BEZEQ THE ISRAEL TELECOMMUNICATION CORP. LIMITED

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

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

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

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

We did not review the condensed interim financial statements of equity-accounted investees, the investment in which amounts to NIS 31 million as at June 30, 2009, and the share of the Group in their profits is NIS 4 million and NIS 2 million for the six and three months then ended, respectively. The condensed interim financial information of those companies were reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reviews of the other accountants.

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

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

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

Without qualifying our above opinion, we draw attention to the claims made against the Group of which the exposure cannot yet be assessed or calculated, and other contingencies as described in Note 5B and 5C.

Sincerely,

Somekh Chaikin
Certified Public Accountants

August 4, 2009

Condensed Consolidated Interim Statements of Financial Position

	June 30, 2009	June 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**765**	740	786
Investments, including derivatives	**120**	66	33
Trade receivables	**2,458**	2,497	2,373
Other receivables	**193**	233	211
Inventory	**192**	186	158
Current tax assets	**2**	16	-
Assets classified as held for sale	**64**	23	34
Total current assets	**3,794**	3,761	3,595
Investments, including derivatives	**156**	226	187
Trade receivables	**733**	574	576
Broadcasting rights, net of rights exercised	**317**	278	253
Property, plant and equipment	**6,023**	5,971	6,036
Intangible assets	**2,678**	2,668	2,674
Deferred and other expenses	**427**	394	411
Investments in equity-accounted investees	**31**	30	32
Deferred tax assets	**461**	608*	550*
Total non-current assets	**10,826**	10,749	10,719
Total assets	**14,620**	14,510	14,314

	June 30, 2009	June 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Liabilities			
Debentures, loans and borrowings	**1,046**	1,094	1,780
Trade payables	**1,438**	1,450	1,381
Other payables, including derivatives	**769**	742	850
Current tax liabilities	**120**	75	45
Deferred income	**59**	32	62
Provisions	**368**	348	355
Employee benefits	**352**	457*	412*
Total current liabilities	**4,152**	4,198	4,885
Debentures	**3,382**	3,941	3,943
Bank loans	**1,321**	1,102	214
Loans from institutions	**168**	147	158 **
Loans provided by non-controlling interests in a subsidiary	**487**	413	449
Employee benefits	**270**	259	265
Deferred income and others	**17**	13	27**
Provisions	**66**	56	64
Deferred tax liabilities	**62**	74	65
Total non-current liabilities	**5,773**	6,005	5,185
Total liabilities	**9,925**	10,203	10,070
Equity			
Share capital	**6,172**	6,132	6,132
Share premium	**203**	-	-
Reserves	**631**	701	748
Deficit	**(1,808)**	(2,088)*	(2,165)*
Total equity attributable to shareholders of the Company	**5,198**	4,745	4,715
Non-controlling interests	**(503)**	(438)*	(471)
Total equity	**4,695**	4,307	4,244
Total equity and liabilities	**14,620**	14,510	14,314

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

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

* Retrospective application by restatement, see Note 3C

** See Note 3D

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

Condensed Consolidated Interim Statements of Income

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue (Note 9)	**6,408**	6,186	**3,246**	3,086	12,407
Costs and expenses					
Depreciation and amortization	**857**	851	**433**	422	1,703
Salary	**1,091**	1,201	**534**	585	2,354
Operating and general expenses (Note 10)	**2,734**	2,683	**1,399**	1,313	5,437
Other operating expenses (income), net	**(16)**	(32)**	**4**	(48)**	96
	4,666	4,703	**2,370**	2,272	9,590
Operating income	**1,742**	1,483	**876**	814	2,817
Financing expenses					
Financing expenses	**294**	411**	**179**	245**	747
Financing income	**(102)**	(109)	**(24)**	(48)	(166)
Financing expenses, net	**192**	302	**155**	197	581
Profit after financing expenses	**1,550**	1,181	**721**	617	2,236
Share in profits of equity-accounted investees	**4**	2	**2**	1	5
Profit before income tax	**1,554**	1,183	**723**	618	2,241
Income tax	**443**	385	**221**	205	720
Profit for the period	**1,111**	798	**502**	413	1,521
Attributable to:					
Shareholders of the Company	**1,149**	867*	**541**	456*	1,627
Non-controlling interests	**(38)**	(69)*	**(39)**	(43)*	(106)
Profit for the period	**1,111**	798	**502**	413	1,521
Earnings per share					
Basic earnings per share (in NIS)	**0.44**	0.32	**0.21**	0.17	0.62
Diluted earnings per share (in NIS)	**0.43**	0.32	**0.20**	0.17	0.61

* Retrospective application by restatement, see Note 3C

** See Note 3D

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	**1,111**	798	**502**	413	1,521
Other items of comprehensive income					
Net change in fair value of available-for-sale financial assets transferred to profit or loss	**-**	(5)	**-**	-	(5)
Actuarial losses from a defined benefit plan (1)	**-**	-	**-**	-	(2)
Foreign currency translation differences	**1**	(11)	**(2)**	(11)	(4)
Taxes in respect of other items of comprehensive income	**-**	1	**-**	-	1
Other comprehensive income for the period, net of tax	**1**	(15)	**(2)**	(11)	(10)
Total comprehensive income for the period	**1,112**	783	**500**	402	1,511
Attributable to:					
Shareholders of the Company	**1,150**	852*	**539**	445*	1,617
Non-controlling interests	**(38)**	(69)*	**(39)**	(43)*	(106)
Total comprehensive income for the period	**1,112**	783	**500**	402	1,511

(1) The Group 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.

