"BEZEQ" THE ISRAEL TELECOMMUNICATION CORP. LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
MARCH 31, 2009
(UNAUDITED)

Contents

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

Introduction

We have reviewed the accompanying financial information of "Bezeq" The Israel Telecommunication Corp. Limited and its subsidiaries (hereinafter - "the Group") comprising of the condensed consolidated interim statement of financial position as of March 31, 2009 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting"*, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of equity accounted investees the investment in which amounted to NIS 34 million as at March 31, 2009, and the Group's share in their profits amounted to NIS 2 million for the three month period then ended. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

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

Without qualifying our conclusion, we draw attention to the contingent claims made against the Group of which the exposure yet be assessed or calculated, and other contingencies as described in Notes 5B and 5C.

Somekh Chaikin
Certified Public Accountants

May 19, 2009

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2009	March 31, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**1,702**	1,283	786
Investments, including derivatives	**37**	317	33
Trade receivables	**2,390**	2,480	2,373
Other receivables	**234**	245	211
Inventory	**188**	238	158
Current tax assets	**-**	28	-
Assets classified as held for sale	**43**	20	34
Total current assets	**4,594**	4,611	3,595
Investments, including derivatives	**192**	227	187
Trade receivables	**637**	562	576
Broadcasting rights, net of rights exercised	**288**	271	253
Property, plant and equipment	**6,066**	5,981	6,036
Intangible assets	**2,664**	2,495	2,674
Deferred and other expenses	**398**	376	411
Investments in equity-accounted investees	**34**	39	32
Deferred tax assets	**503**	626*	550*
Total non-current assets	**10,782**	10,577	10,719
	15,376	15,188	14,314

	March 31, 2009	March 31, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Liabilities			
Debentures, loans and borrowings	**1,018**	1,032	1,780
Trade payables	**1,471**	1,350	1,381
Other payables, including derivatives	**962**	866	850
Current tax liabilities	**88**	33	45
Deferred income	**58**	19	62
Provisions	**358**	388	355
Employee benefits	**359**	632*	412*
Total current liabilities	**4,314**	4,320	4,885
Debentures	**3,711**	4,242	3,943
Bank loans	**1,391**	1,125	214
Loans from institutions	**161**	140	109
Loans provided by non-controlling interest in a subsidiary	**462**	389	449
Employee benefits	**267**	262	265
Deferred income and others	**25**	52	76
Provisions	**70**	58	64
Deferred tax liabilities	**63**	42	65
Total non-current liabilities	**6,150**	6,310	5,185
Total liabilities	**10,464**	10,630	10,070
Equity			
Share capital	**6,146**	6,132	6,132
Share premium	**26**	-	-
Reserves	**762**	690	748
Deficit balance	**(1,557)**	(1,865)*	(2,165)*
Total equity attributable to owners of the Company	**5,377**	4,957	4,715
Non-controlling interest	**(465)**	(399)*	(471)
Total equity	**4,912**	4,558	4,244
Total equity and liabilities	**15,376**	15,188	14,314

* Retrospective application, see Note 3C.

Shlomo Rodav
Chairman of the Board

Avi Gabbay
CEO

Alan Gelman
Deputy CEO and CFO

Date of approval of the financial statements: May 19, 2009

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

Condensed Consolidated Interim Statements of Income

	For the three months ended March 31,		For the year ended December 31,
	2009	**2008**	**2008**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Revenue (Note 7)	**3,162**	3,100	12,407
Costs and expenses			
Depreciation and amortization	**424**	429	1,703
Salary	**557**	616	2,354
Operating and general expenses (Note 8)	**1,335**	1,370	5,437
Other operating expenses (income), net	**(20)**	21	96
	2,296	2,436	9,590
Operating income	**866**	664	2,817
Finance expenses			
Finance expenses	**115**	161	747
Finance income	**(78)**	(61)	(166)
Finance costs, net	**37**	100	581
Profit after finance expenses	**829**	564	2,236
Share in profits of equity-accounted investees	**2**	1	5
Profit before income tax	**831**	565	2,241
Income tax	**222**	180	720
Profit for the period	**609**	385	1,521
Attributable to:			
The Shareholders of the Company	**608**	411*	1,627
Non-controlling interest	**1**	(26)*	(106)
Profit for the period	**609**	385	1,521
Earnings per share			
Basic earnings per share (in NIS)	**0.23**	0.15	0.62
Diluted earnings per share (in NIS)	**0.23**	0.15	0.61

* Retrospective application, see Note 3C.

