May 11, 2011

Bezeq The Israel Telecommunication Corporation Limited

Quarterly Report for the Period ending March 31, 2011

Update of Chapter A (Description of Company Operations) of the Periodic Report for 2010

Directors' Report on the State of the Company's Affairs for the period ended March 31, 2011

Interim Consolidated Financial Statements as at March 31, 2011

UPDATE OF CHAPTER A (DESCRIPTION OF COMPANY OPERATIONS)[1]
OF THE PERIODIC REPORT FOR 2010 (THE "PERIODIC REPORT") OF
"BEZEQ" – THE ISRAEL TELECOMMUNICATIONS CORPORATION LIMITED (THE "COMPANY")

1. Description of general development of the Bezeq Group's business

Section 1.1 – Bezeq Group activities and business development

Section 1.1.1 – General

Following are details of the current holdings in the Company and with full dilution, assuming exercise of all the options allotted to the Group's employees and managers at March 31, 2011 and May 10, 2011 (the calculation is, inter alia, subsequent to the acquisition of Company shares by B Communications as described in the update to Section 1.3.1):

Shareholders	Percentage of holdings		
	At March 31, 2011	At May 10, 2011	With full dilution at May 10, 2011[2]
B Communications (through B Tikshoret)	31.36%	31.24%	30.13%
The public	68.64%	68.76%	69.87%

Section 1.3 – Investments in equity and share transactions

On March 16, 2011 the Company applied to the Securities Authority for permission to publish a shelf prospectus and submitted a preliminary draft shelf prospectus based on the Company's financial statements as at December 31, 2010, according to which the Company may issue, subject to the terms of the shelf prospectus, shares, debentures, convertible debentures, stock options, debenture options and marketable securities, in the scope and according to the terms set out in the shelf offering memorandums, insofar as these will be issued by the Company in the future.

Section 1.3.1 – Transactions in Bezeq shares

On March 10, 2011 the Company's controlling shareholder, B Communications, acquired (through B Tikshoret) 15,072,168 of Bezeq's shares at a transaction rate of NIS 10.055 per share so that immediately after this acquisition, the balance of its holdings rose to 829,283,713 Company shares and its holdings of Company shares rose to 30.84% (29.62% in full dilution).

On March 14, 2011 the Company's controlling shareholder, B Communications, acquired (through B Tikshoret) 14,590,000 of Bezeq's outstanding shares at a transaction rate of NIS 10.1716 per share so that immediately after this acquisition, the balance of its holdings increased to 843,873,713 Company shares and its holdings of Company shares rose to 31.37% (30.14% in full dilution).

Section 1.4 - Distribution of dividends

Section 1.4.2 – Distribution of dividends

On April 13, 2011, the general meeting of the Company's shareholders (further to a recommendation of the board of directors from March 7, 2011) approved the distribution of a cash dividend to the Company's shareholders in the total sum of NIS 1,163 million, which on the determining date for the distribution (May 4, 2011) represents NIS 0.4305716 per share and 43.05716% of its issued and paid-up capital. The dividend will be paid on May 19, 2011 (together with the special dividend, as described in the update to section 1.4.3).

---

1 The update is pursuant to Article 39A of the Securities Regulations (Periodic and Immediate Reports, 5730-1970), and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2010 and relates to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

2 The calculation of full dilution assumes that all the allotted options will be exercised into shares. In view of the mechanism of net exercise of stock appreciation rights in the plan for managers and senior employees of the Group from November 2007 and the employee stock option plan (2010), this assumption is theoretical only, since in practice, under the terms of the plan and according to the outlines, offerees who exercise the options will not be allocated the full number of shares underlying them, but only the number of shares that reflects the amount of the financial benefit embodied in the options.

Section 1.4.3 – Distribution that does not pass the profit test

On March 31, 2011 the Tel Aviv District Court approved a distribution which does not pass the profit test, in a total amount of NIS 3 billion which will be distributed to the Company's shareholders in six equal semi-annual payments from 2011 until 2013. Pursuant thereto, on May 19, 2011 the first tranche of this distribution will be distributed in a total amount of NIS 500 million (which on the record date for the distribution (May 4, 2011) represents NIS 0.1851125 per share and 18.51125% of its issued and paid-up capital), together with the distribution of the regular dividend as described in the update to section 1.4.2. The Company recorded a liability in its financial statements at March 31, 2011 for the whole sum of the distribution (NIS 3 billion).

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

Section 1.5.4 – Principal results and operational data

A. Bezeq Fixed-Line (the Company's activity as domestic operator)

(NIS millions unless stated otherwise)

	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenues	1,178	1,329	1,323	1,307	1,304
Operating profit	211	494	556	503	490
Depreciation and amortization	162	178	171	171	170
EBITDA	373	672	727	674	660
Net profit	123	340	377	349	360
Cash flow from current operations	419	540	684	523	393
Payments for investment in property, plant & equipment and intangible assets	319	302	245	247	238
Proceeds from sale of property, plant & equipment	187	43	48	26	15
Free cash flow (1)	287	281	487	302	170
Number of active subscriber lines at end of period (in thousands) (2)	2,342	2,352	2,382	2,412	2,445
Average monthly revenue per line (NIS) (ARPL) (3)	80	83	83	81	80
No. of outgoing minutes (in millions)	2,521	2,621	2,629	2,717	2,732
No. of incoming minutes (in millions)	1,583	1,644	1,665	1,634	1,623
Number of internet subscribers at the end of the period (in thousands) (2)	1,079	1,066	1,056	1,051	1,045
% of subscribers using NGN services out of total Internet subscribers connected to the NGN network	37%	34%	27%	23%	17%
Average monthly revenue per Internet subscriber (NIS)	79	78	76	72	73
Average bandwidth per Internet subscriber (Mbps)	4.8	4.3	3.8	3.4	3.0
Churn rate (4)	3.1%	3.4%	3.1%	3.1%	3.0%

(1) Cash from operating activities less purchase of property, plant and equipment and intangible assets, net.

(2) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (except for a subscriber during (approximately) the first three months of the collection process)

(3) Excluding revenues from transmission and data communication, Internet services, services to communications operators and contractor and other works. Calculated based on average lines for the period.

(4) The number of telephony subscribers who left Bezeq Fixed-line during the period divided by the average number of registered telephony subscribers in the period.

The number of active subscriber lines, average monthly revenue per line and number of outgoing minutes were retroactively amended and were presented after elimination of the effect of card-operated public telephones.

B. Pelephone

(NIS millions unless stated otherwise)

	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenue from services	949	1,145	1,159	1,140	1,106
Revenues from sale of terminal equipment	501	323	283	289	287
Total revenue	1,450	1,468	1,442	1,429	1,393
Operating profit	399	343	356	362	322
Depreciation and amortization	139	154	149	149	149
EBITDA	539	497	505	511	471
Net profit	310	268	239	267	259
Cash flow from current operations	308	91	400	378	350
Payments for investments in property, plant and equipment and intangible assets	133	92	99	114	92
Free cash flow (1)	175	(1)	301	264	258
Number of subscribers at the end of the period (thousands) (2)	2,880	2,857	2,825	2,807	2,789
Average number of minutes per subscriber per month (MOU) (3)	359	364	347	348	336
Average monthly revenue per subscriber (NIS) (ARPU) (4)	110	134	137	136	133
Average monthly revenue per subscriber (NIS) (ARPU) (based on reduced interconnect tariffs) (5)	110	109	113	111	110
Number of HSPA subscribers at the end of the period (thousands) (2)	1,471	1,325	1,160	1,005	845
Revenues from value added services (included in revenues from services)	283	269	266	246	233
% revenues from value added services / revenues from cellular services(6)	32.1%	25.0%	24.5%	23.0%	22.6%
Churn rate (7)	4.3%	3.9%	3.5%	3.9%	3.9%

(1) Cash from operating activities less purchase of property, plant and equipment and intangible assets, net.

(2) Subscriber data do not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received or made at least one call or who has not paid for Pelephone services.

(3) Average monthly use per subscriber (in minutes) is calculated by the average monthly total outgoing minutes and incoming minutes in the period, divided by the average number of subscribers in the same period.

(4) Average monthly revenue per subscriber is calculated by dividing the average monthly revenues from cellular services (airtime, usage fees, call completion fees, roaming fees, value added services, and other), and repair and other services in the period, by the average number of active subscribers in the same period.

(5) After interconnect tariffs were lowered on January 1, 2011 (see section 1.7.3C in Description of the Company's Operations in the periodic report for 2010), average monthly revenues per subscriber in Q1 – Q4 of 2010 were presented on the basis of the reduced interconnect charges (in addition to the regular presentation) for the sake of comparison with the data for the first quarter of 2011.

(6) The data has been calculated on the basis of the interconnect tariffs in effect at each period.

(7) The churn rate of subscribers is based on the ratio between subscribers who disconnected from the company's services and subscribers who became inactive during the period, to the average number of active subscribers during the period.

C. Bezeq International

(NIS millions unless stated otherwise)

	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Income	329	350	347	340	343
Operating profit	61	65	70	124	62
Depreciation and amortization	24	25	23	23	23
EBITDA	85	90	93	147	84
Net profit	46	46	53	107	46
Cash flow from current operations	42	92	75	66	59
Payments for investments in property, plant and equipment and intangible assets (1)	46	80	30	33	37
Free cash flow (2)	(4)	12	45	33	23
Churn rate (3)	2.9%	3.5%	3.2%	2.9%	3.2%

(1) The item also includes long-term investments in assets

(2) Cash from current operations less purchase of property, plant and equipment and intangible assets, net.

(3) The number of Internet subscribers who left Bezeq International during the period, divided by the average number of registered Internet subscribers in the period.

D. DBS

(NIS millions unless stated otherwise)

	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenue	406	400	395	396	391
Operating profit	61	41	72	7	59
Depreciation and amortization	69	85	68	68	64
EBITDA	130	126	140	75	122
Net profit (loss)	(73)	(84)	(78)	(143)	(8)
Cash flow from current operations	141	131	126	109	121
Payments for investments in property, plant & equipment & intangible assets (1)	71	90	64	63	61
Free cash flow (2)	70	42	63	46	61
Number of subscribers at the end of the period (thousands) (3)	580	578	575	573	571
Average monthly revenue per subscriber (NIS) (ARPU) (4)	234	231	229	231	229
Churn rate (5)	3.3%	3.1%	3.3%	3.1%	3.5%

(1) This item also includes investments in the cost of acquiring subscribers

(2) Cash from operating activities less purchase of property, plant and equipment and intangible assets, net.

(3) Subscriber – one household or one small business customer. In the event of a business customer with multiple reception points or a large number of decoders (such as a hotel, kibbutz or gym), the number of subscribers is calculated by dividing the total payment received from the business customer by the average revenue from a small business customer.

(4) Average monthly revenue per subscriber is calculated by dividing DBS's total revenues (revenues from content and equipment, premium channels, technical service, advanced products, one-time sale of content, revenues from channels, internet and other) by the average number of customers.

(5) The number of Internet subscribers who left DBS during the period divided by the average number of registered DBS subscribers in the period.

Section 1.7 - General environment and influence of external factors on the Group's activities

Section 1.7.1 – Formation of groups in the Israeli communications market and transition to inter-group competition

HOT–Mirs Group – on May 4, 2011 HOT announced that its board of directors had received a proposal from companies controlled by its controlling shareholder to join them in negotiations for the acquisition of Mirs Communication Ltd. and it had authorized its ad hoc committee to take the actions necessary to review the proposal and conduct negotiations. For details of the Mirs tender for the allocation of frequencies and a license for cellular operators with infrastructures, see update to section 3.7.2A.

IDB Group –Netvision Ltd. ("Netvision"), reported on March 13, 2011 that it had received a proposal to enter negotiations for its merger with a subsidiary of Cellcom Israel Ltd. ("Cellcom"). Under the merger proposed by Cellcom, all Netvision's shares would be acquired in exchange for cash based on a total valuation of Netvision's share capital estimated at NIS 1.5 billion. Furthermore, on March 21, 2011 Netvision announced that its board of directors had resolved to enter these negotiations.

Section 1.7.3 - Regulatory oversight and changes in the regulatory environment

Sub-section A - Policy for regulating competition – Hayek Commission – the date for submitting public positions to the commission regarding the commission's recommendations on structural issues in the communications field was postponed to April 17, 2011. The Company and Bezeq International submitted their comments to the commission which stated that the various comments would be published on the Ministry of Communications website.

Sub-section B – Increase in the rate of royalties – in addition to the petition filed by the Company in connection with increasing the rate of royalties, additional petitions were filed in the same matter by other communications companies, including Pelephone. All the petitions will be heard as one case.

2. "Bezeq": The Israel Telecommunication Corporation Limited (the "Company") – Domestic Fixed-line Communications

Section 2.9.7 - Employee benefit plans

In Section C – employee stock options plan (2010) – on March 16, 2011 the Company published a new outline as part of this plan which is incorporated by reference.

Section 2.9.8 - Officers and senior management in the Company

On March 16, 2011 Ran Guron was appointed as the Company's Deputy CEO (in addition to his position as VP of Marketing in the Company).

Section 2.13.6 - Credit rating

On April 3, 2011 the Company was notified by Midroog Ltd. which grades the Company's debentures (Series 4 and 5), that it had been removed from its watch list for the rating of these debentures, while retaining its rating (Aa1) with negative outlook, following the planned reduction of its capital and distribution of a special dividend of NIS 3 billion as decided by the Company and approved by the district court.

Section 2.13.7 - Company assessment for raising financing and possible sources in 2011

For details of the application for a permit to publish a shelf prospectus and a first draft of a shelf prospectus submitted to the Securities Authority, see Section 1.3.

