UPDATE OF CHAPTER A (DESCRIPTION OF COMPANY OPERATIONS)[1]
OF THE PERIODIC REPORT FOR 2007 ("THE PERIODIC REPORT")
OF "BEZEQ" – THE ISRAEL TELECOMMUNICATIONS CORP. LTD. (HEREINAFTER: "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 2007, the Company has included forward-looking information, as defined in the Securities Law 5728-1968 (hereinafter: 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 Corporation'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 Corporation'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 Corporation does not independently check the correctness thereof. 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 not within the control of the Corporation, including the risk factors that are characteristic of its operations as set out in this report, and developments in the general environment, and external factors and the regulation that affects the Corporation'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

On March 12, 2008, the Gronau Commission appointed by the Minister of Communications to formulate detailed recommendations regarding policy and rules of competition in the field of communications in Israel (the "Gronau Commission") published its Report. The following are the principal recommendations, in summary:

Fixed-Line Sector

1. To act to develop the wholesale market in the fixed-line sector, centered around the local loop unbundling obligation. In this context, the owners of the universal infrastructure are to be required to sell services wholesale and to lease access segments to competitors. For reasons of technological applicability, at this stage the local loop unbundling obligation will only apply to the Company.

2. It is proposed that within 15 months of the date of adoption of the recommendation by the Minister of Communications, the regulating body will publish maximum tariffs for the leasing of access segments and other services sold on the wholesale market (bitstream access services, resale, etc.) and the conditions for provision of such services. Such tariffs and conditions to be prescribed after hearing the positions of the entities operating in the segment.

3. To grant a permit to the Company's subsidiaries to supply non-degradable service packages, including Bezeq Fixed-Line telephony and broadband services and IPTV, after implementation of the arrangement set out in section 1 above. On that date, the subsidiaries of the Company shall also be entitled to receive special licenses for the supply of domestic carrier services that are not VOB.

4. So long as the Bezeq Group's market share is greater than 60%, supervision of the Company's tariffs shall continue in the format of fixing binding tariffs (fix); various restrictions (as set out in the recommendations) shall be set with respect to approval of alternative tariff bundles for the Company; with respect to supervised tariffs - up until the middle of 2009, cost-based tariffs will be prescribed for

[1] The update is pursuant to Article 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the Periodic Report. The update relates to the Company's periodic report for 2006 [sic] and relates to the section numbers in Chapter A (Description of Company Operations) in such periodic report.

call completion on the fixed-line network; with respect to non-supervised tariffs, "loyalty discounts" will be prohibited so long as the Company is a monopoly; PRI axes (line cluster) - if there is no significant change in market share, the prices of these will come under supervision.

5. The structural separation in the Company is to remain so long as there are only two companies with nationally deployed fixed line infrastructure. Likewise, if the Minister of Communications finds, within a reasonable time of implementation of the local loop unbundling arrangement (not more than two years), that the Company's actions are preventing expansion of competition in the domestic communications market, the recommendation is that he will exercise his powers under section 4(d2)(3) of the Communications Law regarding structural separation between operation of the infrastructure and operation of services at the Company.

Cellular Sector

The regulation processes required for the entry of virtual carriers, and the WiMAX tender to be accelerated, competition in the mobile sector to be strengthened and the cost of call completion on mobile networks to be checked in 2009, and the tariff amended accordingly.

International Call Sector

International call tariffs via mobile telephones to be prescribed by the international calling company, and paid to the cellular company at the tariff set out in the Interconnect Regulations for call completion on mobile networks. Furthermore, new players controlled by the cellular companies shall be permitted entry into the international call sector.

Multi-Channel Television

Setting up of a "narrow basic channel package", including 5-10 channels (open channels and channels of special social or cultural value), with the possibility that the regulating body might set the price of the package, and enforcement of structural separation between Hot Broadcasts and Hot Telecom in their licenses, in accordance with the format in place in the Company.

