,271	1,636	(4,564,850)	(2,892,138)
Activity in the period (unaudited):							
Comprehensive loss for the period	-	-	-	-	-	(1,153)	(1,153)
Share-based payments	-	-	-	-	1,518	-	1,518
Balance at March 31, 2009 (unaudited)	29	85,557	48,219	1,537,271	3,154	(4,566,003)	(2,891,773)

The accompanying notes are an integral part of the financial statements.

Condensed Interim Statements of Changes in Shareholders Equity (Contd.)

	Share capital	Share premium	Option warrants	Capital reserve	Capital reserve for share-based payments	Accrued deficit	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Year ended December 31, 2009 (audited)							
Balance at January 1, 2009 (audited)	29	85,557	48,219	1,537,271	1,636	(4,564,850)	(2,892,138)
Activity in 2009							
Comprehensive loss for the period (audited)	-	-	-	-	-	(221,917)	(221,917)
Share-based payments (audited)	-	-	-	-	5,295	-	5,295
Balance at December 31, 2009 (audited)	29	85,557	48,219	1,537,271	6,931	(4,786,767)	(3,108,760)

The accompanying notes are an integral part of the financial statements.

Condensed Interim Statements of Cash Flows

	Three months ended		Year ended
	March 31 2010	March 31 2009	December 31 2009
	(Unaudited)	(Unaudited)	(Audited)
Cash flows from operating activities			
Loss for the period	**(8,267)**	(1,153)	(222,454)
Adjustments			
Depreciation and amortization	**63,754**	56,545	234,203
Finance costs, net	**65,129**	65,195	455,232
Proceeds from sale of property, plant and equipment	**(15)**	(250)	(236)
Share-based payments	**719**	1,518	5,295
Income tax expenses	**82**	199	745
Change in trade receivables	**5,337**	(2,625)	(7,277)
Change in other receivables	**(2,447)**	(7,755)	84
Change in trade payables	**33,448**	17,479	5,466
Change in other payables and provisions	**(5,615)**	(4,743)	(15,231)
Change in broadcasting rights, net of rights exercised	**(28,956)**	(34,248)	(31,433)
Change in employee benefits	**48**	1,061	(82)
Change in other liabilities	**(1,770)**	(24)	(13,524)
	121,447	91,199	410,788
Income tax paid	**(82)**	(514)	(1,060)
Net cash flows from operating activities	**121,365**	90,685	409,728
Cash flow for investing activities			
Repayment of short-term deposits	**2,931**	-	-
Proceeds from sale of property, plant and equipment	**184**	-	949
Purchase of property, plant and equipment	**(48,421)**	(52,092)	(214,368)
Acquisition of intangible assets	**(3,632)**	(2,389)	(9,262)
Payments for subscriber acquisition	**(8,981)**	(6,955)	(37,931)
Net cash used for investing activities	**(57,919)**	(61,436)	(260,612)

The accompanying notes are an integral part of the financial statements.

Condensed Interim Statements of Cash Flows (Contd.)

	Three months ended		Year ended
	March 31 2010	March 31 2009	December 31 2009
	(Unaudited)	(Unaudited)	(Audited)
Cash flow for finance activities			
Bank loans received, net	**255,000**	-	-
Repayment of bank loans	**(245,918)**	-	-
Short-term credit from banking corporations, net	**(23,180)**	61,964	13,532
Interest paid	**(49,348)**	(91,213)	(162,648)
Net cash used for finance activities	**(63,446)**	(29,249)	(149,116)
Change in cash and cash equivalents	**-**	-	-
Cash and cash equivalents for beginning of period	**-**	-	-
Cash and cash equivalents for end of period	**-**	-	-

The accompanying notes are an integral part of the financial statements.

NOTE 1 – REPORTING ENTITY

DBS Satellite Services (1998) Ltd. ("the Company") was incorporated in Israel on December 2, 1998. The Company's head office is at 6, Hayozma St., Kfar Saba, Israel.

In January 1999, the Company received a license from the Ministry of Communications to broadcast satellite television ("the License"). The Company's broadcasting license is valid until January 2017 and can be extended for a further six years under certain conditions. The Company's operations are subject, inter alia, to the Communications (Telecommunications and Broadcasts) Law 5742-1982 ("the Communications Law") and the regulations and rules promulgated thereunder and to the license terms.

Under the license of Bezeq The Israel Telecommunication Corporation Limited ("Bezeq"), Bezeq is required to maintain full structural separation between it and its subsidiaries, including the Company. Additionally, on March 31, 2004, the Minister of Communications published a document banning certain business alliances between Bezeq and its subsidiaries, including the Company, unless, inter alia, there is a material deterioration in the competitive status of the Company. The Ministry is considering the approval of certain exemptions regarding the restrictions relating to the alliances while amending the license. This process has not yet been completed.

