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 at June 30, 2009 and August 3, 2009, fully diluted, assuming exercise of all of the options actually allotted to employees of the Company (as set out in the Periodic Report for 2008 and in the update to section 1.3.2 below):

Shareholders	Percentage of holdings		
	At June 30, 2009	At August 3, 2009	Fully diluted at June 30, 2009
Ap.Sb.Ar.	40.03%	39.99%	38.62%
State of Israel	3.27%	3.18%	0.96%
Zeevi Group	17.48%	17.46%	16.86%
The public	39.22%	39.37%	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 appeals filed against approval of the merger. The hearing of the appeals took place on June 8, 2009. No ruling has yet been handed down on the appeals.

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 telecommunications network that permits provision

[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.

of television services (including VOD) at an assured level of quality, a permit to DBS to provide only via the Company's infrastructure bi-directional services not available for satellite broadcast 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 as of November 2007, to allot up to 65,000,000 options, since the date of publication of the Periodic Report for 2008 and until August 3, 2009, 600,000 additional options were allotted and 533,334 options expired, so that as at June 30, 2009 and as at August 3, 2009, 59,616,666 options, net (less expired options), have been allotted under the scheme.

Section 1.4 – Distribution of dividends

Section 1.4.1 – Dividend distribution policy

On August 4. 2009, the board of directors of the Company adopted a dividend distribution policy, whereby the Company will distribute to its shareholders on a semi-annual basis, cash dividends amounting to 100% of the net profit (attributable to the shareholders of the Company) recorded for the previous six-month period, based on the consolidated financial statements of the Company.

The implementation of this dividend policy is subject to Israeli law, including the distribution tests set forth in the Companies Law (1999), and is also subject to the board of directors' assessment of the Company's ability to meet its current and expected obligations, in consideration of its projected cash flows, activities and commitments, cash balances, future plans and financial position, as they may be from time to time. Each dividend distribution will be subject to the approval of the general meeting of shareholders of the Company, pursuant to the Company's bylaws.

Section 1.4.2 – Distribution of dividends

On May 3, 2009, the general meeting of 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 was paid to the shareholders of the Company on May 24, 2009.

On August 4, 2009, the board of directors of the Company resolved to recommend to the general meeting of the shareholders of the Company to pay a cash dividend to the shareholders in the total sum of NIS 1,149 million.

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

Section 1.5.3 Principal results and operational data

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

(NIS millions except where stated otherwise)

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenues	1,318	1,326	1,348	1,388	1,354	1,408
Operating profit	434	437	232**	428**	442**	373**
Depreciation and amortization	205	211	209	214	211	218
Operating profit before depreciation and amortization (EBITDA)	639	648	441**	642**	653**	591**
Payments for investment in property, plant and equipment and intangible assets	191	238	170	156	132	158
Proceeds from sale of property, plant and equipment and intangible assets	8	50	47	12	25	60
No. of active subscriber lines at end of period (in thousands)	2,547	2,579	2,615	2,645	2,681	2,711
Average monthly revenue per line (NIS) *	81	81	82	85	82	84
No. of outgoing minutes (in millions)	3,014	3,123	3,154	3,428	3,346	3,511
No. of incoming minutes (in millions)	1,664	1,654	1,648	1,719	1,651	1,673
No. of ADSL subscribers at end of period (in thousands)	1,016	1,011	1,005	994	982	970
Average monthly revenue per ADSL subscriber (NIS)	69	68	67	68	66	68

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

** Reclassification of the sum of approximately NIS 26 million, spread over the four quarters of 2008, for financing costs for provisions for termination of labor relations under early retirement, presented in the past under the item of operating expenses (income) net.