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended March 31		For the year ended December 31
	2009	**2008**	**2008**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Profit for the period	**609**	385	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	**3**	-	(4)
Taxes in respect of other items of comprehensive income	**-**	1	1
Other total comprehensive income for the period, net of tax	**3**	(4)	(10)
Total comprehensive income for the period	**612**	381	1,511
Attributable to:			
The shareholders of the Company	**611**	407 *	1,617
Non-controlling interest	**1**	(26) *	(106)
Total comprehensive income for the period	**612**	381	1,511

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

* Retrospective application, 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 standard.

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

Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to the 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 March 31, 2009										
Balance at January 1, 2009 (audited)	**6,132**	**-**	**(4)**	**390**	**-**	**362**	**(2,165)***	**4,715**	**(471)**	**4,244**
Comprehensive income for the period (unaudited)	**-**	**-**	**3**	**-**	**-**	**-**	**608**	**611**	**1**	**612**
Share-based payments (unaudited)	**-**	**-**	**-**	**-**	**-**	**15**	**-**	**15**		**15**
Exercise of options into shares (unaudited)	**14**	**26**	**-**	**-**	**-**	**(4)**	**-**	**36**	**-**	**36**
Transfers by non-controlling interest (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**5**
Balance at March 31, 2009 (unaudited)	**6,146**	**26**	**(1)**	**390**	**-**	**373**	**(1,557)**	**5,377**	**(465)**	**4,912**
Three months ended March 31, 2008										
Balance at January 1, 2008 (audited)	6,132	-	-	390	4	287	(2,276)*	4,537	(373)	4,164
Comprehensive income for the period (unaudited)	-	-	-	-	(4)	-	411*	407	(26)*	381
Share-based payments (unaudited)	-	-	-	-	-	13	-	13	-	13
Balance at March 31, 2008 (unaudited)	6,132	-	-	390	-	300	(1,865)*	4,957	(399)*	4,558

* Retrospective application through restatement, see Note 3C.
For distribution of a cash dividend, see Note 12D.

Condensed Consolidated Interim Statements of Changes in Equity (cont)

	Attributable to the 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 Company shareholders (audited)	-	-	-	-	-	(1,514)	(1,514)	-	(1,514)
Share-based payments (audited)	-	-	-	-	75	-	75	-	75
Transfers by non-controlling interests (audited)	-	-	-	-	-	-	-	8	8
Balance at December 31, 2008 (audited)	6,132	(4)	390	-	362	(2,165)*	4,715	(471)	4,244

* Retrospective application through restatement, see Note 3C.

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

Condensed Consolidated Interim Statements of Cash Flows

	For the three months ended March 31		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from operating activities			
Net profit for the period	**609**	385	1,521
Adjustments:			
Depreciation	**346**	351	1,394
Amortization of intangible assets	**72**	68	289
Amortization of deferred and other expenses	**6**	10	20
Equity in profits of equity-accounted investees	**(2)**	(1)	(5)
Finance costs, net	**77**	129	561
Capital gain, net	**(20)**	(1)	(68)
Share-based payment transactions	**15**	13	75
Income tax expenses	**222**	180	720
Receipt (payment) for disposal of derivative financial instruments, net	**9**	(10)	(38)
Change in:			
Inventory	**(33)**	(37)	42
Trade receivables	**(78)**	(104)	(10)
Other receivables	**(51)**	(53)	(44)
Other payables	**197**	73	15
Trade payables	**116**	(143)	(225)
Provisions	**7**	(4)	(34)
Broadcasting rights, net of rights exercised	**(34)**	(28)	(11)
Employee benefits	**(50)**	(83)	(302)
Deferred income and others	**(46)**	1	50
Income tax paid	**(138)**	(128)	(535)
Net cash flows from operating activities	**1,224**	618 *	3,415
Cash flows for investment activities			
Investment in intangible assets and deferred expenses	**(63)**	(59)	(469)
Proceeds from the sale of property, plant and equipment and deferred expenses	**51**	61	147
Realization of current investments, net	**6**	57	321
Purchase of property, plant and equipment	**(408)**	(307)	(1,300)
Proceeds from realization of investments and long-term loans	**7**	6	19
Purchase of investments and long-term loans	**(1)**	-	(8)
Investment in an affiliate	**-**	(1)	-
Dividend received	**-**	-	13
Interest received	**5**	19*	64
Net cash used for investment activities	**(403)**	(224)	(1,213)

* See Note 3D

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

Condensed Consolidated Interim Statements of Cash Flows (contd.)

