Chapter B of the Periodic Report

Directors' Report on the State of the Company's Affairs
For the three-month period ended March 31, 2009

We respectfully present the Directors' Report on the state of affairs of Bezeq - The Israel Telecommunication Corp. Limited (hereinafter: "the Company") and the consolidated Group companies (the Company and the consolidated companies together are hereinafter referred to as “the Group"), for the three-month period ended March 31, 2009 (hereinafter:” the Directors' Report").

The Directors' Report contains a condensed review of its contents and it assumes that the Directors' Report for 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 as set forth below:

1) **Fixed-line domestic 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 Company’s financial statements at March 31, 2009 as a business segment which mainly includes customer call center services and investment in a venture capital fund.

Profit in the reporting period amounted to NIS 609 million compared with NIS 385 million in the corresponding quarter, an increase of NIS 224 million (58%). The increase in profit stemmed primarily from a decrease in costs and expenses from NIS 2,436 million to NIS 2,296 million, an increase in revenues from NIS 3,100 million to NIS 3,162 million and a decrease in financing costs from NIS 100 million to NIS 37 million. The profit attributable to the Company's owners amounted to NIS 608 million compared with NIS 411 million in the corresponding quarter. The increase in profit for the period stemmed from an increase in profit in all the principal segments. See below for further details.

1. Financial position

A. The financial statements are drafted in accordance with International Financial Reporting Standards (IFRS)

B. The Group's assets at March 31, 2009 amounted to NIS 15.38 billion, compared with NIS 15.19 billion on March 31, 2008, of which NIS 6.07 billion (39%) is property, plant and equipment, compared with NIS 5.98 billion (39%) on March 31, 2008.

The increase in the Group’s assets stemmed mainly from the cellular segment and the international communications, internet services and NEP segment.

In the fixed-line domestic communications segment there was a decrease of NIS 95 million in assets, excluding investment in investee companies, compared with the corresponding quarter. The decrease stemmed from the realization of financial assets held for trading, a decrease in the accounts receivable balance mainly because of the delay in the process of sending customer invoices caused by the transition to a new billing system which had to be overcome. In addition there was a decrease in the depreciated cost of property, plant and equipment resulting from the gap between the depreciation expenses and the investment made in the reporting period as well as from a decrease in the balance of deferred taxes. The decrease in assets was offset by an increase in cash and cash equivalents.

In the cellular segment, assets increased from NIS 4.42 billion on March 31, 2008 to NIS 4.54 billion on March 31, 2009. Most of the increase was due to an investment in frequency rights and property, plant and equipment for the operation of the new network (using UMTS/HSPA technology). Moreover, there was an increase in the accounts receivable balance which stemmed primarily from an increase in sales of end-user equipment in installments. In contrast, there was a decrease in cash balances caused by dividend distributions.

In the international communications, internet and NEP services segment, assets increased from NIS 905 million on March 31, 2008 to NIS 1,051 million on March 31, 2009. The increase stemmed primarily from a rise in cash balances. Moreover, the rise stemmed from additional acquisitions of capacity usage rights.

In the multi-channel television segment there was a moderate rise in total assets from NIS 1.15 billion at March 31, 2008 to NIS 1.17 million at March 31, 2009 which stemmed mainly from an increase in broadcasting rights and a rise in net investment balances in property, plant and equipment.

C. The shareholders' equity attributed to the Company’s owners on March 31, 2009 amounted to NIS 5.38 billion, comprising 35% of the total balance sheet, compared with NIS 4.96 billion on March 31, 2008, which comprised 33% of the total balance sheet. The increase in shareholders’ equity stemmed primarily from the Group’s revenues which were offset by the distribution of a dividend in the amount of NIS 1.51 billion in 2008.

D. The Group's debt to financial institutions and debenture holders on March 31, 2009 amounted to NIS 6.28 billion, compared with NIS 6.54 billion on March 31, 2008. The decrease stemmed primarily from the mobile segment where there was a repayment of loans and debentures. In the fixed-line domestic communications segment there were loan repayments amounting to NIS 568 million. The repayment was offset by the receipt of loans totaling NIS 400 million. The decrease in the Group’s debt was partially offset by a revaluation of CPI-linked loans and debentures caused by a rise in the CPI.

