August 4, 2009

"Bezeq" The Israel Telecommunication Corp. Limited

Quarterly Report for the period ending 30.6.09

Update of Chapter A (Description of Company Operations) of the Periodic Report for 2008

Directors' Report on the State of the Company's Affairs for the period ended June 30, 2009

Condensed Interim Consolidated Financial Statements as at June 30, 2009

UPDATE OF CHAPTER A (DESCRIPTION OF COMPANY OPERATIONS)[1]
OF THE PERIODIC REPORT FOR 2008 ("THE PERIODIC REPORT")
OF "BEZEQ" – THE ISRAEL TELECOMMUNICATIONS CORP. LTD. ("the Company")

In this report, which contains an update of the chapter regarding the description of the Company's business from the periodic report for 2008, the Company has included forward-looking information, as defined in the Securities Law 5728-1968 ("the Securities Law") with respect to both itself and the market. Such information includes forecasts, targets, appraisals and assessments which apply to future events or matters the realization of which is not certain and is not under the Company's control. 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 does not independently check their correctness. The Company's assessments vary from time to time in accordance with the circumstances.

In addition, the realization and/or otherwise of the forward-looking information will be affected by factors that cannot be assessed in advance, and which are beyond the Company's control, including the risk factors that are characteristic of its operations as set out in this report, developments in the general environment, and external factors and the regulation that affects the Company's operations, as set out in this report.

1. Description of General Development of Group Operations

Section 1.1 – Group activity and description of its business development

Section 1.1.4 - Holdings of the Company

The following are details of the current rate of the Company's holdings at June 30, 2009 and August 3, 2009, fully diluted, assuming exercise of all of the options actually allotted to employees of the Company (as set out in the Periodic Report for 2008 and in the update to section 1.3.2 below):

Shareholders	Percentage of holdings		
	At June 30, 2009	At August 3, 2009	Fully diluted at June 30, 2009
Ap.Sb.Ar.	40.03%	39.99%	38.62%
State of Israel	3.27%	3.18%	0.96%
Zeevi Group	17.48%	17.46%	16.86%
The public	39.22%	39.37%	43.56%

Section 1.1.5 – Mergers and Acquisitions – DBS

On April 30, 2009, the board of directors of the Company resolved to effect the merger of the Company and DBS Satellite Services (1998) Ltd. ("DBS") on the terms prescribed in the ruling of the Antitrust Tribunal, to give notice to the Antitrust Tribunal and the Supreme Court of such resolution, all without derogating from the Company's claims in the counter-appeal that it filed against the amount of the bank guarantee prescribed as part of the terms of the merger. Exercise of the merger is subject to the ruling of the Supreme Court on the appeals filed against approval of the merger. The hearing of the appeals took place on June 8, 2009. No ruling has yet been handed down on the appeals.

The following are the main conditions set out in the ruling of the Antitrust Tribunal, for approval of the merger: Provision of a public fixed-line broadband telecommunications network that permits provision

[1] The update is pursuant to Article 39A of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970, and includes material changes or innovations that have occurred in the Company in any matter which must be described in the Periodic Report. The update relates to the Company's periodic report for 2008 and relates to the section numbers in Chapter A (Description of Company Operations) in that periodic report.

of television services (including VOD) at an assured level of quality, a permit to DBS to provide only via the Company's infrastructure bi-directional services not available for satellite broadcast so long as there is not at least one competitor with at least 100,000 subscribers or a monthly revenue of at least NIS 10 million transmitting television broadcasts over the Company's infrastructure, preservation of the structural separation between the Company and DBS, approval of the provision of services or products from the Company to DBS by a majority of at least 75% of the members of the board of directors of DBS and preservation of the satellite infrastructure in the event that DBS moves over to broadcast over IPTV infrastructure. Likewise, the conditions include deposit of a bank guarantee in the sum of NIS 200 million for assurance of performance of the above conditions such that for a fundamental breach of the conditions, the Commissioner may render forfeit the entire amount of the guarantee and for any other breach the Commissioner may render forfeit the sum of NIS 10 million for each breach, and in addition, an identical sum for each additional month during which the breach continues. The Company submitted a counter appeal against the amount of this guarantee, as noted above.

Section 1.3 – Investments in equity and stock transactions

Section 1.3.2 - Employee option schemes

As part of an option scheme for managers and senior employees of the Group as of November 2007, to allot up to 65,000,000 options, since the date of publication of the Periodic Report for 2008 and until August 3, 2009, 600,000 additional options were allotted and 533,334 options expired, so that as at June 30, 2009 and as at August 3, 2009, 59,616,666 options, net (less expired options), have been allotted under the scheme.

Section 1.4 – Distribution of dividends

Section 1.4.1 – Dividend distribution policy

On August 4. 2009, the board of directors of the Company adopted a dividend distribution policy, whereby the Company will distribute to its shareholders on a semi-annual basis, cash dividends amounting to 100% of the net profit (attributable to the shareholders of the Company) recorded for the previous six-month period, based on the consolidated financial statements of the Company.

The implementation of this dividend policy is subject to Israeli law, including the distribution tests set forth in the Companies Law (1999), and is also subject to the board of directors' assessment of the Company's ability to meet its current and expected obligations, in consideration of its projected cash flows, activities and commitments, cash balances, future plans and financial position, as they may be from time to time. Each dividend distribution will be subject to the approval of the general meeting of shareholders of the Company, pursuant to the Company's bylaws.

Section 1.4.2 – Distribution of dividends

On May 3, 2009, the general meeting of shareholders of the Company, following the recommendation of the board of directors of the Company of March 23, 2009, approved the distribution of a cash dividend to the shareholders of the Company in the amount of NIS 792 million, constituting, at the effective date for the distribution (May 11, 2009), the sum of NIS 0.3013025 per share and 30.13025% of the issued and paid up share capital of the Company. The dividend was paid to the shareholders of the Company on May 24, 2009.

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 pay a cash dividend to the shareholders in the total sum of NIS 1,149 million.

Section 1.5 - Financial information regarding the Group's areas of operation

Section 1.5.3 Principal results and operational data

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

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenues	1,318	1,326	1,348	1,388	1,354	1,408
Operating profit	434	437	232**	428**	442**	373**
Depreciation and amortization	205	211	209	214	211	218
Operating profit before depreciation and amortization (EBITDA)	639	648	441**	642**	653**	591**
Payments for investment in property, plant and equipment and intangible assets	191	238	170	156	132	158
Proceeds from sale of property, plant and equipment and intangible assets	8	50	47	12	25	60
No. of active subscriber lines at end of period (in thousands)	2,547	2,579	2,615	2,645	2,681	2,711
Average monthly revenue per line (NIS) *	81	81	82	85	82	84
No. of outgoing minutes (in millions)	3,014	3,123	3,154	3,428	3,346	3,511
No. of incoming minutes (in millions)	1,664	1,654	1,648	1,719	1,651	1,673
No. of ADSL subscribers at end of period (in thousands)	1,016	1,011	1,005	994	982	970
Average monthly revenue per ADSL subscriber (NIS)	69	68	67	68	66	68

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

** Reclassification of the sum of approximately NIS 26 million, spread over the four quarters of 2008, for financing costs for provisions for termination of labor relations under early retirement, presented in the past under the item of operating expenses (income) net.