	For the three months ended 31 March		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from financing activities			
Receipt of loans	**400**	-	-
Repayment of debentures	**(206)**	(229)	(714)
Repayment of loans	**(31)**	(40)	(148)
Short-term borrowing, net	**-**	12	(50)
Dividend paid	**-**	-	(1,514)
Interest paid	**(110)**	(56)	(243)
Receipt for settlement of derivative financial instruments, net	-	4	52
Transfer of funds by non-controlling interest less dividend distributed, net	**5**	-	8
Proceeds from exercise of employee options	**36**	-	-
Net cash from (used for) financing activities	**94**	(309)	(2,609)
Net increase (decrease) in cash and cash equivalents	**915**	85	(407)
Cash and cash equivalents at the beginning of the period	**786**	1,203	1,203
Effect of fluctuations in the rate of exchange on cash balances	**1**	(5)	(10)
Cash and cash equivalents at the end of the period	**1,702**	1,283	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 rights of the Group in associates. The Group is a principal provider of communications services in Israel (see also Note 10 – Segment Reporting).

B. The controlling shareholder of the Company is Ap.Sb.Ar Holdings Ltd., which held 40.44% of the Company's shares as at March 31, 2009. The Company was declared a monopoly in the main areas in which it operates. All the segments of operation of the Group are subject to competition. The activities of the Group 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 which have a mandate to review the Company's tariffs. The intensifying competition and the entirety of the 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 in accordance with Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970.

B. The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries at December 31, 2008 and the year then ended, and their accompanying notes ("the annual financial statements"). The Group states in the notes to the interim financial statements only the material changes that have occurred from the date of the most recent annual financial statements until the date of these interim financial statements.

C. The condensed consolidated interim financial statements were approved by the Board of Directors on May 19, 2009.

D. Use of estimates and judgment

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

A. Initial application 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 in 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:

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

First-time adoption of the standard did not effect 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 below.

(4) IAS 28 – *Investments in Associates, revised* (the Amendment). In accordance with the Amendment, an investment in an affiliate shall be tested for impairment with respect to the overall investment. Accordingly, an impairment loss recognized on the investment shall not be specifically allocated to the goodwill included in the investment but to the overall investment, and therefore it will be possible to reverse the full amount of an impairment loss that was recognized in the past 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.

B. New standards and interpretations not yet adopted and their adoption is not expected to affect the financial statements of the Group

(1) IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations,* revised ("the Amendment") was amended as part of Improvements to IFRSs in 2008. In accordance with the Amendment, when the parent company decides on the disposal of part of its holdings in a subsidiary so that after the disposal the parent company is left with a non-controlling interest, for example- rights that confer significant influence, all the assets and liabilities attributed to the subsidiary are to be classified as held for sale and the relevant instructions of IFRS 5 shall apply, including presentation, as a discontinued operation. The Amendment shall be implemented prospectively as from financial statements for periods beginning on July 1, 2009. Earlier application is permitted, provided that IAS 27, revised in 2008, is applied at the same time, with disclosure (as applied by the Group). Application of the Amendment is not expected to have a material impact on the Group's financial statements.

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

B. New standards and interpretations not yet adopted and their adoption is not expected to affect the financial statements of the Group (contd.)

(2) In the framework of the *Improvements to IFRS* project, 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 beginning 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 to the Group and are expected to have an effect on the financial statements. The Group is assessing the effect of these amendments:

a. IAS 17 – *Leases: Classification of leases of land and buildings* (revised) ("the Amendment"). The Amendment eliminates the requirement to classify a lease of land as an operating lease when the title is not expected to pass to the lessee at the end of the lease term. Under the Amendment, classification of the land lease should be based on the regular criteria for classifying a lease as a finance or operating lease. The Amendment also states that when a lease includes both land and building elements, an entity should determine the classification of each element, based on the criteria in the Amendment, taking account of the fact that land normally has an indefinite economic life. The Amendment is effective for annual financial statements commencing on or after January 1, 2010. Early application of the Amendment is permitted, with disclosure. The Amendment is effective retrospectively, meaning 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 in retained earnings.