2. Results of operations

A. Operating segments

Below is a summary of data from consolidated income statements:

	For three-month period ended March 31, 2009			
	2009	2008	Increase	%
	NIS millions	NIS millions	(decrease)	Change
Revenues	3,162	3,100	62	2%
Costs and expenses	2,296	2,436	(140)	(6%)
Operating profit	866	664	202	30%
Financing expenses, net	37	100	(63)	(63%)
Profit after financing costs	**829**	**564**	**265**	**47%**
Equity in profits of investees accounted by the equity method	**2**	**1**	**1**	**100%**
Profit before taxes	**831**	**565**	**266**	**47%**
Income tax	222	180	42	23%
Profit for the period	**609**	**385**	**224**	**58%**
Attributed to:				
The Company's owners	**608**	**411**	**197**	**48%**
Non-controlling interests	**1**	**(26)**	**27**	**-**
Profit for the period	**609**	**385**	**224**	**58%**
Earnings per share				
Basic earnings per share (in NIS)	**0.23**	**0.15**	**0.08**	**53%**
Diluted earnings per share (in NIS)	**0.23**	**0.15**	**0.08**	**53%**

Group revenue in the first quarter of 2009 amounted to NIS 3.16 billion compared with NIS 3.1 billion in the corresponding quarter, an increase of 2%. Most of the growth stemmed from the cellular segment which was partially offset by a decrease in the Fixed-line domestic communications segment.

The Group's depreciation and amortization expenses in the first quarter of 2009 amounted to NIS 424 million compared with NIS 429 million in the corresponding quarter, a decrease of 1%. Most of the decrease stemmed from the multi-channel television segment and the fixed-line domestic communications segment which was offset partially by an increase in expenses in the cellular segment.

The Group's salary expenses in the first quarter of 2009 amounted to NIS 557 million compared with NIS 616 million in the corresponding quarter, a decrease of 9.6%. The decrease stemmed primarily from a decrease in salary expenses in the fixed-line domestic communications segment and in the cellular segment.

The Group's operating and general expenses in the first quarter of 2009 amounted to NIS 1,335 million compared with NIS 1,370 million in the corresponding quarter, a decrease of 2.6%. The decrease stemmed primarily from a decrease in expenses in the fixed-line domestic communications segment and in the multi-channel television segment.

B. **Operating segments**

Below are details of operations by segments presented in accordance with the Group's operating segments:

Revenues by operating segment	1-3/2009 NIS millions	1-3/2009 % of total revenues	1-3/2008 NIS millions	1-3/2008 % of total revenues
Fixed-line domestic communications	1,326	42%	1,408	45%
Cellular	1,265	40%	1,173	38%
International communications internet services and NEP	324	10%	314	10%
Multi-channel television	384	12%	381	12%
Other and offsets	(137)	(4%)	(176)	(5)%
Total	3,162	100%	3,100	100%

Operating profit by operating segment	1-3/2009 NIS millions	1-3/2009 % of segment's revenues	1-3/2008 NIS millions	1-3/2008 % of segment's revenues
Fixed-line domestic communications	437	33%	368	26%
Cellular	302	24%	215	18%
International communications internet services and NEP	60	19%	56	18%
Multi-channel television	66	17%	27	7%
Other and offsets	1	-	(2)	-
Consolidated operating profit / % of Group's revenues	866	27%	664	21%

Fixed-line domestic communications segment

Revenues:

Segment revenues in the first quarter of 2009 totaled NIS 1.33 billion compared with NIS 1.41 billion in the corresponding quarter, a decrease of 6%.

The decrease in segment revenues stemmed primarily from a decrease in the number of lines as well as in call traffic and a decrease in interconnect fees to the cellular networks (there was a parallel decrease in expenditure). In contrast there was an increase in revenues from high speed internet, data and transmission communications.

