UPDATE OF CHAPTER A (DESCRIPTION OF COMPANY OPERATIONS)[1]

OF THE PERIODIC REPORT FOR 2008 ("THE PERIODIC REPORT")

OF "BEZEQ" – THE ISRAEL TELECOMMUNICATIONS CORP. LTD. ("the Company")

In this report, which contains an update of the chapter regarding the description of the Company's business from the periodic report for 2008, the Company has included forward-looking information, as defined in the Securities Law 5728-1968 ("the Securities Law") with respect to both itself and the market. Such information includes forecasts, targets, appraisals and assessments which apply to future events or matters the realization of which is not certain and is not under the Company's control. Forward-looking information in this report will usually be identified specifically, or by employing statements such as "the Company expects", "the Company assesses", "it is the Company's intention", and similar statements.

Forward-looking information is not a proven fact and is based only on the Company's subjective assessment, based, inter alia, on a general analysis of the information available at the time of drafting of this report, including public announcements, studies and surveys, and they contain no undertakings as to the correctness or completeness of the information contained therein, and the Company does not independently check their correctness. The Company's assessments vary from time to time in accordance with the circumstances.

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

1. Description of General Development of Group Operations

Section 1.1 – Group activity and description of its business development

Section 1.1.4 - Holdings of the Company

The following are details of the current rate of the Company's holdings, fully diluted, assuming exercise of all of the options actually allotted to employees of the Company at March 31, 2009 and May 18, 2009 (as set out in the Periodic Report for 2008 and in the update to section 1.3.2 below):

Shareholders	Percentage of holdings		
	At March 31, 2009	At May 18, 2009	Fully diluted at March 31, 2009
Ap.Sb.Ar.	40.44%	40.29%	38.62%
State of Israel	3.80%	3.62%	0.96%
Zeevi Group	17.66%	17.59%	16.86%
The public	38.10%	38.50%	43.56%

Section 1.1.5 – Mergers and Acquisitions – DBS

On April 30, 2009, the board of directors of the Company resolved to effect the merger of the Company and DBS Satellite Services (1998) Ltd. ("DBS") on the terms prescribed in the ruling of the Antitrust Tribunal, to give notice to the Antitrust Tribunal and the Supreme Court of such resolution, all without derogating from the Company's claims in the counter-appeal that it filed against the amount of the bank guarantee prescribed as part of the terms of the merger. Exercise of the merger is subject to the ruling of the Supreme Court on the appeal filed against approval of the merger.

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

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

Section 1.3 – Investments in equity and stock transactions

Section 1.3.2 - Employee option schemes

As part of an option scheme for managers and senior employees of the Group of November 2007, to allot up to 65,000,000 options, since the date of publication of the Periodic Report for 2008 and until May 18, 2009, 100,000 additional options were allotted and 400,000 options expired, so that at the date of publication of this Report, 59,250,000 options, net, have been allotted (after set-off of the options that have expired) under the scheme (59,550,000 options up to March 31, 2009).

Section 1.4 – Distribution of dividends

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

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

Section 1.5.3 Principal results and operational data

A. Bezeq Landline (the Company's activity as domestic operator)

(NIS millions except where stated otherwise)

	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue	1,326	1,348	1,388	1,354	1,408
Operating profit	437	257	422	428	368
Depreciation and amortization	211	209	214	211	218
Operating profit before depreciation and amortization (EBITDA)	648	466	636	639	586
Payments for investment in property, plant and equipment and intangible assets	238	170	156	132	158
Proceeds from sale of property, plant and equipment	48	20	12	25	60
No. of active subscriber lines at end of period (in thousands)	2,579	2,615	2,645	2,681	2,711
Average monthly revenue per line (NIS) *	81	82	85	82	84
No. of outgoing minutes (in millions)	3,123	3,154	3,428	3,346	3,511
No. of incoming minutes (in millions)	1,654	1,648	1,719	1,651	1,673
No. of ADSL subscribers at end of period (in thousands)	1,011	1,005	994	982	970
Average monthly revenue per ADSL subscriber (NIS)	68	67	68	66	68

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

B. Pelephone

(NIS millions except where stated otherwise)

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

* MOU and ARPU data for Q1 2009 include deduction of 92,000 dormant subscribers from the number of active subscribers at December 31, 2008. Inclusion of the impact of this deduction in the comparison period would have increased the above indices in the comparison period by 1 – 3%.

C. Bezeq International

(NIS millions except where stated otherwise)

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

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

D. DBS

(NIS millions except where stated otherwise)

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

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

Section 1.6 - Group forecast

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

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

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

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

For updates of data regarding the breakdown of the Company's revenues based on products and services, see Note 9B to the financial statements of the Company for the period ended on March 31, 2009.

Section 2.6 – Competition

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

Section 2.7 – Property, plant and equipment

Section 2.7.4 – Real estate

During the course of the first three months of 2009, the Company sold two real estate assets in a total area of approximately 7,100 m^2 in land and approximately 3,700 m^2 built-up, for a total sum of NIS 23 million.