* Retrospective application by restatement, see Note 3C

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

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

Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to shareholders of the Company									
	Share capital	Share premium	Translation reserve	Capital reserve for a transaction between a corporation and a controlling shareholder	Capital reserve for available-for-sale assets	Capital reserve for options for employees	Deficit	Total	Non-controlling interests	Total equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Six months ended June 30, 2009 (unaudited)										
Balance at January 1, 2009 (audited)	**6,132**	**-**	**(4)**	**390**	**-**	**362**	**(2,165)***	**4,715**	**(471)**	**4,244**
Comprehensive income for the period (unaudited)	**-**	**-**	**1**	**-**	**-**	**-**	**1,149**	**1,150**	**(38)**	**1,112**
Dividend to shareholders of the Company (unaudited)							**(792)**	**(792)**	**-**	**(792)**
Share-based payments (unaudited)	**-**	**-**	**-**	**-**	**-**	**28**	**-**	**28**	**-**	**28**
Exercise of options into shares (unaudited)	**40**	**203**	**-**	**-**	**-**	**(146)**	**-**	**97**	**-**	**97**
Transfers by non-controlling interests (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6**	**6**
Balance at June 30, 2009 (unaudited)	**6,172**	**203**	**(3)**	**390**	**-**	**244**	**(1,808)**	**5,198**	**(503)**	**4,695**
Six months ended June 30, 2008 (unaudited)										
Balance at January1, 2008 (audited)	6,132	-	-	390	4	287	(2,276)*	4,537	(373)	4,164
Comprehensive income for the period (unaudited)	-	-	(11)	-	(4)	-	867	852	(69)*	783
Dividend to shareholders of the Company (unaudited)	-	-	-	-	-	-	(679)	(679)	-	(679)
Share-based payments (unaudited)	-	-	-	-	-	35	-	35	-	35
Transfers by non-controlling interests less dividends distributed (unaudited)	-	-	-	-	-	-	-	-	4	4
Balance at June 30, 2008 (unaudited)	6,132	-	(11)	390	-	322	(2,088)*	4,745	(438)*	4,307

* Retrospective application by restatement, see Note 3C

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

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

	Attributable to shareholders of the Company									
	Share capital	Share premium	Translation reserve	Capital reserve for a transaction between a corporation and a controlling shareholder	Capital reserve for available-for-sale assets	Capital reserve for options for employees	Deficit	Total	Non-controlling interests	Total equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Three months ended June 30 2009 (unaudited)										
Balance at April 1, 2009 (unaudited)	**6,146**	**26**	**(1)**	**390**	**-**	**373**	**(1,557)**	**5,377**	**(465)**	**4,912**
Comprehensive income for the period (unaudited)	**-**	**-**	**(2)**	**-**	**-**	**-**	**541**	**539**	**(39)**	**500**
Dividend to shareholders of the Company (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**(792)**	**(792)**	**-**	**(792)**
Share-based payments (unaudited)	**-**	**-**	**-**	**-**	**-**	**13**	**-**	**13**	**-**	**13**
Exercise of options into shares (unaudited)	**26**	**177**	**-**	**-**	**-**	**(142)**	**-**	**61**	**-**	**61**
Transfers by non-controlling interests (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Balance at June 30, 2009 (unaudited)	**6,172**	**203**	**(3)**	**390**		**244**	**(1,808)**	**5,198**	**(503)**	**4,695**
Three months ended June 30 2008 (unaudited)										
Balance at April 1, 2008 (unaudited)	6,132	-	-	390	-	300	(1,865)*	4,957	(399)*	4,558
Comprehensive income for the period (unaudited)	-	-	(11)	-	-	-	456*	445	(43)*	402
Dividend to shareholders of the Company (unaudited)	-	-	-	-	-	-	(679)	(679)	-	(679)
Share-based payments (unaudited)	-	-	-	-	-	22	-	22	-	22
Transfers by non-controlling interests less dividends distributed (unaudited)	-	-	-	-	-	-	-	-	4	4
Balance at June 30, 2008 (unaudited)	6,132	-	(11)	390	-	322	(2,088)*	4,745	(438)*	4,307