On May 11, 2011 the board of directors approved the raising of NIS 2 billion by means of loans from Israeli banks and from an institutional organization (group). NIS 1.4 billion of this debt amount will be long term (duration – approximately 6.2 years) and NIS 600 million will be short term for one year. At the date of approval of this report the debt had not been raised. It is noted that part of the amount raised will be obtained under a letter of undertaking to provide the Company with long-term credit which was granted by a bank corporation on February 17, 2011, so that after the amount is raised, the volume of liabilities under said letter of undertaking will be reduced from NIS 1.5 billion to NIS 700 million.

Section 2.18 – Legal proceedings

Section 2.18.8 – In the matter of a claim filed in the Tel Aviv District Court in July 2010 together with a motion for its certification as a class action, alleging that as a result of a fault in the telephone lines, Company subscribers were prevented from communicating with HOT subscribers, on April 13, 2011 the court approved the removal of the claimant from the application.

Section 2.18.13 – In the matter of approval of an application for approval of a distribution which does not pass the profit test, see update to Section 1.4.3.

3. Mobile radio-telephone (cellular telephony) - Pelephone Communication Ltd. ("Pelephone")

Sections 3.1.3 and 3.1.4 – Changes in the volume of operation in the field and in its profitability and Market developments (respectively)

Various regulatory amendments, including a restriction on exit fees, led to the removal of transfer barriers and intensified the competition between the cellular operators and as a result, to an increase in the number of transferring subscribers among the cellular operators. This caused a churn rate of approximately 4.3% in the quarter, compared with 15.3% throughout 2010.

Vigorous subscriber traffic in the cellular market and a rise in demand for equipment and smart phones in particular, contributed to an increase in revenues from terminal equipment which at the end of this quarter totaled NIS 501 million, representing 34.5% of total revenues in the quarter, compared with 20.6% for the whole of 2010. Most terminal equipment is sold in 36 installments and this increase in sales led to an increase in the number of Pelephone's customers.

Section 3.7.2A - Entry of another operator with its own infrastructure

In April 2011 Mirs Communication Ltd. (of the HOT-Mirs Group) and Marathon Telecommunications Ltd. (of the Xfone Group) (the "new operators") won a tender for grant of frequencies and a license for cellular operators that own infrastructures. The winners are likely to be the two additional operators with infrastructures in the tender's frequency spectrum. Under the terms of the tender, the new operators will be able to launch their operation after deploying a cellular network which initially will cover 10% of the population of Israel. After the deployment, the new operators will be able to use the networks of the existing operators for a period of seven years (with an extension option subject to approval for up to a further three years) based on a national roaming model.

Under the tender, each one of the new operators will pay between NIS 705 million and NIS 710 million in license fees (the "maximum license fees") which will be reduced by one seventh (1/7) (approximately 14.3%) for each percent (1%) of market share they accumulate in the private sector in the five years following the grant of the license, so that a new operator achieving a market share of 7% in the private sector will not pay any license fees.

To guarantee payment of the license fees, the new operators undertook to submit a bank guarantee in favor of the Ministry of Communications in the amount of the maximum license fees.

Following a hearing which took place regarding an engineering and operational national roaming arrangement, in April 2011 a decision regarding an amendment to the above-mentioned license was published.

Pelephone anticipates that the entry of the new operators will intensify competition in the cellular market.

Pelephone's assessments of the effect of the entry of the cellular operators with infrastructures into the cellular markets are forward looking information as defined in the Securities Law. These assessments are based on the competition structure in the market, the effects of past changes in it and the regulation which is expected to apply to the new operators as it is known at present. There is no certainty as to the effect these new operators will have. These assessments might not be realized or might be realized in a manner materially different from anticipations, inter alia, because of changes in the competition structure and regulatory changes applicable to the new cellular operators.

4. International communication, internet services and NEP– Bezeq International Ltd. (“Bezeq International”)

Section 4.20 - Legal Proceedings

Sections 4.20.4 and 4.20.5 – The two petitions filed by Partner in the High Court of Justice (in the matter of awarding a license to provide international communications services to Partner and in the matter of determining a uniform interconnect fee for outgoing international telephone calls from a cellular phone which is the same as the interconnect fee for incoming calls) were dismissed upon an application from Partner on March 24, 2011.

5. Multi-Channel Television – D.B.S. Satellite Services (1998) Ltd. (“DBS”)

Section 5.1.4 - Market developments in the field of operation

Section 5.1.4A - In March 2011 the Ministry of Communications published the Broadcasting via Digital Broadcasting Stations Bill, 2011. The bill is designed to expand the DTT setup within 24 months of the publication date of the law, so that, *inter alia,* the Knesset channel, Educational TV channel and other designated channels will be added to it. Any of the above channels may be added upon request with payment of a distribution fee. It is also proposed that the Minister of Communications may, in consultation with the Minister of Finance, the Council and the Second Authority, add more channels to the DTT setup by their request upon payment of a distribution fee. Furthermore, under the bill, beginning January 1, 2014, the DTT setup and its operation would be transferred from the Second Authority to a public body, statutory corporation or government company which are not broadcasters nor supervise TV or radio broadcasts, which shall be appointed by the Minister of Communications and Minister of Finance and approved by the government.

Section 5.15 - Financing

Section 5.15.5B – in connection with the expansion of DBS’s debenture series (Series B) – in March 2011, after receiving approval from the banks and confirmation from the rating company that the rating of the expanded series would be ILA-, DBS implemented a private issue by way of an expansion of a series of debentures (Series B) in the amount of NIS 120 million, where half the proceeds of the issue will be used to repay long-term bank credit.

Section 5.17 - Restrictions and supervision of the company

Section 5.17.5 – Despite the fact that in 2009 DBS's total investment in local productions exceeded 8% of its revenues, in February 2011 the Council informed DBS, among other things, that DBS had not complied with its obligation to invest in local production on the channels owned by external producers in 2009 or with its obligation to invest in local productions for infants, children and youth in 2009. The Council notified DBS that it had to compensate for the shortfalls of 2009 in 2011-2012 and in some categories also in 2013. DBS disputes some of the determinations of the Council, and it has contacted the Council in an attempt to change its decision.

Section 5.17.13 – In March 2011 the Ministry of National Infrastructures published draft Energy Resource Regulations (Maximum Electrical Output in an Active Standby Situation of a Digital Set-Top Box for the Receipt of Television Broadcasts), 5771-2011 designed to regulate the maximum output of digital set-top boxes in an active standby situation. To the best of DBS's knowledge, this draft has not yet been discussed by the Knesset Economics Committee. Preliminary tests conducted by DBS indicate that the further the draft regulations progress toward binding legislation, the more adverse could be its effect on DBS's ability to continue using some of the decoders which its subscribers are currently using.

DBS's estimate is forward looking information as defined in the Securities Law, based, inter alia, on the current wording of the draft regulations. There is no certainty that this draft will become binding legislation or that the wording of this legislation, if and when it is passed, will be identical to the wording of the present draft. This estimate might not be realized or might be realized in a manner materially different from expectations, inter alia, depending on the wording of the legislation if and when it is passed.

Section 5.20 – Legal proceedings

Section 5.20.1D – On March 31, 2011 DBS filed its response to the motion for certification by refuting the Applicant's arguments and noted, *inter alia*, that it had adopted detailed procedures to comply with the provisions of the Consumer Protection Law; that it is in compliance with the obligation imposed on it to notify its customers when an offer ends; and that a specific fault had occurred in the private matter of the applicant which led to the fact that she was not identified by DBS's system as a customer approaching the end of her term of commitment. On April 14, 2011, the court approved an application filed by the parties for agreed withdrawal and dismissed the claim.

Section 5.20.1 – in March 2011 the CEO of DBS was investigated by the Consumer Protection Authority. To the best of DBS's knowledge, the investigation centers on suspicions of alleged violations by DBS of the Consumer Protection Law relating to arguments of deception and lack of disclosure in customer agreements. At the date of this report, DBS has not yet received an update regarding the results of the investigation.

May 11, 2011	
Date	Bezeq - The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:
Shaul Elovitch, Chairman of the Board of Directors
Avi Gabbay, Chief Executive Officer

Chapter B of the Periodic Report

Directors' Report on the State of the Company's Affairs for the three months ended March 31, 2011

We respectfully present the Directors' Report on the state of affairs of "Bezeq" The Israel Telecommunication Corp. Limited ("the Company") and the consolidated Group companies (the Company and the subsidiaries together: "the Group") for the three months ended March 31, 2011

The Directors' Report contains a condensed review of its subject matter and it assumes that the Directors' Report at December 31, 2010 is also available to the reader.

Since April 25, 2010 the financial statements of Walla! Communications Ltd. ("Walla") have been consolidated in the Group's financial statements.

The Group reports on four main segments in its financial statements:

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

The Company's consolidated financial statements include an "Other" segment, which comprises mainly internet and portal services (through Walla) and customer call center services (through Bezeq Online). This Other segment is not material on the Group level.

Profit in the reporting period amounted to NIS 406 million, compared with NIS 642 million in the corresponding quarter. Quarter results were affected primarily by a rise in other net operating expenses, due to recording of expenses for the early retirement plan (see Note 12A to the financial statements).

See below for further details.

A. <u>Explanations of the Board of Directors for the state of the Company's affairs, the results of its operations, its equity, cash flows and other matters</u>

1. <u>Financial position</u>

A) The Group's assets at March 31, 2011 amounted to approximately NIS 15.13 billion, compared with approximately NIS 14.23 billion at March 31, 2010, of which approximately NIS 5.77 billion (approximately 38%) are property, plant and equipment, compared with approximately NIS 5.44 billion (approximately 38%) at March 31, 2010.

The increase in the Group's assets is mainly due to consolidation of the assets of Walla with those of the Group (which was mainly reflected in intangible assets and trade receivables) and an increase in assets in the domestic fixed-line communications segment and the cellular segment as described below.

In the domestic fixed-line communications segment, total assets, without the investment in investees, increased by approximately NIS 362 million, compared with March 31, 2010. The increase is mainly due to an increase in property, plant and equipment following deployment of the NGN and due to an increase in intangible assets. The increase was moderated by a decrease in cash balances and deferred taxes.

In the cellular segment, assets increased from approximately NIS 4.76 billion at March 31, 2010 to approximately NIS 5.09 billion at March 31, 2011. The increase is mainly due to an increase in trade receivables, primarily as a result of an increase in revenue from the sale of terminal equipment in installments and an increase in inventory, which was partially offset by a decrease in property, plant and equipment and intangible assets and a decrease in cash balances.

In the international communications, internet and NEP services segment, assets decreased from approximately NIS 1.098 billion at March 31, 2010 to approximately NIS 1.07 billion at March 31, 2011. Most of the decrease was in cash balances following distribution of a dividend in the period and investment in associates following the transfer of the holdings in Walla to the Company. The decrease was partially offset by an increase in property, plant and equipment and intangible assets.

In the multichannel television segment, assets increased from approximately NIS 1.231 billion at March 31, 2010 to approximately NIS 1.252 billion at March 31, 2011. The increase was mainly due to an increase in intangible assets and trade receivables.

B) The Group's debt to financial institutions and debenture holders at March 31, 2011 amounted to approximately NIS 5.64 billion, compared with approximately NIS 3.88 billion at March 31, 2010. The increase is due to bank loans received in the domestic fixed-line communications segment. The increase was partially offset by repayment of debentures in the domestic fixed-line communications segment and repayment of debentures and loans in the cellular segment.

2. Results of operations

A) Principal results

Condensed consolidated data from the statement of income:

	Three months ended March 31			
	2011	2010	Increase	Change
	NIS millions	NIS millions	(decrease)	%
Continuing operations				
Revenue	2,913	2,915	(2)	-
Costs and expenses	2,248	2,041	207	10%
Operating profit	665	874	(209)	(24%)
Financing expenses (revenue), net	20	(22)	42	-
Profit after financing expenses (income), net	645	896	(251)	(28%)
Share in losses of investees	65	23	42	183%
Profit before income tax	580	873	(293)	(34%)
Income tax	174	231	(57)	(25%)
Profit for the period	406	642	(236)	(37%)
Attributable to:				
Owners of the Company	407	642	(235)	(37%)
Non-controlling interests	(1)	-	(1)	-
Profit for the period	406	642	(236)	(37%)
Earnings per share				
Basic earnings per share (NIS)	0.15	0.24	(0.09)	(38%)
Diluted earnings per share (NIS)	0.15	0.24	(0.09)	(38%)

Group revenue in the first quarter of 2011 remained stable compared to the corresponding quarter last year. Most of the decrease in revenue was from a decrease in revenues from interconnect fees due to the approximately 70% tariff reduction compared with the corresponding quarter, in the cellular and domestic fixed-line communications segments. The decrease was offset by the increase in revenue from the sale of terminal equipment in the cellular segment and the consolidation of Walla ("Other" segment).

Depreciation and amortization expenses of the Group in the quarter amounted to approximately NIS 335 million compared with approximately NIS 343 million in the corresponding quarter, a decrease of approximately 2.3%. The decrease was from the cellular segment and the domestic fixed-line communications segment, and was partially offset by the consolidation of Walla.

The Group's salary expenses in the quarter amounted to approximately NIS 532 million, compared with approximately NIS 505 million in the corresponding quarter, an increase of approximately 5.3%. The increase in salary expenses is mainly due to the consolidation of Walla and the increase in the domestic fixed-line communications segment.

The Group's operating and general expenses in the quarter amounted to approximately NIS 1.131 billion, compared with approximately NIS 1.218 billion in the corresponding quarter, a decrease of approximately 7.1%. Most of the decrease is from the domestic fixed-line communications segment.

