"BEZEQ" THE ISRAEL TELECOMMUNICATION CORP. LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AT MARCH 31, 2008

(UNAUDITED)

Contents

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The Board of Directors of
"Bezeq" - The Israel Telecommunication Corp. Limited

At your request, we have reviewed the condensed consolidated interim balance sheet of "Bezeq" - The Israel Telecommunication Corp. Limited (hereinafter "Company") at March 31, 2008, as well as the condensed consolidated interim statement of income, the condensed statement of recognised income and expense and the condensed consolidated interim statement of cash flows for the three-month period then ended.

Our review was carried out in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. The procedures included, inter alia, reading the said financial statements, reading the minutes of meetings of the shareholders and of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

Reports of other auditors were furnished to us which relate to investments in associates in which the Company's investments amount to approximately NIS 39 million at March 31, 2008, and the Company's share in the profits in respect thereof amount to approximately NIS 1.6 million for the three-month period then ended.

As the review is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the condensed consolidated interim financial statements.

In the course of our review, including reviewing the reports of other auditors as mentioned above, nothing came to our attention which would indicate the necessity of making material changes to the said interim financial statements in order for them to be in conformity with standard IAS 34 – Interim Financial Reporting and in accordance with the provisions of Section 4 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

We draw attention to the uncertainties relating to the following matters, for which the maximum possible exposure is significant:

1. The continuing opening of the communications sector to competition, the changes in the communications market, and the effects of regulation on the Group's financial position and operating results, as described in Note 1.

2. Contingent claims made against the Group of which the exposure cannot yet be assessed or calculated, and other contingencies as described in Notes 7B and 7C.

3. The financial position of a subsidiary. As mentioned in Note 6, as of March 31, 2008, the subsidiary meets the financial criteria set for it, following the amended stipulations in respect of 2008 placed upon it by the banks on March 5, 2008, as adapted to the subsidiary's annual budget. The continuation of the activity of the subsidiary is contingent on, *inter alia*, compliance with the conditions set for 2008 and/or further relief which may be received during the year. In the opinion of the management of the subsidiary, the financial resources at its disposal will be sufficient for the requirements of the subsidiary's operations in the coming year, based on the cash flow projections approved by the board of directors of the subsidiary.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 21, 2008

Condensed Consolidated Interim Balance Sheets as at

	March 31, 2008	March 31, 2007	December 31, 2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**1,283**	1,033	1,203
Investments and loans, including derivatives	**317**	851	389
Trade receivables	**2,480**	2,060*	2,403
Other receivables	**245**	296	247
Inventory	**238**	252	203
Broadcasting rights	**271**	200	243
Current tax assets	**28**	12	11
Assets classified as held for sale	**20**	-	17
Total current assets	**4,882**	4,704	4,716
Trade and other receivables	**562**	489*	535
Investments and loans, including derivatives	**227**	326	233
Property, plant and equipment	**5,981**	6,335	6,064
Intangible assets	**2,495**	2,563	2,526
Deferred and other expenses	**376**	366	367
Investments in associates accounted for by the equity method	**39**	32	37
Deferred tax assets	**623**	871	678
Total non-current assets	**10,303**	10,982	10,440
Total assets	**15,185**	15,686	15,156

	March 31, 2008	March 31, 2007	December 31, 2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Liabilities			
Loans and borrowings	**1,032**	3,707	1,913
Trade payables	**1,350**	1,467	1,533
Other payables, including derivatives	**866**	873*	745
Current tax liabilities	**33**	68	57
Deferred income	**19**	36	47
Provisions	**388**	302	392
Employee benefits	**621**	844*	705
Total current liabilities	**4,309**	7,297	5,392
Debentures	**4,242**	2,940	4,420
Obligations to banks	**1,125**	435	307
Loans from others	**140**	172	136
Loans provided by the minority in a subsidiary	**389**	578	375
Employee benefits	**262**	360	261
Deferred income and others	**52**	75	36
Provisions	**58**	53	57
Reserve for deferred taxes	**42**	-	-
Total non-current liabilities	**6,310**	4,613	5,592
Total liabilities	**10,619**	11,910	10,984
Shareholders' equity			
Share capital	**6,132**	6,132	6,132
Reserves	**690**	672	681
Deficit	**(1,870)**	(2,450)	(2,268)
Total equity attributable to shareholders of the Company	**4,952**	4,354	4,545
Minority interest	**(386)**	(578)	(373)
Total shareholders' equity	**4,566**	3,776	4,172
Total shareholders' equity and liabilities	**15,185**	15,686	15,156

Shlomo Rodav	**Avi Gabbay**	**Alan Gelman**
Chairman of the Board	CEO	CFO and Deputy CEO

Date of approval of the financial statements: May 21, 2008.

* See Note3C.

The notes to the interim financial statements are an integral part thereof.

Condensed Consolidated Interim Statements of Income

	For the three-month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue (Note 10)	**3,100**	3,089	12,400
Costs and expenses			
Depreciation and amortisation	**429**	441	1,769
Salary	**616**	575	2,375
Operating and general expenses (Note 11)	**1,370**	1,423	5,841
Other operating expenses	**21**	8	188
Other operating income	**-**	(15)	(109)
	2,436	2,432	10,064
Operating income	**664**	657	2,336
Financing costs			
Financing expenses	**161**	162	796
Financing income	**(61)**	(104)	(487)
Net financing costs	**100**	58	309
Profit after financing costs	**564**	599	2,027
Equity in profits of investees accounted by the equity method	**1**	-*	6
Profit before income tax	**565**	599	2,033
Income tax	**180**	214	672
Profit for the period	**385**	385	1,361
Attributable to:			
The shareholders of the Company	**398**	399	1,330
Minority interest	**(13)**	(14)	31
Profit for the period	**385**	385	1,361
Earnings per share			
Basic earnings per share (in NIS)	**0.15**	0.15	0.51
Diluted earnings per share (in NIS)	**0.15**	0.15	0.50

* Less than NIS 500,000.

The notes to the consolidated financial statements are an integral part thereof.

Condensed Consolidated Interim Statements of Recognised Income and Expense

	For the three-month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Net change in fair value of financial assets classified as available for sale	**-**	-*	4
Net change in fair value of financial assets classified as available for sale transferred to profit and loss	**(5)**	-	-
Actuarial gains from a defined benefit plan (1)	**-**	-	14
Taxes in respect of income and expenses attributable directly to equity	**1**	-*	(4)
Income and expenses recognised directly to equity	**(4)**	-*	14
Profit for the period	**385**	385	1,361
Total recognised income and expense for the period	**381**	385	1,375
Attributable to:			
The shareholders' of the Company	**394**	399	1,344
Minority interest	**(13)**	(14)	31
Total recognised income and expense for the period	**381**	385	1,375

(1) The Group does not re-examine in each interim reporting period its valuations, assumptions and estimates for the purpose of measuring its provisions in respect of employee benefits, unless there are material changes during the interim period. As a result, there are no actuarial earnings or losses recognised in the reporting period.