B. <u>Pelephone</u>
(NIS millions except where stated otherwise)

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue	1,346	1,265	1,138	1,214	1,188	1,173
Operating profit	321	302	159	293	266	215
Depreciation and amortization	151	139	135	129	130	129
Operating profit before depreciation and amortization (EBITDA)	472	441	294	422	396	344
Net profit	233	230	128	211	180	163
Cash flow from current operations	290	375	298	379	344	256
Payments for investment in property, plant and equipment and intangible assets	163	149	163	350	182	103
Proceeds from sale of property, plant and equipment and intangible assets	4	-	1	-	1	1
No. of subscribers at end of period (in thousands)	2,694	2,669	2,649	2,698	2,636	2,595
Average monthly minutes of use (MOU) per subscriber*	329	323	335	359	358	355
Average monthly revenue per subscriber (ARPU) (in NIS)*	131	128	122	129	128	126
No. of subscribers at end of period (in thousands)	1,307	1,217	1,151	1,068	977	867
Revenues from value added services and content as % of revenues from cellular services	19.2%	18.5%	18.4%	16.2%	15.5%	15.0%

* MOU and ARPU data for Q1 and Q2 2009 were influenced by the deduction of 92,000 dormant subscribers from the number of active subscribers at December 31, 2008 as well as from the change in billing to segments of one second each.

C. <u>Bezeq International</u>
(NIS millions except where stated otherwise)

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue	327	324	337	329	326	314
Operating profit	68	60	65	59	63	55
Depreciation and amortization	21	20	20	20	20	20
Operating profit before depreciation and amortization (EBITDA)	88	80	85	79	83	75
Net profit	56	44	46	44	47	42
Cash flow from current operations	83	84	72	32	51	8
Payments for investment in property, plant and equipment and intangible assets*	26	21	26	33	31	28
Proceeds from sale of property, plant and equipment and intangible assets	-	-	1	-	-	-

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

D. DBS

(NIS millions except where stated otherwise)

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue	376	384	377	375	380	381
Operating profit	59	66	55	52	43	27
Depreciation and amortization	56	57	66	59	60	65
Operating profit before depreciation and amortization (EBITDA	115	122	122	111	103	92
Net profit (loss)	(95)	(1)	(18)	(82)	(99)	(66)
Cash flow from current operations	93	91	134	97	32	84
Payments for investment in property, plant and equipment and intangible assets*	60	61	63	56	40	79
Proceeds from sale of property, plant and equipment and intangible assets	-	-	-	-	-	-
No. of subscribers at end of period (in thousands)	562	560	560	556	551	549
Average monthly revenue per subscriber (in NIS)	224	228	225	226	230	231

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

Section 1.6 - Group forecast

Based upon the Bezeq Group's financial performance for the first half of 2009, which was materially stronger than the corresponding period in 2008, and considering the improved visibility of the economic environment, the Bezeq Group is raising its outlook for 2009 and now anticipates achieving revenues, net profit, EBITDA and operating cash flows above those for the full-year 2008 results.

The Bezeq Group is not changing its outlook for gross capital expenditures, which are still expected to be close to the 2008 level.

The 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.

Section 1.8 - Group strategy

* **Leadership** – Enhancing the Bezeq Group's status as the leading communications group in Israel.
* **Presence in central areas of the communications market focusing on the end user** – the mobile market, the customer's home, the business sector, internet, television and content.
* **Total client solution** – provisioning an inclusive communications solution for private and business customers based on a variety of services and products.
* **Substantial presence in all components of the value chain** – provisioning and reinforcing the relationship with the customer by maintaining a dominant positioning throughout the value chain: infrastructure, services and content.
* **Tailoring of service to customer** – focusing on the provision of tailored, high-quality services that fully address the needs of both private and business customers.
* **Innovation and technology** – underpinning the comparative advantage of the Group, among other, through leading technologies available in the market, which have matured sufficiently in order to enable large scale deployments and provision of reliable services.
* **Commercial focus** – focusing on the core areas of the communications market and related areas, as well as focusing on the Israeli domestic market.