The Group's other net operating expenses in the quarter amounted to approximately NIS 250 million, compared with revenue of approximately NIS 25 million in the corresponding quarter. The change is due to recognition of expenses for early retirement in the domestic fixed-line communications segment.

The Group's net financing expenses in the quarter amounted to approximately NIS 20 million, compared with net financing income of approximately NIS 22 million in the corresponding quarter. The increase in net financing expenses is mainly from the domestic fixed-line communications segment. In addition, there was a decrease in net financing income in the cellular segment.

B) <u>Operating segments</u>

The breakdown of operations by segments is presented according to the Group's operating segments as follows:

	1-3/2011		**1-3/2010**	
Revenue by operating segments	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**
Domestic fixed-line communications	1,178	40.4%	1,304	44.7%
Cellular	1,450	49.8%	1,393	47.8%
International communications, internet services and NEP	329	11.3%	343	11.8%
Multi-channel television	406	13.9%	391	13.4%
Others and adjustments (*)	(450)	(15.4%)	(516)	(17.7%)
Total	2,913	100%	2,915	100%

	1-3/2011		**1-3/2010**	
Operating profit by segment of operations	**NIS millions**	**% of segment revenue**	**NIS millions**	**% of segment revenue**
Domestic fixed-line communications	211	17.9%	490	37.6%
Cellular	399	27.5%	322	23.1%
International communications, internet services and NEP	61	18.5%	61	17.8%
Multi-channel television	61	15%	59	15.1%
Others and adjustments (*)	(67)	-	(58)	-
Consolidated operating profit/ % of Group revenues	665	22.8%	874	30%

(*) Mainly for a segment that is an associate

Domestic fixed-line communications

Revenue:

The segment's revenues in the first quarter of 2011 amounted to approximately NIS 1.178 billion compared with approximately NIS 1.304 billion in the corresponding quarter, a decrease of approximately 9.7%. The decrease in the segment's revenue is mainly due to a decrease in revenues from interconnect fees to cellular networks (with a corresponding decrease in expenses), due to a decrease in interconnect fees beginning January 1, 2011. According to an examination as to the effect of the change in interconnect fees on the Company's revenues, the decrease in fees reduced segment revenues by approximately NIS 137 million in the first quarter.

Conversely, revenue from high-speed internet increased, mainly due to an increase in revenue from internet subscribers for updating browsing speeds and an increase in the sale of home networks. Revenue from data communication and others also increased. Most of the increase was offset by a decrease in revenue from telephony, mainly due to a decrease in outgoing calls and the number of lines.

Costs and expenses:

Depreciation and amortization expenses in the quarter amounted to approximately NIS 162 million compared with approximately NIS 170 million in the corresponding quarter, a decrease of approximately 4.7%. The decrease is due to full depreciation of property, plant and equipment and an increase in the residual value of property, plant and equipment. The decrease in depreciation was partially offset by an increase in depreciation due to investments in the NGN project.

Salary expenses in the quarter amounted to approximately NIS 284 million compared with approximately NIS 277 million in the corresponding quarter, an increase of approximately 2.5%. The increase in salary expenses is due to an increase in share-based payments and salary increases. The increase was mostly offset by an increase in salary attributable to investment, a decrease in actuarial costs and bonus expenses and a decrease in the number of employees.

General and operating expenses in the quarter amounted to approximately NIS 271 million compared with approximately NIS 392 million in the corresponding quarter, a decrease of approximately 30.9%. The decrease was due to a decrease in expenses for interconnect fees to cellular networks alongside a decrease in revenues from interconnect fees due to a decrease in prices as set out above.

The Group's other net operating expenses in the quarter amounted to approximately NIS 250 million, compared with income of approximately NIS 25 million in the corresponding quarter. The shift from income to expense is due to recognition of a provision of NIS 281.5 million for early retirement benefits (see Note 12(A) to the financial statements). Conversely, there is an increase in capital gains from the sale of copper.

Profitability

Operating profit in the quarter amounted to approximately NIS 211 million compared with approximately NIS 490 million in the corresponding quarter, a decrease of approximately 57%. The decrease in operating profit is due to the changes in the income and expense items described above, mainly from the provision for early retirement benefits.

Financing expenses, net

The Group's net financing expenses in the quarter amounted to approximately NIS 26 million, compared with financing income of approximately NIS 1 million in the corresponding quarter. The change in net financing expenses is mainly due to an increase in linkage expenses for debentures following an increase in the known CPI compared with a decrease in the CPI in the corresponding quarter and from an increase in credit in fixed and variable shekel interest. The increase in financing expenses was moderated by an increase in financing income from shareholder loans to DBS and from an increase in income from CPI forward contracts.

Cellular segment

Revenues:

Segment revenues in the first quarter of 2011 amounted to approximately NIS 1.450 billion compared with approximately NIS 1.393 billion in the corresponding quarter, an increase of approximately 4.1%.

Segment revenues from services (including value added services) in the first quarter amounted to approximately NIS 949 billion compared with approximately NIS 1.106 billion in the corresponding quarter, a decrease of approximately 14.2%. The decrease in revenue from services was due to a decrease in interconnect fees, which was partially offset by an increase in revenue from content and roaming services. The decrease in interconnect fees reduced revenues by approximately NIS 213 [1] million.

Segment revenue from the sale of terminal equipment in the quarter amounted to approximately NIS 501 million compared with approximately NIS 287 million in the corresponding quarter, an increase of approximately 74.6%. The increase in revenue from the sale of terminal equipment was mainly due to an increase in selling prices and the upgrade of terminal equipment and from an increase in the number of upgrades due to an increase in smartphone sales.

Costs and expenses:

Depreciation and amortization expenses in the quarter amounted to approximately NIS 139 million compared with approximately NIS 149 million in the corresponding quarter, a decrease of approximately 6.7%. The decrease in depreciation and amortization is due to fully depreciated items of property, plant and equipment, mainly for the CDMA network.

Salary expenses in the current quarter and in the corresponding quarter amounted to approximately NIS 150 million.

General and operating expenses in the quarter amounted to approximately NIS 762 million compared to approximately NIS 772 million in the corresponding quarter, a decrease of approximately 1.3%. The decrease in operating and general expenses is mainly due to the decrease in costs of services, specifically call completion fees cost arising from the reduction in interconnect fees, which was partially offset by an increase in the cost of terminal equipment sales resulting mainly from an increase in the number of handsets that were upgraded and an increase in terminal equipment prices.

Profitability

Operating profit in the quarter amounted to approximately NIS 399 million compared with approximately NIS 322 million in the corresponding quarter, an increase of approximately 23.9%. The increase in operating profit is due to the changes described above in expense and income items, mainly due to an increase in gross profit from the sale of terminal equipment.

Financing income, net

Net financing income in the quarter amounted to approximately NIS 10 million compared with approximately NIS 22 million in the corresponding quarter, a decrease of approximately 54.5%. The decrease in net financing income is mainly due to revaluation of loans following the rise in the known CPI in the current quarter compared with a decrease in the known CPI in the corresponding quarter.

International communications, internet and NEP

Revenues:

Segment revenues in the first quarter of 2011 amounted to approximately NIS 329 million compared with approximately NIS 343 million in the corresponding quarter, a decrease of approximately 4.1%. The decrease in revenues is mainly due to the decrease in outgoing and incoming minutes following a decrease in traffic in the market and a decrease in call transfers between global communication operators. Conversely, there is an increase in internet revenue due to an increase in the number of customers and growth in integration activities (enterprise communications and IT solutions).

---

1 The figure is calculated according to actual call minutes in the current quarter multiplied by 17.82 agorot per minute, which is the difference between interconnect fees in the current quarter (7.28 agurot per minute) and interconnect fees in the corresponding quarter (25.1 agorot per minute).

Costs and expenses:

Depreciation and amortization expenses in the quarter amounted to approximately NIS 24 million compared with approximately NIS 23 million in the corresponding quarter.

Salary expenses amounted to approximately NIS 64 million compared with approximately NIS 63 million in the corresponding quarter.

General and operating expenses in the quarter amounted to approximately NIS 180 million compared with approximately NIS 196 million in the corresponding quarter, a decrease of approximately 8.2%.

The decrease in expenses is due to the reasons for the decrease in segment revenues.

Profitability

Operating profit in the current quarter and in the corresponding quarter amounted to approximately NIS 61 million. The stability in profit is due to the changes described in the revenues and expenses sections above.

Multichannel television (stated by the equity method)

Revenues:

Segment revenues in the first quarter of 2011 amounted to approximately NIS 406 million compared with approximately NIS 391 million in the corresponding quarter, an increase of approximately 3.8%. The increase is mainly due to an increase in revenues from advanced products, an increase in the sales of premium channels and an increase in the number of subscribers.

Costs and expenses:

Cost of sales in the quarter amounted to approximately NIS 272 million compared with approximately NIS 262 million in the corresponding quarter, an increase of approximately 3.8%. The increase in the cost of sales is mainly due to an increase in customer service expenses and royalties.

Selling, marketing and general and administrative expenses in the quarter amounted to approximately NIS 72 million compared with approximately NIS 71 million in the corresponding quarter.

Profitability

Operating profit in the quarter amounted to approximately NIS 61 million compared with approximately NIS 59 million in the corresponding quarter, an increase of approximately 3.4%. The increase in operating profit is due to the changes described in the revenues and expense section above.

C) Income tax

The Group's tax expenses in the reported quarter amounted to approximately NIS 174 million, representing approximately 30% of pre-tax profit, compared with approximately NIS 231 million in the corresponding quarter, representing approximately 26.5% of pre-tax profit. The increase in the tax rate for the pre-tax profit is mainly due to timing differences in recognition of expenses for tax purposes (mainly early retirement), which will be recognized when the tax rate falls below the present tax rate.

3. Equity

Equity attributed to the Company's controlling shareholders at March 31, 2011 amounted to approximately NIS 2.97 billion, representing approximately 20% of the total balance sheet, compared with approximately NIS 7.2 billion at March 31, 2010, representing approximately 51% of the total balance sheet. The decrease in equity was due to distribution of a dividend in the amount of approximately NIS 3.73 billion in 2010 and distribution of a dividend in the amount of approximately NIS 3 billion in the quarter, which is not in compliance with the profit test, recognized at its present value of approximately NIS 2.81 billion (see Note 6F to the financial statements). The decrease was partially offset by the Group's profit.

4. Cash flow

Consolidated cash flow from operating activities in the first quarter of 2011 amounted to approximately NIS 775 million compared with approximately NIS 806 million in the corresponding quarter, a decrease of NIS 31 million. Most of the decrease is from the cellular segment following changes in working capital, an increase in sales of terminal equipment in 36 installments and a decrease in the international communications, internet and NEP segment. The decrease was moderated by an increase in cash flow from operating activities in the domestic fixed-line communications segment.

Cash flow from operating activities is one of the sources for financing the Group's investments. In the reporting quarter, the Group invested approximately NIS 422 million in development of communications infrastructure and approximately NIS 78 million in intangible assets and deferred expenses, compared with an investment of approximately NIS 281 million and approximately NIS 88 million, respectively, in the corresponding quarter. Conversely, in the domestic fixed-line communications segment, proceeds from the sale of property, plant and equipment in the reporting quarter amounted to approximately NIS 187 million compared with approximately NIS 15 million in the corresponding quarter. Additionally, in the corresponding quarter, proceeds of approximately NIS 140 million were received in the cellular segment from the sale of the investment in a money market fund.

In the reporting quarter, the Group repaid net debts and paid interest amounting to approximately NIS 134 million, of which approximately NIS 92 million was for debentures, approximately NIS 9 million for loans and approximately NIS 32 million for interest payments, compared with repayment of net debt and interest payments amounting to approximately NIS 245 million in the corresponding quarter. Conversely, in the reporting quarter, the Group received proceeds of approximately NIS 4 million from the exercise of employee options compared with approximately NIS 15 million in the corresponding quarter.

Average long-term liabilities to financial institutions and debenture holders in the first quarter of 2011 amounted to approximately NIS 5.678 billion.

Average supplier credit in the reporting quarter amounted to approximately NIS 1.047 billion. Average short-term customer credit amounted to approximately NIS 2.744 billion. Average long-term customer credit amounted to approximately NIS 1.087 billion.

The net working capital deficit of the Group in the quarter amounted to approximately NIS 1.188 billion compared with a working capital surplus of approximately NIS 522 million in the corresponding quarter. The working capital deficit of the Company amounted to approximately NIS 2.39 billion at March 31, 2011 compared with a working capital deficit of approximately NIS 483 million in the corresponding quarter. The increase in the Company's working capital deficit is mainly due to the balance of the dividend payable and an increase in short-term financial and other liabilities. The increase in the Group's deficit was partially offset by an increase in working capital surplus in the cellular segment.

The Board of Directors of the Company examined the current and projected cash sources and requirements in the foreseeable future, the Company's investment requirements and financing sources and the credit-raising options available to the Company. Based on the review of all these factors, the Board of Directors determined that the working capital deficit does not present a liquidity problem for the Company. The Company is able to meet current and future cash needs in the foreseeable future, both by generating cash from operating activities and by raising capital from banking and non-banking sources.

The above information includes forward-looking information based on the Company's liquidity assessments. Actual results may differ significantly from this assessment if there is a change in one of the elements on which they are based.

B. Explanations of the Board of Directors regarding the exposure to market risks and their management

1. Surplus assets exposed to changes in nominal shekel interest decreased by approximately NIS 2.811 billion, to surplus liabilities exposed to changes in nominal shekel interest, due to the planned distribution to the Company's shareholders, which does not bear interest and linkage differences (see Note 6F to the financial statements.) Moreover, sensitivity analyses for fair value and the effect of the change in the market prices on the fair value of balance-sheet balances and off-balance sheet balances for which there are firm agreements at March 31, 2011, are not materially different from those of December 31, 2010.