* Less than NIS 500,000.

The notes to the consolidated financial statements are an integral part thereof.

Condensed Consolidated Interim Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from operating activities			
Net earnings for the period	**385**	385	1,361
Adjustments:			
Depreciation	**351**	376	1,482
Amortisation of intangible assets	**68**	60	270
Amortisation of deferred and other charges	**10**	5	17
Gain from decrease in holdings in associates accounted for by the equity method	**-**	-	1
Equity in earnings of associates accounted for by the equity method	**(1)**	(1)	(6)
Net financing costs	**129**	19*	372
Net capital gain	**(1)**	(17)	(88)
Share-based payment transactions	**13**	-	-
Payments to a former senior officer	**-**	-	6
Income tax expenses	**180**	214	672
Receipts (payment) in respect of clearance of derivative financial instruments, net	**(10)**	5	(9)
Change in inventory	**(37)**	(48)	(6)
Change in trade receivables	**(104)**	(13)	(437)
Change in other receivables	**(53)**	(52)	4
Change in trade payables	**73**	56	(18)
Change in suppliers	**(143)**	33	36
Change in provisions	**(4)**	16	105
Change in broadcasting rights	**(28)**	(31)	(74)
Change in employee benefits	**(83)**	(85)	(300)
Change in deferred and other income	**1**	38	(11)
	746	960	3,377
Interest received	**19**	43	116
Dividend received	**-**	-	3
Income tax paid	**(128)**	(138)	(430)
Net cash from operating activities	**637**	865	3,066
Cash flows from investing activities			
Investment in intangible assets and deferred expenses	**(59)**	(63)	(273)
Proceeds from sale of property, plant and equipment and deferred expenses	**61**	23	177
Proceeds from sale of financial assets held for sale, net	**57**	116	647
Purchase of property, plant and equipment	**(307)**	(177)	(973)
Proceeds from sale of investments and long-term loans	**6**	8	66
Purchase of investments and long-term loans	**-**	-	(8)
Investment in associated company	**(1)**	-	-
Net cash used for investment activity	**(243)**	(93)	(364)

* See Note 3C.

The notes to the consolidated financial statements are an integral part thereof.

Condensed Consolidated Interim Statements of Cash Flows (Contd.)

	For the three-month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from financing activities			
Proceeds from issue of debentures	**-**	-	1,814
Receipt of loans	**-**	-	50
Repayment of debentures	**(229)**	(82)	(1,927)
Repayment of loans	**(40)**	(69)	(840)
Short-term borrowing, net	**12**	(32)	(37)
Dividend paid	**-**	(2,100)	(2,860)
Interest paid	**(56)**	(75)	(389)
Receipt (payment) for clearance of derivative financial instruments, net	**4**	(12)*	77
Net cash used for financing activities	**(309)**	(2,370)	(4,112)
Net increase (decrease) in cash and cash equivalents	**85**	(1,598)	(1,410)
Cash and cash equivalents at the beginning of the period	**1,203**	2,632	2,632
Effect of fluctuations in the rate of exchange on cash balances	**(5)**	(1)	(19)
Cash and cash equivalents at the end of the period	**1,283**	1,033	1,203

* See Note 3C.

The notes to the consolidated financial statements are an integral part thereof.

Appendix to Condensed Consolidated Interim Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Appendix of non-cash activities			
Purchase of property, plant and equipment and intangible assets on credit	**103**	186	183
Sale of property, plant and equipment on credit	**67**	162	126

The notes to the consolidated financial statements are an integral part thereof.

NOTE 1 – REPORTING ENTITY

A. Bezeq – The Israel Telecommunication Corp. Ltd. (“the Company”) is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The official address of the Company is 132 Menachem Begin Road, Tel Aviv. The condensed consolidated financial statements of the Company comprise those of the Company and its subsidiaries (together referred to as “the Group”), and the Group's interests in associates. The Group is a principal provider of communications services in Israel (see Note 13 – Segment Reporting).

B. On October 11, 2005, control in the Company was transferred from the State to Ap.Sb.Ar. Holdings Ltd. and the Company ceased to be a government company. The Company was declared a monopoly in the main areas in which it operates. An appeal filed by the Company was pending in the Antitrust Court against the non-revocation of its monopoly status in basic telephony; however, at the suggestion of the court (in view of the time elapsed since it was filed), the Company consented to withdraw the appeal. All the segments of operation of the Group are subject to competition. The activities of the Group are, in general, subject to government regulation and control.

C. The Company is subject to various systems of laws that regulate and limit its business operations, including its tariffs. Arrangements pursuant to Sections 15 and 17 of the Communications Law apply to the Company's tariffs. The Company's controlled service tariffs, which are determined in regulations, are updated according to a linkage formula less an efficiency factor, all as set out in the regulations and based on the recommendations of public committees for examination of the Company's tariffs. In March 2008, the Committee for Examination of the Policy and Principles of Competition in Communications in Israel submitted its recommendations to the Minister of Communications. The Minister has not yet adopted any or all of the recommendations.

It is expected that the intensifying competition, together with all the changes in the communications market, will have an adverse effect on the business results of the Group, an effect that the Group is unable to estimate.

NOTE 2 – BASIS OF PRESENTATION

A. The condensed interim consolidated financial statements were prepared in accordance with the standard IAS 34 – Interim Financial Reporting, and in accordance with the provisions of Chapter 4 of the Securities (Periodic and immediate reports) Regulations, 5730-1970.

B. These financial statements do not include all the information required in complete annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries at December 31, 2007 and at the year then ended, and their accompanying notes ("the annual financial statements"). The Group states in the notes to the interim financial statements only the material changes that have occurred from the date of the most recent annual financial statements until the date of these interim financial statements.

C. The financial statements were approved by the Board of Directors on May 21, 2008.

NOTE 3 – REPORTING PRINCIPLES AND ACCOUNTING POLICIES

The significant accounting policies applied in these condensed financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2007, except as stated in this Note.