* **Retention and reinforcement of perceptions of quality, reputation and value of the Group's brands.**

Naturally, a review of the Group's strategy involves assessments regarding future developments in customer conduct and needs, rate of adoption of new services, technological developments, regulatory policy and the marketing strategy of competitors. However, there is no certainty that this strategy will in fact eventuate, or will eventuate in the manner set out above. The circumstances that might lead to failure of the strategy to eventuate, or to its absolute failure, depend, inter alia, on frequent technological changes and on regulatory compulsions.

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

Section 2.1.2 – General information on area of operations – statutory restrictions and special constraints

Tariffs were updated on June 1, 2009, and interconnect tariffs to the Company were reduced as of the same date. See update to section 2.16.1 below.

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 11B to the financial statements of the Company for the period ended on June 30, 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 2.6.1 – Telephony

With regard to the Company's petition to the High Court of justice concerning enforcement of the structural separation rules on HOT – on June 4, 2009, the Ministry of Communications gave notice of an amendment of HOT Telecom's license with respect to structural separation between HOT Telecom and HOT Communications Systems Ltd. ("HOT Broadcasts") setting out restrictions on the structural separation obligation that had been part of HOT Telecom's license. Under these circumstances, and pursuant to supplementary notices by the Respondents (the State and HOT), on July 16, 2009, the Company filed a supplementary notice in which it requested that the Court set aside the petition. On July 19, 2009, the ruling of the Supreme Court was handed down stating that the petition should be set aside, in accordance with the petitioner's request, with no order being made as to costs.

Section 2.7 – Property, plant and equipment

Section 2.7.4 – Real estate

During the course of the first six months of 2009, the Company sold four real estate assets in a total area of approximately 8,030 m^2 in land and approximately 5,300 m^2 built-up, for a total sum of NIS 28 million (approximately NIS 5 million of which in the second quarter of 2009). Additionally, under the settlement agreement between the Company and the Israel Lands Administration, an agreement was signed in June 2009 between the parties to the effect that the Company undertook to return the Bayit VaGan installation to the State within 18 months of the date of execution of the agreement and to waive receipt of a substitute property for such property, in consideration for the sum of approximately NIS 6 million. The Company intends to invest the above consideration in the purchase of offices for the purpose of providing services to the Israel Broadcast Authority.

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 2006,148 employees retired from the Company in this context as at August 3, 2009 (of whom 139 retired prior to June 30, 2009).

Section 2.14 – Taxation

See Note 14(b) to the financial statements of the Company for the period ended on June 30, 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 Communications (Telecommunications and Broadcasts) (Calculation of Payments and Linkage for Telecommunications Services) Announcement, 5769-2009, the Company's tariffs were updated as of 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 and for a basic ISDN (Integrated Services Digital Network) line rose by 3.8% and the other controlled services provided by the Company declined by 0.3183%.

Furthermore, pursuant to the amendment of the Communications (Telecommunications and Broadcasting) (Payments for Interconnect) (Amendment) Regulations, 5769-2009, 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, was reduced as of 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 July 8, 2009, the market share of the Company has fallen, in terms of normative revenue for April 2009, to 79.9% 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 April 2009, in terms of regular (individual) lines based on normative revenue, declined to 78.4%, and in terms of access lines based on normative revenue, declined to 81.8%.

Section 2.16.6 – Rules and regulations under the Communications Law

With respect to the Exceptions Committee – according to the Ministry of Communications notice dated June 16, 2009, the Ministry of Communications submitted draft regulations relating to the Exemption Advisory Committee for the approval of the Economic Committee of the Knesset.

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 June 30, 2009.

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

Section 3.4 – New Products

In May 2009, Pelephone signed an agreement with Apple Sales International ("the manufacturer") for the acquisition and distribution of iPhone handsets in Israel. Under the agreement, Pelephone undertakes to acquire a minimum number of handsets every year for three years, the cost of the handsets for Pelephone depends on the prices that are in effect at the actual acquisition date. These quantities are a significant part of the number of handsets expected to be sold by Pelephone during the agreement period and represent approximately 5% of the cost of Pelephone's annual services and sales.