B. Pelephone

(NIS millions except where stated otherwise)

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue	1,346	1,265	1,138	1,214	1,188	1,173
Operating profit	321	302	159	293	266	215
Depreciation and amortization	151	139	135	129	130	129
Operating profit before depreciation and amortization (EBITDA)	472	441	294	422	396	344
Net profit	233	230	128	211	180	163
Cash flow from current operations	290	375	298	379	344	256
Payments for investment in property, plant and equipment and intangible assets	163	149	163	350	182	103
Proceeds from sale of property, plant and equipment and intangible assets	4	-	1	-	1	1
No. of subscribers at end of period (in thousands)	2,694	2,669	2,649	2,698	2,636	2,595
Average monthly minutes of use (MOU) per subscriber*	329	323	335	359	358	355
Average monthly revenue per subscriber (ARPU) (in NIS)*	131	128	122	129	128	126
No. of subscribers at end of period (in thousands)	1,307	1,217	1,151	1,068	977	867
Revenues from value added services and content as % of revenues from cellular services	19.2%	18.5%	18.4%	16.2%	15.5%	15.0%

* MOU and ARPU data for Q1 and Q2 2009 were influenced by the deduction of 92,000 dormant subscribers from the number of active subscribers at December 31, 2008 as well as from the change in billing to segments of one second each.

C. Bezeq International

(NIS millions except where stated otherwise)

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue	327	324	337	329	326	314
Operating profit	68	60	65	59	63	55
Depreciation and amortization	21	20	20	20	20	20
Operating profit before depreciation and amortization (EBITDA)	88	80	85	79	83	75
Net profit	56	44	46	44	47	42
Cash flow from current operations	83	84	72	32	51	8
Payments for investment in property, plant and equipment and intangible assets*	26	21	26	33	31	28
Proceeds from sale of property, plant and equipment and intangible assets	-	-	1	-	-	-

* This item also includes long-term investments in assets.

D. DBS

(NIS millions except where stated otherwise)

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue	376	384	377	375	380	381
Operating profit	59	66	55	52	43	27
Depreciation and amortization	56	57	66	59	60	65
Operating profit before depreciation and amortization (EBITDA	115	122	122	111	103	92
Net profit (loss)	(95)	(1)	(18)	(82)	(99)	(66)
Cash flow from current operations	93	91	134	97	32	84
Payments for investment in property, plant and equipment and intangible assets*	60	61	63	56	40	79
Proceeds from sale of property, plant and equipment and intangible assets	-	-	-	-	-	-
No. of subscribers at end of period (in thousands)	562	560	560	556	551	549
Average monthly revenue per subscriber (in NIS)	224	228	225	226	230	231

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

Section 1.6 - Group forecast

Based upon the Bezeq Group's financial performance for the first half of 2009, which was materially stronger than the corresponding period in 2008, and considering the improved visibility of the economic environment, the Bezeq Group is raising its outlook for 2009 and now anticipates achieving revenues, net profit, EBITDA and operating cash flows above those for the full-year 2008 results.

The Bezeq Group is not changing its outlook for gross capital expenditures, which are still expected to be close to the 2008 level.

The information in this section contains forward-looking information, based on the Company's assessments. Actual results might be substantially different from these assessments, taking into account the changes that might occur in commercial conditions, and the possible impact of regulatory decisions.

Section 1.8 - Group strategy

* **Leadership** – Enhancing the Bezeq Group's status as the leading communications group in Israel.
* **Presence in central areas of the communications market focusing on the end user** – the mobile market, the customer's home, the business sector, internet, television and content.
* **Total client solution** – provisioning an inclusive communications solution for private and business customers based on a variety of services and products.
* **Substantial presence in all components of the value chain** – provisioning and reinforcing the relationship with the customer by maintaining a dominant positioning throughout the value chain: infrastructure, services and content.
* **Tailoring of service to customer** – focusing on the provision of tailored, high-quality services that fully address the needs of both private and business customers.
* **Innovation and technology** – underpinning the comparative advantage of the Group, among other, through leading technologies available in the market, which have matured sufficiently in order to enable large scale deployments and provision of reliable services.
* **Commercial focus** – focusing on the core areas of the communications market and related areas, as well as focusing on the Israeli domestic market.

* **Retention and reinforcement of perceptions of quality, reputation and value of the Group's brands.**

Naturally, a review of the Group's strategy involves assessments regarding future developments in customer conduct and needs, rate of adoption of new services, technological developments, regulatory policy and the marketing strategy of competitors. However, there is no certainty that this strategy will in fact eventuate, or will eventuate in the manner set out above. The circumstances that might lead to failure of the strategy to eventuate, or to its absolute failure, depend, inter alia, on frequent technological changes and on regulatory compulsions.

2. Fixed-line Domestic Services – Bezeq, The Israel Telecommunication Corp. Ltd. ("the Company")

Section 2.1.2 – General information on area of operations – statutory restrictions and special constraints

Tariffs were updated on June 1, 2009, and interconnect tariffs to the Company were reduced as of the same date. See update to section 2.16.1 below.

Section 2.3 - Breakdown of revenues and profitability of products and services

For updates of data regarding the breakdown of the Company's revenues based on products and services, see Note 11B to the financial statements of the Company for the period ended on June 30, 2009.

Section 2.6 – Competition

On May 10, 2009, HOT announced the establishment of a UFI (Ultra Fast Internet) network using Docsis3 technology. According to its announcement, the network will offer speeds of up to 100 mega. In accordance with its announcement, HOT expects to launch the network in several cities in Israel this year and to deploy nationally within three years.

Section 2.6.1 – Telephony

With regard to the Company's petition to the High Court of justice concerning enforcement of the structural separation rules on HOT – on June 4, 2009, the Ministry of Communications gave notice of an amendment of HOT Telecom's license with respect to structural separation between HOT Telecom and HOT Communications Systems Ltd. ("HOT Broadcasts") setting out restrictions on the structural separation obligation that had been part of HOT Telecom's license. Under these circumstances, and pursuant to supplementary notices by the Respondents (the State and HOT), on July 16, 2009, the Company filed a supplementary notice in which it requested that the Court set aside the petition. On July 19, 2009, the ruling of the Supreme Court was handed down stating that the petition should be set aside, in accordance with the petitioner's request, with no order being made as to costs.

Section 2.7 – Property, plant and equipment

Section 2.7.4 – Real estate

During the course of the first six months of 2009, the Company sold four real estate assets in a total area of approximately 8,030 m^2 in land and approximately 5,300 m^2 built-up, for a total sum of NIS 28 million (approximately NIS 5 million of which in the second quarter of 2009). Additionally, under the settlement agreement between the Company and the Israel Lands Administration, an agreement was signed in June 2009 between the parties to the effect that the Company undertook to return the Bayit VaGan installation to the State within 18 months of the date of execution of the agreement and to waive receipt of a substitute property for such property, in consideration for the sum of approximately NIS 6 million. The Company intends to invest the above consideration in the purchase of offices for the purpose of providing services to the Israel Broadcast Authority.

Section 2.9 – Human resources

Pursuant to a resolution of the board of directors of the Company of 2008 to approve the retirement of 245 employees during 2009 in accordance with the conditions of the Collective Agreement of December 2006,148 employees retired from the Company in this context as at August 3, 2009 (of whom 139 retired prior to June 30, 2009).

Section 2.14 – Taxation

See Note 14(b) to the financial statements of the Company for the period ended on June 30, 2009.