A. Initial application of accounting standards

Commencing January 1, 2008, the following standards and clarifications of financial reporting standards came into effect:

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

A. Initial application of accounting standards (contd.)

(1) Interpretation No. 11 of the International Financial Reporting Interpretations Committee, *IFRS 2 – Group and Treasury Share Transactions*. The interpretation requires that a share-based payment in which the entity receives goods and services in consideration of its equity instruments, be treated as a share-based payment settled by equity instruments, irrespective of how the equity instruments were obtained. The interpretation has not significantly affected the results of Group's activities or its financial position.

(2) Interpretation No. 14 of the International Financial Reporting Interpretations Committee, *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The interpretation clarifies when refunds and reductions in future deposits in future contributions in connection with the assets of a defined benefit plan should be considered available, and provides instruction on the effect of minimum funding requirements on those assets. The interpretation also relates to when a minimum funding requirement establishes an obligation. The interpretation has not significantly affected the results of Group's activities or its financial position.

(3) The Group chose early application of IFRS 2 – *Share-Based Payment – Vesting Terms and Cancellations*. The Standard states that the vesting terms are terms which determine whether the group received the services which entitled the other party to share-based payment, and limits the terms of the service and performance. Terms which are not vesting terms will be reflected in the fair value of the grant on the grant date, where after the grant date the Group will not update the fair value in respect of those terms. In addition, the Standard describes the handling of non-compliance with vesting terms. The early application has not significantly affected the results of Group's activities or its financial position.

B. New standards prior to their application

A number of new standards, amendments to existing standards and interpretations are not yet in force at March 31, 2008 and were therefore not applied in the preparation of these consolidated financial statements. Since the publication of the last annual reports, amendments to IAS 32 – *Financial Instruments: Presentation* and IAS 1 – *Presentation of Financial Statements and Commitments Generated in Liquidation* have been published. These amendments require that certain redeemable financial instruments be classified as equity, as well as commitments generated during liquidation, if a number of criteria are met. In addition, appropriate disclosure is required for redeemable instruments classified as equity. The amendments will apply to annual periods commencing January 1, 2009 or thereafter. The amendments are not expected to have a significant influence on the operations and financial position of the Group.

C. Classified amounts

The condensed consolidated interim financial statements include reclassification of certain amounts in comparison numbers to the relevant items.

NOTE 4 – ESTIMATES

The preparation of interim financial statements requires Management to make judgments and use estimates, assessments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant estimates applied in these interim statements do not differ significantly from those applied in the annual financial statements.

NOTE 5 – RATES OF CHANGES IN THE CONSUMER PRICE INDEX AND FOREIGN CURRENCY EXCHANGE RATES

The changes that occurred in the consumer price index and in the exchange rates of the US dollar and the euro in the reporting period are as follows:

	Consumer Price Index	Rate of exchange of the US dollar	Rate of exchange of the euro
	%	%	%
For the three month period ended on:			
March 31, 2008	**0.1**	**(7.62)**	**(0.74)**
March 31, 2007	(0.23)	(1.66)	(0.54)
For the year ended December 31, 2007	3.40	(8.97)	1.71

NOTE 6 – GROUP ENTITIES

A detailed description of the Group entities appears in Note 33 to the annual financial statements of the Group at December 31, 2007. Below are the material changes that have occurred in connection with Group entities since the publication of the last annual financial statements.

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

(1) Since commencing operations, DBS has accumulated considerable losses. Its loss in 2007 amounted to approximately NIS 118 million and the loss in the three-month period ended March 31, 2007, amounted to approximately NIS 65 million. As a result of these losses, its capital deficit and its working capital deficit as at March 31, 2008, amounted to approximately NIS 2,695 million and NIS 513 million, respectively.

(2) The Company's investment in DBS (primarily through shareholders' loans) at the balance sheet date amounts to approximately NIS 1,562 million (without interest and linkage). The balance of the current debt of DBS to the Company and its subsidiaries amounts to approximately NIS 166 million, of which approximately NIS 123 million is owed to the Company. The Company has come to an arrangement with DBS for the collection of a debt balance of approximately NIS 55.6 million that was in arrears. Under the arrangement, the debt will be paid in 60 equal monthly instalments plus interest at prime + 1.5%. At the balance sheet date, the remainder of the debt under the arrangement is approximately NIS 39 million, the balance of the debt to the Company beyond the above arrangement is a current debt balance, for which the agreed terms of payment are the normal credit terms in effect between the Company and its customers. At the date of approval of the financial statements, DBS is not complying with the terms of the arrangement and the credit terms noted above. The Company and its subsidiaries are working to collect the debts of DBS which are in arrears.

(3) During 2005, the banks completed the provision of the entire credit facility to which DBS was entitled under the financing agreements.

The terms of the loans and the credit facility that DBS received from the banks, the balance of which at March 31, 2008 is NIS 974 million, impose various restrictions on DBS that include, *inter alia*, restrictions on the encumbrance or sale of certain assets, a restriction on receipt of credit from other banks without prior approval, a restriction concerning repayment of shareholders' loans, and a requirement for compliance with financial criteria ("the Conditions").

a. DBS requested that the banks revise the stipulations for 2008 to adapt them to its budget. On March 5, 2008 the banks' consent to amend the aforementioned stipulations was received.

b. At March 31, 2008, DBS was in compliance with the financial criteria set for it.

NOTE 6 – GROUP ENTITIES (CONTD.)

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

c. The management of DBS believes that the financial resources at its disposal will be sufficient for the requirements of DBS's operations in the coming year, based on the cash flow projections approved by the board of directors of DBS. If additional resources are required for operational needs in the coming year, DBS will adapt its activities so as to preclude the need for additional resources beyond those available to it.

B. Walla Communications Ltd.

On May 13, 2008, the board of directors of Walla Communication Ltd. (“the investee”) proposed the distribution of a dividend to its shareholders in the amount of NIS 30 million of which the Group’s portion is approximately NIS 10 million. Distribution of the dividend is conditional on the approval of the general meeting of the shareholders, in accordance with the investee’s by-laws.

NOTE 7 – CONTINGENT LIABILITIES

A. Claims

During the normal course of business, legal claims have been filed against the companies in the Group, including applications for certification as class action lawsuits.

In the opinion of the managements of the Group's companies, based, *inter alia*, on legal opinions regarding the probability of success of the claims, including the applications for certification of the class action lawsuits, appropriate provisions amounting to approximately NIS 370 million, where provisions are required, were included in the financial statements to cover the exposure resulting from such claims.