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

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.

According to government publications and pursuant to the government's resolution to set up an inter-ministerial team regarding examination of interconnect tariffs, a joint team was set up between the Ministry of Communications and the Ministry of Finance which has recently completed a tender to select an international consultancy company to look into this matter. The company that was chosen was Nera. The issues defined for examination are interconnect tariffs and conditions of entry of new competitors into the cellular market. Under the Ministry of Communications' work plan, the team is expected to submit recommendations at the beginning of 2010. Pelephone is working to formulate a response and basis for discussion with the inter-Ministerial team.

According to government publications, in government discussions regarding the State budget for 2009-2010, a recommendation was made to publish a frequency tender for an additional infrastructure-owning cellular carrier. Following this, the Ministry of Communications set up a tender committee which is supposed to publish a frequency tender as aforesaid by the end of the third quarter of 2009. The tender is expected to include various benefits aimed at removing obstacles and significantly facilitating the entry of another infrastructure-owning carrier.

Section 3.7.2 – Mobile Virtual Network Operator (MVNO)

In the context of discussions surrounding the Budget Law and the Arrangements Law for 2009 and 2010 conducted during the months of June – July 2009, an amendment to the Communications Law was approved to the effect that the Minister of Communications is expected to complete all of the proceedings required in order to grant licenses by October 1, 2009. Likewise, the amendment to the law also provided that should an MVNO license be awarded and in the event that such licensee has conducted negotiations with the existing operators which did not give rise to a positive result within a period of 6 – 9 months, and it is proven that this stemmed from anti-competitive conduct by the existing operators, the Minister of Communications shall intervene in the commercial conditions in accordance with the jurisdiction vested in him by law.

Section 3.15.6 – Credit rating

On July 9, 2009, Maalot gave notice of increase of the rating of Pelephone's debentures from AA minus to AA plus. The rating forecast is stable and reflects Maalot's assessment that Pelephone will continue to be strategically important to Bezeq and will maintain a strong level of profitability, and will create significant cash flows in the future.

Section 3.16 – Taxation

See Note 14(b) to the financial statements of the Company for the period ended on June 30, 2009.

Section 3.18.3.1 – Main changes in Pelephone's license

Section A – further to hearings on the question of disconnecting the link between a terminal MRT equipment purchase transaction and the giving of benefits, the Ministry of Communications ruled that the MRT license of the cellular companies would be amended such that as of November 1, 2009, the licensee would not create any link between any benefit for MRT services granted to the subscriber and the fact that MRT terminal equipment in the subscriber's possession was purchased, rented or received from a licensee or other reseller acting for such licensee.

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

Section 3.18.3.3 – Site construction licenses

The team set up by the Attorney General to research the question of access facilities completed its work and submitted a report during the course of June 2009. The team's report was published on the websites of the Ministry for the Environment and the Ministry of Communications. In some of the team's conclusions, the representatives of the various ministries were in disagreement. The Ministry of Communications supported continuation of the exemption arrangement for a period of one to two years following the approval of NOP 36A1, in light of licensing difficulties mainly in urban areas, and an examination of the need for continuing the exemption in light of the quality of response that the NOP gives to the matter. The Ministries of the Interior and the Environment concluded that there was no justification for the exemption arrangement regarding cellular communications facilities to continue to exist. If the position of those ministries is accepted and the exemption arrangement is terminated, this will adversely affect deployment capabilities and the quality of the service that Pelephone will be able to provide to its customers, particularly in high-density areas. Prior to publication of the team's report, a further petition was filed with the High Court of Justice against the Attorney General, the inter-ministerial team and other persons, requesting remedies relating to the Attorney General's position supporting the continuation of the exemption from a building permit for wireless access facilities. As for the private bills dealing with cancellation of the exemption from a permit for cellular wireless access facilities, the government decided to formulate its position in respect thereto only after publication of the inter-ministerial team's report. This position has not yet been formulated.