* Retrospective application by restatement, see Note 3C

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

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

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

* Retrospective application by restatement, see Note 3C

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

Condensed Consolidated Interim Statements of Cash Flows

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Profit for the period	**1,111**	798	**502**	413	1,521
Adjustments:					
Depreciation	**702**	707	**356**	356	1,394
Amortization of intangible assets	**142**	124	**70**	56	289
Amortization of deferred and other expenses	**13**	20	**7**	10	20
Share in profits of equity-accounted investees	**(4)**	(2)	**(2)**	(1)	(5)
Financing costs, net	**172**	320	**95**	191	561
Capital gain, net	**(24)**	(19)	**(4)**	(18)	(68)
Share-based payment transactions	**28**	35	**13**	22	75
Income tax expenses	**443**	385	**221**	205	720
Proceeds (payment) in respect of disposal of derivative financial instruments, net	**16**	(14)	**7**	(4)	(38)
Change in:					
Inventory	**(39)**	15	**(6)**	52	42
Trade receivables	**(243)**	(132)	**(165)**	(28)	(10)
Other receivables	**(17)**	(14)	**34**	39	(44)
Other payables	**102**	4	**(95)**	(69)	15
Trade payables	**72**	(277)	**(44)**	(134)	(225)
Provisions	**11**	(46)	**4**	(42)	(34)
Broadcasting rights net of rights exercised	**(64)**	(35)	**(30)**	(7)	(11)
Employee benefits	**(55)**	(262)	**(5)**	(179)	(302)
Deferred and other income	**(48)**	(2)	**(2)**	(3)	50
Income tax paid	**(286)**	(228)	**(148)**	(100)	(535)
Net cash flows for operating activities	**2,032**	1,377*	**808**	759*	3,415
Cash flow from investment activities					
Investment in intangible assets and deferred expenses	**(156)**	(135)	**(93)**	(76)	(469)
Proceeds from sale of property, plant and equipment and deferred expenses	**62**	87	**11**	26	147
Change in current investments, net	**(94)**	314	**(100)**	257	321
Purchase of property, plant and equipment	**(756)**	(617)	**(348)**	(310)	(1,300)
Proceeds from realization of investments and long-term loans	**41**	11	**34**	5	19
Purchase of investments and long-term loans	**(3)**	(4)	**(2)**	(4)	(8)
Investment in an affiliate	**-**	(1)	**-**	-	-
Dividend received	**5**	2*	**5**	2*	13
Interest received	**13**	34*	**8**	15*	64
Net cash used for investment activities	**(888)**	(309)	**(485)**	(85)	(1,213)

* See Note 3D

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

Condensed Interim Statements of Cash Flows (contd.)

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	**2008**	**2009**	**2008**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Cash flow from financing activities					
Receipt of loans	**400**	-	**-**	-	-
Repayment of debentures	**(609)**	(627)	**(403)**	(398)	(714)
Repayment of loans	**(62)**	(81)	**(31)**	(41)	(148)
Short-term borrowing, net	**41**	68	**41**	56	(50)
Dividend paid	**(792)**	(679)	**(792)**	(679)	(1,514)
Interest paid	**(258)**	(235)	**(148)**	(179)	(243)
Payment for disposal of derivative financial instruments, net	**11**	29	**11**	25	52
Transfers by non-controlling interests less dividend distributed, net	**6**	4	**1**	4	8
Proceeds from exercise of employee options	**97**	-	**61**		
Net cash used for financing activities	**(1,166)**	(1,521)	**(1,260)**	(1,212)	(2,609)
Net decrease in cash and cash equivalents	**(22)**	(453)	**(937)**	(538)	(407)
Cash and cash equivalents at the beginning of the period	**786**	1,203	**1,702**	1,283	1,203
Effect of exchange rate fluctuations on cash balances	**1**	(10)	**-**	(5)	(10)
Cash and cash equivalents at the end of the period	**765**	740	**765**	740	786

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

NOTE 1 – REPORTING ENTITY

A. Bezeq – The Israel Telecommunication Corp. Ltd. ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The official address of the Company is 132 Menachem Begin Road, Tel Aviv. The condensed consolidated financial statements of the Company include those of the Company and of its subsidiaries (together – "the Group"), as well as the interests of the Group in associates. The Group is a principal provider of communications services in Israel (see also Note 12 – Segment Reporting).

B. The controlling shareholder of the Company is Ap.Sb.Ar. Holdings Ltd., which held 40.03% of the Company's shares as at June 30, 2009. All the segments of the Group's operations are subject to competition. The Group's operations are subject, as a rule, to official regulation and oversight.

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

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 as at December 31, 2008 and the year then ended, and their accompanying notes ("the annual financial statements"). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent annual financial statements until the date of these interim financial statements.

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

C. Use of estimates and judgment

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

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

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY

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

A. Initial implementation of new accounting standards

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

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

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

A. The segment engages in business operations that may generate revenue and may incur expenses.

B. The operational results of the segment were reviewed regularly by the chief operational decision maker of the Group, in order to make decisions regarding resources to be allocated and to assess its performance.

C. Separate financial information is available.

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

(3) Commencing from January 1, 2009, the Group applies IAS 19 – *Employee Benefits*, revised ("the Amendment"), in accordance with Improvements to International Financial Reporting Standards 2008 (Improvements to IFRSs). See section C(2) below.