In the opinion of the managements of the Group's companies, the additional exposure (beyond the aforementioned provisions) at March 31, 2008, due to claims filed against the companies in the Group on various matters and the probability of realisation of which is probable, amounts to approximately NIS 12.7 billion, of which approximately NIS 3.4 billion relates to salary-related claims filed by groups of employees or individual employees. The above amounts are before the addition of interest.

Concerning applications for certification as class action lawsuits in respect to which the Group has exposure beyond the aforesaid (since the claims do not state a specific amount), see claims in Note 17A(4), (5), (7) and (20) to the financial statements at December 31, 2007.

For a detailed description of these claims, see Note 17A to the Group's annual financial statements at December 31, 2007. Details of the material changes in the status of the significant contingent liabilities of the Group at December 31, 2007, are provided below:

(1) Further to Note 17A(2)(a) to the financial statements at December 31, 2007, concerning a claim filed by 2,343 retirees who were employees who had been transferred from the Ministry of Communications to the Company at the time of its establishment - on February 12, 2008, the plaintiffs filed the summation of their allegations, after having reduced their claim to the incentive pay component and withdrawn their claim relating to grossing up of tax and to clothing.

Furthermore, the claim from January 2007, filed by another 85 retirees, was consolidated with the above claim.

NOTE 7 – CONTINGENT LIABILITIES (CONTD.)

A. Claims (contd.)

(2) Further to Note 17A(8) to the financial statements at December 31, 2007, describing a claim and application for certification as a class action alleging unlawful collection by the Company for high-speed internet surfing – on April 7, 2008 the Company filed an application for leave to appeal the decision of the District Court to certify the claim as a class action in respect of the post-contractual stage of the subscription transaction with the Company and to reject the request to file a class action in respect of the pre-contractual stage of the transaction. The Supreme Court ruled that the application for leave to appeal necessitates a response, and instructed the respondents to respond to it. On May 19, 2008 the response was filed.

(3) Further to Note 17A(19) to the financial statements at December 31, 2007, concerning a claim and application for certification as a class action against the Company (which was later removed from the claim), Bezeq International, the chairman of the board of Bezeq International and the then current CEO of Bezeq International, filed in the District Court in November 1997– on April 14, 2008 a hearing was held in which the court proposed that Bezeq International accept a settlement, as explained in the aforementioned Note 17A(19). Bezeq International is now awaiting the ruling of the Supreme Court on the appeal on its merits, i.e. should the decision of the District Court to dismiss the application for certification as a class action be reversed or not.

(4) Further to Note 17A(30) to the financial statements at December 31, 2007, concerning a class action filed against DBS and the cable companies in connection with the broadcasting of commercials during world cup football games – on March 17, 2008 the applicant filed an application for consensual withdrawal without an order to pay costs, giving as their reasons that following the position filed by the Council on September 10, 2007, they had concluded that their claim was unlikely to succeed. On March 18, 2008, the court gave its decision acceding to the applicant's application to withdraw their claim.

(5) Further to Note 17A(32) to the financial statements at December 31, 2007, in connection with claims filed against DBS in the matter of disruptions in broadcasts – on April 13, 2008, DBS filed its response to the application for certification.

(6) Further to Note 17A(1) to the financial statements at December 31, 2007, in connection with the claim and application for certification as a class action, claiming public switching cartels. The process of certification as a class action, valued by the plaintiff at approximately NIS 1.75 billion, is still in its preliminary stages and in April 2008 the plaintiff filed a further request for access to documents and a request to subpoena witnesses. The Company has filed its objection to the plaintiff's request.

B. Claims which cannot yet be assessed or in which the exposure cannot be calculated

For a detailed description of the claims in respect which cannot be assessed or in respect of which the exposure cannot yet be calculated, see Note 17B to the Group's annual financial statements as at December 31, 2007. Details of material changes since December 31, 2007 are provided below:

Claims in respect of which the exposure cannot be recorded

(1) Further to Note 17B(1) to the financial statements at December 31, 2007, in the matter of a claim against the Company and against the Makefet Fund filed by employees who retired from the Company under a retirement agreement from November 2007 – in March 2008 an additional and identical claim was filed in the Tel Aviv District Labour Court by another 17 Company retirees.

NOTE 7 – CONTINGENT LIABILITIES (CONTD.)

B. Claims which cannot yet be assessed or in which the exposure cannot be calculated (contd.)

Claims which cannot yet be assessed

(2) In April 2008, three claims were filed against Bezeq International in the Tel Aviv and Petach Tikva District Courts, concerning the use of international phone cards for calling destinations in the Philippines, Thailand and Nepal, together with applications for their certification as class actions.
The plaintiffs have applied for their claims to be certified as class actions by virtue of the Class Actions Law, 5766-2006, in the name of a group that includes every person who, during the seven years prior to filing the claim and during its proceeding, purchased phone cards of the type referred to in the claims. The plaintiffs estimate the loss sustained by all the members of the group at approximately NIS 200 million in the claim of the Filipino citizens; NIS 150 million in the claim of the Thai citizens and NIS 58 million in the claim of the Nepalese citizens.

(3) In April 2008, a claim was filed in the Tel Aviv District Court against Pelephone, together with an application for its certification as a class action in a total amount of approximately NIS 60 million. The claim is for the restitution of amounts which the plaintiffs allege were over-collected from Pelephone's subscribers, and is divided into three causes and three separate groups of plaintiffs.
The first alleges that Pelephone does not enable free calls from any telephone (in any network) to its service center, in ostensible contravention of the provisions of the law. The amount claimed for this cause is NIS 30 million. The second alleges that when making a "continued" call from the voice mail box (i.e. continuation of the call from the voice mail directly to the caller who left the message without disconnecting the call), Pelephone debits for airtime also during the time until the called party (who left the message) answers, which ostensibly contravenes Pelephone's license. The amount claimed for this cause is NIS 10.7 million. The third alleges that when a subscriber who has signed up for a package that includes minutes, dials within that package to 1-800 destinations, the full duration of that call is deducted from the package, despite the fact that calls to 1-800 destinations are supposed to be at a lower tariff. The claim relates to those subscribers who exceeded the minutes package and were debited for calls beyond the package. The amount claimed for this cause is NIS 20 million.