b. IAS 18 – *Revenue*. The Appendix to IAS 18 includes an example that lists guidelines for identifying whether an entity is acting as a principal 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. IAS 39 – *Financial Instruments: Recognition and Measurement* (revised), treating loan prepayment penalties as an embedded derivative ("the Amendment"). The Amendment provides guidance on determining whether 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, then the economic characteristics and risks of the prepayment option embedded in a host debt are closely related to the host contract and the embedded derivative is not separated from the host contract. The Amendments is to be applied for annual periods commencing on or after January 1, 2010.

C. Retrospective application by restatement

1. Further to Note 3(V) 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 March 31, 2008 and for the three months then ended, respectively.

2. 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). 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.

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

C. Retrospective application by restatement (contd.)

Below is the effect of the retroactive application on the relevant sections:

(1) Effect on 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
At January 1, 2008 (audited)				
Deficit	(2,268)	-	(8)	(2,276)

(2) 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
At March 31, 2008 (unaudited)				
Deferred tax assets	623	-	3	626
Employee benefits (as part of current liabilities)	621	-	11	632
Deficit	(1,870)	13	(8)	(1,865)
Non-controlling interest	(386)	(13)	-	(399)
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)

(3) 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
Three months ended March 31, 2008 (unaudited):				
Profit for the period attributed to:				
The shareholders of the Company	398	13	-	411
Non-controlling interests	(13)	(13)	-	(26)
Profit for the period	385	-	-	385

D. Classified 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 annual financial statements of the Group at December 31, 2008. Below are details of the material changes that occurred in connection with the Group entities since publication of the last annual report

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

(1) Since commencing its operations, DBS has accumulated considerable losses. The losses of DBS in 2008 amounted to approximately NIS 265 million and the loss for the three-month period ended March 31, 2009 amounted to approximately NIS 1 million. As a result of these losses, its capital deficit and its working capital deficit at March 31, 2009 amounted to approximately NIS 2,892 million and NIS 536 million, respectively.

(2) The Company's investment in DBS (primarily through shareholders' loans) at the balance sheet date amounts to approximately NIS 1,562 million (without interest and linkage). The balance of DBS's debt to the Company and its subsidiaries amounts to approximately NIS 87 million, of which approximately NIS 67 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 27.8 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.

(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 March 31, 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. As at March 31, 2009, DBS is in compliance with the financial covenants set for it.

C. The management of DBS believes that the sources of financing available to it 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 decision of the Antitrust Tribunal and to inform the Antitrust Tribunal and the Supreme Court of this decision, 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 decision of the Supreme Court regarding the counter petition that was filed against approval of the merger.

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 341 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 March 31, 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 13.2 billion, of which 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 the addition of interest.

Concerning 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. See section (2) below for the dismissal of the claim subsequent to the date of the financial statements.

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, to partially accept 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 updated to NIS 77 million.

(2) 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 ruling of the district court, which denied the application for certification of the claim as a class action.

(3) 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.

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 17(B) 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 that cannot yet be estimated

(1) 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 5756-2006, 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 any reasonable or acceptable amount and/or without their agreement or without notice and/or who had a uniform agreement with Bezeq International that 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 216.8 million (the personal amount of the claim is NIS 2,802).

(2) Further to Note 17B(5), (6) and (7) to the financial statements as of December 31, 2008, a risk assessment for these claims was received.

C. Other contingencies

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

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 in respect of the alleged violation of provisions of the Company's general license relating to the 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 the 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.

NOTE 6 – TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

A. Further to Note 26(B) and (I) to the financial statements as at December 31, 2008, on May 3, 2009 the general meeting of the shareholders of the Company approved the allocation of 100,000 options exercisable into 100,000 ordinary shares of NIS 1 par value each to an employee-director. The exercise price of the options is NIS 5.9703 (adjusted for distribution of a dividend in cash or in kind) and the theoretic economic value based on a weighted Black and Scholes model is approximately NIS 297,000, based, inter alia, on the share price on the grant date, which was NIS 6.5, a risk-free annual interest rate of 4.85%, an expected life of 8 years and an annual standard deviation of 26.63%.