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

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

B. New standards and interpretations not yet adopted

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

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

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

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

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

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

(2) Amendment to IFRS 2 – *Share-Based Payment*, cash-settled share-based payment transactions in the Group ("the Amendment"). The Amendment addresses IFRS 2 and replaces IFRIC 8 and IFRIC 11. The Amendment provides guidance for accounting treatment of share-based payments in a group entity from the perspective of the entity which receives the goods or services as well as from the perspective of the entity settling the transaction.

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

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

C. Retrospective application by restatement

(1) Further to Note 3(X) to the financial statements as at December 31, 2008, commencing January 1, 2008, the Group opted for early application of IFRS 3 – *Business Combinations* (revised) and IAS 27 – *Consolidated and Separate Financial Statements (2008).* The Standards were applied commencing from January 1, 2008, with restatement of equity and profit or loss as at June 30, 2008 and for the six and three months then ended, respectively.

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

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

Effect on the statement of financial position

	As previously reported	Effect of retrospective application Section C(1)	Effect of retrospective application Section C(2)	Following retrospective application
	NIS millions	NIS millions	NIS millions	NIS millions
June 30, 2008 (unaudited)				
Deferred tax assets	605	-	3	608
Employee benefits (as part of current liabilities)	446	-	11	457
Deficit	(2,112)	32	(8)	(2,088)
Non-controlling interests	(406)	(32)	-	(438)
Balance at December 31, 2008 (audited)				
Deferred tax assets	547	-	3	550
Employee benefits (as part of current liabilities)	401	-	11	412
Deficit	(2,157)	-	(8)	(2,165)

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD)

C. Retrospective application by restatement (contd.)

(2) Effect on the statement of income

	As previously reported	Effect of retrospective application Section C(1)	Effect of retrospective application Section C(2)	Following retrospective application
	NIS millions	NIS millions	NIS millions	NIS millions
Six months ended June 30, 2008 (unaudited)				
Income for the period attributed to:				
Owners of the Company	835	32	-	867
Non-controlling interests	(37)	(32)	-	(69)
Profit for the period	798	-	-	798
Three months ended June 30, 2008 (unaudited)				
Income for the period attributed to:				
Owners of the Company	437	19	-	456
Non-controlling interests	(24)	(19)	-	(43)
Profit for the period	413	-	-	413

(3) Effect on comprehensive income:

	As previously reported	Effect of retrospective application Section C(1)	Effect of retrospective application Section C(2)	Following retrospective application
	NIS millions	NIS millions	NIS millions	NIS millions
Six months ended June 30, 2008 (unaudited)				
Comprehensive income for the period attributed to:				
Owners of the Company	820	32	-	852
Non-controlling interests	(37)	(32)	-	(69)
Comprehensive income for the period	783	-	-	783
Three months ended June 30, 2008 (unaudited)				
Comprehensive income for the period attributed to:				
Owners of the Company	426	19	-	445
Non-controlling interests	(24)	(19)	-	(43)
Comprehensive income for the period	402	-	-	402

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICY (CONTD)

C. Retrospective application by restatement (contd.)

(4) Effect of the statement of changes in equity

	As previously reported	Effect of retrospective application Section C(1)	Effect of retrospective application Section C(2)	Following retrospective application
	NIS millions	NIS millions	NIS millions	NIS millions
Balance at January 1, 2008 (audited)				
Deficit	(2,268)	-	(8)	(2,276)
At April 1, 2008 (unaudited)				
Deficit	(1,870)	13	(8)	(1,865)
Non-controlling interests	(386)	(13)	-	(399)

D. Reclassified amounts

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

NOTE 4 – GROUP ENTITIES

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

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

(1) Since commencing its operations, DBS has incurred considerable losses. The losses of DBS in 2008 amounted to approximately NIS 265 million and the loss for the six-month period ended June 30, 2009 amounted to approximately NIS 96 million. As a result of these losses, the capital deficit and its working capital deficit of DBS at June 30, 2009 amounted to approximately NIS 2.985 billion and NIS 634 million, respectively.

(2) The Company's investment in DBS (primarily through shareholders' loans) at the balance sheet date amounts to approximately NIS 1.562 billion (without interest and linkage). The balance of DBS's current debt to the Company and its subsidiaries amounts to approximately NIS 84 million, of which approximately NIS 64 million is owed to the Company. The Company and DBS reached an agreement for collection of the balance of DBS's debt to the Company, which was in arrears, of approximately NIS 55.6 million. Under the arrangement, the debt is being paid in 60 equal monthly instalments plus interest at prime + 1.5%. At the balance sheet date, the balance of the debt covered by the arrangement is approximately NIS 25 million. The balance of the debt to the Company outside the above arrangement is a current debt. At the date of approval of the financial statements, DBS is in compliance with the terms of the arrangement for payment of the debt. The parties have not yet reached an agreement on the debt balance that is not included in the agreement, and the date of its repayment.