General

Consumer Issues - The OECD recommendations are a guiding framework for handling consumer issues. It shall be prohibited to change fixed tariffs in a contract with customers during the contract term, the term of contracts shall be limited to 18-24 months and the transition obstruction flowing from the tying of purchase of a handset to purchase of services will be removed.

Royalties - adoption of the position taken by the Carol Committee regarding the gradual reduction of the rate of royalties payable by licensees, up to cancellation of such royalties in the future. If there is a reduction of taxes during 2008-2012, the royalties will be cancelled. It is desirable that cancellation of the royalties accompany a parallel reduction in tariffs.

The Minister of Communications has not yet adopted the recommendations, in whole or in part.

If all of the recommendations contained in the Report are adopted and implemented as drafted, this is expected to cause a substantial adverse effect on the business results of the Company and of its subsidiaries. However, the Company is unable to assess what the Minister's decision might be, or when it might be passed.

See also updates to sections 3.7, 4.1.2 and 5.1.1 below.

Section 1.1.4 - Holdings of the Company

The following are details of the current rate of holdings of the Company, fully diluted, under the presumption of exercise of all of the options actually allocated to employees of the Company as at the date of publication of this report (as set out in the Periodic Report for 2007 and in the update to section 1.3.2 below, with the exception of the allocation to the chairman of the board of directors, which has not yet been completed), and under the presumption of exercise of Ap. Sab. Ar.'s option to purchase approximately 10.66% of the State's shares in the Company:

Shareholders	Percentage holdings as at 15.5.08	Percentage holdings (fully diluted)
Ap. Sab. Ar.	30.00%	38.81%
State of Israel	15.68%	0.97%
Zeevi Group	17.75%	16.95%
The Public	36.57%	43.27%

Section 1.1.5A – Mergers and Acquisitions – DBS

During the hearing of an appeal filed by the Company against the decision of the Antitrust Commissioner to object to the Company's merger with DBS, the Antitrust Tribunal proposed that the parties try to reach an agreement regarding approval of the merger subject to conditions.

Section 1.1.6 - Realizations

With respect to satellite operations - on March 26, 2008, an agreement regarding the sale of the Company's satellite communications operations ("Inmarsat" and "Bezeq Sat") and assets relating to such operations, including the satellite communications site at the Ella Valley, was executed between the Company and RRsat Global Communications Network Ltd., a company registered in Israel whose shares are traded on NASDAQ in the USA. Under the agreement, the operations are to be sold in consideration for the total NIS equivalent of the sum of US $ 15 million (at the representative rate on the date of payment) plus VAT, subject to price adjustments as a result of various stipulations and changes that might occur, if at all, to the operations during the period up until the date of completion of the transaction. Completion of the transaction is subject, inter alia, to the regulatory consents of the Ministry of Defense, the Ministry of Communications and the Antitrust Commissioner. If the deal is completed at the maximum price as aforesaid, then the Company is expected to record a capital profit in respect of it, subject to changes in the representative rate of the dollar, of approximately NIS 49 million (before tax)[2].

Section 1.3 – Investments in Equity and Stock Transactions

Section 1.3.2 - Employee Option Schemes

Under the option scheme for directors and senior employees of the Group of November 2007 for the allocation of up to 65,000,000 options, since the date of publication of the periodic report for 2007, 5,600,000 additional options have been allotted such that as at the date of this update, a total of 45,700,000 options have been allotted under the scheme. Likewise, the board of directors of the Company approved the allotment of 9,000,000 options to the chairman of the board of directors of the Company, in accordance with the private offering report of the Company published on April 18, 2008. The allotment to the chairman of the board of directors requires the approval of the general meeting of shareholders, which has been convened for June 1, 2008.

Section 1.4 – Payment of Dividends

On April 28, 2008, a cash dividend was paid to the shareholders of the Company in the total sum of NIS 679 million, constituting, as at the date of the distribution NIS 0.260648 per share, having been approved by the general meeting of shareholders of the Company on April 3, 2008.