Costs and expenses:

Depreciation expenses in the first quarter of 2009 amounted to NIS 211 million compared with NIS 218 million in the corresponding quarter, a decrease of 3%. This decrease was caused by the end of depreciation of property, plant and equipment, a decrease in investments in new assets and a change in the useful life and scrap value estimate of property, plant and equipment.

Salary expenses in the first quarter of 2009 amounted to NIS 278 million compared with NIS 316 million in the corresponding quarter, a decrease of 12%. The decrease in salary expenses stemmed primarily from the attribution of salary expenses to property, plant and equipment. This was caused mainly by the deployment of the NGN network.

Operating and general expenses in the first quarter of 2009 amounted to NIS 420 million compared with NIS 485 million in the corresponding quarter, a decrease of 13%. The decrease stemmed primarily from a decrease in interconnect fees to the cellular networks together with a decrease in revenue from interconnect fees, and from the implementation of efficiency measures which led to a decrease in operating expenses.

Other net operating income in the first quarter of 2009 amounted to NIS 20 million, compared with expenses of NIS 21 million in the corresponding quarter.

This was caused mainly by capital gains in the reporting quarter compared with an increase in provision expenses for early retirement severance pay and the recording of provisions for claims in the corresponding quarter.

Operating profit:

Operating profit in the segment in the reporting quarter of 2009 amounted to NIS 437 million compared with NIS 368 million in the corresponding quarter, an increase of 19%. The increase in operating profit stems from the changes described above in the expenses and revenue items.

Cellular segment

Revenues:

Segment revenues in the first quarter of 2009 amounted to NIS 1.26 billion compared with NIS 1.17 billion in the corresponding quarter, an increase of 7.7%.

The increase in revenues stems from an increase in revenues from services, primarily from value-added services and from a rise in sales and upgrade prices of terminal equipment which was offset by a decline in the number of sales and upgrades.

Costs and expenses:

Depreciation and amortization expenses in the first quarter of 2009 amounted to NIS 139 million compared with NIS 129 million in the corresponding quarter, an increase of 7.8%. The increase in depreciation expenses stemmed primarily from the launch of the HSPA/UMTS network in January 2009.

Salary expenses in the first quarter of 2009 amounted to NIS 151 million compared with NIS 169 million in the corresponding quarter, a decrease of 10.7%. The decrease in salary expenses stemmed primarily from a decrease in the number of employee positions.

Operating and general expenses in the first quarter of 2009 amounted to NIS 672 million compared with NIS 660 million in the corresponding quarter, an increase of 1.8%. The increase stemmed primarily from an increase in network maintenance expenses resulting from the operation of the additional network alongside the existing network and from an increase in advertising expenses as part of the launch of the new network. The increase was partially offset by a decrease in interconnect fees resulting from the reduction in interconnect fees instituted in March 2008.

Operating profit:

Operating profit in the segment in the first quarter of 2009 amounted to NIS 302 million compared with NIS 215 million in the corresponding quarter, an increase of 40.5%. The improvement in operating profit stemmed from the changes described above in the revenues and expenses items.

International communication, internet and NEP segment

Revenues:

In the first quarter of 2009, revenues in the segment amounted to NIS 324 million compared with NIS 314 million in the corresponding quarter, an increase of 3.4%. The increase stemmed primarily from operations in the internet area in which there was an increase in the number of broadband customers. In contrast there was a decrease in revenues from outbound traffic caused by a decrease in traffic and by average-per-minute price erosion. Furthermore there was also a decline in PBX sales activity.

Costs and expenses:

Depreciation expenses in the first quarter of 2009 amounted to NIS 20 million which remains unchanged from the corresponding quarter.

Salary expenses in the first quarter of 2009 amounted to NIS 64 million compared with NIS 65 million in the corresponding quarter, a decrease of 2%.

Operating and general expenses in the first quarter of 2009 amounted to NIS 181 million compared with NIS 174 million in the corresponding quarter, an increase of 4%. Most of the increase in expenses parallels the increase in segment revenues in internet activities.