NOTE 4 – GROUP ENTITIES (CONTD.)

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

(3) During 2005, the banks completed the provision of the entire credit facility to which DBS was entitled under the financing agreements.

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

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

B. At June 30, 2009, DBS is in compliance with the covenants set for it.

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

(4) Further to Note 33(3)B to the financial statements as at December 31, 2008, on April 30, 2009, the Company's board of directors resolved to implement the merger of the Company and DBS (regarding the exercise of options for DBS's shares by the Company, which, if exercised, will increase the Company's holdings in DBS from 49.8% to 58%) under the conditions prescribed in the ruling of the Antitrust Tribunal and to inform the Antitrust Tribunal and the Supreme Court of this resolution. This is without derogating from the Company's claims in the counter petition against the amount of the bank guarantee set forth in the merger conditions. Implementation of the merger is subject to the ruling of the Supreme Court regarding the counter petitions opposing the approval of the merger. The appeals were heard on June 8, 2009. The ruling of the appeals is pending.

(5) National digital terrestrial television (DTT) started broadcasting on August 2, 2009. DBS estimates that the commencement of DTT broadcasts could have a negative effect on its revenues.

B. Pelephone Communications Ltd.

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

NOTE 5 – CONTINGENT LIABILITIES

A. Claims

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

In the opinion of the managements of the Group's companies, which is based, inter alia, on legal opinions regarding the risks related to the claims, including the application for certification of the class actions, appropriate provisions have been included in the financial statements in the amount of NIS 354 million, where warranted, to cover the exposure resulting from such claims.

In the opinion of the managements of the Group's companies, the additional exposure (in addition to the above provisions) at June 30, 2009, due to claims filed against the companies in the Group on various matters and in which the likelihood of realization is possible, amounts to approximately NIS 12.4 billion. Of this amount, approximately NIS 3.4 billion relates to salary claims filed by groups of employees or by individual claims with wide ramifications. The above amounts are before addition of interest.

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

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

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

(2) Further to Note 17A(11) to the financial statements as at December 31, 2008, regarding the claim and application for certification as a class action against HOT and against the Company for a fault in the telephone line in the HOT network, on May 11, 2009 the parties filed a motion for a settlement at the district court. Pursuant to the motion, HOT will grant the eligible members of the group the right to receive voice mail for one year, free of charge, or alternately, the right to another line for one year, free of charge, as they choose, and the Company will bear the full payment of compensation to the representative plaintiff and attorney's fees (amounting to NIS 450,000). Pursuant to the court ruling, if no objection is filed by July 29, 2009, the ruling of the settlement will be handed down. To the best of the Company's knowledge, no objection has been filed and a decision is yet to be made.

NOTE 5 – CONTINGENT LIABILITIES (CONTD.)

A. Claims (contd.)

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

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

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

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

(5) Further to Note 17A(45) to the financial statements as at December 31, 2008, regarding the claim and application for its certification as a class action against DBS relating to the termination of the Discovery Science and Adventure 1 channels, on July 26, 2009, the district court approved the claim as a class action solely for the contractual reason. The court dismissed the other causes at the basis of the claim, ruling that there is no evidence of cause for a personal claim.

(6) On May 4, 2009, a claim was filed in the Jerusalem District Court against Bezeq International, together with an application for certification as a class action. The plaintiff, who is a subscriber of Bezeq International's internet services, claims that he was overcharged for the internet services he received from Bezeq International, in violation of the agreement and the law. According to the plaintiff, Bezeq International breached the contract with him, misled him and acted in bad faith in the negotiations and its relations with him. The plaintiff applied for certification as a class action under the Class Actions Law, 5766-2006, on behalf of a group that includes any subscriber to Bezeq International's internet services who does not have a written agreement and/or for whom the tariffs for services were increased after the initial agreement period, beyond an reasonable or acceptable amount and/or without their agreement or without notice and/or who had a uniform agreement with Bezeq International which does not comply with the requirements of the law, allowing price increases without notice and at a rate that is beyond the normal rate, for the period between November 2005 and December 2008. The total amount of the class action is NIS 217 million (the personal amount of the claim is NIS 2,802).

NOTE 5 – CONTINGENT LIABILITIES (CONTD.)

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

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

Claims for which exposure cannot be calculated

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

Claims which cannot yet be estimated

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

(2) On August 3, 2008, a claim was filed in the Petach Tikva District Court against Pelephone, together with an application for certification as a class action. The claim refers to the saving of SMS messages sent via the Pelephone network, in Pelephone systems. The plaintiffs allege that saving the messages is a contravention of the law and Pelephone's license. The remedies requested are a declarative remedy that the information held in contravention of the law, a mandatory injunction for its deletion, a mandatory injunction to prevent saving messages in the future and a financial remedy of an undefined amount (to be determined by the court).