In August 2009, the Supreme Court accepted the Antitrust Commissioner's appeal of the ruling of the Antitrust Tribunal approving the merger (as defined in the Restrictive Trade Practices Law, 5748-1988) between the Company and Bezeq by exercising the share options held by Bezeq in the Company, subject to certain conditions, and ruled against the merger.

NOTE 2 – BASIS OF PREPARATION

A. Statement of compliance

The condensed interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements for the year ended December 31, 2009 ("the Annual Report"). Additionally, these statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The condensed interim financial statements were approved by the Board of Directors of the Company on April 22, 2010.

B. Use of estimates and judgments

The preparation of the condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The judgment of the management when applying the Company's accounting policy and the principal assumptions used in assessments that involve uncertainty are consistent with those applied in the annual financial statements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policy in these condensed interim statements is the same policy applied in the annual statements

Changes in the CPI and foreign currency exchange rate

Changes in the CPI and the dollar exchange rates in the accounting periods:

	US$ exchange rate	CPI
	%	%
Three months ended March 31		
2010	**(1.64)**	**(0.86)**
2009	10.15	(0.14)
Year ended December 31, 2009	(0.01)	3.9

NOTE 4 – FINANCIAL POSITION OF THE COMPANY

A. Since the beginning of its operations, the Company has accumulated substantial losses. The Company's losses in 2009 amounted to NIS 222 million and losses in the three months ended March 31, 2009 amounted to NIS 8 million. As a result of these losses, the capital deficit and working capital deficit at March 31, 2010 amounted to NIS 3.116 billion and NIS 628 million, respectively.

B. 1. In March 2010, an amendment to the Company's bank finance agreement was signed and came into effect ("the amendment agreement"). Under the amendment agreement, another Israeli bank ("the additional bank") joined the current syndicate of banks ("the present banks"). The additional bank provided the Company with its proportionate share in the Company's current credit line of the Company, and extended a long-term loan of NIS 255 million to the Company, most of which was used for its addition (in its proportionate share) to the Company's long-term loans as well as repayment and early repayment of the Company's debts to the present banks. The balance of NIS 46 million will be used for the Company's ongoing needs.
Under the amendment agreement, a floating lien was created in favor of the additional bank, similar to the floating liens in favor of the present banks. The additional bank also became party to the fixed lien in favor of the present banks. The shareholders of the Company signed the amendments to the bonds, mortgage deeds and letter of guarantee, as the case may be, that they had previously signed in favor of the present banks, in respect of the addition of the additional bank.
Under the amendment agreement, the term of the bank loan repayment (the long-term loans as well as the credit line) was extended to the end of 2015, after receiving the consent of the banks for repayment of the loans provided by institutional entities at the repayment date (December 31, 2013).

Under the amendment agreement, the financial covenants set out in the finance agreement were replaced by the following new covenants, which apply up to 2015 and are compatible with the Company's business plan:

a) Minimum solvency
b) Minimum EBITDA
c) Maximum and minimum supplier credit

The values for compliance with the financial covenants vary and are measured each quarter. Under the terms of the finance agreement, the banks are entitled to call for early repayment of the loans in the event of failure to comply with the covenants.

2. At March 31, 2010, the Company is in compliance with the covenants set for it.

NOTE 4 – FINANCIAL POSITION OF THE COMPANY (CONTD.)

B. (contd.)

3. In the opinion of the management of the Company, the sources of financing available to it will be sufficient for the Company's operating requirements for the forthcoming year, based on the cash flow forecast approved by the Company's Board of Directors. If additional resources are required to meet its operational requirements during the year, the Company will adapt its operations to preclude the need for additional resources beyond those available to it.

NOTE 5 – CONTINGENT LIABILITIES

Lawsuits

A. <u>Employee claims</u>

During the normal course of business, employees and former employees filed group and individual claims against the Company. Most of the claims are for alleged non-payment of salary items and delay in wages. At March 31, 2010, the total amount of these claims amounted to NIS 1.620 million. In the opinion of the management of the Company, which is based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions amounting to NIS 699,000, where provisions are required to cover the exposure resulting from such claims.