Section 2.16 – Limitation and regulation of Company activities

Section 2.16.1 – Control of the Company's tariffs

Sub-section (a), regarding update of the Company's tariffs – According to the Communications (Telecommunications and Broadcasts) (Calculation of Payments and Linkage for Telecommunications Services) Announcement, 5769-2009, the Company's tariffs were updated as of June 1, 2009, based on the regular update formula in the Communications (Telecommunications and Broadcasts) (Calculation of Payments and Linkage for Telecommunications Services) (Amendment) Regulations 5767-2007, so that the monthly payment for a telephone line and for a basic ISDN (Integrated Services Digital Network) line rose by 3.8% and the other controlled services provided by the Company declined by 0.3183%.

Furthermore, pursuant to the amendment of the Communications (Telecommunications and Broadcasting) (Payments for Interconnect) (Amendment) Regulations, 5769-2009, the interconnect fee paid by cellular and domestic operators in respect of termination of a call on the domestic operator's network, and the interconnect fee the international operators pay in respect of an international call that begins or ends on the domestic operator's network, was reduced as of June 1, 2009 by 0.3183%.

Section 2.16.2 – The Company's general license

Concerning the letter of the Director General of the Ministry of Communications of March 9, 2009, in which he gave notice that he was considering imposing a monetary sanction on the Company for alleged breach of the provisions of its license with respect to structural separation, on April 26, 2009, the Company submitted its detailed remarks to the effect that the Company had not breached the provisions of its license with respect to structural separation, and no such breach can be attributed to it, and that in these circumstances and those described in the Company's document, a monetary sanction cannot be imposed on the Company. The Company also requested a hearing.

Concerning baskets of common services – According to the notice of the Ministry of Communications on July 8, 2009, the market share of the Company has fallen, in terms of normative revenue for April 2009, to 79.9% in fixed-line telephony in the private sector and to 86.6% in the business sector. In addition, the Ministry is employing another method of measurement intended for determining the discount brackets permitted to the Company with approvals of alternative tariff baskets as prescribed in the Gronau Report. By this measurement, the Company's market share in April 2009, in terms of regular (individual) lines based on normative revenue, declined to 78.4%, and in terms of access lines based on normative revenue, declined to 81.8%.

Section 2.16.6 – Rules and regulations under the Communications Law

With respect to the Exceptions Committee – according to the Ministry of Communications notice dated June 16, 2009, the Ministry of Communications submitted draft regulations relating to the Exemption Advisory Committee for the approval of the Economic Committee of the Knesset.

Section 2.18 – Legal proceedings

For updates on the subject of legal proceedings, see Note 5 to the financial statements of the Company for the period ended June 30, 2009.

3. Cellular – Pelephone Communications Ltd. ("Pelephone")

Section 3.4 – New Products

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

The information in this section contains forward-looking information, based on the Company’s assessments and forecasts. Actual results might be substantially different from these assessments, taking into account the changes that might occur in commercial conditions.

Section 3.7 – Competition

Section 3.7.1

In March 2009, upon the recommendation of the Gronau Committee, the Ministry of Communications published a hearing on the issue of a change in the tariff structure and the method of billing for international calls via a cellular network. In May 2009, Pelephone submitted its response to the hearing and its objection to the proposed change.

According to government publications and pursuant to the government’s resolution to set up an inter-ministerial team regarding examination of interconnect tariffs, a joint team was set up between the Ministry of Communications and the Ministry of Finance which has recently completed a tender to select an international consultancy company to look into this matter. The company that was chosen was Nera. The issues defined for examination are interconnect tariffs and conditions of entry of new competitors into the cellular market. Under the Ministry of Communications' work plan, the team is expected to submit recommendations at the beginning of 2010. Pelephone is working to formulate a response and basis for discussion with the inter-Ministerial team.

According to government publications, in government discussions regarding the State budget for 2009-2010, a recommendation was made to publish a frequency tender for an additional infrastructure-owning cellular carrier. Following this, the Ministry of Communications set up a tender committee which is supposed to publish a frequency tender as aforesaid by the end of the third quarter of 2009. The tender is expected to include various benefits aimed at removing obstacles and significantly facilitating the entry of another infrastructure-owning carrier.

Section 3.7.2 – Mobile Virtual Network Operator (MVNO)

In the context of discussions surrounding the Budget Law and the Arrangements Law for 2009 and 2010 conducted during the months of June – July 2009, an amendment to the Communications Law was approved to the effect that the Minister of Communications is expected to complete all of the proceedings required in order to grant licenses by October 1, 2009. Likewise, the amendment to the law also provided that should an MVNO license be awarded and in the event that such licensee has conducted negotiations with the existing operators which did not give rise to a positive result within a period of 6 – 9 months, and it is proven that this stemmed from anti-competitive conduct by the existing operators, the Minister of Communications shall intervene in the commercial conditions in accordance with the jurisdiction vested in him by law.

Section 3.15.6 – Credit rating

On July 9, 2009, Maalot gave notice of increase of the rating of Pelephone’s debentures from AA minus to AA plus. The rating forecast is stable and reflects Maalot’s assessment that Pelephone will continue to be strategically important to Bezeq and will maintain a strong level of profitability, and will create significant cash flows in the future.

Section 3.16 – Taxation

See Note 14(b) to the financial statements of the Company for the period ended on June 30, 2009.

Section 3.18.3.1 – Main changes in Pelephone's license

Section A – further to hearings on the question of disconnecting the link between a terminal MRT equipment purchase transaction and the giving of benefits, the Ministry of Communications ruled that the MRT license of the cellular companies would be amended such that as of November 1, 2009, the licensee would not create any link between any benefit for MRT services granted to the subscriber and the fact that MRT terminal equipment in the subscriber's possession was purchased, rented or received from a licensee or other reseller acting for such licensee.

Section C – The changes in terms of the invoice structure will take effect in December 2009.

Section 3.18.3.3 – Site construction licenses

The team set up by the Attorney General to research the question of access facilities completed its work and submitted a report during the course of June 2009. The team's report was published on the websites of the Ministry for the Environment and the Ministry of Communications. In some of the team's conclusions, the representatives of the various ministries were in disagreement. The Ministry of Communications supported continuation of the exemption arrangement for a period of one to two years following the approval of NOP 36A1, in light of licensing difficulties mainly in urban areas, and an examination of the need for continuing the exemption in light of the quality of response that the NOP gives to the matter. The Ministries of the Interior and the Environment concluded that there was no justification for the exemption arrangement regarding cellular communications facilities to continue to exist. If the position of those ministries is accepted and the exemption arrangement is terminated, this will adversely affect deployment capabilities and the quality of the service that Pelephone will be able to provide to its customers, particularly in high-density areas. Prior to publication of the team's report, a further petition was filed with the High Court of Justice against the Attorney General, the inter-ministerial team and other persons, requesting remedies relating to the Attorney General's position supporting the continuation of the exemption from a building permit for wireless access facilities. As for the private bills dealing with cancellation of the exemption from a permit for cellular wireless access facilities, the government decided to formulate its position in respect thereto only after publication of the inter-ministerial team's report. This position has not yet been formulated.

Section 3.21 – Legal proceedings

For updates on the subject of legal proceedings, see Note 5 to the financial statements of the Company for the period ended June 30, 2009.

4. International Communications, Internet Services and NEP – Bezeq International Ltd. ("Bezeq International")

Section 4.1.2.2 – General Special Domestic License

On August 2, 2009, Bezeq International resolved to supply broadband domestic telephony services (VOB) to its private customers.

Section 4.1.2.5 – Gronau Committee Report.