2. The linkage base report at March 31, 2011 is not substantially different from the December 31, 2010 report, with the exception of an increase of approximately NIS 2.811 billion in unlinked liabilities, as described in section A above.

C. Corporate governance

1. Disclosure of the procedure for approving the financial statements

1.1 Committee

The committee that reviews the Company's financial statements is a separate committee which does not serve as the audit committee. Some of the audit committee members are also members of the financial statements review committee (outside directors Mordechai Keret and Ytzhak Edelman).

1.2 Committee members

The committee has three members as follows: Ytzhak Edelman, chairman of the committee (outside director), Mordechai Keret (outside director) and Eldad Ben-Moshe (independent director), all having accounting and financial expertise. All the committee members submitted declarations prior to their appointments. For further information about directors serving as committee members, see Part D of the Company's Periodic Report in 2010.

1.3 Approval of the financial statements

A) The financial statement review committee discussed and prepared its recommendations for the Company's Board of Directors in meetings held on May 1, 2011 and May 5, 2011.

B) All the committee members participated in these meetings.

C) In addition, the following attended the meeting held on May 1, 2011 and May 5, 2011: Chairman of the Board of Directors Shaul Elovitch; Company CEO Avi Gabbay; deputy CEO and CFO Alan Gelman; Company controller Danny Oz; internal auditor Lior Segal; director Rami Nomkin; Company secretary Linor Yochelman; legal counsel, Amir Nahlieli; external auditors and other officers in the Company.

D) The committee reviewed the assessments and estimates made in connection with financial statements, the internal controls related to financial reporting, the completeness and appropriateness of the disclosure in the financial statements, the accounting policies adopted and the accounting treatment applied in the material affairs of the Company.

E) In the meeting held on May 5, 2011, the committee decided on the identity of the permanent participants in the committee meetings. The committee also resolved that at the end of each quarterly meeting for approval of the statements, there will be a meeting attended by the committee members, internal auditor and external auditor only.

F) The committee's written recommendations were submitted to the Company's Board of Directors on May 8, 2011.

G) The Board of Directors discussed the recommendations of the financial statements review committee and the financial statements on May 11, 2011.

H) The Board believes that the recommendations of the financial statements review committee were distributed at a reasonable time prior to the Board Meeting (which was set by the Board of Directors up to 72 hours before the meeting of the Board), also considering the scope and complexity of the recommendations.

I) The Board of Directors of the Company accepted the recommendations of the financial statements review committee and resolved to approve the Company's financial statements for the first quarter of 2011.

2. Beginning in the year 2011, the Company no longer applies the provisions of the Securities Regulations (Periodic and Immediate Reports) (Amendment), 5769-2009 regarding internal controls, replacing them with the Sarbanes-Oxley Act of 2002 (SOX), as a significant subsidiary of a company traded in the United States.

D. Disclosure of the Company's financial reporting

1. Critical accounting estimates

Preparation of the financial statements in conformity with IFRS requires management to make assessments and estimates that affect the reported values of assets, liabilities, income and expenses, as well as disclosure in connection with contingent assets and liabilities. Management bases these estimates and assessments on past experience and on valuations, expert opinions and other factors, which it believes are relevant in the given circumstances. Actual results might differ from those assessments under different assumptions or conditions. The financial statements provide information about the principal matters of uncertainty in critical estimates and judgments in the application of the accounting policies. We believe that these assessments and estimates are critical since any change in these estimates and assumptions could have a potential material effect on the financial statements.

2. Given the significance of the claims filed against the Group, which cannot yet be assessed or in respect of which the exposure cannot yet be calculated, the auditors drew attention to them in their opinion on the financial statements.

E. Details of liability certificates

Below are updated details at March 31, 2011:

		Series 4 debentures	Series 5 debentures
A	Par value revalued at the reporting date (CPI-linked)	NIS 353,816,946	NIS 2,815,164,577 (1)
B	Accrued interest	NIS 14,152,678	NIS 124,336,436
C	Fair value	NIS 372,000,000	NIS 3,181,827,011
D	Stock exchange value	NIS 372,000,000	NIS 3,181,827,011

(1) Of which, approximately NIS 1.038 billion is held by a wholly-owned subsidiary

On April 3, 2011, the credit rating company Midroog Ltd. which rates the Company's debentures (Series 4 and 5), announced that it had removed these debentures from its watch list. The rating remains unchanged (Aa1) with negative outlook, following the Company's decision to reduce its capital and distribute a special dividend of NIS 3 billion, which has been approved by the district court. Midroog's most recent rating report is attached to the Directors' Report.

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

May 11, 2011		
Date	Shaul Elovitch Chairman of the Board of Directors	Avi Gabbay CEO

BEZEQ THE ISRAEL TELECOMMUNICATION CORPORATION LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

Condensed Consolidated Interim Financial Statements as at March 31, 2011 (unaudited)

Contents

Somekh Chaikin

8 Hartum Street, Har Hotzvim
PO Box 212, Jerusalem 91001
Israel

Telephone 972 2 531 2000
Fax 972 2 531 2044
Internet www.kpmg.co.il

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 Corporation Limited and its subsidiaries (hereinafter - “the Group"), comprising of the condensed consolidated interim statement of financial position as of March 31, 2011 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 certain consolidated subsidiaries whose assets constitute 2.6% of the total consolidated assets as of March 31, 2011, and whose revenues constitute 1.7% of the total consolidated revenues 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 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 above conclusion, we draw attention to the claims made against the Group of which the exposure cannot yet be assessed or calculated, as described in Note 5.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 11, 2011

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2011 (Unaudited) NIS millions	March 31, 2010 (Unaudited) NIS millions	December 31, 2010 (Audited) NIS millions
Assets			
Cash and cash equivalents	**681**	944	365
Investments, including derivatives	**20**	12	7
Trade receivables	**2,787**	2,573	2,701
Other receivables	**272**	249	224
Inventory	**246**	181	178
Current tax assets	**2**	-	3
Assets classified as held for sale	**20**	33	29
Total current assets	**4,028**	3,992	3,507
Investments, including derivatives	**129**	128	129
Trade and other receivables	**1,299**	915	1,114
Property, plant and equipment	**5,773**	5,444	5,610
Intangible assets	**2,256**	1,887	2,248
Deferred and other expenses	**281**	294	292
Investments in equity-accounted investees (mainly loans)	**1,068**	1,213	1,084
Deferred tax assets	**299**	361	254
Total non-current assets	**11,105**	10,242	10,731
Total assets	**15,133**	14,234	14,238

	March 31, 2011 (Unaudited) NIS millions	March 31, 2010 (Unaudited) NIS millions	December 31, 2010 (Audited) NIS millions
Liabilities			
Debentures, loans and borrowings	**1,013**	753	949
Trade payables	**1,032**	908	1,061
Other payables, including derivatives	**1,042**	739	770
Current tax liabilities	**313**	184	267
Deferred income	**34**	36	33
Provisions	**260**	375	251
Employee benefits	**538**	475	269
Dividend payable (see Note 6)	**984**	-	-
Total current liabilities	**5,216**	3,470	3,600
Debentures	**1,914**	2,596	1,967
Bank loans	**2,711**	531	2,801
Employee benefits	**267**	301	305
Deferred income and others	**42**	5	43
Provisions	**69**	72	69
Deferred tax liabilities	**75**	59	83
Dividend payable (see Note 6)	**1,827**	-	-
Total non-current liabilities	**6,905**	3,564	5,268
Total liabilities	**12,121**	7,034	8,868
Equity			
Total equity attributable to equity holders of the Company	**2,970**	7,206	5,327
Non-controlling interests	**42**	(6)	43
Total equity	**3,012**	7,200	5,370
Total liabilities and equity	**15,133**	14,234	14,238

Shaul Elovitch	**Avi Gabbay**	**Alan Gelman**
Chairman of the Board of Directors	CEO	Deputy CEO and CFO

Date of approval of the financial statements: May 11, 2011

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

Condensed Consolidated Interim Statements of Income

	For the three months ended March 31		For the year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Continuing operations			
Revenues (Note 8)	**2,913**	2,915	11,987
Costs and expenses			
Depreciation and amortization	**335**	343	1,409
Salaries	**532**	505	2,024
General and operating expenses (Note 9)	**1,131**	1,218	5,026
Other operating expenses (income), net	**250**	(25)	(216)
	2,248	2,041	8,243
Operating profit	**665**	874	3,744
Financing expenses(income)			
Financing expenses	**102**	63	391
Financing income	**(82)**	(85)	(282)
Financing expenses (income), net	**20**	(22)	109
Profit after financing expenses (income), net	**645**	896	3,635
Share of losses of equity-accounted investees	**65**	23	261
Profit before income tax	**580**	873	3,374
Income tax	**174**	231	932
Profit for the period	**406**	642	2,442
Attributable to:			
Owners of the Company	**407**	642	2,443
Non-controlling interests	**(1)**	-	(1)
Profit for the period	**406**	642	2,442
Earnings per share			
Basic earnings per share (NIS)	**0.15**	0.24	0.91
Diluted earnings per share (NIS)	**0.15**	0.24	0.90

The attached notes are an integral part of these 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
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit for the period	**406**	642	2,442
Other comprehensive income (loss), net of tax	**-**	(1)	13
Total comprehensive income for the period	**406**	641	2,455
Attributable to:			
Owners of the Company	**407**	641	2,456
Non-controlling interests	**(1)**	-	(1)
Total comprehensive income for the period	**406**	641	2,455

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for options for employees	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves *	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
	Attributable to owners of the Company								
Three months ended March 31, 2011									
Balance at January 1, 2011 (audited)	6,213	378	146	390	(10)	(1,790)	5,327	43	5,370
Comprehensive income for the period (unaudited)	**-**	**-**	**-**	**-**	**-**	**407**	**407**	**(1)**	**406**
Transactions with owners recognized directly in equity									
Dividends to Company shareholders – not in compliance with the earnings test (unaudited) **	**(2,415)**	**(396)**	**-**	**-**	**-**	**-**	**(2,811)**	**-**	**(2,811)**
Share-based payments (unaudited)	**-**	**-**	**43**	**-**	**-**	**-**	**43**	**-**	**43**
Exercise of options for shares (unaudited)	**5**	**18**	**(19)**	**-**	**-**	**-**	**4**	**-**	**4**
Balance at March 31, 2011 (unaudited)	**3,803**	**-**	**170**	**390**	**(10)**	**(1,383)**	**2,970**	**42**	**3,012**

* Including translation reserve, reserve from available-for-sale assets and reserve from transactions with non-controlling interests

** See Note 6

For details of the approval of the general meeting of the Company's shareholders for distribution of a cash dividend of NIS 1.163 billion, subsequent to the reporting date, see Note 6

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

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

	Share capital	Share premium	Capital reserve for options for employees	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves *	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
	Attributable to owners of the Company								
Three months ended March 31, 2010									
Balance at January 01, 2010 (audited)	6,187	275	210	390	(5)	(513)	6,544	(6)	6,538
Profit for the period (unaudited)	-	-	-	-	-	642	642	-	642
Other comprehensive income for the period, net of tax (unaudited)	-	-	-	-	(1)	-	(1)	-	(1)
Total comprehensive income for the period (unaudited)	-	-	-	-	(1)	642	641	-	641
Transactions with owners recognized directly in equity									
Share-based payments (unaudited)	-	-	6	-	-	-	6	-	6
Exercise of options for shares (unaudited)	14	63	(62)	-	-	-	15	-	15
Balance at March31, 2010 (unaudited)	6,201	338	154	390	(6)	129	7,206	(6)	7,200

* Including translation reserve, reserve from available-for-sale assets and reserve from transactions with non-controlling interests

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

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

	Share capital	Share premium	Capital reserve for options for employees	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves *	Deficit	Total	Non-controlling interests	Total equity
	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
	Attributable to owners of the Company								
Year ended December 31, 2010									
Balance at January 1, 2010	6,187	275	210	390	(5)	(513)	6,544	(6)	6,538
Profit for the year	-	-	-	-	-	2,443	2,443	(1)	2,442
Other comprehensive income for the year, net of tax	-	-	-	-	-	13	13	-	13
Total comprehensive income for the year	-	-	-	-	-	2,456	2,456	(1)	2,455
Transactions with owners recognized directly in equity									
Dividends to Company shareholders	-	-	-	-	-	(3,733)	(3,733)	-	(3,733)
Share-based payments	-	-	39	-	-	-	39	-	39
Exercise of options for shares	26	103	(103)	-	-	-	26	-	26
Transfers by non-controlling interests, net	-	-	-	-	-	-	-	2	2
Non-controlling interests in a business combination	-	-	-	-	-	-	-	57	57
Increase in the rate of holding in a subsidiary	-	-	-	-	(5)	-	(5)	(9)	(14)
Balance at December 31, 2010	6,213	378	146	390	(10)	(1,790)	5,327	43	5,370

* Including translation reserve, reserve from available-for-sale assets and reserve from transactions with non-controlling interests

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

Condensed Consolidated Interim Statements of Cash Flows

	For the three months ended March 31		For the year ended December 31
	2011	**2010**	**2010**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cash flows from operating activities			
Net profit for the period	**406**	642	2,442
Adjustments:			
Depreciation	**259**	272	1,114
Amortization of intangible assets	**70**	65	269
Amortization of deferred and other expenses	**6**	6	26
Profit from a controlling shareholder in an investee	**-**	-	(57)
Share of losses of equity-accounted investees	**65**	23	261
Financing expenses (income), net	**36**	(6)	113
Capital gain, net	**(44)**	(27)	(171)
Expenses (income) for derivatives, net	**(2)**	-	12
Share-based payment	**43**	6	35
Income tax expenses	**174**	231	932
Proceeds (payment) of derivatives, net	**2**	(1)	(2)
Change in inventory	**(70)**	78	84
Change in trade and other receivables	**(321)**	(171)	(300)
Change in trade and other payables	**95**	(141)	(21)
Change in provisions	**9**	(4)	(136)
Change in employee benefits	**231**	(22)	(215)
Net income tax paid	**(184)**	(145)	(690)
Net cash from operating activities	**775**	806	3,696
Cash flow used in investing activities			
Investment in intangible assets and deferred expenses	**(78)**	(88)	(343)
Proceeds from the sale of property, plant and equipment	**187**	15	133
Change in current investments, net	**(8)**	141	138
Purchase of property, plant and equipment	**(422)**	(281)	(1,279)
Proceeds from disposal of investments and long-term loans	**1**	2	11
Investments and long-term loans	**(1)**	(1)	(6)
Payment for derivatives	**(11)**	-	(2)
Business combinations less cash acquired	**-**	-	(145)
Interest received	**3**	-	9
Net cash used in investing activities	**(329)**	(212)	(1,484)

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

Condensed Interim Statements of Cash Flows (contd.)