B. <u>Customer claims</u>

During the normal course of business, the Company's customers filed claims against the Company. These are mainly applications for certification as class actions (and the ensuing claims) concerning alleged unlawful collection of payment and impairment of the service provided by the Company. At March 31, 2010, the total amount of these claims amounted to NIS 168.836 million. In the opinion of the management of the Company, which is based on, inter alia, legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions amounting to NIS 6.883 million, where provisions are required to cover the exposure resulting from such claims

Of these claims, there are claims amounting to NIS 23.240 million, which cannot yet be estimated.
The aforementioned claims include the following: In March 2010, a claim and application for certification as a class action were filed at the Tel Aviv District Court against HOT Communication Systems Ltd. (HOT) and the Company, alleging that the Company interrupted broadcasts during the second and third seasons of the Big Brother program on channel 20, despite its commitment to round-the clock broadcasts. The applicant further claims that the Company undertook to broadcast the channel directly and live, however it breached this commitment by broadcasting a recording. According to the applicant, by doing so, the Company breached the Contracts Law and the Torts Ordinance (New Version), 5728-1968. In the application for certification, the applicant defined the group he seeks to represent ("the group") as any person who purchased the Big Brother channel from HOT and from the Company, "which is a pay-per-view channel of the Big Brother reality program, in the second and third season of the program broadcasts". The applicant estimates the damage caused to the group members due to the acts or omissions of HOT and the Company at NIS 19.240 million.

The court allowed the applicant, who is not a subscriber of the Company, to add another class action applicant to his application, who acquired the channel from the Company in the third season of Big Brother. On March 25, 2010, the applicant filed an amended application for certification as a class action ("the amended application"), together with an amended statement of claim. At the reporting date, the Company has yet to file a response to the amended application. The response is expected to be filed in June 2010.

C. Supplier and communication provider claims

During the normal course of business, suppliers of goods and/or services to the Company filed claims against the Company. The main claim was filed for alleged damage to a supplier as a result of the Company's negligence. At December 31, 2009, these claims amounted to NIS 46.343 million. The financial statements do not include provisions for these claims.

NOTE 6 – MATERIAL EVENTS SUBSEQUENT TO THE REPORTING DATE

A. In April 2010, in the framework of the approvals of the Ministry of Communications for the Company's request, under its licenses, to approve the transfer of control (directly or indirectly) in respect of the acquisition of control in the Company and transfer of the holdings of Eurocom DBS Ltd. in the Company to a trustee, the Ministry of Communications decided that the following main terms would apply to the Company:

1. Any change, direct or indirect, in the trustee's holding of the controlling stake in the Company is subject to the prior written approval of the Minister of Communications, after having consulted with the council.
2. The trustee will not act under the instructions received from any entity that relates, directly or indirectly, to the regulations of the Ministry of Communications, without the approval of the Ministry of Communications.
3. The transaction between the Company and the Eurocom Group relating to satellite terminal equipment will be considered, as well as the approval procedure in the Company's organs, as an extraordinary transaction, as defined in section 270(4) of the Companies Law and as such, the transaction is subject to the approval of the Company's organs under section 275 of the Companies Law.
4. The discussions of the Company's board of directors meetings on these transactions will be recorded in full and detailed minutes, signed by the chairman of the meeting and submitted to the director general of the Ministry of Communications for review.

B. In April 2010, S&P Maalot rating company announced that it was upgrading the rating of the Company's Debentures (Series A) from ilBBB- to ilBBB, inter alia, due to its assessment of the material improvement in the Company's liquidity following the new loan received from the additional bank and the continuing improvement in the Company's debt coverage ratio, ability to generate cash flows and liquidity since the last rating. In addition, the rating company placed its ratings of the Company on CreditWatch with positive implications, noting that it plans to end the assessment of the possible upgrade of the rating within three months, following a more comprehensive assessment of the Company's business plan and the implications on its financial profile.

NOTE 7 – APPOINTMENT OF THE CHAIRMAN OF THE BOARD FOR THE APPROVAL MEETING

At the date of approval of the financial statements, the Company's Board of Directors does not have an incumbent chairman. Consequently, the Company's Board of Directors authorized Shlomo Tirosh, a director in the Company, to serve as chairman of the Board of Directors' meeting convened to approve the financial statements and to sign the Company's financial statements as at March 31, 2010.