In March 2009, the Ministry of Communications, upon the recommendation of the Gronau Committee, published a hearing regarding a change in the tariff structure and method of billing for international calls via cellular networks. In Bezeq International's response to the Ministry of Communications in the aforesaid hearing, Bezeq International expressed its objection to the proposed format for changing the tariff structure in overseas calls by cellular subscribers, pointed to possible faults as a result of its implementation, proposed reservations and limitations on its application and again warned the Ministry of Communications of the problems existing in the market for international telephony and internet access services provided by cellular operators.

Section 4.16 – Taxation

See Note 14(b) to the financial statements of the Company for the period ended on June 30, 2009.

Section 4.19 – Legal proceedings

For updates on the subject of legal proceedings, see Note 5 to the financial statements of the Company for the period ended June 30, 2009.

5. Multi-channel television – D.B.S. Satellite Services (1998) Ltd. ("DBS")

Section 5.1.3 – Developments in markets in the area of operation

Section 5.1.3 – To the best of DBS's knowledge, in May 2009 the Government made a decision in which it determined, inter alia, that some of the provisions included in the Arrangements in the State Economy (Legislative amendments for attaining budget targets and economic policy for the 2009 fiscal year) Bill, 5769-2008, published in October 2008 ("the Arrangements Bill") would be amended. The decision determined, among other things, that the date on which license-holders for broadcasting would be able to broadcast advertising will be postponed to January 1, 2012 (with an option to postpone the date of the permit for a period not exceeding three years); that the date on which the broadcasting licenses would be required to offer the basic package to their subscribers will be postponed to August 1, 2012 (with an option to postpone that date for no more than one year); that the broadcasting licensees will distribute to all their subscribers the broadcasts of a special license-holder for cable broadcasts without collecting payment from the subscriber beyond the access fee. The Government also decided that if the Communications Law is amended as proposed in the relevant sections of the Arrangements Bill, to direct the Minister of Communications and the Minister of Finance to request approval from the Knesset Finance Committee for regulations granting exemption from payment of royalties to broadcasting licensees commencing on the date on which the broadcasting licensees are required to offer the basic package. The decision also states that the date for completing set-up of the DTT array will be postponed to August 2009. In addition, the Government decision adopted the recommendations of the Mordechai Committee in everything relating to the transition of the Second Authority franchisees from a regimen of franchises to one of licenses for the establishment of a National Communications Authority. The decision also provides that a committee is to be set up to examine the advertising fees paid by advertisers and bodies that sell advertisements to advertising companies. To the best of DBS's knowledge, in June 2009, it was resolved to split the remedies regarding the matters described above from the Arrangements Bill and the discussion of them was transferred to the Economics Committee in order to prepare for first reading.

Section 5.1.3.1 – On August 2, 2009 the DTT system commenced broadcasting. In February 2009, the Minister of Finance made an order stating that DTT broadcast reception decoders will be exempt from purchase tax (as distinct from the decoders used by DBS which are subject to a 10% purchase tax).

Section 5.1.3.4 – In May 2009, the Council resolved to defer commencement of the new policy until the end of September 2009 in order to reexamine other models for regulating sports broadcasts on the paid sports broadcasts.

Section 5.1.3.7 – For the merger of the Company and DBS, see section 1.1.5 above.

Section 5.1.3.8 – In March 2009, the Ministry of Communications and the Council published a hearing on the question of the regulation of broadcasts over new broadcasting platforms and technologies. The hearing sought comments, inter alia, on the question of the characterization of the new services in respect of which the need for arrangement is being examined, including the nature and purpose of content, the method of distribution of such content, the handset that will enable its viewing, the need to distinguish linear broadcasts from VOD broadcasts, the method of offering services, the identity of the offerors, the extent to which the service providers are to be involved in various aspects of the service and the expectations of the reasonable consumer for regulatory protection. Comments were also requested regarding the scope of regulation necessary, including restrictions on adult broadcasts, protection of minors, classification and marking of broadcasts, original production obligations, a prohibition against broadcasting advertisements, and ethics in broadcasts. In addition, comments were also called for on the question of the need to protect new competitors and the impact that the regulation would have on the currently existing regulation. DBS has not yet presented its position in this hearing.

Section 5.2 – Products and Services

In April 2009, DBS began marketing PVR decoders capable of receiving HDTV broadcasts (as well as the other services that PVR decoders permit), at the same time as it expanded the supply of channels that it broadcasts using HD technology.

Section 5.8 – Intangible assets

Section 5.8.1.2 – On May 4, 2009, a representative of the Civil Administration gave notice to DBS that the Civil Administration intended to extend the broadcast license in Judea and Samaria until 2014, overlapping the license in Israel, although the extension still requires a final resolution by the head of the Civil Administration.

Section 5.11.1.B – Space segments

In June 2009, a letter was received from Aviation Industries containing a demand for immediate repayment of the debt still owed by DBS for use of the Amos 1 satellite, as well as payments of interest and additional sums allegedly owing to Aviation Industries by virtue of an agreement between the Parties. DBS has arguments against some of the sums alleged by Aviation Industries. At this stage, negotiations are being conducted to resolve the financial disputes.

Section 5.14 – Taxation

See Note 14(b) to the financial statements of the Company for the period ended on June 30, 2009.

Section 5.15.3 – Principal restrictions by virtue of the law and broadcasting license

With respect to transfer fees – In March 2009, the Ministry of Communications published a hearing regarding the setting of transfer fees that the producer of an independent channel, including the broadcaster of a designated channel, must pay DBS for use of its channels, noting that the outcome would constitute the basis for a resolution of the dispute between DBS and the designated channels, the sum of the payment set in the hearing being applicable as of 2007 and until the end of 2013 and the method of its calculation serving the parties as an outline for calculating the amount of the payment until 2006. The Ministry of Communications noted that the economic opinion that it attached to the hearing may be used as a basis for ruling in other disputes, if such arise between DBS and other independent channel operators. Under the aforesaid economic opinion, the usage fee will include a fixed component of an annual payment of approximately NIS 1.2 million, plus variable payment components amounting to approximately NIS 1 million with respect to an independent channel producer not financed by way of subscription fees. In June 2009, DBS submitted its position in the hearing. As at the date of this report, the Ministry of Communications' decision on this hearing has not yet been handed down. In July 2009, a bill was approved in preliminary reading to the effect that the designated channels would be exempt from payment of transition fees to the cable company. To the best of DBS's knowledge, this bill was approved by the Ministerial Committee on Legislation however the Minister of Communications has submitted an appeal against this decision.

Section 5.18 – Legal proceedings

In April 2009, two claims were filed against DBS in the Regional Labor Court on behalf of 21 technicians (20 of whom are former employees of the Company previously and the other is still employed by the Company) in a total sum of NIS 1.3 million. The claim alleges that DBS owes the technicians for various salary components that the plaintiffs claim were not paid to them, and that DBS held over some of their salaries. A statement of defense was filed in July 2009.

Section 5.18.1 – In June 2009, a settlement agreement was signed to the effect that without admitting to any of the claims DBS would compensate subscribers from whose deposits depreciation was alleged to have been unlawfully collected such that existing subscribers of DBS would be entitled to view 3 DVDbox movies without payment and subscribers who had left YES would be entitled to monetary compensation of NIS 25 or NIS 50 as set out in the Agreement or to 5 DVDbox movies without payment should they choose to return to DBS's broadcasts. It was further held that the lead plaintiff would be entitled to payment of the sum of NIS 50,000 and her attorneys would be entitled to the sum of NIS 450,000. The Court at which the agreement was submitted for approval held that this was an appropriate and reasonable arrangement and allowed DBS to publish an initial notice in this regard, which was published on June 18, 2009.