(4) In May 2008, a claim was filed in the Tel Aviv District Court against Pelephone and another defendant, in the amount of NIS 479.5 (the statement of claim is headed "Class Action" but gives no amount claimed on behalf of the group and does not include separate processes of court – "Statement of Claim" and "Application for Certification as a Class Action", as required).
As mentioned the total amount of the claim is not defined. Pelephone is Defendant No. 2, while Defendant No. 1 is the other company. The claim is for restitution of amounts by Defendant 1, which the plaintiff alleges it collected, through Pelephone, from its customer club, for services provided to those customers.
According to the plaintiff, the engagement between Defendant 1 and the members of the customer club, on the basis of which they became members of the club and monies were collected from them, was flawed, and therefore the aforementioned amounts should be refunded.
The specific allegation against Pelephone is that the debit for the services of Defendant 1 is not clearly differentiated in the phone bill that is sent by Pelephone to its customers, ostensibly in contravention of its license.

(5) In May 2008, the Company received a claim and application for certification as a class action, which were filed in the Tel Aviv District Court against Pelephone, Cellcom Israel Ltd. and Partner Communications Ltd. The amount of the class action (against the three companies together) is NIS 50 million. The claim is for restitution of amounts which the plaintiffs allege were over-collected from the defendants' subscribers in the "callback" service (calls made from abroad to Israel which Pelephone calls "Savings Service"). According to the plaintiffs, the defendants, contrary to their licenses, debit their subscribers who use this service for a call from the time the connection (call) is made between the caller and the system through which the service is provided, even if a call to the final addressee with whom the caller wishes to speak, is not actually made. The plaintiffs contend that if no call is actually made to the final addressee, no debit should be made for the service.

NOTE 7 – CONTINGENT LIABILITIES (CONTD.)

C. Other contingencies

For a detailed description of other contingencies, see Note 17C to the Group's annual financial statements as at December 31, 2007. Details of material changes since December 31, 2007 are provided below:

(1) Further to Note 17C(1) to the financial statements at December 31, 2007, in the matter of the Antitrust Commissioner's determination that the Company abused its status in the market when it disconnected its network from HOT's network – on March 16, 2008, the Company filed an appeal against the Commissioner's determination.

(2) Further to Note 17C(2)(b) to the financial statements at December 31, 2007, in the matter of a shareholder's letter, pursuant to Section 194 of the Companies Law, on the matter of approval of transfer of funds from the Company to DBS despite the decisions of Ministers of Communications – on April 6, 2008, the shareholder filed an application for leave to file a derivative claim against the Company and a statement of claim against directors who were party to the decision. The Company's applications to the court to file a response to the application for leave to file a derivative claim by July 15, 2008, and to file statements of defence, insofar as necessary, within 60 days of the date of approval of filing the derivative claim, were allowed. It is noted that on March 25, 2008 the Minister of Communications rejected the appeal filed by the Company relating to forfeiture of NIS 10 million of the guarantee, and the guarantee was subsequently rendered forfeit.

(3) Further to Note 17C(6) to the financial statements at December 31, 2007, in connection with a claim filed by the cable companies ("HOT") against DBS – on March 12, 2008, HOT filed a notice in the court requesting that the claim not be struck out or dismissed, and that the court be satisfied with an order to pay costs. The court acceded to HOT's request not to dismiss the claim, and imposed the costs of DBS on HOT. In addition, a pre-trial hearing was scheduled for July 13, 2008.

(4) Further to Note 17C(7) to the financial statements at December 31, 2007, in the matter of the operation of facilities that emit electromagnetic radiation – after termination of the strike at the Ministry for Protection of the Environment, the proceeding for issue of operating permits for communications and broadcasting installations by the Supervisor of radiation is moving forward.
In addition, on April 17, 2008, the Company submitted its reservations concerning the proposed text of National Outline Plan for Communications – NOP/36A Small Broadcasting Installations, and of National Outline Plan for Communications – NOP/36B Large Broadcasting Installations. In brief, the reservations are that the plans as proposed, and in particular as they relate to changing the definitions of small broadcasting installations and large broadcasting installations, create practical difficulties which could prevent the Company from granting the public some of the varied services it provides and which it is obligated to provide.

(5) Further to Note 17C(9) to the financial statements at December 31, 2007, in the matter of an application for certification of a class action against Pelephone in the amount of NIS 12 billion – the claim was struck out without an order to pay costs.

(6) Further to Note 17C(10) to the financial statements at December 31, 2007 – on February 28, 2008 the DBS shareholder applied to the Tel Aviv District Court Company for the appointment of an arbitrator. The Company filed a response to the application in which it explained that there is no cause for the appointment of an arbitrator. On May 4, 2008, the court ruled that in view of the difficulty in understanding the essence of the claim that the shareholder wishes to bring before the arbitrator, she must first file a draft of such a claim in the court.

(7) In February 2008, the Ministry of Industry, Trade and Employment (in this sub-section (7) and in sub-section (8) – "the Ministry"), instituted an investigative proceeding with DBS concerning the terms of employment of a certain group of employees at DBS, and DBS was required to submit various documents to the Ministry, which it did. The investigative proceeding is in its initial stages and its full extent is not yet known.

NOTE 7 – CONTINGENT LIABILITIES (CONTD.)

C. Other contingencies (contd.)

(7) (contd.)

Furthermore, in December 2007, DBS received a letter from 19 of its employees (18 of whom are no longer employed by DBS) regarding various periods between 2001 and 2007, in which they allege that during the period of their employment at DBS they were not paid all the monies due to them. On April 21, 2008, DBS sent its reply to those employees, rejecting all their allegations.

At this stage, the extent of the investigation being conducted by the Ministry is unknown, and no action has been filed by the employees.

NOTE 8 – TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

On April 17, 2008, the Board of Directors of the Company resolved, after having received approval from its Compensation Committee on April 10, 2008 and after having received approval from its Audit Committee on April 15, 2008, to approve the terms of employment of the Chairman of the Board of the Company. Below are the main points of the engagement with the Chairman of the Board:

a. The Chairman is employed under a personal employment agreement as acting Chairman of the Board of Directors of the Company, in a full-time position, effective from September 4, 2007, the date on which the Chairman actually started working in the Company.
b. The salary of the Chairman is NIS 175,000 per month, linked to the CPI. In addition, the Chairman is entitled to contributions to senior employees insurance, study fund and loss of earning capacity insurance. The Company will provide the Chairman with a company car and will bear all the car maintenance expenses.
c. The Chairman will be granted 9,000,000 options, as described in Note 9B below.
d. A decision on the award of an annual bonus will be made at the Board of Directors' discretion and subject to the approval of its Audit Committee and the general meeting. The amount of the annual bonus, if awarded, will be between six and eight monthly salaries.
e. Immediately after the approval of the general meeting of the agreement, the Company will make a special payment to the Chairman, as a "signature bonus", in the amount of NIS 1.2 million.
f. The Company will insure the Chairman with officer-director insurance and will indemnify him from time to time as is customary in respect of other directors in the Company.
g. The engagement between the Company and the Chairman is for an unlimited period, where each party is entitled to bring it to an end for any reason by giving 12 months' notice (the Company) or 6 months' notice (the Chairman).