(3) On August 3, 2008, a monetary claim was filed in the Tel Aviv District Court against Pelephone, together with application for certification as a class action. The total amount of the claim is NIS 18.6 million. The claim is for the refund of the amounts allegedly collected by Pelephone from its subscribers for the telephone book backup service provided to those subscribers. The plaintiff alleges that Pelephone is not entitled to charge its customers for this service without informing them that the service involves a payment, and in any case the service is unnecessary, as almost any customer can save the memories in the handset independently (using a computer).

(4) On August 4, 2009, a monetary claim was filed in the Tel Aviv District Court against Pelephone, together with application for certification as a class action. The claim was filed against Pelephone, another cellular company and the company supplying informative SMS services through a cell phone (the "service company"). The total amount of the claim is NIS 33 million (without distribution among the defendants). The claim is to refund amounts charged by the defendants (and charged through the cellular account), for the service supplied by the service company through the cell phone. The plaintiff alleges that he did not ask to join the service, and therefore the service charge is illegal.

(5) On August 4, 2009, a monetary claim (and application for a mandatory injunction) was filed in the Tel Aviv District Court against Pelephone, together with application for certification as a class action. The claim was filed against Pelephone Communications Ltd. and against two other companies providing services through the cellular telephone ("the other defendants").

The claim is to refund amounts charged by the plaintiffs (charged through the cellular account), for the service supplied by the other defendants through the cell phone (information sent by SMS). The claim includes a motion for remedy of a mandatory injunction ordering the defendants to end this charge. The total amount of the claim is NIS 200 million (without distribution among the defendants). The plaintiff alleges that she did not ask to join the services of the other defendants, and therefore the charge for the services is illegal.

NOTE 5 – CONTINGENT LIABILITIES (CONTD.)

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

Claims that cannot yet be estimated (contd.)

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

C. Other contingencies

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

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

(2) In June 2009, Israel Aerospace Industries (IAI) demanded immediate payment of the balance of DBS's debt for the use of the Amos 1 satellite and payment of interest and other amounts allegedly due to IAI by virtue of the agreement. DBS has counter claims against some of the amounts claimed by IAI. At this stage, the parties are negotiating in an attempt to settle the financial disputes.

NOTE 6 – EQUITY

A. Share capital

Registered			Issued and paid up		
June 30, 2009	**June 30, 2008**	**December 31, 2008**	**June 30, 2009**	**June 30, 2008**	**December 31, 2008**
(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
No. of shares	**No. of shares**	**No. of shares**	**No. of shares**	**No. of shares**	**No. of shares**
2,749,000,000	2,749,000,000	2,749,000,000	**2,645,988,758**	2,605,045,611	2,605,045,611

1. Following the exercise of options by employees in accordance with the options plans described in Note 26 to the financial statements as at December 31, 2008, in the six months ended June 30, 2009, the Company issued 40,943,147 ordinary shares of NIS 1 par value each.

2. Subsequent to the reporting date and up to August 3, 2009, following the exercise of options by the employees, in accordance with the options plans set forth in Note 26 to the financial statements as at December 31, 2008, the Company issued another 2,844,519 ordinary shares of NIS 1 par value each.

3. In the reporting period, the Company granted options to senior employees in the Company (see Note 7).

NOTE 6 – EQUITY (CONTD.)

B. Dividends

(1) The Company declared and paid dividends as follows:

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash dividend paid in May 2009 (NIS 0.3 per share)	**792**	-	**792**	-	-
Cash dividend paid in April 2008 (NIS 0.26 per share)	-	679	-	679	679
Cash dividend paid in October 2008 (NIS 0.32 per share)	-	-	-	-	835
	792	679	**792**	679	1,514

(2) On August 4, 2009, the Board of Directors of the Company resolved to recommend to the general meeting of the shareholders of the Company to distribute a cash dividend to the shareholders in the total amount of NIS 1.149 billion.

NOTE 7 – SHARE-BASED PAYMENT

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

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

NOTE 8 – TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

A. Further to Note 26(B) and 26(I) to the financial statements as at December 31, 2008, on May 3, 2009 the general meeting of the shareholders of the Company approved the allocation of 100,000 options exercisable into 100,000 ordinary shares of NIS 1 par value each to an employee-director. See Note 7.

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

NOTE 9 – REVENUE

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Domestic fixed-line communications					
Fixed line telephony	**1,629**	1,772	**815**	857	3,470
Internet - infrastructure	**403**	345*	**200**	166*	731*
Transmission, data communication and other	**477**	470	**241**	241	978
	2,509	2,587	**1,256**	1,264	5,179
Cellular					
Cellular services and terminal equipment	**1,948**	1,854*	**990**	936*	3,756
Sale of terminal equipment	**542**	370*	**297**	188*	692
	2,490	2,224	**1,287**	1,124	4,448
International communications, internet services and NEP	**626**	606	**316**	312	1,243
Multi-channel television	**759**	756*	**375**	379*	1,506*
Other	**24**	13	**12**	7	31
	6,408	6,186	**3,246**	3,086	12,407