Section 3.21 – Legal proceedings

For updates on the subject of legal proceedings, see Note 5 to the financial statements of the Company for the period ended June 30, 2009.

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

Section 4.1.2.2 – General Special Domestic License

On August 2, 2009, Bezeq International resolved to supply broadband domestic telephony services (VOB) to its private customers.

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 4.16 – Taxation

See Note 14(b) to the financial statements of the Company for the period ended on June 30, 2009.

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 June 30, 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

Section 5.1.3 – To the best of DBS'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. The decision also provides that a committee is to be set up to examine the advertising fees paid by advertisers and bodies that sell advertisements to advertising companies. To the best of DBS's knowledge, in June 2009, it was resolved to split the remedies regarding the matters described above from the Arrangements Bill and the discussion of them was transferred to the Economics Committee in order to prepare for first reading.

Section 5.1.3.1 – On August 2, 2009 the DTT system commenced broadcasting. In February 2009, the Minister of Finance made an order stating that DTT broadcast reception decoders will be exempt from purchase tax (as distinct from the decoders used by DBS which are subject to a 10% purchase tax).

Section 5.1.3.4 – In May 2009, the Council resolved to defer commencement of the new policy until the end of September 2009 in order to reexamine other models for regulating sports broadcasts on the paid sports broadcasts.

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 5.11.1.B – Space segments

In June 2009, a letter was received from Aviation Industries containing a demand for immediate repayment of the debt still owed by DBS for use of the Amos 1 satellite, as well as payments of interest and additional sums allegedly owing to Aviation Industries by virtue of an agreement between the Parties. DBS has arguments against some of the sums alleged by Aviation Industries. At this stage, negotiations are being conducted to resolve the financial disputes.

Section 5.14 – Taxation

See Note 14(b) to the financial statements of the Company for the period ended on June 30, 2009.

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. In June 2009, DBS submitted its position in the hearing. As at the date of this report, the Ministry of Communications' decision on this hearing has not yet been handed down. In July 2009, a bill was approved in preliminary reading to the effect that the designated channels would be exempt from payment of transition fees to the cable company. To the best of DBS's knowledge, this bill was approved by the Ministerial Committee on Legislation however the Minister of Communications has submitted an appeal against this decision.

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. A statement of defense was filed in July 2009.

Section 5.18.1 – In June 2009, a settlement agreement was signed to the effect that without admitting to any of the claims DBS would compensate subscribers from whose deposits depreciation was alleged to have been unlawfully collected such that existing subscribers of DBS would be entitled to view 3 DVDbox movies without payment and subscribers who had left YES would be entitled to monetary compensation of NIS 25 or NIS 50 as set out in the Agreement or to 5 DVDbox movies without payment should they choose to return to DBS's broadcasts. It was further held that the lead plaintiff would be entitled to payment of the sum of NIS 50,000 and her attorneys would be entitled to the sum of NIS 450,000. The Court at which the agreement was submitted for approval held that this was an appropriate and reasonable arrangement and allowed DBS to publish an initial notice in this regard, which was published on June 18, 2009.

Section 5.18.2 – In April 2009, the Special Manager in the debt claim handed down a decision in which the debt claim that DBS filed was accepted in part, such that the sum of the debt to DBS was assessed in the sum of approximately NIS 180,000.

Section 5.18.3 – On June 17, 2009, a hearing took place in the Supreme Court on the appeal and the counter appeal. At the recommendation of the Court, it was agreed that the appeal and the counter-appeal be struck out without any award as to costs, without the Court expressing any opinion as to the essence of the ruling of the District Court regarding remuneration and fees.

For updates on the subject of legal proceedings, see Note 5 to the financial statements of the Company for the period ended June 30, 2009.

August 4, 2009	
Date	Bezeq – The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:

Shlomo Rodav – Chairman of the Board

Abraham Gabbay – CEO