	For the three months ended March 31		For the year ended December 31
	2011	**2010**	**2010**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cash flows used in financing activities			
Bank loans received	**-**	-	2,670
Repayment of debentures	**(92)**	(206)	(697)
Repayment of loans	**(9)**	(9)	(448)
Short-term borrowing, net	**(1)**	-	(6)
Dividends paid	**-**	-	(3,733)
Interest paid	**(32)**	(30)	(237)
Proceeds for derivatives, net	**-**	-	10
Transfers by non-controlling interests, net	**-**	-	2
Increase in the rate of holding in a subsidiary	**-**	-	(14)
Proceeds from exercise of share options	**4**	15	26
Net cash used for financing activities	**(130)**	(230)	(2,427)
Net increase (decrease) in cash and cash equivalents	**316**	364	(215)
Cash and cash equivalents at beginning of period	**365**	580	580
Cash and cash equivalents at end of period	**681**	944	365

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

NOTE 1 – REPORTING ENTITY

A. "Bezeq" – The Israel Telecommunication Corp. Limited. ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The condensed consolidated financial statements of the Company include those of the Company and its subsidiaries (together referred to as "the Group"), as well as the Group's interest in associates. The Group is a principal provider of communication services in Israel (see also Note 10 – Segment Reporting).

B. Beginning April 14, 2010, Shaul Elovitch is the ultimate controlling shareholder in the Company, through his holdings in Eurocom Communications Ltd., the controlling shareholder in Internet Gold-Golden Lines Ltd, which controls B Communications Ltd. ("B Communications"). B Communications holds Company shares through a company that it controls. At March 31, 2011, this company held 31.36% of the Company's shares. Each of these companies is also considered as a controlling shareholder in the Company.

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 provisions in the Communications Law. The Company's service fees are regulated and updated according to a linkage formula. The Company was declared a monopoly in the main areas in which it operates. All the operating segments of the Group are subject to competition. The operations of the Group are subject, in general, to government regulation and supervision. The intensifying competition and changes in the communication market could have an adverse effect on the business results of the Group.

NOTE 2 - BASIS OF PREPARATION

A. The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting, and Chapter D of the Securities Regulations (Periodic and Immediate Reports), 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, 2010 and the year then ended, and their accompanying notes ("the annual financial statements"). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent annual financial statements until the date of these consolidated interim financial statements.

C. The condensed consolidated interim financial statements were approved by the Board of Directors on May 11, 2011.

D. **Use of estimates and judgment**
The preparation of the condensed consolidated interim financial statements in conformity 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, liabilities, revenues and expenses. Actual results may differ from the estimates used.

The judgments made by management, when applying the Group's accounting policies and the key 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 consolidated interim financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2010, except as described below:

A. Recognition of actuarial gains or losses

The Group does not produce in every interim reporting period an updated actuarial assessment for measuring employee benefits unless there are significant changes during the interim period in the principal actuarial assumptions in a defined benefit plan: discount rate, expected return on plan assets, employee leave rate and the rate of future salary increases. As a result, actuarial gains or losses are not recognized in the reporting period.

B. Initial application of new accounting standards

(1) Related party disclosures

Beginning January 1, 2011 the Group applies IAS 24 (2009) – Related Party Disclosures (“the Standard”). The Standard includes changes in the definition of a related party and modifications of disclosure requirements for government-related entities. The Standard is applied retrospectively.

The Group mapped related parties for initial application of the Standard. According to the new definition and following the mapping, new related parties were identified. The Group had no transactions with these related parties in the reporting period and in corresponding periods.

(2) Interim financial reporting

Beginning January 1, 2011, the Group applies the amendment to IAS 34 – "Interim Financial Reporting", significant events and transactions ("the Amendment"), issued under the Annual improvements to IFRSs, 2010 of the International Accounting Standards Board (IASB). The Amendment expands the list of events and transactions requiring disclosure in interim financial statements. In addition, the minimum requirement for disclosure in the current standard, prior to the Amendment, was eliminated. Application of the Amendment did not have a material effect on the financial statements.

NOTE 4 - GROUP ENTITIES

A detailed description of the Group entities appears in Note 13 to the Group's annual financial statements as at December 31, 2010. Below are details of the material changes that occurred in connection with the Group entities since publication of the annual financial statements.

Equity-accounted associates

DBS Satellite Services (1998) Ltd.

(1) For information about the financial position of DBS, see Note 4 to the financial statements of DBS for the three months ended March 31, 2011, attached to these reports. See also Note 6 to the financial statements of DBS regarding subsequent events.

(2) DBS has a current debt to the Group companies of NIS 58 million, of which NIS 47 million is to the Company.

NOTE 5 – CONTINGENT LIABILITIES

During the normal course of business, legal claims were filed against Group companies or there are pending claims (hereinafter in this section: "legal claims").
In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of approximately NIS 242 million, where provisions are required to cover the exposure resulting from such claims. In the opinion of the managements of the Group companies, the additional exposure as at March 31, 2011, due to legal claims filed against the Group companies on various matters and which are unlikely to be realized, amounts to approximately NIS 16.7 billion (of which NIS 1.3 billion is for claims, which at this stage, cannot be assessed, as set out in section B below). For updates subsequent to the reporting date, see section B below. This amount and all the amounts of the additional exposures in this note are linked to the CPI and are stated net of interest.

For applications for certification as class action suits to which the Group has exposure beyond the aforesaid (since the claims do not state an exact amount), see sections B and D below.

A detailed description of the Group's contingent liabilities appears in Note 18 to the Group's annual financial statements as at December 31, 2010. Following is a description of the Group's contingent liabilities at March 31, 2011, classified into groups with similar characteristics.

A. Employee claims

At March 31, 2011, the additional exposure (beyond the provisions included in these financial statements) for employee claims amounts to approximately NIS 2 billion and relates mainly to claims filed by groups of employees or individual claims with wide ramifications. In the opinion of the management of the Company, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of approximately NIS 96 million, where provisions are required to cover the exposure resulting from such claims.

B. Customer claims

At March 31, 2011, the amount of the additional exposure (beyond the provisions included in these financial statements) for customer claims amounts to approximately NIS 8.2 billion. Of these claims, there are claims amounting to NIS 3 billion, which, at this stage, cannot yet be estimated. There are other claims for which the Group has additional exposure beyond the aforesaid, which cannot be quantified, as the exact amount of the claim is not stated in the claims. In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of approximately NIS 57 million, where provisions are required to cover the exposure resulting from such claims.
Subsequent to the reporting date, customers of the Company filed a claim against the Company amounting to approximately NIS 127 million, for which its exposure cannot be assessed at this stage. In addition, customer claims against the Group companies with exposure of approximately NIS 366 million have been eliminated.

C. Supplier and communication provider claims

At March 31, 2011, the amount of the additional exposure (beyond the provisions included in these financial statements) for supplier and communication provider claims amounts to approximately NIS 978 million. In the opinion of the managements of the Group companies, based, *inter alia*, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of approximately NIS 14 million, where provisions are required to cover the exposure resulting from such claims.

D. Claims for punitive damages

At March 31, 2011, the amount of the additional exposure (beyond the provisions included in these financial statements) for punitive damages amounts to approximately NIS 5 billion (This amount does not include claims for which the insurance coverage is not disputed). There are other claims for which the Group has additional exposure beyond the aforesaid, which cannot be quantified, as the exact amount of the claim is not stated in the claim.
In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of approximately NIS 1 million, where provisions are required to cover the exposure resulting from such claims.

NOTE 5 – CONTINGENT LIABILITIES (CONTD.)

E. Claims by developers and companies

At March 31, 2011, the amount of the additional exposure (beyond the provisions included in these financial statements) for claims by developers and companies amounts to approximately NIS 256 million. In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of approximately NIS 10 million, where provisions are required to cover the exposure resulting from such claims.

F. Claims by the State and authorities

At March 31, 2011, the amount of the additional exposure (beyond the provisions included in these financial statements) for claims by the State of Israel and authorities amounts to approximately NIS 290 million. In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of approximately NIS 64 million, where provisions are required to cover the exposure resulting from such claims.

For claims against DBS, see Note 5 to the financial statements of DBS as at March 31, 2010, which are attached to these financial statements.

NOTE 6 – EQUITY AND SHARE-BASED PAYMENTS

A. Below are details of the Company's share capital:

Registered			Issued and paid up		
March 31, 2011	March 31, 2010	December 31, 2010	March 31, 2011	March 31, 2010	December 31, 2010
(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
2,825,000,000	2,749,000,000	2,825,000,000	**2,691,069,862**	2,674,293,490	2,685,917,052

B. Following the exercise of options by employees in accordance with the options plans set out in Note 27 to the financial statements as at December 31, 2010, in the three months ended March 31, 2011, the Company issued 5,152,810 ordinary shares of NIS 1 par value each.

C. Subsequent to the reporting date and through May 10, 2011, following the exercise of options by the employees, in accordance with the options plans set out in Note 27 to the financial statements as at December 31, 2010, the Company issued 10,050,973 ordinary shares of NIS 1 par value each.

D. In March 2011, the Board of Directors of the Company approved the allotment of 1,900,000 options to Company employees, according to the 2010 employee options plan set out in Note 27(C) to the financial statements as at December 31, 2010. The theoretical economic value of the allotted options, calculated at the date the Board of Directors approved the allotment, based on the weighted Black and Scholes model, amounts to NIS 7 million.

E. Subsequent to the reporting date, on April 13, 2011, the general meeting of the shareholders of the Company approved (further to the recommendation of the Board of Directors of the Company of March 7, 2011) a cash dividend distribution to the shareholders of the Company in the amount of NIS 1.163 billion, representing NIS 0.4305716 per share and 43.05716%% of the Company's issued and paid up capital on the record date (May 4, 2011). The dividend will be paid on May 19, 2011.

NOTE 6 – EQUITY AND SHARE-BASED PAYMENTS (CONTD.)

F. Further to Note 21(C) to the financial statements as at December 31, 2010 regarding a planned distribution of NIS 3 billion to the Company's shareholders, a sum not in compliance with the profit test, as defined in section 302 Companies Law, 5759-1999, on March 31, 2011 the court approved the Company's petition to approve the distribution.

The dividend will be distributed in six equal semi-annual payments, in 2011-2013, (without interest or linkage payments), and to the extent possible, together with the Company’s regular dividend distribution. The first payment of NIS 500 million (which at the record date, May 4, 2011 constitutes NIS 0.1851125 per share and 18.51125% of the Company's issued and paid up capital) will be paid to shareholders on May 19, 2011.

The liability for the distribution is recognized as a financial liability and was initially measured at its present value at the date approval was received from the court. Discounting is based on the expected payment dates, at a discount rate of 3.81% - 5.05%.

The dividend is stated as follows:

	March 31, 2011	
	Dividend payable undiscounted	Presented in the statement of financial position at current value
	(Unaudited)	(Unaudited)
	NIS millions	NIS millions
Current liabilities	**1,000**	**984**
Non-current liabilities	**2,000**	**1,827**
	3,000	**2,811**

NOTE 7 –TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

A. Further to Note 30(F) to the financial statements as at December 31, 2010, on April 13, 2011, the general meeting of the Company’s shareholders approved a maximum bonus for 2010 for the Company's former chairman of the 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 3.507 million.

B. Further to Note 30(E)(2)(m) to the financial statements as at December 31, 2010 regarding a framework transaction for three years for the Company's engagement in future insurance policies to cover Directors & Officers ("D&O") liability, in April 2011, the general meeting of the Company's shareholders approved the framework agreement.

C. Further to Note 30 (E)(2)(n) to the financial statements as at December 31, 2010 regarding the Company's engagement in a D&O liability insurance policy for one year, beginning April 14, 2011, during the month of April 2011, the general meeting of the Company’s shareholders approved the aforesaid engagement.

NOTE 8 – REVENUES

	Three months ended March 31		Year ended December 31
	2011	2010 *	2010 *
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Domestic fixed-line communications			
Fixed line telephony	**597**	763	3,074
Internet - infrastructure	**265**	236	977
Transmission and data communications	**183**	182	713
Other services	**64**	55	226
	1,109	1,236	4,990
Cellular			
Cellular services and terminal equipment	**645**	809	3,286
Value-added services	**283**	233	1,014
Sale of terminal equipment	**501**	286	1,176
	1,429	1,328	5,476
International communications, internet services and NEP	**315**	335	1,334
Other	**60**	16	187
	2,913	2,915	11,987

(*) Revenues from transmission, data communications and from value added services were reclassified and stated separately.