* See Note 3D

NOTE 10 – OPERATING AND GENERAL EXPENSES

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cellular telephone expenses	**852**	865	**437**	423	1,723
General expenses	**547**	524	**274**	248	1,115
Materials and spare parts	**478**	427	**261**	210	809
Consumption of satellite services content	**231**	232	**117**	117	447
Services and maintenance by sub-contractors	**159**	170	**76**	86	331
Building maintenance	**151**	156	**77**	78	364
International communication expenses	**161**	133	**80**	65	273
Vehicle maintenance expenses	**76**	94	**37**	48	192
Royalties to the State of Israel	**55**	58	**28**	26	134
Collection fees	**24**	24	**12**	12	49
	2,734	2,683	**1,399**	1,313	5,437

NOTE 11 – CONDENSED DATA FROM THE SEPARATE INTERIM FINANCIAL STATEMENTS OF THE COMPANY

A. Profit or loss

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	**2008**	**2009**	**2008**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Revenue (see B below)	**2,644**	2,762	**1,318**	1,354	5,498
Costs and expenses					
Depreciation and amortization	**416**	429	**205**	211	852
Salary	**542**	616	**264**	300	1,202
General and operating expenses	**831**	934	**411**	449	1,873
Operating expenses (income), net	**(16)**	(32)*	**4**	(48)*	96
	1,773	1,947	**884**	912	4,023
Operating income for the period	**871**	815*	**434**	442*	1,475

* See Note 3D. Classification of NIS 19 million for the six months ended June 30, 2009, of which NIS 14 million is for the three months then ended, for financing expenses in respect of provision for severance in early retirement formerly stated under operating expenses (income), net.

B. Revenue segmentation

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	**2008**	**2009**	**2008**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Telephony	1,667	1,809	828	876	3,572
Internet	417	391	210	193	790
Transmission and data communication	420	396	213	204	811
Other services	140	166	67	81	325
	2,644	2,762	1,318	1,354	5,498

NOTE 12 –SEGMENT REPORTING

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

A. Reporting segments

	Six months ended June 30, 2009 (unaudited)						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	2,509	2,490	626	759	24	-	6,408
Revenue from inter-segment sales	135	121	25	1	11	(293)	-
Total revenue	2,644	2,611	651	760	35	(293)	6,408
Segment operating profit	871	623	128	125	2	(7)	1,742
Segment assets as at June 30, 2009	10,890	4,768	1,093	1,213	103	(3,447)	14,620

NOTE 12 –SEGMENT REPORTING (CONTD.)

A. Reporting segments (contd.)

	Six months ended June 30, 2008 (unaudited)						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	2,587	2,224	606	756	13	-	6,186
Revenue from inter-segment sales	175	137	34	5	24	(375)	-
Total revenue	2,762	2,361	640	761	37	(375)	6,186
Segment operating profit	815*	481	117	69	1	-	1,483
Segment assets as at June 30, 2009	10,661	4,568	962	1,150	111	(2,942)	14,510

* See Notes 3D and 11A.

NOTE 12 –SEGMENT REPORTING (CONTD.)

A. Reporting segments (contd.)

	Three months ended June 30, 2009 (unaudited)						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	**1,256**	**1,287**	**316**	**375**	**12**	**-**	**3,246**
Revenue from inter-segment sales	**62**	**59**	**11**	**1**	**6**	**(139)**	**-**
Total revenue	**1,318**	**1,346**	**327**	**376**	**18**	**(139)**	**3,246**
Segment operating profit	**434**	**321**	**68**	**59**	**1**	**(7)**	**876**
Segment assets as at June 30, 2009	**10,890**	**4,768**	**1,093**	**1,213**	**103**	**(3,447)**	**14,620**

NOTE 12 –SEGMENT REPORTING (CONTD.)

A. Reporting segments (contd.)

	Three months ended June 30, 2008 (unaudited)						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	1,264	1,124	312	379	7	-	3,086
Revenue from inter-segment sales	90	64	14	1	11	(180)	-
Total revenue	1,354	1,188	326	380	18	(180)	3,086
Segment operating profit	442*	266	63	43	-	-	814
Segment assets as at June 30, 2009	10,661	4,568	962	1,150	111	(2,942)	14,510

* See Notes 3D and 11A.

NOTE 12 –SEGMENT REPORTING (CONTD.)

A. Reporting segments (contd.)

	Year ended December 31, 2008 (audited)						
	Domestic fixed-line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	5,179	4,448	1,243	1,506	31	-	12,407
Revenue from inter-segment sales	319	265	63	7	44	(698)	-
Total revenue	5,498	4,713	1,306	1,513	75	(698)	12,407
Segment operating profit	1,475	933	242	177	-	(10)	2,817
Segment assets as at June 30, 2009	10,752	4,644	994	1,132	100	(3,308)	14,314

NOTE 12 –SEGMENT REPORTING (CONTD.)