The engagement with the Chairman of the Board requires also the approval of the General Meeting of the shareholders of the Company, which has been called for June 1, 2008.

NOTE 9 – SHARE-BASED PAYMENTS

A. On November 20, 2007, the Board of Directors of the Company resolved to adopt a new stock options plan for managers and senior employees in the Company and/or in associates, which would allocate up to 65,000,000 non-negotiable options, exercisable for up to 65,000,000 shares of the Company and constituting approximately 2.5% of the issued capital of the Company, and at full dilution – 2.36% of the share capital.

On December 25, 2007, the Company published an outline for the allocation of 41,350,000 options (including to the CEO of the Company) from the plan (of which 40,100,000 have actually been allocated at the date of the financial statements), in accordance with the Securities (Details of an outline offer of securities to employees) Regulations, 5760-2000, which described, *inter alia*, the terms of the plan, and a private placement report in accordance with the Securities (Private placement of securities in a listed company) Regulations, 5760-2000.

NOTE 9 – SHARE-BASED PAYMENTS (CONTD.)

In addition, on March 11, 2008 the Company published an outline for the allocation of an additional 5,600,000 options from the plan (all the options were actually allocated by the date of the financial statements), in accordance with the Securities (Details of an outline offer of securities to employees) Regulations, 5760-2000, which set out, among other things, the terms of the plan.

The options plan and the allocation of all the options in accordance with it, were approved by the General Meeting of the Company on January 31, 2008, in accordance with the Company's Articles of Association. Exercise of the options under the plan is contingent upon receipt of the necessary approvals as prescribed in the provisions of the Communications (Telecommunications and broadcasts) (Determination of an essential service provided by Bezeq, The Israel Telecommunication Corp. Ltd.) Order, 5757-1997 ("the Telecommunications Order"), and such exercise might necessitate amendment of the Telecommunications Order or some other solution. It is noted that on March 30, 2008, a letter was received from the Ministry of Communications dismissing the possibility of amendment of the Telecommunications Order. Nevertheless, the Company will find a solution enabling the allocation of Company shares while complying with the Telecommunications Order.

The options will vest in three equal annual portions. The vesting dates of each portion will fall at the end of each of the first, second and third years after the grant date, respectively, and the expense for each portion will be spread according to its vesting period. In addition, the plan prescribes conditions which, if fulfilled, will bring forward the vesting dates.

The exercise price of each option is NIS 5.50, which reflects a discount of approximately 16.8% on the closing price of the Company's share on the Tel Aviv Stock Exchange on January 31, 2008, the date of the approval by the general meeting.

The theoretical economic value of all the option warrants in the plan, based on a weighted Black and Scholes model, is approximately NIS 170 million, while the theoretical economic value of all the options approved and/or allocated (45,700,000 options), is approximately NIS 118 million, based, *inter alia*, on the share price on the grant date (for options approved and/or allocated) and the share price close to the date of approval of the financial statements (for options not yet approved or allocated), a risk-free annual interest rate of 5.09% - 5.68%, a weighted average of expected duration of between 4.5 and 5.5 years, the exercise price noted above, an annual standard deviation of 22.7% - 24.3% and an annual reduction of 5% in respect of forfeitures. The limitation described above pursuant to the Telecommunications Order was taken into account in calculating the theoretical economic value of the options, on the assumption that the limitation is resolvable. The Company has not yet decided on the exercise price of future option allocations, if any, under the plan. The grant date was set as the later of the date of the general meeting and the date of the notice to the employees.

B. On April 17, 2008, the Board of Directors of the Company resolved to allocate 9,000,000 options to the Chairman of the Board in accordance with the plan described in Section A above, subject to a number of changes relating to the terms of his options. The allocation to the Chairman requires also the approval of the general meeting of the shareholders of he Company, which has been called for June 1, 2008.

The Chairman's options will vest in 12 equal quarterly portions. The vesting dates of each portion will fall at the end of each quarter from the grant date, and the expense will be spread for each portion in accordance with its vesting period. In addition, the plan states terms which, upon their fulfilment, will bring forward the vesting dates.

The exercise price of each option is NIS 6.4405 per share. The price was set according to the share price on the date on which the Chairman commenced office – September 4, 2007 (which was NIS 6.649 per share) and after adjustment for distribution of a net dividend, the X-day of which was April 14, 2008, of NIS 0.26 per share. The closing price of the Company's share on April 14, 2008, immediately after the approval of the Audit Committee, was NIS 6.40 per share.

NOTE 9 – SHARE-BASED PAYMENTS (CONTD.)

The theoretical economic value of the options grated to the Chairman, based on a weighted Black and Scholes model, is approximately NIS 14 million, based, *inter alia*, on the share price on the grant date, an annual risk-free interest rate of 4.73%, a weighted average expected duration of 4 years, the exercise price noted above, and an annual standard deviation of 23.14%, as well as resolution of the limitation described in Section A above pursuant to the Telecommunications Order.

C. The terms of the grants are as shown below (all the options are cleared by way of physical delivery of the shares).

Date of grant / eligible employees	No. of instruments in thousands	Vesting terms	Contractual life of options
A. Grant of options from the State to employees on October 11, 2005	122,698	Immediate (subject to lock-up, commencing at the end of 2 years, to 3 years – one third each year)	4 years
B. Grant of options to employees on February 22, 2007 (1)	78,151	Immediate (subject to lock-up for two years)	5 years
C. Approval and/or grant of options to managers, senior employees and officers up to the date of approval of the financial statements	45,700	Three equal annual portions	8 years
Total stock options granted	246,549		

(1) The expenses in respect of this grant were recorded in 2006 as a promise was made to the employees in 2006, along with the conditions of the grant.

The number and weighted average of the exercise price of the stock options are as follows:

	No. of options (in thousands) March 31, 2008	No. of options (in thousands) March 31, 2007	No. of options (in thousands) 2007
Balance in circulation at January 1	**200,849**	200,849	200,849
Options granted during the period	**45,700**	-	-
Options exercised during the period	**(17,748)**	-	-
Balance in circulation at the end of the period	**228,801**	200,849	200,849
Exercisable at the end of the period	**183,101**	200,849	200,849

After the balance sheet date, approximately 471 thousand options granted by the State to employees on October 11, 2005, were exercised.