NOTE 9 – OPERATING AND GENERAL EXPENSES

	Three months ended March 31		Year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Materials and spare parts	**391**	263	1,049
General expenses	**292**	283	1,184
Cellular telephone expenses	**214**	436	1,866
International communication expenses	**77**	85	325
Building maintenance	**68**	64	107
Vehicle maintenance expenses	**29**	31	132
Services and maintenance by sub-contractors	**27**	33	265
Royalties to the State of Israel	**27**	16	74
Collection fees	**6**	7	24
	1,131	1,218	5,026

NOTE 10 – SEGMENT REPORTING

A. Operating segments

	Three months ended March 31, 2011 (unaudited)						
	Domestic fixed-line communication	Cellular telephone	International communication and internet services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	1,108	1,428	315	406	59	(406)	2,910
Inter-segment revenues	70	22	14	-	8	(111)	3
Total revenue	1,178	1,450	329	406	67	(517)	2,913
Depreciation and amortization	162	139	24	69	7	(66)	335
Segment results – operating profit	211	399	61	61	1	(68)	665
Financing expenses	80	15	3	138	1	(135)	102
Financing income	(54)	(25)	(2)	(4)	-	3	(82)
Total financing expenses (income), net	26	(10)	1	134	1	(132)	20
Segment profit (loss) after financing expenses, net	185	409	60	(73)	-	64	645
Share of losses of equity-accounted investees	-	-	-	-	-	(65)	(65)
Segment profit (loss) before income tax	185	409	60	(73)	-	(1)	580
Income tax	62	99	14	-	-	(1)	174
Segment results – net profit (loss)	123	310	46	(73)	-	-	406

NOTE 10 – SEGMENT REPORTING (CONTD.)

A. Operating segments (Contd.)

	Three months ended March 31, 2010 (unaudited)						
	Domestic fixed-line communication	Cellular telephone	International communication and internet services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	1,235	1,328	335	391	13	(391)	2,911
Inter-segment revenues	69	65	8	-	6	(144)	4
Total revenue	1,304	1,393	343	391	19	(535)	2,915
Depreciation and amortization	170	149	23	64	1	(64)	343
Segment results – operating profit	490	322	61	59	1	(59)	874
Financing expenses	51	12	3	106	-	(109)	63
Financing income	(52)	(34)	(2)	(39)	-	42	(85)
Total financing expenses (income), net	(1)	(22)	1	67	-	(67)	(22)
Segment profit (loss) after financing expenses, net	491	344	60	(8)	1	8	896
Share of profits (losses) of equity-accounted investees	-	-	1	-	-	(24)	(23)
Segment profit (loss) before income tax	491	344	61	(8)	1	(16)	873
Income tax	131	85	15	-	-	-	231
Segment results – net profit (loss)	360	259	46	(8)	1	(16)	642

NOTE 10 – SEGMENT REPORTING (CONTD.)

A. Operating segments (Contd.)

	Year ended December 31, 2010						
	Domestic fixed-line communication	Cellular telephone	International communication and internet services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	4,990	5,474	1,333	1,578	178	(1,578)	11,975
Inter-segment revenues	273	258	47	5	32	(603)	12
Total revenue	5,263	5,732	1,380	1,583	210	(2,181)	11,987
Depreciation and amortization	690	601	94	285	15	(276)	1,409
Segment results – operating profit	2,043	1,383	320	178	14	(194)	3,744
Financing expenses	282	111	11	500	3	(516)	391
Financing income	(192)	(100)	(6)	(9)	-	25	(282)
Total financing expenses (income), net	90	11	5	491	3	(491)	109
Segment profit (loss) after financing expenses, net	1,953	1,372	315	(313)	11	297	3,635
Share of profits (losses) of equity-accounted investees	-	-	3	-	-	(264)	(261)
Segment profit (loss) before income tax	1,953	1,372	318	(313)	11	33	3,374
Income tax	527	339	65	1	4	(4)	932
Segment results – net profit (loss)	1,426	1,033	253	(314)	7	37	2,442

NOTE 10 – SEGMENT REPORTING (CONTD.)

B. Adjustments for segment reporting of revenue, profit or loss

	Three months ended March 31		Year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenues			
Revenues from reporting segments	**3,363**	3,431	13,958
Revenues from other segments	**67**	19	210
Elimination of revenues from inter-segment revenues except for revenues from sales to an associate reporting as a segment	**(111)**	(144)	(603)
Elimination of revenues from a segment classified as an associate	**(406)**	(391)	(1,578)
Consolidated revenues	**2,913**	2,915	11,987

	Three months ended March 31		Year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit or loss			
Operating profit for reporting segments	**732**	932	3,924
Cancellation of expenses from a segment classified as an associate	**(61)**	(59)	(178)
Financing income (expenses), net	**(20)**	22	(109)
Share in losses of equity-accounted investees	**(65)**	(23)	(261)
Profit for operations classified in other categories	**1**	1	14
Other adjustments	**(7)**	-	(16)
Consolidated profit before income tax	**580**	873	3,374

NOTE 11 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. AND BEZEQ INTERNATIONAL LTD.

1. Pelephone Communications Ltd.

A. Statement of financial position

	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**2,119**	1,885	2,071
Non-current assets	**2,970**	2,876	2,821
	5,089	4,761	4,892
Current liabilities	**1,159**	1,120	1,198
Long-term liabilities	**657**	832	732
Total liabilities	**1,816**	1,952	1,930
Equity	**3,273**	2,809	2,962
	5,089	4,761	4,892

B. Statement of income

	Three months ended March 31		Year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue from services	**666**	873	3,536
Revenue from value added services	**283**	233	1,014
Revenue from terminal equipment sales	**501**	287	1,182
Total revenue from services and sales	**1,450**	1,393	5,732
Cost of services and sales	**902**	923	3,754
Gross profit	**548**	470	1,978
Selling and marketing expenses	**117**	119	468
General and administrative expenses	**32**	29	127
	149	148	595
Operating profit	**399**	322	1,383
Financing expenses	**15**	12	111
Financing income	**(25)**	(34)	(100)
Financing expenses (income), net	**(10)**	(22)	11
Profit before income tax	**409**	344	1,372
Income tax	**99**	85	339
Profit for the period	**310**	259	1,033

NOTE 11 – CONDENSED FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD. AND BEZEQ INTERNATIONAL LTD. (CONTD.)

2. Bezeq International Ltd.

A. Statement of financial position

	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**451**	541	447
Non-current assets	**619**	557	591
	1,070	1,098	1,038
Current liabilities	**265**	310	279
Long-term liabilities	**20**	39	25
Total liabilities	**285**	349	304
Equity	**785**	749	734
	1,070	1,098	1,038

B. Statement of income

	Three months ended March 31		Year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue	**329**	343	1,380
Operating expenses	**193**	210	822
Gross profit	**136**	133	558
Selling and marketing expenses	**47**	44	192
General and administrative expenses	**28**	28	109
Other income, net	**-**	-	(63)
Operating profit	**61**	61	320
Financing expenses	**3**	3	11
Financing income	**(2)**	(2)	(6)
Financing expenses (income), net	**1**	1	5
Share in earnings of equity- accounted associates	**-**	1	3
Income before income tax	**60**	61	318
Income tax	**14**	15	65
Profit for the period	**46**	46	253

NOTE 12 – MATERIAL EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

A. On January 24, 2011 the Company's Board of Director's approved an early retirement plan for employees. According to the plan, up to 260 employees will retire from the Company at a total cost of up to NIS 281.5 million. The expense of NIS 281.5 million for the plan was recognized in the financial statements as other operating expenses.

B. In March 2011 the Company applied to the Securities Authority for permission to publish a shelf prospectus and submitted a preliminary draft shelf prospectus based on the Company's financial statements as at December 31, 2010, according to which the Company may issue, subject to the terms of the shelf prospectus, shares, debentures, convertible debentures, stock options, debenture options and marketable securities, in the scope and according to the terms set out in the shelf offering memorandums, insofar as these will be issued by the Company in the future.

C. On May 11, 2011, the Company's Board of Directors approved raising debt of NIS 2 billion, through loans from Israeli banks and an institutional body (group). NIS 1.4 billion of the total debt will be long-term (average duration of 6.2 years) and NIS 0.6 billion of the total debt will be short term for one year. At the approval date of the report, the debt had not yet been raised. Some of the debt is expected to be raised by exercising the letter of commitment to provide long-term credit that the Company received from a bank on February 17, 2011. After the debt has been raised, the amount of credit in the letter of commitment will be reduced from NIS 1.5 billion to NIS 0.7 billion.

DBS SATELLITE SERVICES (1998) LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2011

(UNAUDITED)

Condensed Interim Financial Statements as at March 31, 2011

Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'Arbaa Street, POB 609
Tel Aviv 61006, Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

Review Report to the Shareholders of
DBS Satellite Services (1998) Ltd.

Introduction

We have reviewed the accompanying financial information of DBS Satellite Services (1998) Ltd (hereinafter - "the Company"), comprising of the condensed interim statement of financial position as of March 31, 2011 and the related condensed 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.

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, 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, 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 above conclusion, we draw attention to Note 4 regarding the financial condition of the Company. The continuation of the Company's activities depends on its compliance with the stipulations as set forth in the financing agreements with the banks.

Additionally, we draw attention to Note 5B to the Company's financial statements, regarding the class action filed against the Company in respect of disruptions to the Company's broadcasts. In accordance with the assessment of the Company's management, which is based on the opinion of its legal counsels, the Company has included an appropriate provision in its financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 5, 2011

Condensed Interim Statements of Financial Position as at

	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Trade receivables	**163,300**	154,815	168,847
Other receivables	**11,786**	10,772*	11,150
Total current assets	**175,086**	165,587	179,997
Broadcasting rights, net of rights exercised	**308,931**	313,722	304,490
Property, plant and equipment, net	**678,761**	680,098	675,888
Intangible assets, net	**89,133**	72,089	82,769
Total non-current assets	**1,076,825**	1,065,909	1,063,147
Total assets	**1,251,911**	1,231,496	1,243,144

* Reclassified

Condensed Interim Statements of Financial Position as at

	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Borrowings from banks	**50,690**	168,777	135,438
Current maturities for debentures	**56,387**	54,291	56,062
Trade payables	**381,772**	439,999	355,771
Other payables	**158,580**	126,851*	164,951
Provisions	**85,250**	8,582*	89,266
Total current liabilities	**732,679**	798,500	801,488
Debentures	**1,162,350**	619,901	1,030,973
Loans from institutions	**-**	184,693	-
Bank loans	**401,184**	704,156	470,810
Loans from shareholders	**2,394,108**	2,025,174	2,300,387
Long-term trade payables	**49,322**	7,943*	54,264
Employee benefits	**6,822**	7,437	6,696
Total non-current liabilities	**4,013,786**	3,549,304	3,863,130
Total liabilities	**4,746,465**	4,347,804	4,664,618
Capital deficit			
Share capital	**29**	29	29
Share premium	**85,557**	85,557	85,557
Share options	**48,219**	48,219	48,219
Capital reserves	**1,537,271**	1,537,271	1,537,271
Capital reserve for share-based payments	**9,689**	7,650	9,391
Accumulated deficit	**(5,175,319)**	(4,795,034)	(5,101,941)
Total capital deficit	**(3,494,554)**	(3,116,308)	(3,421,474)
Total liabilities and equity	**1,251,911**	1,231,496	1,243,144

David Efrati (Authorized to sign as chairman of the board) (See Note 7)	Ron Eilon CEO	Katriel Moriah CFO

* Reclassified

Date of approval of the financial statements: May 5, 2011

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

Condensed Interim Income Statements

	For the three months ended		For the year ended
	March 31, 2011	**March 31, 2010**	**December 31, 2010**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS thousands	**NIS thousands**	**NIS thousands**
Revenue	**405,550**	391,416	1,582,930
Cost of revenue	**271,899**	261,553	1,128,848
Gross profit	**133,651**	129,863	454,082
Selling and marketing expenses	**40,059**	38,936	143,202
General and administrative expenses	**32,222**	32,236	132,561
	72,281	71,172	275,763
Operating profit	**61,370**	58,691	178,319
Financing expenses	**44,928**	62,804	181,584
Financing income	**(3,972)**	(39,215)	(9,313)
Shareholders' financing expenses	**93,721**	43,287	318,499
Financing expenses, net	**134,677**	66,876	490,770
Loss before income tax	**(73,307)**	(8,185)	(312,451)
Income tax	**71**	82	1,188
Loss for the period	**(73,378)**	(8,267)	(313,639)
Basic and diluted loss per share (NIS)	**2,454**	277	10,491

The attached notes are an integral part of these condensed interim financial statements

Condensed Interim Statements of Comprehensive Income

	For the three months ended		For the year ended
	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Loss for the period	**(73,378)**	(8,267)	(313,639)
Other items of comprehensive income:			
Actuarial losses from a defined benefit plan	**-**	-	(1,535)
Other comprehensive loss for the period	**-**	-	(1,535)
Total comprehensive loss for the period	**(73,378)**	(8,267)	(315,174)

The attached notes are an integral part of these condensed interim financial statements

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Share options	Capital reserve	Capital reserve for share-based payments	Accumulated deficit	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Three months ended March 31, 2011 (unaudited)							
Balance at January 1, 2011 (audited)	**29**	**85,557**	**48,219**	**1,537,271**	**9,391**	**(5,101,941)**	**(3,421,474)**
Total comprehensive income for the period							
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(73,378)**	**(73,378)**
Other comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total other comprehensive loss for the period (unaudited)	**-**	**-**	**-**	**-**	**-**	**(73,378)**	**(73,378)**
Transactions with owners recognized directly in equity							
Share-based payments	**-**	**-**	**-**	**-**	**298**	**-**	**298**
Balance at March31, 2011 (unaudited)	**29**	**85,557**	**48,219**	**1,537,271**	**9,689**	**(5,175,319)**	**(3,494,554)**
Three months ended March 31, 2010 (unaudited)							
Balance at January 1, 2010 (audited)	29	85,557	48,219	1,537,271	6,931	(4,786,767)	(3,108,760)
Total comprehensive income for the period							
Loss for the period	-	-	-	-	-	(8,267)	(8,267)
Other comprehensive loss for the period	-	-	-	-	-	-	-
Total other comprehensive loss for the period (unaudited)	-	-	-	-	-	(8,267)	(8,267)
Transactions with owners recognized directly in equity							
Share-based payments	-	-	-	-	719	-	719
Balance at March 31, 2010 (unaudited)	29	85,557	48,219	1,537,271	7,650	(4,795,034)	(3,116,308)

The attached notes are an integral part of these condensed interim financial statements

Condensed Interim Statements of Changes in Shareholders Equity (Contd.)