Section 5.18.2 – In April 2009, the Special Manager in the debt claim handed down a decision in which the debt claim that DBS filed was accepted in part, such that the sum of the debt to DBS was assessed in the sum of approximately NIS 180,000.

Section 5.18.3 – On June 17, 2009, a hearing took place in the Supreme Court on the appeal and the counter appeal. At the recommendation of the Court, it was agreed that the appeal and the counter-appeal be struck out without any award as to costs, without the Court expressing any opinion as to the essence of the ruling of the District Court regarding remuneration and fees.

For updates on the subject of legal proceedings, see Note 5 to the financial statements of the Company for the period ended June 30, 2009.

August 4, 2009	
Date	Bezeq – The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:

Shlomo Rodav – Chairman of the Board

Abraham Gabbay – CEO

Chapter B of the Periodic Report

Directors' Report on the State of the Company's Affairs for the six-month and three-month periods ended June 30, 2009

We respectfully present the Directors' Report on the state of affairs of Bezeq – The Israel Telecommunication Corp. Limited ("the Company") and its consolidated companies (the Company and the consolidated companies together are hereinafter collectively referred to as "the Group"), for the six month period ended June 30, 2009 and for the three-month period then ended ("Quarter").

The Directors' Report includes a condensed review of the Company's affairs, and it assumes that the Directors' Report at December 31, 2008 is also available to the reader.

The Group operates in four main areas which are reported as business segments in the Company's consolidated reports:

1) **Domestic fixed-line communications**
2) **Cellular**
3) **International communications, internet services and NEP**
4) **Multi-channel television**

The Company has an additional area of operations which is not material to the Group's operations, and which has been included in the financial statements of June 30, 2009 as another business segment, which mainly includes customer contact center services and investment in a venture capital fund.

Profit in the first half of 2009 amounted to NIS 1.111 billion,[1] compared with NIS 798 million in the corresponding period in 2008, an increase of NIS 313 million (39.2%). The increase in profit is due mainly to an increase of NIS 6.186 billion to NIS 6.408 billion in revenues and a decrease in financing costs from NIS 302 million to NIS 192 million. Profit attributed to the Company's shareholders amounted to NIS 1.149 billion, compared with NIS 867 million in the corresponding period.

Profit in the Quarter amounted to NIS 502 million, compared with NIS 413 million in the corresponding quarter, an increase of NIS 89 million (21.5%). The increase in profit is due mainly to an increase of NIS 3.086 billion to NIS 3.246 billion in revenues and a decrease in financing costs from NIS 197 million to NIS 155 million. The increase was moderated mainly by an increase in costs and expenses from NIS 2.272 billion in the corresponding quarter to NIS 2.370 billion in this Quarter. Profit attributed to the Company's shareholders amounted to NIS 541 million, compared with NIS 456 million in the corresponding quarter.

The increase in profit for the period and the Quarter is derived from an increase in the profit in all the major segments (a smaller loss in the multi-channel television segment). See below for further details.

1. Financial position

A. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs).

B. The Group's assets at June 30, 2009, amounted to NIS 14.62 billion, compared with NIS 14.51 billion on June 30, 2008, of which NIS 6.02 billion (41%) are property, plant and equipment, compared with NIS 5.97 billion (41%) on June 30, 2008.

The increase in the Group's assets encompasses all the segments of operation except for domestic fixed-line communications.

In the domestic fixed-line communications segment, total assets, without investment in investees, decreased by NIS 306 million compared with the corresponding period. The decrease stemmed from a decrease in trade receivables, mainly due to making up a lag in sending out bills which was caused by the transition to a new billing system, a decrease in the depreciated cost of property, plant and equipment as a result of the difference between the depreciation expenses and the investment made in the second half of 2008 and in the first half of 2009, and a decrease in the deferred tax balance and financial assets held for sale. The decrease in total assets was moderated by a rise in cash and cash equivalents.

[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 cellular segment, assets increased from NIS 4.57 billion on June 30, 2008 to NIS 4.77 billion at June 30, 2009. The increase was due mainly to an increase in the customer balance stemming from an increase in revenues from sales in installments of terminal equipment.. Additionally, there was an increase due to investment in property, plant and equipment for the establishment and operation of the new network (in UMTS/HSPA technology), and an increase in current investments. Conversely, there was a decrease in the cash balances following the distribution of dividends.

In the international communications, internet and NEP services segment, total assets increased from NIS 962 million on June 30, 2008 to NIS 1.093 billion at June 30, 2009, mainly due to an increase in cash balances. In addition, there was an increase in other long-term assets in respect of further acquisitions of usage rights in capacities for broadening the segment's operating capabilities. This increase was offset mainly by current asset balances (except for cash).

In the multi-channel television segment, there was an increase in total assets from NIS 1.15 billion on June 30, 2008 to NIS 1.21 billion at June 30, 2009, which was due mainly to an increase in broadcasting rights and an increase in the net balance of investment in intangible assets.

C. The equity attributable to the shareholders of the Company at June 30, 2009 amounted to NIS 5.2 billion, representing 36% of the total balance sheet, compared with NIS 4.74 billion on June 30, 2008 – 33% of the total balance sheet. The increase in equity stemmed mainly from the Group's profit, most of which was offset by the distribution of dividends amounting to NIS 1.63 billion in the second half of 2008 and the first half of 2009.

D. Group debt to financial institutions and debenture holders at June 30, 2009 amounted to NIS 5.92 billion, compared to NIS 6.28 billion on June 30, 2008.The decrease is mainly due to the cellular segment in respect of repayment of loans and debentures. In addition, the domestic fixed-line communications segment repaid debentures of NIS 547 million, an amount that was partially offset by receipt of a loan of NIS 400 million.

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2. Results of operations

A. Principal results

Below are condensed financial data from the consolidated income statements

	For the six-month period ended June 30,				For the three-month period ended June 30,			
	2009	2008	Increase		2009	2008	Increase	
	NIS millions	NIS millions	(Decrease)	%	NIS millions	NIS millions	(Decrease)	%
Revenues	6,408	6,186	222	3.6%	3,246	3,086	160	5.2%
Costs and expenses	4,666	4,703	(37)	(0.8%)	2,370	2,272	98	4.3%
Operating profit	1,742	1,483	259	17.5%	876	814	62	7.6%
Financing costs, net	192	302	(110)	(36.4%)	155	197	(42)	(21.3%)
Profit after financing costs	**1,550**	**1,181**	**369**	**31.2%**	**721**	**617**	**104**	**16.9%**
Equity of profits of associates accounted by the equity method	4	2	2	100%	2	1	1	100%
Profit before taxes	**1,554**	**1,183**	**371**	**31.4%**	**723**	**618**	**105**	**17.0%**
Income tax	443	385	58	15.1%	221	205	16	7.8%
Profit for the period	**1,111**	**798**	**313**	**39.2%**	**502**	**413**	**89**	**21.5%**
Attributed to:								
Shareholders' of the Company	1,149	867	282	32.5%	541	456	85	18.6%
Non-controlling interest	(38)	(69)	31	44.9%	(39)	(43)	4	9.3%
Profit for the period	**1,111**	**798**	**313**	**39.2%**	**502**	**413**	**89**	**21.5%**
Earnings per share								
Basic earnings per share (in NIS)	0.44	0.32	0.12	37.5%	0.21	0.17	0.04	23.5%
Diluted earnings per share (in NIS)	0.43	0.32	0.11	34.4%	0.20	0.17	0.03	17.6%

The Group's revenues in the first half of 2009 amounted to NIS 6.41 billion, compared with NIS 6.19 billion in the corresponding period, an increase of 3.6%.
The Group's revenues in the Quarter amounted to NIS 3.25 billion, compared with NIS 3.09 billion in the corresponding period, an increase of 5.2%. Most of the increase stemmed from the cellular segment, and was partially offset by a decrease in the domestic fixed-line segment.