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

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit or loss					
Total operating profit or loss for segment reporting	**1,740**	1,482	**875**	814	2,817
Profit or loss for operations categorized as others	**2**	1	**1**	-	-
Financing costs, net	**(192)**	(302)	**(155)**	(197)	(581)
Share in the profits of equity-accounted investees	**4**	2	**2**	1	5
Consolidated profit before income tax	**1,554**	1,183	**723**	618	2,241

	Three-month period ended June 30		Year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Total assets for segment reporting	**17,933**	17,311	17,490
Assets attributable to activities in other categories	**103**	111	100
Investment in equity-accounted investees	**31**	30	32
Less inter-segment assets	**(3,447)**	(2,942)	(3,308)
Total consolidated assets	**14,620**	14,510	14,314

NOTE 13 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD.

1. Pelephone Communications Ltd.

A. Statement of financial position

	June 30, 2009	June 30, 2008	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**1,881**	1,983	1,898
Non-current assets	**2,887**	2,585	2,746
	4,768	4,568	4,644
Current liabilities	**1,236**	1,195	1,502
Long term liabilities	**972**	1,140	1,050
Total liabilities	**2,208**	2,335	2,552
Shareholders' equity	**2,560**	2,233	2,092
	4,768	4,568	4,644

B. Income statement

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue from services and sales	**2,611**	2,361	**1,346**	1,188	4,713
Cost of services and sales	**1,708**	1,626	**894**	796	3,216
Gross profit	**903**	735	**452**	392	1,497
Selling and marketing expenses	**218**	191	**101**	94	424
General and administrative expenses	**62**	63	**30**	32	140
	280	254	**131**	126	564
Operating income	**623**	481	**321**	266	933
Financing expenses	**39**	72	**11**	46	115
Financing income	**(45)**	(64)	**(6)**	(29)	(117)
Net financing expenses (income)	**(6)**	8	**5**	17	(2)
Income before income tax	**629**	473	**316**	249	935
Income tax	**166**	130	**83**	69	253
Net profit for the period	**463**	343	**233**	180	682

NOTE 13 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD. (CONTD.)

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

A. Statement of financial position

	June 30, 2009	June 30, 2008	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**165**	172	164
Non-current assets	**1,048**	978	968
	1,213	1,150	1,132
Current liabilities	**799**	715	1,497
Non-current liabilities	**3,399**	3,229	2,527
Total liabilities	**4,198**	3,944	4,024
Capital deficit	**(2,985)**	(2,794)	(2,892)
	1,213	1,150	1,132

B. Income statement

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**760**	761	**376**	380	1,513
Cost of revenue	**514**	564	**256**	278	1,091
Gross profit	**246**	197	**120**	102	422
Selling and marketing expenses	**62**	71	**33**	31	128
General and administrative expenses	**59**	57	**28**	28	117
	121	128	**61**	59	245
Operating income	**125**	69	**59**	43	177
Financing expenses	**136**	120	**91**	60	230
Financing income	**(46)**	(21)	**(27)**	(2)	(52)
Shareholders' financing expenses	**131**	135	**90**	84	263
Financing expenses, net	**221**	234	**154**	142	441
Loss before income tax	**(96)**	(165)	**(95)**	(99)	(264)
Income tax	**-**	-	**-**	-	1
Net loss for the period	**(96)**	(165)	**(95)**	(99)	(265)

NOTE 13 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD. (CONTD.)

3. Bezeq International Ltd.

A. Statement of financial position

	June 30, 2009 (Unaudited) NIS millions	June 30, 2008 (Unaudited) NIS millions	December 31 (Audited) NIS millions
Current assets	**553**	467*	496
Non-current assets	**540**	495*	498
	1,093	962	994
Current liabilities	**278**	297	254
Long term liabilities	**34**	22	30
Total liabilities	**312**	319	284
Shareholders' equity	**781**	643	710
	1,093	962	994

* See Note 3D

B. Income statement

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**651**	640	**327**	326	1,306
Operating expenses	**389**	382	**190**	192	780
Gross profit	**262**	258	**137**	134	526
Selling and marketing expenses	**84**	89	**43**	45	181
General and administrative expenses	**50**	52	**26**	26	103
	134	141	**69**	71	284
Operating income	**128**	117	**68**	63	242
Financing expenses	**6**	8	**2**	4	8
Financing income	**(9)**	(11)	**(6)**	(5)	(7)
Net financing expenses (income)	**(3)**	(3)	**(4)**	(1)	1
Share in earnings of equity-accounted investees	**4**	2	**2**	1	5
Income before income tax	**135**	122	**74**	65	246
Income tax	**35**	34	**18**	18	68
Profit for the period	**100**	88	**56**	47	178

The above financial statements are presented solely in accordance with International Financial Reporting Standards (IFRS).

NOTE 14 – MATERIAL EVENTS DURING THE REPORTING PERIOD AND EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

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

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

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

The effect of the change in the tax rate will be reflected in the third quarter financial statements of 2009 by way of a decrease in the deferred tax asset balance of NIS 36 million, a decrease in the deferred tax liability asset of NIS 6 million and recognition of tax expenses in the amount of NIS 30 million.