	Share capital	Share premium	Share options	Capital reserve	Capital reserve for share-based payments	Accumulated deficit	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Year ended December 31, 2010 (audited)							
Balance at January 1, 2010 (audited)	29	85,557	48,219	1,537,271	6,931	(4,786,767)	(3,108,760)
Total comprehensive income for the year							
Loss for the year	-	-	-	-	-	(313,639)	(313,639)
Other comprehensive loss for the year	-	-	-	-	-	(1,535)	(1,535)
Total other comprehensive loss for the year						(315,174)	(315,174)
Transactions with owners recognized directly in equity							
Share-based payments	-	-	-	-	2,460	-	2,460
Balance at December 31, 2010 (audited)	29	85,557	48,219	1,537,271	9,391	(5,101,941)	(3,421,474)

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

Condensed Interim Statements of Cash Flows (contd.)

	For the three months ended		For the year ended
	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Loss for the period	**(73,378)**	(8,267)	(313,639)
Adjustments			
Depreciation and amortization	**68,593**	63,754	284,732
Financing expenses, net	**140,951**	65,129	465,562
Proceeds from sale of property, plant and equipment	**(50)**	(15)	(35)
Share-based payments	**298**	719	2,460
Income tax expenses	**71**	82	1,188
Change in trade receivables	**5,547**	5,337	(8,695)
Change in other receivables	**(636)**	484*	363*
Change in trade payables	**14,716**	32,390*	(2,731)
Change in other payables and provisions	**(10,387)**	(6,327)*	83,659
Change in broadcasting rights, net of rights exercised	**(4,441)**	(28,956)	(19,724)
Change in employee benefits	**126**	48	(438)
	214,788	132,645	806,341
Income tax paid	**(71)**	(82)	(1,188)
Net cash from operating activities	**141,339**	124,296	491,514
Cash flows used in investing activities			
Proceeds from the sale of property, plant and equipment	**129**	184	1,589
Purchase of property, plant and equipment	**(57,453)**	(48,421)	(226,728)
Acquisition of intangible assets	**(3,813)**	(3,632)	(14,897)
Payments for subscriber acquisition	**(9,850)**	(8,981)	(36,756)
Net cash used in investing activities	**(70,987)**	(60,850)	(276,792)

* Reclassified

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

Condensed Interim Statements of Cash Flows (contd.)

	For the three months ended		For the year ended
	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows used in financing activities			
Repayment of loans from institutions	**-**	-	(115,731)
Bank loans received, net	**-**	255,000	255,000
Repayment of bank loans	**(72,426)**	(245,918)	(580,718)
Repayment of debentures	**-**	-	(55,020)
Short-term bank credit, net	**(81,948)**	(23,180)	41,232
Interest paid	**(35,878)**	(49,348)	(203,444)
Issue of debentures, net	**119,900**	-	443,959
Net cash used for financing activities	**(70,352)**	(63,446)	(214,722)
Change in cash and cash equivalents	**-**	-	-
Cash and cash equivalents at the beginning of the period	**-**	-	-
Cash and cash equivalents at the end of the period	**-**	-	-

The attached notes are an integral part of these condensed interim financial statements

Condensed Interim Statements of Cash Flows (contd.)

NOTE 1 – REPORTING ENTITY

DBS Satellite Services (1998) Ltd. ("the Company") was incorporated in Israel on December 2, 1998. The Company's head office is at 6 Hayozma St., Kfar Saba, Israel.

In January 1999, the Company received a license from the Ministry of Communications for satellite television broadcasts ("the License"). The License is valid until January 2017 and may be extended for a further six years under certain conditions. The Company's operations are subject, *inter alia,* to the Communications Law (Telecommunications and Broadcasts), 5742-1982 ("the Communications Law") and the regulations and rules promulgated thereunder and to the license terms.

Pursuant to its license, Bezeq The Israel Telecommunication Corporation Limited ("Bezeq"), is required to maintain full structural separation between it and its subsidiaries, and between it and the Company. Additionally, on March 31, 2004, the Minister of Communications published a document banning certain business alliances between Bezeq and its subsidiaries, and between Bezeq and the Company, unless, *inter alia*, there is a material deterioration in the competitive status of the Company. The Ministry is considering the approval of certain exemptions regarding the restrictions relating to the alliances while amending the license. This process has not yet been completed.
In August 2009, the Supreme Court accepted the Antitrust Commissioner's appeal of the ruling of the Antitrust Tribunal approving the merger (as defined in the Antitrust Law, 5748-1988) between the Company and Bezeq by exercising the options held by Bezeq into Company shares, subject to certain conditions, and ruled against the merger.

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance

The condensed interim financial statements have been prepared in conformity with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements for the year ended December 31, 2010 ("the annual statements"). In addition, these statements have been prepared in conformity with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The condensed interim financial statements were approved by the Company's Board of Directors on May 5, 2011.

B. Use of estimates and judgments

The preparation of the condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
The judgment of management when applying the Company's accounting policy and the principal assumptions used in assessments that involve uncertainty are consistent with those applied in the annual financial statements.

Condensed Interim Statements of Cash Flows (contd.)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in these condensed interim financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2010, except as described below:

A. Recognition of actuarial gains or losses

The Company does not produce in every interim reporting period an updated actuarial assessment for measuring employee benefits unless there are significant changes during the interim period in the principal actuarial assumptions in a defined benefit plan: discount rate, expected return on plan assets, employee leave rate and the rate of future salary increases. As a result, actuarial gains or losses are not recognized in the reporting period.

B. Initial application of new accounting standards

(1) Related party disclosures

Beginning January 1, 2011, the Company applies IAS 24 (2009) – Related Party Disclosures ("the Standard"). The Standard includes changes in the definition of a related party and modifications of disclosure requirements for government-related entities. The Standard is applied retrospectively.

For the initial application of the Standard, the Company mapped the relationships of the related parties. According to the new definition and following the mapping, new related parties were identified. The Company had no transactions with these related parties in the reporting period and in corresponding periods.

(2) Interim financial reporting

Beginning January 1, 2011, the Company applies the amendment to IAS 34 – "Interim Financial Reporting", regarding significant events and transactions ("the Amendment"), which was published as part of the improvements to IFRSs issued by the International Accounting Standards Board (IASB) for 2010. According to the Amendment, the list of events and transactions requiring disclosure in interim financial statements was expanded. In addition, the minimum requirement for disclosure in the current standard, prior to the Amendment, was eliminated. The disclosures required according to the Amendment were reflected in these condensed interim financial statements.

NOTE 4 – FINANCIAL POSITION OF THE COMPANY

A. Since the beginning of its operations, the Company has accumulated substantial losses. The Company's losses in 2010 amounted to NIS 314 million and losses in the three months ended March 31, 2011 amounted to NIS 73 million. As a result of these losses, the Company's capital deficit and working capital deficit at March 31, 2011 amounted to NIS 3.495 billion and NIS 558 million, respectively.

B. 1. In March 2011, the Company expanded Debentures (Series B) by issuing additional debentures amounting to NIS 117 million par value and amounting to NIS 120 million. Maalot rated the Debentures (Series B) at ilA-. According to the amendment to the Company's bank finance agreement, fifty percent of the proceeds from the issuance will be used for early partial repayment of the Company's long-term bank loans .

2. At March 31, 2011, the Company is in compliance with the financial covenants set for it.

3. The Company's management believes that the financial resources at its disposal will be sufficient for the Company's operations for the coming year, based on the cash flow forecast approved by the Company's board of directors. If additional resources are required to meet its operational requirements for the coming year, the Company will adapt its operations to preclude the need for additional resources beyond those available to it.

NOTE 5 – CONTINGENT LIABILITIES

Legal claims

A. Employee claims

During the normal course of business, employees and former employees filed collective and individual claims against the Company. Most of these claims are for alleged non-payment of salary components and delay in salary payment. At March 31, 2011, these claims amounted to NIS 1.653 million. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 737,000, where provisions are required to cover the exposure resulting from such claims.

B. Customer claims

During the normal course of business, the Company's customers filed claims against the Company. At March 31, 2011, these claims amounted to NIS 1,277,269 thousand. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 3.776 million, where provisions are required to cover the exposure resulting from such claims.

In respect of the claim regarding distruptions of broadcasts, which is included in the customer claims described in Note 21B to the financial statements of the year 2010, the parties are negotiating a settlement agreement, however at the approval date of the financial statements, the claim still stands.

Of these claims, there are claims amounting to NIS 650.006 million, which cannot yet be assessed. For changes subsequent to the reporting date, see Note 6.

C. Supplier and communication provider claims

During the normal course of business, suppliers of goods and/or services to the Company filed claims against the Company. The main claim was filed for alleged damage to a supplier as a result of the Company's negligence. At March 31, 2011, these claims amounted to NIS 64.342 million. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 164,000, where provisions are required to cover the exposure resulting from such claims.

D. Investigation by the Authority

In March 2011, the Consumer Protection Authority conducted an investigation of the CEO of DBS. To the best of DBS's knowledge, the investigation concerns suspicions of alleged violations of the Consumer Protection Law by DBS, regarding contentions of deception and lack of disclosure when contracting with customers. At the reporting date, DBS has not yet received a report of the investigation results.

NOTE 6 – MATERIAL EVENTS SUBSEQUENT TO THE REPORTING DATE

In respect of the class action in the amount of NIS 258 million as described in Note 21B to the financial statements of 2010, on April 14, 2011, the court accepted the joint motion to withdraw and dismissed the claim.

On May 3, 2011 the Company was furnished with a petition, which was filed at the Tel Aviv-Jaffa district court on August 15, 2010, for certification of a class action against the Company, in the estimated amount of NIS 31.5 million. According to the applicant, the Company violated the provisions of section 13A of the Consumer Protection Law, 5741-1981 ("the Consumer Protection Law") regarding a transaction for a defined period of time, and this is due to its failure to notify its customers that the term of their commitment to the Company had ended and for increasing fees collected from them at the end of their term of commitment. The applicant claims that this caused financial damage of NIS 29.77, which is the amont overpaid after the commitment period. The applicant defined the group as "any of the respondent's customers who paid fees after the term of commitment ("the agreement"), and the monthly payments exceed the amounts paid during the term of commitment". The applicant estimates that there are 450,000 customers in the group. The reliefs claimed in the application for certification are for compensation in a total amount of NIS 31.5 million for payments collected from customers after the term of commitment. The applicant also petitioned the court to order the Company to comply with the provisions of section 13A of the Consumer Protection Law regarding a transaction for a defined period of time. At this stage, this claim cannot be assessed.

NOTE 7 – APPOINTMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS FOR THE APPROVAL MEETING

At the date of approval of the financial statements, the Company's Board of Directors does not have an incumbent chairman. Consequently, the Company's Board of Directors authorized David Efrati, a director in the Company, to serve as chairman of the Board of Directors' meeting convened to approve the financial statements and to sign the Company's financial statements as at March 31, 2011.

Regulation 9D – Report on the Liabilities of the Reporting Corporation and Companies that that are Consolidated or Proportionately Consolidated in the Financial Statements as at March 31, 2011

1. The liabilities of the reporting corporation, as a separate legal entity:

A. Liability certificates issued by the reporting corporation, which are held by the public, except for the liability certificates held by the parent company of the reporting corporation, a controlling shareholder therein, corporations under their control or under the control of the reporting corporation:

	Principal payments	Gross interest payments
	NIS CPI-linked	(pre-tax)
	NIS millions	NIS millions
First year	650	111
Second year	296	79
Third year	296	63
Fourth year	296	47
Fifth year and thereafter	593	47
Total	2,131	347

B. Liability certificates and non-banking credit as follows:

Liability certificates issued by the reporting company, which are not held by the public, except for the liability certificates held by the parent company of the reporting corporation, a controlling shareholder therein, corporations under their control or under the control of the reporting corporation.

	Principal payments	Gross interest payments
	NIS CPI-linked	(pre-tax)
	NIS millions	NIS millions
First year	78	4
Total	78	4

C. Credit received by the reporting corporation from the Bank of Israel

	Principal payments	Gross interest payments
	CPI-linked (NIS)	(pre-tax)
	NIS millions	NIS millions
First year	77	122
Second year	77	120
Third year	475	117
Fourth year	475	95
Fifth year and thereafter	1,496	123
Total	2,600	577

2. For liabilities of the subsidiaries and the proportionately-controlled subsidiaries of the reporting corporation, except for companies that are themselves a reporting corporation, the following details of credit and liabilities are specified:

A. Credit received by the subsidiaries from the Bank of Israel

B. Total liability certificates issued by the subsidiaries

	Principal payments	Principal payments	Gross interest payments
	CPI-linked (NIS)	Unlinked (NIS)	(pre-tax)
	NIS millions	NIS millions	NIS millions
First year	181	11	34
Second year	170	11	25
Third year	170	11	17
Fourth year	153	12	8
Fifth year and thereafter	33	31	3
Total	707	76	87

3. For credit from Group companies or liability certificates held by Group companies:

Credit received by the reporting corporation from companies that are consolidated or proportionately consolidated in its financial statements, and the balance of liability certificates issued by the reporting corporation held by them.