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 7 – REVENUE

	For the three months ended 31 March		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Domestic fixed-line communications			
Fixed-line telephony	**814**	915	3,470
Internet - infrastructure	**203**	179*	731*
Transmission, data communication and other	**236**	229	978
	1,253	1,323	5,179
Cellular			
Cellular services and terminal equipment	**958**	918 *	3,756
Sale of terminal equipment	**245**	182 *	692
	1,203	1,100	4,448
International communications, internet services and NEP	**310**	294	1,243
Multi-channel television	**384**	377*	1,506*
Others	**12**	6	31
	3,162	3,100	12,407

* See Note 3D.

NOTE 8 – OPERATING AND GENERAL EXPENSES

	For the three months ended 31 March		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cellular telephone expenses	**415**	442	1,723
General expenses	**273**	276	1,115
Materials and spare parts	**217**	217	809
Consumption of satellite services content	**114**	115	447
Services and maintenance by sub-contractors	**83**	84	331
Building maintenance	**74**	78	364
International communication expenses	**81**	68	273
Motor vehicle maintenance expenses	**39**	46	192
Royalties to the State of Israel	**27**	32	134
Collection fees	**12**	12	49
	1,335	1,370	5,437

NOTE 9 – CONDENSED DATA FROM THE SEPARATE INTERIM FINANCIAL STATEMENTS OF THE COMPANY

A. Income statement

	For the three months ended 31 March		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue (see B below)	**1,326**	1,408	5,498
Costs and expenses			
Depreciation and amortization	**211**	218	852
Salary	**278**	316	1,202
General and operating expenses	**420**	485	1,873
Operating expenses (income), net	**(20)**	21	96
	889	1,040	4,023
Operating income for the period	**437**	368	1,475

B. Revenue segmentation

	For the three months ended 31 March		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Telephony	**839**	933	3,572
Internet	**207**	198	790
Transmission and data communication	**207**	192	811
Other services	**73**	85	325
	1,326	1,408	5,498

NOTE 10 – 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

	For the three months ended March 31, 2009 (unaudited)						
	Domestic fixed–line communications	Cellular telephone	International communications, internet and NEP services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Total revenue from external sources	1,253	1,203	310	384	12	-	3,162
Revenue from inter-segment sales	73	62	14	-	5	(154)	-
Total revenue	1,326	1,265	324	384	17	(154)	3,162
Segment operating profit	437	302	60	66	1	-	866
Segment assets as at March 31, 2009	11,729	4,538	1,051	1,174	108	(3,224)	15,376

NOTE 10 – SEGMENT REPORTING (CONTD.)

	For the three months ended March 31, 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	1,323	1,100	294	377	6	-	3,100
Revenue from inter-segment sales	85	73	20	4	13	(195)	-
Total revenue	1,408	1,173	314	381	19	(195)	3,100
Segment operating profit	368	215	56	27	(2)	-	664
Segment assets as at March 31, 2008	11,523	4,417	905	1,151	123	(2,931)	15,188

NOTE 10 – SEGMENT REPORTING (CONTD.)

	For the 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 December 31, 2008	10,752	4,644	994	1,132	100	(3,308)	14,314

NOTE 10 – SEGMENT REPORTING (CONTD.)

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

	For the three months ended March 31		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit or loss			
Total operating profit or loss for segment reporting after finance costs	**865**	666	2,827
Profit or loss for other categories	**1**	(2)	-
Non-attributable amounts	-	-	(10)
Finance costs, net	**(37)**	(100)	581
Share in the profits of equity-accounted investees	**2**	1	5
Consolidated profit before income tax	**831**	565	2,241

	March 31		December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Total assets for segment reporting	**18,458**	17,957	17,490
Assets attributable to activities in other categories	**108**	123	100
Investment in equity-accounted investees	**34**	39	32
Less inter-segment assets	**(3,224)**	(2,931)	(3,308)
Total consolidated assets	**15,376**	15,188	14,314

NOTE 11 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD

1. Pelephone Communications Ltd.

A. Balance sheet

	March 31, 2009	March 31, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**1,713**	2,081	1,898
Non-current assets	**2,825**	2,336	2,746
	4,538	4,417	4,644
Current liabilities	**1,241**	1,058	1,502
Long term liabilities	**972**	1,112	1,050
Total liabilities	**2,213**	2,170	2,552
Shareholders' equity	**2,325**	2,247	2,092
	4,538	4,417	4,644