Operating profit:

Operating profit in the segment in the first quarter of 2009 amounted to NIS 60 million compared with NIS 56 million in the corresponding quarter, an increase of 7%. The improvement in operating profit stems from the changes described above in the revenues and expenses items.

Multi-channel television segment

Revenues:

Revenues in the segment in the first quarter of 2009 amounted to NIS 384 million compared with NIS 381 million in the corresponding quarter, an increase of 0.8%. The increase stemmed primarily from revenues from advanced services resulting from an increase in the number of subscribers. In contrast there was a decrease in internet revenues caused by an update of the Company's internet agreement.

Costs and expenses:

Depreciation and amortization expenses in the first quarter of 2009 amounted to NIS 57 million compared with NIS 65 million in the corresponding quarter, a decrease of 12%. The decrease was caused by an extension of the customer commitment period in offers which in turn affected the installation depreciation rate.

Salary expenses in the first quarter of 2009 amounted to NIS 53 million compared with NIS 51 million in the corresponding quarter, an increase of 2.4%.

Operating and general expenses in the first quarter of 2009 amounted to NIS 208 million compared with NIS 239 million in the corresponding quarter, a decrease of 13%. Most of the decrease stems from the reduction in internet activity following the new agreement with the Company, a decrease in customer service costs and a reduction in advertising.

Operating profit:

Operating profit in the segment in the first quarter of 2009 amounted to NIS 66 million compared with NIS 27 million in the corresponding quarter, an increase of 144%. The increase in operating profit stemmed primarily from the above-mentioned changes in the revenues and expenses items.

C. **Financing expenses, net**

The Group’s net financing expenses in the first quarter of 2009 amounted to NIS 37 million compared with NIS 100 million in the corresponding quarter, a decrease of 63%. The Group’s debt to financial institutions and debenture holders is mainly linked to the CPI and the financing expenses are affected by changes in the CPI. In the reporting period there was a decline in the index to which the debt balances are linked, compared with a rise in the corresponding quarter. A revaluation of liabilities in the reporting quarter led to the decline in the Group’s financing expenses.

In the fixed line domestic communications segment in the first quarter of 2009, net financing income amounted to NIS 21 million compared with net financing expenses of NIS 20 million in the corresponding quarter. The change stemmed primarily from the above-mentioned decline in the index in the first quarter of 2009.

In the cellular segment net financing income amounted to NIS 11 million compared with NIS 9 million in the corresponding quarter, an increase of 22%.

In the multi-channel television segment net financing expenses in the first quarter of 2009 amounted to NIS 67 million compared with NIS 92 million in the corresponding quarter, a decrease of 27%. Most of the decrease was caused by the above-mentioned decline in the index in the first quarter of 2009.

D. **Income tax**

The Group's tax expenses in the reporting period amounted to NIS 222 million, representing approximately 27% of pre-tax profit, compared with NIS 180 million in the corresponding quarter which represented 32% of pre-tax profit. Most of the decrease in the rate of tax on profits before income tax was due to a tax rate reduction as well as a decrease in DBS’s losses that are not deductible for tax purposes.

3. Liquidity and sources of financing

Consolidated cash flows generated by operating activities in the first quarter of 2009 amounted to NIS 1,224 million, compared with NIS 618 million in the corresponding quarter, an increase of NIS 606 million. The increase in cash flows generated by operating activities is mainly due to the increase in operating profit in all the Group's segments and a change in trade payables and other balances.

Cash flows generated by operating activities are one of the sources of financing of the Group's investments, which during the reporting quarter included, inter alia, NIS 408 million invested in development of communications infrastructures, compared with an investment of NIS 307 million in the corresponding quarter.

In the reporting period, the Group repaid net debts and paid interest of NIS 347 million, of which NIS 206 million was for debentures, NIS 31 million for loans, and NIS 110 million for interest payments. In contrast the Company received loans amounting to NIS 400 million and a consideration from the realization of option warrants for employees in the amount of NIS 36 million. This compares with the repayment of a net debt and interest payments amounting to NIS 313 million in the corresponding quarter.

The monthly average short-term credit balance from banks in the first quarter of 2009 amounted to NIS 62 million. The monthly average of long-term liabilities to financial institutions and debenture holders in the first quarter of 2009 amounted to NIS 6,102 million.