BEZEQ THE ISRAEL TELECOMMUNICATION CORP. LIMITED

SEPARATE CONDENSED INTERIM FINANCIAL INFORMATION
MARCH 31, 2010
(UNAUDITED)

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

Separate condensed interim financial information as at March 31, 2010 (unaudited)

Contents

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Special auditors' report to the Shareholders of "Bezeq" The Israel Telecommunication Corp. Limited, on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of "Bezeq" The Israel Telecommunication Corp. Limited (hereinafter – the Company), as at March 31, 2010 and for the three month period then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of separate interim financial information consists of making inquiries, 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 generally accepted auditing standards 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, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our above conclusion, we draw attention to the claims made against the Company of which the exposure cannot yet be assessed or calculated, as described in Note 4.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 4, 2010

Condensed interim information on financial position

	March 31, 2010	March 31, 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**563**	1,235	360
Investments, including derivatives	**7**	16	10
Trade receivables	**861**	865	845
Other receivables	**204**	195	555
Inventory	**11**	11	9
Assets held for sale	**33**	43	40
Total current assets	**1,679**	2,365	1,819
Investments, including derivatives	**95**	135	100
Trade and other receivables	**101**	50	102
Property, plant and equipment	**3,813**	3,813*	3,771*
Intangible assets	**207**	130	193
Investments in investees	**6,854**	4,742	6,566
Deferred tax assets	**352**	493	383
Total non-current assets	**11,422**	9,363	11,115
Total assets	**13,101**	11,728	12,934

	March 31, 2010 (Unaudited) NIS millions	March 31, 2009 (Unaudited) NIS millions	December 31, 2009 (Audited) NIS millions
Liabilities			
Debentures, loans and borrowings	**579**	658	685
Trade payables	**197**	352	263
Other payables, including derivatives	**561**	671	537
Loans from subsidiaries	**-**	-	250
Current tax liabilities	**96**	12	86
Deferred income	**20**	23	19
Provisions (Note 4)	**274**	255	279
Employee benefits	**435**	309	469
Total current liabilities	**2,162**	2,280	2,588
Debentures	**3,106**	3,438	3,166
Bank loans	**367**	400	383
Employee benefits	**255**	219	247
Deferred income and others	**5**	14	6
Total non-current liabilities	**3,733**	4,071	3,802
Total liabilities	**5,895**	6,351	6,390
Capital			
Share capital	**6,201**	6,146	6,187
Share premium	**338**	26	275
Reserves	**538**	762	595
Retained earnings (deficit)	**129**	(1,557)	(513)
Total capital	**7,206**	5,377	6,544
Total capital and liabilities	**13,101**	11,728	12,934

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

Date of approval of the financial statements: May 4, 2010

* Retrospective application by restatement, see Note 3 to the condensed consolidated interim financial information

The accompanying notes are an integral part of the condensed interim financial information.

Condensed interim information on income

	Three months ended March 31		Year ended December 31
	2010	**2009***	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Revenue (Note 2)	**1,304**	1,326	5,303
Costs and expenses			
Depreciation and amortization	**170**	211	794
Salaries	**277**	278	1,094
Operating and general expenses (Note 3)	**392**	420	1,690
Other operating expenses (income), net	**(25)**	(20)	202
	814	889	3,780
Operating profit	**490**	437	1,523
Finance income			
Finance income	**52**	58	310
Finance expenses	**(51)**	(37)	(295)
Finance income, net	**1**	21	15
Profit after finance income, net	**491**	458	1,538
Share in profits of investees	**282**	272	958
Profit before income tax	**773**	730	2,496
Income tax	**131**	122	431
Profit after income tax	**642**	608	2,065
Profit from deconsolidation of a subsidiary	**-**	-	1,538
Profit for the period	**642**	608	3,603

The accompanying notes are an integral part of the condensed interim financial information.

Condensed interim information on comprehensive income

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit for the year	**642**	608	3,603
Items of other comprehensive income			
Actuarial losses from a defined benefit plan (1)	**-**	-	(13)
Sundry	**(1)**	3	(1)
Taxes for other items of comprehensive income	**-**	-	3
Other comprehensive income (loss) for the year, net of tax	**(1)**	3	(11)
Total comprehensive income for the year	**641**	611	3,592

(1) The Company does not reexamine 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.

The accompanying notes are an integral part of the condensed interim financial information.

Consolidated interim information on cash flows

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from operating activities			
Profit for the year	**642**	608	3,603
Adjustments:			
Depreciation	**151**	180*	715*
Amortization of intangible assets	**19**	31	79
Profit from deconsolidation of a subsidiary	**-**	-	(1,538)
Share in profits of equity-accounted investees	**(282)**	(272)	(958)
Finance expenses, net	**(4)**	(21)	(44)
Capital gain, net	**(27)**	(20)	(64)
Share-based payments	**4**	7	25
Income tax expenses	**131**	122	431
Change in inventory	**(2)**	-	1
Change in trade receivables	**(14)**	32	(20)
Change in other receivables	**(52)**	(58)	46
Change in other payables	**(1)**	111	20
Change in trade payables	**(42)**	62	(19)
Change in provisions	**(4)**	2	25
Change in employee benefits	**(27)**	(57)	118
Net cash flows from operating activities for transactions with investees	**(9)**	(6)	2
Income tax paid, net	**(90)**	(86)	(202)
Net cash flows from operating activities	**393**	635	2,220
Cash flow from investment activities			
Investment in intangible assets	**(33)**	(22)	(133)
Proceeds from sale of property, plant and equipment	**15**	49	86
Change in current investments, net	**-**	6	6
Purchase of property, plant and equipment	**(205)**	(216)	(720)
Proceeds from disposal of investments and long-term loans	**1**	5	46
Interest received	**-**	3	25
Net cash flows from investment activities for transactions with investees	**420**	400	578
Net cash from (used for) investment activities	**198**	225	(112)