The Group's depreciation and amortization expenses in the first half of the year amounted to NIS 857 million compared with NIS 851 million in the corresponding period, an increase of 0.7%.
The Group's depreciation and amortization expenses in the Quarter amounted to NIS 433 million compared with NIS 422 million in the corresponding period, an increase of 2.6%.
Most of the increase stemmed from the cellular segment, and was partially offset by a decrease in the expenses of the multi-channel television and the domestic fixed-line communications segments.

The Group's salary expenses in the first half of 2009 amounted to NIS 1.091 billion, compared with NIS 1.201 billion in the corresponding period, a decrease of 9.2%.
The Group's salary expenses in the Quarter amounted to NIS 534 million, compared with NIS 585 million in the corresponding period, a decrease of 8.7%.
The decrease stems mainly from a decrease in the salary expense in all segments except for multi-channel television.

The Group's operating and general expenses in the first half of 2009 amounted to NIS 2.734 billion, compared with NIS 2.683 billion in the corresponding period, an increase of 1.9%.
The Group's operating and general expenses in the Quarter amounted to NIS 1.399 billion, compared with NIS 1.313 billion in the corresponding period, an increase of 6.5%.
The increase stems mainly from a rise in expenses in the cellular segment, which was offset by a decrease in expenses in the domestic fixed-line communications and multi-channel television segments.

B. <u>Segments of operation</u>

The tables show operating data by Group segment.

	1-6/2009		1-6/2008		4-6/2009		4-6/2008	
Revenues by segments of operation	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**
Domestic fixed-line communications	2,644	41.3%	2,762	44.7%	1,318	40.6%	1,354	43.9%
Cellular	2,611	40.7%	2,361	38.2%	1,346	41.4%	1,188	38.5%
International communications, Internet and NEP services	651	10.1%	640	10.3%	327	10.1%	326	10.6%
Multi-channel television	760	11.9%	761	12.3%	376	11.6%	380	12.3%
After setoffs	(258)	(4%)	(338)	(5.5%)	(121)	(3.7%)	(162)	(5.3%)
Total	6,408	100%	6,186	100%	3,246	100%	3,086	100%

Operating profit by segments of operation	1-6/2009		1-6/2008		4-6/2009		4-6/2008	
	NIS millions	% of segment revenues	NIS millions	% of segment revenues	NIS millions	% of segment revenues	NIS millions	% of segment revenues
Domestic fixed-line communications	871	32.9%	815	29.5%	434	32.9%	442	32.6%
Cellular	623	23.9%	481	20.4%	321	23.9%	266	22.4%
International communications, Internet and NEP services	128	19.7%	117	18.3%	68	20.8%	63	19.3%
Multi-channel television	125	16.5%	69	9.1%	59	15.7%	43	11.3%
After setoffs	(5)		1		(6)		-	
Consolidated operating profit/ percentage of Group revenues	1,742	27.2%	1,483	24%	876	27%	814	26.4%

Domestic fixed-line communications segment

Income

Revenues in the segment in the first half of 2009 amounted to NIS 2.64 billion, compared with NIS 2.76 billion in the corresponding period, a decrease of 4.3%.
Revenues in the segment in the Quarter amounted to NIS 1.32 billion, compared with NIS 1.35 billion in the corresponding period, a decrease of 2.7%.

The decrease in revenues stemmed mainly from a decrease in the number of lines and in call traffic, as well as in interconnect fees to the cellular networks (with a concurrent decrease in expenses). The decrease was moderated by an increase in revenues from high-speed internet, data communication and transmission.

Costs and expenses

Depreciation and amortization expenses in the first half of the year amounted to NIS 416 million, compared with NIS 429 million in the corresponding period, a decrease of 3%.
Depreciation and amortization expenses in the Quarter amounted to NIS 205 million, compared with NIS 211 million in the corresponding period, a decrease of 2.8%.
The source of the decrease is mainly due to the end of depreciation of property, plant and equipment.

The salary expense in the first half of the year amounted to NIS 542 million, compared with NIS 616 million in the corresponding period, a decrease of 12%.
The salary expense in the Quarter amounted to NIS 264 million, compared with NIS 300 million in the corresponding period, a decrease of 12%.
The decrease in the salary expense stems mainly from a rise in attribution of the salary expense to property, plant and equipment, due, among other things, to the work involved in the deployment of the NGN.

Operating and general expenses in the first half of the year amounted to NIS 831 million, compared with NIS 934 million in the corresponding period, a decrease of 11%.
Operating and general expenses in the Quarter amounted to NIS 411 million, compared with NIS 449 million in the corresponding period, a decrease of 8.5%.
The decrease stems mainly from a decrease in interconnect fee expenses to the cellular networks and a corresponding decrease in interconnect fee revenues, as well as the implementation of efficiency measures which led to a decrease in all operating expense items except for royalties, due to revision of the provision for royalties recorded in the corresponding period.

Other operating income, net, in the first half of 2009 amounted to NIS 16 million, compared with NIS 32 million in the corresponding period. The decrease stems mainly from the reduction of provisions made for legal claims in the corresponding period.

Other operating expenses, net, in the Quarter amounted to NIS 4 million, compared with NIS 48 million in the corresponding period, due mainly to the recording of a provision for legal claims in the Quarter compared with capital gains and a decrease in expenses in respect of provisions in the corresponding quarter.

Profitability

Operating profit in the segment in the first half of 2009 amounted to NIS 871 million, compared with NIS 815 million in the corresponding period, an increase of 6.9%.
Operating profit in the segment in the Quarter amounted to NIS 434 million, compared with NIS 442 million in the corresponding period, a decrease of 1.8%.
The changes in operating profit stem from the changes described above in the income and expense items.

Cellular segment

Revenues

Revenues in the segment in the first half of 2009 amounted to NIS 2.61 billion, compared with NIS 2.36 billion in the corresponding period, an increase of 10.6%.
Revenues in the segment in the Quarter amounted to NIS 1.35 billion, compared with NIS 1.19 billion in the corresponding period, an increase of 13.4%.
The increase in revenues stems from an increase in revenues from services, mainly value added services, and from sales of terminal equipment due to a rise in prices and upgrades, which was partially offset by a decrease in quantities.

Costs and expenses

Depreciation and amortization expenses in the first half of the year amounted to NIS 290 million, compared with NIS 259 million in the corresponding period, an increase of 12%.
Depreciation and amortization expenses in the Quarter amounted to NIS 151 million, compared with NIS 130 million in the corresponding period, an increase of 16.2%.
The source of the increase is mainly due to the commencement of depreciation of HSPA/UMTS network during January 2009.