The weighted average exercise price in the three-month period ended March 31, 2008 and in 2007 is NIS 3.04 per share and NIS 2.852 per share, respectively.

The average share price in the three-month period ended March 31, 2008 and 2007 is NIS 6.92 per share and NIS 6.82 per share, respectively.

The range of the exercise price of the balance of the issued options at March 31, 2008 is between NIS 2.43 and NIS 5.5, and the weighted average of the remaining contractual life is 3.537 years.

The fair value of the services received in consideration of the options for shares granted, is based on the fair value of the options granted, which was measured according to the Black and Scholes model on the basis of the following parameters:

NOTE 9 – SHARE-BASED PAYMENTS (CONTD.)

The fair value of the options and the discounts

	March 31, 2008	March 31, 2007	December 31, 2007
Weighted average of the fair value on the grant date	**2.84**	-	-
Share price	**NIS 6.61 - 7.049**	-	-
Exercise price	**NIS 5.5**	-	-
Expected volatility (weighted average)	**22.7% - 24.3%**	-	-
Duration of the option (expected weighted average)	**4.5 - 5.5 years**	-	-
Risk-free interest rate (based on Government bonds)	**5.09% - 5.68%**	-	-

Salary expenses

	March 31, 2008	March 31, 2007	2007
	NIS millions	NIS millions	NIS millions
Stock options granted in the reporting period	**13**	–	–

NOTE 10 – REVENUE

	For the three month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Fixed-line domestic communications			
Landline telephony	**915**	986	3,798
Internet – infrastructure	**198**	164	711
Transmission, data communication and others	**229**	230	935
	1,342	1,380	5,444
Cellular telephones			
Cellular services and terminal equipment	**842**	814	3,669
Sale of terminal equipment	**258**	254	711
	1,100	1,068	4,380
International communications, internet services and network end point	**294**	306	1,226
Multi-channel television	**358**	332	1,331
Others	**6**	3	19
	3,100	3,089	12,400

NOTE 11 – OPERATING AND GENERAL EXPENSES

	For the three month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cellular telephone expenses	**442**	452	1,828
General expenses	**276**	263*	1,187
Materials and spare parts	**217**	220	924
Consumption of satellite services content	**115**	104	426
Services and maintenance by sub-contractors	**84**	102	381
Building maintenance	**78**	82	332
International communication expenses	**68**	93*	338
Motor vehicle maintenance expenses	**46**	46	183
Royalties to the Government of Israel	**32**	48	194
Collection fees	**12**	13	48
	1,370	1,423	5,841

* See Note 3C

NOTE 12 – CONDENSED DATA FROM THE INTERIM SEPARATE FINANCIAL STATEMENTS OF THE COMPANY

A. Income statement

	For the three-month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Income (see B below)	**1,408**	1,442	5,713
Costs and expenses			
Depreciation and amortization	**218**	237	941
Salary	**316**	310	1,293
General and operating expenses	**485**	533	2,121
Other expenses (income), net	**21**	(7)	79
	1,040	1,073	4,434
Operating income for the period	**368**	369	1,279

B. Income segmentation

	For the three-month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Telephony	**933**	1,008	3,905
Internet	**198**	164	712
Transmission and data communications	**192**	183	754
Other services	**85**	87	342
	1,408	1,442	5,713

NOTE 13 – SEGMENT REPORTING

The Company and the investee companies operate in various segments of the communications sector. Data on activities by segment are stated by the segments of operation of these companies.

	For the three-month period ended March 31, 2008 (unaudited)						
	Domestic fixed–line communications	Cellular telephone	International communications and internet services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Revenues from external sources	**1,323**	**1,100**	**294**	**377**	**6**	**-**	**3,100**
Inter-segment revenues	**85**	**73**	**20**	**4**	**13**	**(195)**	**-**
Total revenue	**1,408**	**1,173**	**314**	**381**	**19**	**(195)**	**3,100**
Segment results	**368**	**214**	**55**	**27**	**-**	**-**	**664**

	For the three-month period ended March 31, 2007 (unaudited)						
	Domestic fixed–line communications	Cellular telephone	International communications and internet services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Revenues from external sources	1,362	1,068	306	350	3	-	3,089
Inter-segment revenues	80	80	17	4	11	(192)	-
Total revenue	1,442	1,148	323	354	14	(192)	3,089
Segment results	369	213	51	24	-	-	657

NOTE 13 – SEGMENT REPORTING (CONTD.)

	For the year ended December 31, 2007 (audited)						
	Domestic fixed–line communications	Cellular telephone	International communications and internet services	Multi-channel television	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue							
Revenues from external sources	5,373	4,380	1,226	1,402	19	-	12,400
Inter-segment revenues	340	304	78	12	46	(780)	-
Total revenue	5,713	4,684	1,304	1,414	65	(780)	12,400
Segment results	1,279	804	203	50	-	-	2,336

NOTE 14 – SELECTED CONDENSED DATA FROM THE FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD., D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD.

1. Pelephone Communications Ltd.

A. Balance sheet

	March 31, 2008	March 31, 2007	December 31, 2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**2,081**	1,614*	1,976
Non-current assets	**2,336**	2,492*	2,363
	4,417	4,106	4,339
Current liabilities	**1,058**	1,171	1,106
Long-term liabilities	**1,112**	1,283	1,154
Total liabilities	**2,170**	2,454	2,260
Shareholders' equity	**2,247**	1,652	2,079
	4,417	4,106	4,339

* See Note 3C

B. Income statement

	For the three month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Income from services and sales	**1,173**	1,147	4,684
Cost of services and sales	**830**	808	3,347
Gross profit	**343**	339	1,337
Sales and marketing expenses	**97**	102	430
General and administrative expenses	**31**	24	102
	128	126	532
Operating income	**215**	213	805
Financing expenses	**26**	21	114
Financing income	**(35)**	(29)	(109)
Financing expenses (income), net	**(9)**	(8)	5
Profit before income tax	**224**	221	800
Income tax	**61**	67	215
Net profit for the period	**163**	154	585

NOTE 14 – SELECTED CONDENSED DATA FROM THE FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD., D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD. (CONTD.)