* Retrospective application by restatement, see Note 3 to the condensed consolidated interim financial information

The accompanying notes are an integral part of the condensed interim financial information.

Condensed interim statement of cash flows (contd.)

	Three months ended March 31		Year ended December 31
	2010	**2009***	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cash flow from finance activities			
Bank loans received	**-**	400	400
Repayment of debentures	**(142)**	(144)	(556)
Dividend paid	**-**	-	(1,941)
Interest paid	**(11)**	(10)	(167)
Proceeds for derivatives, net	**-**	-	44
Proceeds from exercise of options into shares	**15**	36	129
Net cash flows from finance activities for transactions with investees	**(250)**	-	250
Net cash from (used for) finance activities	**(388)**	282	(1,841)
Net increase in cash and cash equivalents	**203**	1,142	267
Cash and cash equivalents at the beginning of the period	**360**	93	93
Cash and cash equivalents at the end of the year	**563**	1,235	360

The accompanying notes are an integral part of the condensed interim financial information.

NOTE 1 – METHOD FOR PREPARING THE FINANCIAL INFORMATION

A. Definitions

The Company: Bezeq The Israel Telecommunication Corporation Ltd.

“Affiliate”, "the Group”, “Investee”, “Interested Party”: as defined in the consolidated financial statements of the Company for 2009.

B. Main points of the method for preparing of the financial information

The separate interim financial information is stated in accordance with Article 38(D) of the Securities Regulations (Periodic and Interim Reports), 5730-1970 and does not include the information required under the provisions of Article 9(C) and the Tenth Addendum of the Securities Regulations (Periodic and Interim Reports), 5730-1970 in respect of separate financial information of the corporation. The report should be read together with the separate financial information as at December 31, 2009 and for the year then ended and together with the condensed consolidated interim statements as at March 31, 2010 (“the consolidated reports”).

NOTE 2 – REVENUE

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Telephony	**785**	839	3,333
Internet	**236**	207	863
Transmission and data communications	**223**	207	851
Other services	**60**	73	256
	1,304	1,326	5,303

NOTE 3 – OPERATING AND GENERAL EXPENSES

	Three months ended March 31		Year ended December 31
	2010	2009*	2009
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cellular telephone expenses	**190**	204	823
General expenses	**60**	59	266
Materials and spare parts	**23**	22	80
Building maintenance	**61**	64	278
Services and maintenance by sub-contractors	**21**	25	96
Vehicle maintenance expenses	**23**	25	96
Royalties to the State of Israel	**8**	12	18
Collection fees and sundry	**6**	9	33
	392	420	1,690

NOTE 4 – CONTINGENT LIABILITIES

During the normal course of business, legal claims were filed or are pending against the Company (“hereinafter in this section: “the claims”).

The financial statements of the Company include provisions of NIS 274 million for the claims.
The additional exposure beyond these provisions for the claims amounts to NIS 3.2 million.
There are also claims amounting to NIS 28 million, which at this stage, cannot be assessed, as well as additional claims for which the Company’s additional exposure exceeds the aforesaid, as the exact amount of the claim is not stated in the claim.

For further information about contingent liabilities, see Note 6 to the consolidated financial statements - Contingent Liabilities.

NOTE 5 - SUBSTANTIAL AGREEMENTS AND TRANSACTIONS WITH INVESTEES

A. On March 21, 2010, the Company signed a loan agreement with Bezeq International Ltd. ("Bezeq International"), which is subject to the terms of the framework loan agreement between the companies. Under the agreement, the Company provided a loan of NIS 45 million to Bezeq International, which will be repaid in four equal monthly payments (principal and interest), commencing on June 1, 2010. The loan bears annual interest of 4% and is linked to the CPI.

B. In March 2010, the Board of Directors of Pelephone Communications Ltd. approved the distribution of a dividend amounting to NIS 200 million. The distribution was approved by the general meeting of the shareholders on April 14, 2010 and was paid on May 2, 2010.