The salary expense in the first half of the year amounted to NIS 299 million, compared with NIS 329 million in the corresponding period, a decrease of 9.1%.
The salary expense in the Quarter amounted to NIS 148 million, compared with NIS 160 million in the corresponding period, a decrease of 7.5%.
The decrease in the salary expense stems mainly from a decrease in the number of positions.

Operating and general expenses in the first half of the year amounted to NIS 1.398 billion, compared with NIS 1.292 billion in the corresponding period, an increase of 8.2%.
Operating and general expenses in the Quarter amounted to NIS 726 million, compared with NIS 632 million in the corresponding period, an increase of 14.9%.
The increase stems mainly from a rise in the prices of terminal equipment purchased, an increase in network maintenance expenses as a result of operation of the new network in addition to the existing network, and an increase in advertising expenses as part of the launch of the new network. In addition, there was an increase in doubtful and bad debt expenses and in subscriber acquisition amortization expenses.

Profitability

Operating profit in the segment in the first half of 2009 amounted to NIS 623 million, compared with NIS 481 million in the corresponding period, an increase of 29.5%.
Operating profit in the segment in the Quarter amounted to NIS 321 million, compared with NIS 266 million in the corresponding period, an increase of 20.7%.
The improvement in operating profit stems from the changes described above in the income and expense items.

International communications, internet and NEP services segment

Revenues

Revenues in the segment in the first half of 2009 amounted to NIS 651 million, compared with NIS 640 million in the corresponding period, an increase of 1.7%.

Revenues in the segment in the Quarter amounted to NIS 327 million, compared with NIS 326 million in the corresponding period, an increase of 0.3%.
The increase in revenues stems mainly from the internet segment due to a rise in the number of broadband customers and an increase in integration activities, as well as from increased hubbing activity. Conversely, revenues from outgoing call minutes traffic decreased due to the smaller volume of traffic and erosion of the average price per minute, as well as a decrease in sales of private exchanges (PBX).

Costs and expenses

Depreciation and amortization expenses in the reporting period were similar to those of the corresponding periods in 2008.

The salary expense in the first half of the year amounted to NIS 123 million, compared with NIS 130 million in the corresponding period, a decrease of 5.4%.
The salary expense in the Quarter amounted to NIS 60 million, compared with NIS 65 million in the corresponding period, a decrease of 8%.
The decrease in the salary expense stems from a decrease in the number of positions, a decrease in share-based payments and the capitalization of commissions paid to sales personnel for subscriber acquisition.

Operating and general expenses in the first half of the year amounted to NIS 360 million, compared with NIS 352 million in the corresponding period, an increase of 2.3%.
Operating and general expenses in the Quarter were similar to those in the corresponding period.
The change in these expenses corresponds to the change in the segment's revenues in its areas of operation.

Profitability

Operating profit in the segment in the first half of 2009 amounted to NIS 128 million, compared with NIS 117 million in the corresponding period, an increase of 9%.
Operating profit in the segment in the Quarter amounted to NIS 68 million, compared with NIS 63 million in the corresponding period, an increase of 8%.
The increase in operating profit stems from the changes described above in the income and expense items.

Multi-channel television segment

Revenues

Revenues in the segment in the first half of 2009 amounted to NIS 760 million, compared with NIS 761 million in the corresponding period, a decrease of 0.1%.
Revenues in the segment in the Quarter amounted to NIS 376 million, compared with NIS 380 million in the corresponding period, a decrease of 1%.
The decrease in revenues stems mainly from a decrease of NIS 29 million in internet revenues in the first half of 2009 and of NIS 13 million in the Quarter, as a result of revision of the internet agreement with the Company. The decrease was offset by an increase mainly due to revenues from advanced services in the multi-channel television segment and from an increase in the number of subscribers.

Costs and expenses

Depreciation and amortization expenses in the first half of the year amounted to NIS 112 million, compared with NIS 125 million in the corresponding period, a decrease of 10%.
Depreciation and amortization expenses in the Quarter amounted to NIS 56 million, compared with NIS 60 million in the corresponding period, a decrease of 7%.
The decrease stems from extension of the customer commitment period in campaigns, which had a corresponding effect on the depreciate rate for installations.

The salary expense in the first half of the year amounted to NIS 101 million, compared with NIS 97 million in the corresponding period, an increase of 5%.
The salary expense in the Quarter amounted to NIS 49 million, compared with NIS 46 million in the corresponding period, an increase of 7%.
The increase in the salary expense is the result of more workers in the telephone service centers and expansion of the technical service staff while cutting back on outsourcing services.

Operating and general expenses in the first half of the year amounted to NIS 422 million, compared with NIS 470 million in the corresponding period, a decrease of 10%.

Operating and general expenses in the Quarter amounted to NIS 212 million, compared with NIS 230 million in the corresponding period, a decrease of 8%.
Most of the decrease in these expenses stems from the reduction in internet operations following the new agreement with the Company, and a decrease in customer service costs.

Profitability

Operating profit in the segment in the first half of 2009 amounted to NIS 125 million, compared with NIS 69 million in the corresponding period, an increase of 81.2%.
Operating profit in the segment in the Quarter amounted to NIS 59 million, compared with NIS 43 million in the corresponding period, an increase of 37.2%.
The increase in operating profit stems from the changes described above in the income and expense items.

C. Financing expense, net

The Group's net financing expenses in the first half of 2009 amounted to NIS 192 million, compared with NIS 302 million in the corresponding period, a decrease of 36.4%.

The Group's net financing expenses in the Quarter amounted to NIS 155 million, compared with NIS 197 million in the corresponding period, a decrease of 21.3%.

Group debt to financial institutions and debenture holders is mostly linked to the CPI, and financing expenses are influenced by changes in that index. In the reporting period and in the Quarter, the rate of rise in the CPI declined compared with the corresponding period, and revaluation of the liabilities resulted in a decrease in the financing expenses compared with the corresponding period.

In the domestic fixed-line communications segment, net financing income in the first half of 2009 amounted to NIS 25 million, compared with net financing expenses of NIS 59 million in the corresponding period. The change stems mainly from the lower rate of rise in the CPI mentioned above, and from a decrease in liabilities due to repayment of debentures.

In the cellular segment, net financing income in the first half of the year amounted to NIS 6 million, compared with expenses of NIS 8 million in the corresponding period.

In the multi-channel television segment, net financing expenses in the first half of the year amounted to NIS 221 million, compared with NIS 234 million in the corresponding period, a decrease of 5.6%. Most of the decrease is the result of the aforementioned changes in the CPI.

D. Income tax

The Group's tax expense in the reporting period amounted to NIS 443 million, which is 28.5% of pre-tax profit, compared with NIS 385 million in the corresponding period and 32.5% of pre-tax profit. Most of the decrease in the tax expense rate can be attributed to the lower corporate tax rate and to the smaller loss from DBS, which cannot be set off for tax purposes.

3. Liquidity and sources of financing

Consolidated cash flows generated by operating activities in the first half of 2009 amounted to NIS 2.032 billion, compared to NIS 1.377 billion in the corresponding period, an increase of NIS 655 million. The sources of the increase in cash flows generated by operating activities are mainly an increase in the operating profit in all the segments in the Group, a change in the balances of trade and other payables, and a decrease in payments in respect of early retirement. The increase was partially moderated by an increase in the trade receivables.

Cash flows generated by operating activities are one of the financing sources of the Group, which during the reporting period included NIS 756 million invested in the development of communications infrastructures and NIS 156 million in intangible assets and deferred expenses, compared with investments of NIS 617 million and NIS 135 million, respectively, in the corresponding period. In addition, net current investments amounted to NIS 94, compared with NIS 314 million in investments realized in the corresponding period.

