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. Segments of operation

The tables show operating data by Group segment.

Revenues by segments of operation	1-6/2009 NIS millions	1-6/2009 % of total revenues	1-6/2008 NIS millions	1-6/2008 % of total revenues	4-6/2009 NIS millions	4-6/2009 % of total revenues	4-6/2008 NIS millions	4-6/2008 % 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 NIS millions	1-6/2009 % of segment revenues	1-6/2008 NIS millions	1-6/2008 % of segment revenues	4-6/2009 NIS millions	4-6/2009 % of segment revenues	4-6/2008 NIS millions	4-6/2008 % 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 **Chairman of the Board**	**Avraham Gabbay** **CEO**