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

A. Balance sheet

	March 31, 2008 (Unaudited) NIS millions	March 31, 2007 (Unaudited) NIS millions	December 31, 2007 (Audited) NIS millions
Current assets	**442**	376	400
Non-current assets	**709**	668	700
	1,151	1,044	1,100
Current liabilities	**684**	1,928	1,483
Long-term liabilities	**3,161**	2,025	2,246
Total liabilities	**3,845**	3,953	3,729
Capital deficit	**(2,694)**	(2,909)	(2,629)
	1,151	1,044	1,100

B. Income statement

	For the three month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Income	**381**	354	1,415
Cost of income	**286**	270	1,117
Gross profit	**95**	84	298
Sales and marketing expenses	**39**	35	138
General and administrative expenses	**29**	25	104
	68	60	242
Operating income	**27**	24	56
Financing expenses	**111**	85	394
Financing revenues	**(19)**	(13)	(226)
Financing expenses, net	**92**	72	168
Loss before income tax	**(65)**	(48)	(112)
Income tax	**-***	-*	6
Net loss for the period	**(65)**	(48)	(118)

* Less than NIS 500,000

NOTE 14 – SELECTED CONDENSED DATA FROM THE FINANCIAL STATEMENTS OF PELEPHONE COMMUNICATIONS LTD., D.B.S. SATELLITE SERVICES (1998) LTD., AND BEZEQ INTERNATIONAL LTD. (CONTD.)

3. Bezeq International Ltd.

A. Balance sheet

	March 31, 2008	March 31, 2007	December 31, 2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**446**	411	431
Non-current assets	**459**	422	456
	905	833	887
Current liabilities	**287**	351	312
Long-term liabilities	**25**	50	26
Total liabilities	**312**	401	338
Shareholders' equity	**593**	432	549
	905	833	887

B. Income statement

	For the three month period ended March 31		For the year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue	**314**	323	1,304
Operating expenses	**190**	216	859
Gross profit	**124**	107	445
Sales and marketing expenses	**43**	35	147
General and administrative expenses	**26**	22	94
Other (income) expenses, net	**-****	(1)	-**
	69	56	241
Operating income	**55**	51	204
Financing expenses	**5**	4	13
Financing revenues	**(6)**	(3)	(14)
Financing costs (revenues), net	**(1)**	1	(1)
Equity in earnings of an associate accounted by the equity method	**2**	-**	6
Earnings before income tax	**58**	50	211
Income tax	**16**	14	58
Net profit for the period	**42**	36	153

* The above financial statements are presented in accordance with IFRSs only

** Less than NIS 500,000.

NOTE 15 – MATERIAL EVENTS DURING THE REPORTING PERIOD AND EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

A. On March 10, 2008, the Board of Directors of the Company resolved to recommend to the General Meeting of the shareholders of the Company to distribute a cash dividend to the shareholders in the amount of NIS 679 million (approximately NIS 0.26 per share). On April 3, 2008 the General Meeting approved payment of the dividend and it was paid on April 28, 2008.

B. On March 26, 2008, the Company signed an agreement in the matter of the sale of its satellite communications operation ("Inmarsat" and "Bezeq Sat") and related assets in the same operation, including the satellite communications site in Emek Ha'ela. Under the agreement, the operation will be sold in consideration of approximately USD 15 million plus VAT, subject to adjustments in the price resulting from various stipulations and from changes that occur, if they occur, in the operation in the period up to the date of closing the transaction. The closing of the transaction is subject to various approvals, in addition to the approval of the regulators from the Ministry of Defense, the Ministry of Communications and the Antitrust Commissioner. If the transaction is closed at the maximum price noted above, then the Company expects to record a capital gain, subject to changes in the representative exchange rate of the US dollar, of approximately NIS 47 million (before tax).

C. In May 2008, an amendment to the new collective agreement was signed, in the matter of bringing forward completion of the implementation of the organizational structure and in the matter of bringing forward the dates of retirement and changing the mix of retirees of those who are scheduled to retire, pursuant to the new collective agreement, by the end of 2008.

NOTE 16 – DETAILS OF ADDITIONAL MOVEMENTS IN THE SHAREHOLDERS' EQUITY

	Share capital	Premium on shares	Capital reserve in respect of a transaction between a corporation and a controlling shareholder	Capital reserve in respect of assets available for sale	Capital reserve in respect of options for employees	Balance of deficit	Total	Minority rights	Total shareholders' equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
	Refers to shareholders of the Company								
Three-month period ended March 31, 2008									
Balance at January 1, 2008 (audited)	**6,132**	**-**	**390**	**4**	**287**	**(2,268)**	**4,545**	**(373)**	**4,172**
Total earnings (losses) recognized in the period (unaudited)	**-**	**-**	**-**	**(4)**	**-**	**398**	**394**	**(13)**	**381**
Share-based payments (unaudited)	**-**	**-**	**-**	**-**	**13**	**-**	**13**	**-**	**13**
Balance at March 31, 2008 (unaudited)	**6,132**	**-**	**390**	**-**	**300**	**(1,870)**	**4,952**	**(386)**	**4,566**
Three-month period ended March 31, 2007									
Balance at January 1, 2007 (audited)	6,309	1,623	384	1	287	(2,849)	5,755	(564)	5,191
Total earnings (losses) recognized for the period (unaudited)	-	-	-	-*	-	399	399	(14)	385
Dividends to shareholders – distribution that does not pass the earnings test (unaudited)	(177)	(1,623)	-	-	-	-	(1,800)	-	(1,800)
Balance at March 31, 2007 (unaudited)	6,132	-	384	1	287	(2,450)	4,354	(578)	3,776

* Less than NIS 500,000.

NOTE 16 – DETAILS OF ADDITIONAL MOVEMENTS IN THE SHAREHOLDERS' EQUITY (CONTD.)

	Share capital	Premium on shares	Capital reserve in respect of a transaction between a corporation and a controlling shareholder	Capital reserve in respect of assets available for sale	Capital reserve in respect of options for employees	Balance of deficit	Total	Minority rights	Total shareholders' equity
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
	Refers to shareholders of the Company								
Year ended December 31, 2007 (audited)									
Balance at January 1, 2007	6,309	1,623	384	1	287	(2,849)	5,755	(564)	5,191
Total recognized income and expense	-	-	-	3	-	1,341	1,344	31	1,375
Dividends to Company shareholders	-	-	-	-	-	(760)	(760)	-	(760)
Dividends to Company shareholders – distribution that does not pass the earnings test	(177)	(1,623)	-	-	-	-	(1,800)	-	(1,800)
Change in the repayment date of a loan provided by the minority in a subsidiary	-	-	-	-	-	-	-	160	160
Payments to a former senior officer	-	-	6	-	-	-	6	-	6
Balance at December 31, 2007	6,132	-	390	4	287	(2,268)	4,545	(373)	4,172