During the reporting period, the Group repaid debts and paid interest amounting to NIS 929 million, of which NIS 609 million were on account of debentures, NIS 62 million on account of loans and NIS 258 million in interest payments. On the other hand, the Company received NIS 400 million in loans, NIS 41 million in short-term credit, and NIS 97 million in proceeds from the realization of employee stock options – all compared with repayment of debts and interest payments amounting to NIS 943 and receipt of short-term credit of NIS 68 million in the corresponding period.

In the reporting period, cash dividends in the amount of NIS 792 million were paid, compared with NIS 679 million paid in the corresponding period.

The average monthly short-term bank credit in the first half of 2009 amounted to NIS 83 million. The average monthly credit of long-term liabilities to financial institutions and debenture holders in the first half of the year amounted to NIS 6.017 billion.

The working capital deficit at June 30, 2009 amounted to NIS 358 million, compared with NIS 437 million in the corresponding period. Most of the improvement in working capital is in the domestic fixed-line communications segment, where the deficit was reduced by NIS 218 million, and from improvement in the international communications, internet and NEP segment. The improvement was partially moderated by a decrease of NIS 143 million in working capital in the cellular segment and an increase in the working capital deficit in the multi-channel television segment.

The Board of Directors of the Company reviewed the Company's projected cash flows, including possible sources of raising credit, and determined that despite the working capital deficit, the Company does not have liquidity problems.

The above is forward-looking information based on the Company's assessments. Actual results could differ significantly from these assessments if a change occurs in one of the factors taken into account in making them.

4. Market risks – Exposure and management

A. Further to the description in the Directors' Report for 2008, hedging transactions against market risks relating to exposure to changes in exchange rates and the CPI partially reduced this exposure.

B. The sensitivity analyses for the fair value and the effect of the change in the market prices on the fair value of on- or off-balance-sheet balances for which there are agreements at June 30, 2009, do not differ substantially from the December 31, 2008 report, except for the Group's exposure to changes in the dollar exchange rate as they affect agreements of which have increased by NIS 630 million. A change of 5% or 10% in the fair value can result in profit or loss of NIS 31 million or 63 million respectively.

C. The linkage basis report at June 30, 2009 is not substantially different from the December 31, 2008 report, with the exception of the decrease in CPI-linked liabilities amounting to NIS 647 million, mainly due to payment of debentures and loans in the Group.

5. Critical accounting estimates

Preparation of the financial statements according to international accounting standards requires management to make assessments and estimates that influence the reported values of assets, liabilities, income and expenses, and disclosure relating to contingent assets and liabilities. Management bases its estimates and assessments on past experience and on valuations, opinions and other factors which it believes are relevant in the circumstances. Actual results can differ from those assessments on different assumptions and in different conditions. Information on the principal matters of uncertainty in critical assessments and judgments in the application of the accounting policy is provided in the annual financial statements. We believe that these assessments and estimates are critical since every change in them and in the assumptions behind them has the potential to materially affect the financial statements.

6. Disclosure regarding the process for approval of the Company's financial statements

The Company organ responsible for oversight is the Board of Directors. The names of the Company's directors are listed in Chapter D of the Periodic Report for 2008. The Board of Directors of the Company appointed a balance sheet committee, whose mandate and composition are described in the 2008 Directors' Report.

The financial statements were discussed at the balance sheet committee and submitted to the Board of Directors for approval. The following officers attended the board discussion: board members – Shlomo Rodav, Eyal Yaniv, Menachem Inbar, Michael Grabiner, Ran Gottfried, Yoav Rubinstein, Elon Shalev, Kie Kiarie, David Gilboa, Rami Nomkin, Yitzhak Idelman, Yehuda Porat, Aryeh Saban, Zehavit

Cohen, Stephen Grabiner and Adam Chesnoff. In addition, the following officers attended: Avi Gabbay – CEO, Alan Gelman – CFO and Deputy CEO, and Amir Nachlieli – General Counsel. Representatives of the Company's auditors, Somekh Chaikin, also participated in the discussion.

7. Details relating to series of liability certificates

Below are the relevant data at June 30, 2009:

		Debentures Series 4	Debentures Series 5
A	Par value	NIS 600,000,000 (1)	NIS 2,386,967,000
B	Par value revalued at the report date (CPI-linked)	NIS 668,253,855	NIS 2,658,499,831 (2)
C	Accrued interest	NIS 2,673,015	NIS 11,741,708
D	Fair value	NIS 713,580,000	NIS 2,991,108,348
E	Stock exchange value	NIS 713,580,000	NIS 2,991,108,348

(1) On June 1, 2009, NIS 300,000,000 par value was repaid.
(2) Of which, NIS 980 million is held by a wholly-owned subsidiary.

8. Details of independent directors

The Articles of Association of the Company contain no provisions concerning the number or percentage of independent directors.

9. Sundry and events subsequent to the date of the financial statements

A. On July 14, 2009, the Knesset passed the Economic Arrangements (Amendments to the Application 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. For further details see Note 14 to the financial statements.

B. On August 4, 2009, the Company's Board of Directors resolved to recommend to the general meeting of the shareholders of the Company to distribute a cash dividend of NIS 1.149 billion to the shareholders. In addition, the Board of Directors resolved to adopt a dividend distribution policy whereby the Company will distribute to its shareholders, on a semi-annual basis, cash dividends amounting to 100% of the net profit (attributable to the shareholders of the Company) recorded for the previous six-month period, based on the consolidated financial statements of the Company.

The implementation of this dividend policy is subject to Israeli law, including the distribution tests set forth in the Companies Law (1999), and is also subject to the Board of Directors' assessment of the Company's ability to meet its current and expected obligations, in consideration of its projected cash flows, activities and commitments, cash balances, future plans and financial position, as they may be from time to time. Each dividend distribution will be subject to the approval of the general meeting of shareholders of the Company, pursuant to the Company's bylaws.

C. In view of the implications of the global economic crisis for the Israeli market, the Group regularly reviews the possible effects on its business. Based upon the Bezeq Group's financial performance for the first half of 2009, which was materially stronger than the corresponding period in 2008, and considering the improved visibility of the economic environment, the Bezeq Group is raising its outlook for 2009 and now anticipates achieving revenues, net profit, EBITDA and operating cash flows above those for the full-year 2008 results.

The Bezeq Group is not changing its outlook for gross capital expenditures, which are still expected to be close to the 2008 level.

The above includes forward-looking information based on the Company's assessments. Actual results could differ significantly from these assessments noting the changes that might occur in the business conditions and the influence of regulatory decisions.

D. At June 30, 2009, the Group's contractual net dollar-linked liabilities (including off balance-sheet) amounted to approximately NIS 1.464 billion and its net CPI-linked liabilities (including off-balance-sheet) amounted to NIS 4.684 billion. The dollar exchange rate fell by 1.35% between June 30, 2009 and the date of signing the financial statements, and the known CPI rose by 0.9% in June 2009.

We thank the employees and managers of the Group companies and the shareholders.

Shlomo Rodav	**Avraham Gabbay**
Chairman of the Board	**CEO**

BEZEQ THE ISRAEL TELECOMMUNICATION CORP. LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2009
(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.

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

Contents

Somekh Chaikin

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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	June 30, 2008	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	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.