B. Income statement

	For the three months ended 31 March		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenues from services and sales	**1,265**	1,173	4,713
Cost of services and sales	**814**	830	3,216
Gross profit	**451**	343	1,497
Selling and marketing expenses	**117**	97	424
General and administrative expenses	**32**	31	140
	149	128	564
Operating income	**302**	215	933
Finance expenses	**28**	26	115
Finance income	**(39)**	(35)	(117)
Net finance income	**(11)**	(9)	(2)
Profit before income tax	**313**	224	935
Income tax	**83**	61	253
Net profit for the period	**230**	163	682

NOTE 11 – 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. Balance sheet

	March 31, 2009	March 31, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**175**	171 *	164
Non-current assets	**999**	980 *	968
	1,174	1,151	1,132
Current liabilities	**710**	684	1,497
Non-current liabilities	**3,356**	3,161	2,527
Total liabilities	**4,066**	3,845	4,024
Capital deficit	**(2,892)**	(2,694)	(2,892)
	1,174	1,151	1,132

* See Note 3D.

B. Income statement

	For the three months ended 31 March		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue	**384**	381	1,513
Cost of revenue	**259**	286	1,091
Gross profit	**125**	95	422
Selling and marketing expenses	**28**	39	128
General and administrative expenses	**31**	29	117
	59	68	245
Operating income	**66**	27	177
Finance expenses	**45**	60	230
Finance income	**(20)**	(19)	(52)
Shareholders' finance expenses	**42**	51	263
Financing expenses, net	**67**	92	441
Loss before taxes on income	**(1)**	(65)	(264)
Income tax	**-**	-	1
Net loss for the period	**(1)**	(65)	(265)

NOTE 11 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD (CONTD.)

3. Bezeq International Ltd.

A. Balance sheet

	March 31, 2009	March 31, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**545**	428 *	496
Non-current assets	**506**	477 *	498
	1,051	905	994
Current liabilities	**292**	287	254
Long term liabilities	**34**	25	30
Total liabilities	**326**	312	284
Shareholders' equity	**725**	593	710
	1,051	905	994

* See Note 3D.

B. Income statement

	For the three months ended 31 March		For the year ended December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue	**324**	314	1,306
Operating expenses	**199**	190	780
Gross profit	**125**	124	526
Selling and marketing expenses	**41**	42	181
General and administrative expenses	**24**	26	103
	65	68	284
Operating income	**60**	56	242
Finance expenses	**2**	5	8
Finance income	**-**	(6)	(7)
Financing expenses (income), net	**2**	(1)	1
Share in profits in equity-accounted investees	**2**	1	5
Profit before income tax	**60**	58	246
Income tax	**16**	16	68
Net profit for the period	**44**	42	178

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

NOTE 12 – MATERIAL EVENTS DURING THE REPORTING PERIOD AND EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

A. Further to Note 26(B) and (I) to the financial statements as at December 31, 2008, on January 21, 2009, the Board of Directors of the Company approved the allocation of the 400,000 options to senior employees in the Group. In addition, on February 19, 2009, the Board of Directors of the Company approved the allocation of the additional 1,600,000 options to senior employees in the Group in accordance with the same plan. The exercise price of the options is NIS 5.9703-NIS 6.1837 (adjusted for distribution of a dividend in cash or in kind) and the theoretic economic value based on a weighted Black and Scholes model is approximately NIS 4.1 million, based, inter alia, on the share price on the grant date, which was NIS 6.5-NIS 6.55, a risk-free annual interest rate of 3.65%-4.28%, an expected life of 4.5-5.5 years and an annual standard deviation of 25.54%-24.56%.

B. 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 March 2009 the Company issued 13,938,626 ordinary shares of NIS 1 par value each. In addition, subsequent to the date of the report and up to May 17, 2009, following the exercise of additional options by the employees, in accordance with the options plans, the Company issued another 10,062,038 ordinary shares of NIS 1 par value each.

C. 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 loans are repayable in 2010-2013 and bear variable interest at prime + 0.85% to 1%.

D. Further to Note 20(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 recommendation of the Board of Directors of the Company of March 23, 2009 concerning distribution of a cash dividend to the shareholders of the Company in the amount of NIS 792 million, representing NIS 0.3013025 per share at the date of record (May 11, 2009). The dividend will be paid on May 24, 2009.