	Principal payments	Gross interest payments
	CPI-linked (NIS)	(pre-tax)
	NIS million	NIS millions
First year	173	55
Second year	173	46
Third year	173	37
Fourth year	173	27
Fifth year and thereafter	346	27
Total	1,038	192

Regulation 9D – Report on the Liabilities of the Reporting Corporation and Companies that that are Consolidated or Proportionately Consolidated in the Financial Statements as at March 31, 2011

1. The liabilities of the reporting corporation, as a separate legal entity:

   A. Liability certificates issued by the reporting corporation, which are held by the public, except for the liability certificates held by the parent company of the reporting corporation, a controlling shareholder therein, corporations under their control or under the control of the reporting corporation:

	Principal payments	Gross interest payments
	NIS CPI-linked	(pre-tax)
	NIS millions	NIS millions
First year	650	111
Second year	296	79
Third year	296	63
Fourth year	296	47
Fifth year and thereafter	593	47
Total	2,131	347

   B. Liability certificates and non-banking credit as follows:

   Liability certificates issued by the reporting company, which are not held by the public, except for the liability certificates held by the parent company of the reporting corporation, a controlling shareholder therein, corporations under their control or under the control of the reporting corporation.

	Principal payments	Gross interest payments
	NIS CPI-linked	(pre-tax)
	NIS millions	NIS millions
First year	78	4
Total	78	4

   C. Credit received by the reporting corporation from the Bank of Israel

	Principal payments	Gross interest payments
	CPI-linked (NIS)	(pre-tax)
	NIS millions	NIS millions
First year	77	122
Second year	77	120
Third year	475	117
Fourth year	475	95
Fifth year and thereafter	1,496	123
Total	2,600	577

2. For liabilities of the subsidiaries and the proportionately-controlled subsidiaries of the reporting corporation, except for companies that are themselves a reporting corporation, the following details of credit and liabilities are specified:

A. Credit received by the subsidiaries from the Bank of Israel

B. Total liability certificates issued by the subsidiaries

	Principal payments CPI-linked (NIS) NIS millions	Principal payments Unlinked (NIS) NIS millions	Gross interest payments (pre-tax) NIS millions
First year	181	11	34
Second year	170	11	25
Third year	170	11	17
Fourth year	153	12	8
Fifth year and thereafter	33	31	3
Total	707	76	87

3. For credit from Group companies or liability certificates held by Group companies:

Credit received by the reporting corporation from companies that are consolidated or proportionately consolidated in its financial statements, and the balance of liability certificates issued by the reporting corporation held by them.

	Principal payments CPI-linked (NIS) NIS million	Gross interest payments (pre-tax) NIS millions
First year	173	55
Second year	173	46
Third year	173	37
Fourth year	173	27
Fifth year and thereafter	346	27
Total	1,038	192

BEZEQ THE ISRAEL TELECOMMUNICATION CORPORATION LIMITED

SEPARATE CONDENSED INTERIM FINANCIAL INFORMATON MARCH 31, 2011 (UNAUDITED)

Separate condensed interim financial information as at March 31, 2011 (unaudited)

Contents

Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212, Jerusalem 91001
Israel

Telephone 972 2 531 2000
Fax 972 2 531 2044
Internet www.kpmg.co.il

To:
The shareholders of “Bezeq” The Israel Telecommunication Corp. Limited

Special review report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

Introduction
We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq” The Israel Telecommunication Corp. Limited (hereinafter – “the Company”), as of March 31, 2011 and for the three month period then ended. The separate interim financial information is the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of investee companies the investment in which amounted to NIS 225 million as of March 31, 2011, and the Group’s share in their losses amounted to NIS 2.1 million for the three month period then ended. The financial statements 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 statements 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 separate 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 review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our above conclusion, we draw attention to the claims made against the Company of which the exposure cannot yet be assessed or calculated, as described in Note 4.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

May 11, 2011

Condensed interim information on financial position as at

	March 31, 2011 (Unaudited) NIS millions	March 31, 2010 (Unaudited) NIS millions	December 31, 2010 (Audited) NIS millions
Assets			
Cash and cash equivalents	**444**	563	198
Investments, including derivatives	**192**	7	178
Trade receivables	**738**	861	771
Other receivables	**156**	204	329
Inventories	**9**	11	15
Assets classified as held for sale	**20**	33	29
Total current assets	**1,559**	1,679	1,520
Investments, including derivatives	**95**	95	96
Trade and other receivables	**217**	101	206
Property, plant and equipment	**4,157**	3,813	4,006
Intangible assets	**289**	207	276
Investments in equity-accounted investees	**7,276**	6,854	6,939
Deferred tax assets	**292**	352	248
Total non-current assets	**12,326**	11,422	11,771
Total assets	**13,885**	13,101	13,291

Condensed interim information on financial position as at

	March 31, 2011 (Unaudited) NIS millions	March 31, 2010 (Unaudited) NIS millions	December 31, 2010 (Audited) NIS millions
Liabilities			
Debentures, loans and borrowings	**999**	579	941
Trade payables	**150**	197	306
Other payables, including derivatives	**800**	561	569
Loans from subsidiaries	**-**	-	203
Current tax liabilities	**260**	96	229
Deferred income	**21**	20	17
Provisions (Note 4)	**239**	274	230
Employee benefits	**496**	435	233
Dividends payable	**984**	-	-
Total current liabilities	**3,949**	2,162	2,728
Debentures	**2,389**	3,106	2,373
Bank loans	**2,523**	367	2,600
Employee benefits	**222**	255	259
Deferred income and others	**5**	5	4
Dividends payable	**1,827**	-	-
Total non-current liabilities	**6,966**	3,733	5,236
Total liabilities	**10,915**	5,895	7,964
Equity			
Share capital	**3,803**	6,201	6,213
Share premium	**-**	338	378
Reserves	**550**	538	526
Retained earnings (deficit)	**(1,383)**	129	(1,790)
Total equity	**2,970**	7,206	5,327
Total equity and liabilities	**13,885**	13,101	13,291

Shaul Elovitch Chairman of the Board of Directors	Avi Gabbay CEO	Alan Gelman Deputy CEO and CFO

Date of approval of the financial statements: May 11, 2011

The accompanying notes are an integral part of the condensed interim financial information

Condensed interim information on income

	For the three months ended March 31		For the year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenues (Note 2)	**1,178**	1,304	5,263
Costs and expenses			
Depreciation and amortization	**162**	170	690
Salaries	**284**	277	1,079
General and operating expenses(Note 3)	**271**	392	1,609
Other operating expenses (income), net	**250**	(25)	(158)
	967	814	3,220
Operating profit	**211**	490	2,043
Financing (income) expenses			
Financing expenses	**80**	51	282
Financing income	**(54)**	(52)	(192)
Financing expenses (income), net	**26**	(1)	90
Profit after financing expenses (income)	**185**	491	1,953
Share in the profits of equity-accounted investees	**284**	282	1,017
Profit before income tax	**469**	773	2,970
Income tax	**62**	131	527
Profit for the period	**407**	642	2,443

The accompanying notes are an integral part of the condensed interim financial information

Condensed Interim Statement of Comprehensive Income

	For the three months ended March 31		For the year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit for the period	**407**	642	2,443
Items of other comprehensive income			
Other comprehensive income (loss), net of tax	**-**	(1)	8
Other comprehensive income (loss), net of tax for investees	**-**	-	5
Other comprehensive income (loss), net of tax	**-**	(1)	13
Total comprehensive income for the period	**407**	641	2,456

The accompanying notes are an integral part of the condensed interim financial information

Condensed interim information on cash flows

	For the three months ended March 31		For the year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from operating activities			
Profit for the period	**407**	642	2,443
Adjustments:			
Depreciation	**144**	151	618
Amortization of intangible assets	**18**	19	72
Share in the profits of equity-accounted investees	**(284)**	(282)	(1,017)
Financing expenses (income), net	**29**	(4)	69
Capital gain, net	**(44)**	(27)	(171)
Share-based payment	**41**	4	26
Income tax expenses	**62**	131	527
Change in inventory	**6**	(2)	(6)
Change in trade and other receivables	**3**	(66)	29
Change in trade and other payables	**(85)**	(43)	55
Change in provisions	**10**	(4)	(45)
Change in employee benefits	**226**	(27)	(213)
Expenses (income) for derivatives, net	**(2)**	-	11
Net cash from financing activities (used for activities) for transactions with investees	**(35)**	(9)	2
Net income tax paid	**(77)**	(90)	(260)
Net cash from operating activities	**419**	393	2,140
Cash flows from investing activities			
Investment in intangible assets	**(30)**	(33)	(156)
Proceeds from the sale of property, plant and equipment	**187**	15	132
Change in current investments, net	**(8)**	-	-
Purchase of property, plant and equipment	**(289)**	(205)	(876)
Proceeds from disposal of investments and long-term loans	**1**	1	2
Interest received	**2**	-	8
Payment for derivatives	**(11)**	-	(2)
Acquisition of a subsidiary from an investee	**-**	-	(196)
Net cash flows from investment activities for transactions with investees	**219**	420	1,097
Net cash from investing activities	**71**	198	9

The accompanying notes are an integral part of the condensed interim financial information

Condensed Interim Statements of Cash Flows (Contd.)

	For the three months ended March 31		For the year ended December 31
	2011	**2010**	**2010**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cash flows from financing activities			
Bank loans received	**-**	-	2,600
Repayment of bank loans	**-**	-	(400)
Repayment of debentures	**(25)**	(142)	(567)
Dividends paid	**-**	-	(3,733)
Interest paid	**(20)**	(11)	(196)
Proceeds for derivatives, net	**-**	-	10
Proceeds from exercise of share options	**4**	15	26
Net cash used for financing activities for transactions with investees)	**(203)**	(250)	(51)
Net cash used for financing activities	**(244)**	(388)	(2,311)
Increase (decrease) in cash and cash equivalents	**246**	203	(162)
Cash and cash equivalents at beginning of period	**198**	360	360
Cash and cash equivalents at end of period	**444**	563	198

The accompanying notes are an integral part of the condensed interim financial information

NOTE 1 – METHOD FOR PREPARING THE FINANCIAL INFORMATION

A. Definitions

"The Company": Bezeq The Israel Telecommunication Corporation Limited.

“Associate”, "the Group", “Investee”, “Interested Party”: as defined in the consolidated financial statements of the Company for 2010.

B. Main points of the method for preparing of the financial information

The separate condensed interim financial information is stated in accordance with Article 38(D) of the Securities Regulations (Periodic and Interim Reports), 5730-1970 and does not include the information required under the provisions of Article 9(C) and the Tenth Addendum of the Securities Regulations (Periodic and Interim Reports), 5730-1970 in respect of separate condensed interim financial information of the corporation.
The report should be read together with the separate financial information as at December 31, 2010 and for the year then ended and together with the condensed consolidated interim statements as at March 31, 2011 (“the consolidated statements”).

NOTE 2 – REVENUES

	Three months ended March 31		Year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Fixed line telephony	**617**	785	3,160
Internet - infrastructure	**265**	236	977
Transmission and data communications	**228**	223	882
Other services	**68**	60	244
	1,178	1,304	5,263

NOTE 3 – OPERATING AND GENERAL EXPENSES

	Three months ended March 31		Year ended December 31
	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cellular telephone expenses	**64**	190	801
General expenses	**62**	60	250
Materials and spare parts	**22**	23	88
Building maintenance	**62**	61	240
Services and maintenance by sub-contractors	**20**	21	76
Vehicle maintenance expenses	**21**	23	101
Royalties to the State of Israel	**14**	8	31
Collection fees	**6**	6	22
	271	392	1,609

NOTE 4 – CONTINGENT LIABILITIES

During the normal course of business, legal claims were filed or are pending against the Company (“hereinafter in this section: “legal claims”).

The financial statements of the Company include provisions of approximately NIS 239 million for legal claims. The additional exposure beyond these provisions for the claims amounts to NIS 4.6 billion. Subsequent to the reporting date, claims of approximately NIS 250 million out of this amount have been eliminated.
Additionally, out of these claims, there are also claims amounting to approximately NIS 872 million, which at this stage, cannot be assessed, as well as additional claims for which the Company’s additional exposure exceeds the aforesaid, as the exact amount of the claim is not stated in the claim.

Subsequent to the reporting date, customers filed a claim against the Company amounting to approximately NIS 127 million.

For further information about contingent liabilities, see Note 5 to the consolidated financial statements - Contingent Liabilities.

NOTE 5 – SUBSTANTIAL AGREEMENTS AND TRANSACTIONS WITH INVESTEES IN AND SUBSEQUENT TO THE REPORTING PERIOD

A. In respect of the loan provided by the Company to Bezeq Online Ltd., after repayment of NIS 4 million in the period, at March 31, 2011 the balance of the loan amounted to NIS 1 million. The balance of the loan principal was repaid on April 5, 2011.

B. On May 4, 2011, the Board of Directors of Pelephone Communications Ltd. ("Pelephone") resolved to distribute a dividend of NIS 280 million in May 2011. On May 11, 2011, the general meeting of Pelephone approved distribution of the dividend as aforesaid.