Section 2.9 – Human resources

Pursuant to a resolution of the board of directors of the Company of 2008 to approve the retirement of 245 employees during 2009 in accordance with the conditions of the Collective Agreement of December 2006, 99 employees retired from the Company in this context at the date of publication of this Report (of whom 83 retired prior to March 31, 2009).

Section 2.16 – Limitation and regulation of Company activities

Section 2.16.1 – Control of the Company's tariffs

Sub-section (a), regarding update of the Company's tariffs – According to the draft regulations sent to the Company on May 17, 2009 by the Ministry of Communications, the Company's tariffs are scheduled for updating on June 1, 2009, based on the regular update formula in the Communications (Telecommunications and Broadcasts) (Calculation of Payments and Linkage for Telecommunications Services) (Amendment) Regulations 5767-2007, so that the monthly payment for a telephone line will rise by 3.8% and the other controlled services provided by the Company will be reduced by 0.3183%.

Furthermore, on May 7, 2009, the Company received a letter from the Ministry of Communications, enclosing a draft amendment to the Communications (Telecommunications and Broadcasting) (Payments for Interconnect) (Amendment) Regulations, 5769-2009, which was submitted to the Company for review. According to this draft, if the regulations are indeed amended, the interconnect fee paid by cellular and domestic operators in respect of termination of a call on the domestic operator's network, and the interconnect fee the international operators pay in respect of an international call that begins or ends on the domestic operator's network, will be reduced, commencing June 1, 2009, by 0.3183%.

Section 2.16.2 – The Company's general license

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

Concerning baskets of common services – According to the notice of the Ministry of Communications on May 17, 2009, the market share of the Company has fallen, in terms of normative revenue for February 2009, to 80.7% in fixed-line telephony in the private sector and to 86.6% in the business sector. In addition, the Ministry is employing another method of measurement intended for determining the discount brackets permitted to the Company with approvals of alternative tariff baskets as prescribed in the Gronau Report. By this measurement, the Company's market share in February 2009, in terms of regular (individual) lines based on normative revenue, fell to 79.2%, and in terms of access lines based on normative revenue, fell to 81.2%.

Section 2.18 – Legal proceedings

For updates on the subject of legal proceedings, see Note 5 to the financial statements of the Company for the period ended March 31, 2009.

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

Section 3.7 – Competition

Section 3.7.1

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

Section 3.18.3.1 C – Main changes in Pelephone's license

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

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

Section 4.1.2.5 – Gronau Committee Report.

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

Section 4.19 – Legal proceedings

For updates on the subject of legal proceedings, see Note 5 to the financial statements of the Company for the period ended March 31, 2009.

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

Section 5.1.3 – Developments in markets in the area of operation

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

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

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

Section 5.2 – Products and Services

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

Section 5.8 – Intangible assets

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

Section 5.15.1 – Specific legal restrictions on operations

In March 2009, the Ministry of Communications gave notice to DBS that in the opinion of the general counsel, and in the opinion of the Legal Department of the Ministry of Communications, the split of the deeds of pledge of shares of DBS charged to the consortium of banks into individual charges for each bank will not, in and of itself, affect Bank Leumi's status as a "holder" of DBS with respect to the qualification restriction set out in the License Regulations, in the absence of an amendment of the financing agreement. The Ministry of Communications gave further notice that it intends to take the necessary steps to ensure compliance with the conditions of the Regulations. Although DBS is of the opinion that the current state of affairs does not amount to a breach of the aforesaid qualification restriction, it is negotiating with the Ministry of Communications to arrive at an arrangement that will satisfy the Ministry in order to resolve the issue within such fixed period of time as may be agreed upon.

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

With respect to transfer fees – In March 2009, the Ministry of Communications published a hearing regarding the setting of transfer fees that the producer of an independent channel, including the broadcaster of a designated channel, must pay DBS for use of its channels, noting that the outcome would constitute the basis for a resolution of the dispute between DBS and the designated channels, the sum of the payment set in the hearing being applicable as of 2007 and until the end of 2013 and the method of its calculation serving the parties as an outline for calculating the amount of the payment until 2006. The Ministry of Communications noted that the economic opinion that it attached to the hearing may be used as a basis for ruling in other disputes, if such arise between DBS and other independent channel operators. Under the aforesaid economic opinion, the usage fee will include a fixed component of an annual payment of approximately NIS 1.2 million, plus variable payment components amounting to approximately NIS 1 million with respect to an independent channel producer not financed by way of subscription fees.

Section 5.18 – Legal proceedings

In April 2009, two claims were filed against DBS in the Regional Labor Court on behalf of 21 technicians (20 of whom are former employees of the Company previously and the other is still employed by the Company) in a total sum of NIS 1.3 million. The claim alleges that DBS owes the technicians for various salary components that the plaintiffs claim were not paid to them, and that DBS held over some of their salaries. No statement of defense has yet been filed.

19.5.09

Date — Bezeq – The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:

Shlomo Rodav – Chairman of the Board

Avi Gabbay – CEO