Working capital at March 31, 2009 amounted to NIS 280 million, compared with NIS 291 million in the corresponding quarter. Most of the decrease in working capital is in the mobile segment and it was offset by an increase in the fixed-line domestic communications segment and in the international, internet and NEP segment.

4. Exposure to and management of market risks

Market risks and the Company's risk management policy

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

B. Sensitivity analyses of the fair value and the effect of the change in market prices on the fair value of balance sheet balances and off-balance sheet balances in respect of which there is a firm agreement at March 31, 2009 are not materially different from those of December 31, 2008.

C. The linkage base report for March 31, 2009 is not materially different from the report of December 31, 2008.

5. Critical accounting estimates

The preparation of the financial statements according to IFRS requires the management to make estimates and assessments that influence the reported values of assets and liabilities, income and expenses, and disclosure relating to contingent assets and liabilities. Management bases its estimates and assessments on past experience and on additional factors, value appraisals and opinions which it believes are relevant, taking into account the circumstances. The actual results can differ from those assessments based on various assumptions and 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 because every change in them and in the assumptions has the potential to materially affect the financial statements.

6. Disclosure regarding the proceeding for approving the Company's financial statements

The board of directors is responsible for oversight. The board of directors appointed a balance sheet committee whose tasks and composition are described in the Directors' Report for 2008.

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, Stephen Grabiner, Ran Gottfried, Yoav Rubinstein, Elon Shalev, Kihara R. Kiarie, David Gilboa, Rami Nomkin, Yitzhak Idelman, Yehuda Porat, Arieh Saban, Adam Chesnoff and Zehavit Cohen. In addition, the following officers attended: Abraham Gabbay – CEO, Alan Gelman – CFO and Deputy CEO and Amir Nachlieli, the General Counsel.

Representatives of Somekh Chaikin, the Company's auditing accountants, also participated in the discussion.

7. Details of debenture series

Following are the updated details for March 31, 2009.

		Series 4 debentures	Series 5 debentures
A.	Par value reassessed for reporting date (linked to the CPI)	NIS 983,800,065	NIS 2,609,220,322 (1)
B.	Accumulated interest	NIS 39,352,003	NIS 115,240,564
C.	Fair value	NIS 1,062,720,000	NIS 2,990,869,651
D.	Stock exchange value	NIS 1,062,720,000	NIS 2,990,869,651

* (1) Of which NIS 962 million held by a wholly-owned subsidiary.

8. Miscellaneous and events subsequent to the date of the financial statements

A. On May 3, 2009, further to the board's recommendation of March 23, 2009, the general meeting approved the distribution of a cash dividend of NIS 792 million to the Company's shareholders. The dividend will be paid on May 24, 2009.

B. As a result of the ramifications of the global financial crisis on the Israeli market, the Group conducts regular reviews of the possible effects on its businesses. Building on the incremental visibility following the close of the first quarter of 2009, which included materially stronger financial performance as compared to the corresponding quarter in 2008, and taking into consideration the current economic environment, Bezeq Group is raising its outlook for 2009 and currently anticipates achieving revenues, net profit, EBITDA, and operating cash flows in line with those of the Group's full-year 2008 performance levels. The Bezeq Group is not changing its outlook for gross capital expenditures, which will still be close to the 2008 level.

The information contained in this section includes forward-looking information which is based on the Company's assessments. The actual results are likely to be materially different from the above assessments, bearing in mind the changes that will occur in business conditions and in the effects of regulatory decisions.

C. As at March 31, 2009, the scope of the Group's net contractual liabilities (including off balance sheet) which are linked to the dollar amounted to NIS 916 million and the Group's net liabilities (including off balance sheet) which are linked to the CPI amounted to NIS 4,816 million. The dollar exchange rate declined by 1.6% between March 31, 2009 and the date of signing the financial statements and the known CPI rose by 1.5% in March and April 2009.

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

Shlomo Rodav Chairman of the Board of Directors	Abraham Gabbay CEO