[2] Based on an exchange rate of NIS 3.5 – USD 1.00.

Section 1.5 - Financial Information regarding the Group's Areas of Operations

Section 1.5.3 - Principal Results and Operations Figures

A. Bezeq Fixed-Line (operations of the Company as domestic carrier)

	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenues (NIS millions)	1,408	1,453	1,425	1,393	1,442
Operating Profit (NIS millions)	368	340	327	243	369
Depreciation and amortization (NIS millions)	218	233	236	235	237
Operating profit before depreciation and amortization (EBITDA) (NIS millions)	586	573	563	478	606
Investments in plant & equipment and intangibles (in NIS millions)	124	141	149	101	113
Proceeds of sale of plant & equipment (in NIS millions)	0	23	16	96	18
Number of active subscriber lines as at the end of the period (thousands)	2,713	2,761	2,767	2,778	2,797
Average monthly income per line (NIS)*.	84.9	85.8	85.6	85.1	88.3
No. of outgoing use minutes (millions)	3,594	3,738	3,849	3,753	3,914
No. of incoming use minutes (millions)	1,182	1,164	1,149	1,069	1,045
Number of ADSL subscribers as at the end of the period (thousands)	970	963	942	924	912
Average monthly revenue per ADSL subscriber (NIS).	58.1	58.1	58.5	58.1	57.4

* Not including revenues from transmission and data communications services, services to communications providers, contractor work and other. In this item, insubstantial adjustments were made in previous quarters in order to present nominal, non-standardized figures.

B. Pelephone

Pelephone	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenues (NIS millions)	1,173	1,182	1,203	1,152	1,147
Operating Profit (NIS millions)	215	133	219	240	213
Depreciation and amortization	129	125	121	115	117
Operating profit before depreciation and amortization (EBITDA) (NIS millions)	343	258	340	355	330
Net profit	163	104	154	173	154
Cash flow from current operations	264	252	392	246	359
Investments in plant & equipment and intangibles	103	120	81	117	63
Proceeds of sale of plant & equipment	1	3	-	-	2
Number of subscribers at end of period (thousands)	2,595	2,622	2,560	2,513	2,478
Average use minutes per subscriber (MOU) per month	355	358	363	350	344
Average monthly revenue per subscriber (NIS) (ARPU)	126	130	135	129	132
Number of 3G subscribers at end of period (thousands)	867	749	607	471	358
% revenues from value added services and content, of revenues from cellular services	15.0%	13.6%	12.8%	12.5%	12.0%

C. Bezeq International

	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenues (NIS millions)	314	333	326	322	323
Operating Profit (NIS millions)	55	45	54	54	51
Depreciation and amortization (NIS millions)	20	21	21	22	23
Operating profit before depreciation and amortization (EBITDA) (NIS millions)	75	66	75	76	74
Net profit (NIS millions)	42	38	39	39	36
Cash flow from current operations (NIS millions)	8	30	34	32	(1)
Investments in plant & equipment and intangibles (in NIS millions)*	28	36	29	18	8
Proceeds of sale of plant & equipment (in NIS millions)	-	2	2	-	-

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

A. DBS

	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenues (NIS millions)	381	349	360	354	354
Operating Profit (NIS millions)	27	5	(4)	31	24
Depreciation and amortization (NIS millions)	65	70	66	69	68
Net profit (loss) (NIS millions)	(65)	(73)	70	(65)	(48)
Cash flow from current operations (NIS millions)	84	76	56	25	93
Investments in plant & equipment and intangibles* (in NIS millions)	79	81	84	45	45
Proceeds of sale of plant & equipment (in NIS millions)	0	-	-	-	-
Number of subscribers (as at the end of the period, thousands)	549	549	545	543	542
Average monthly revenue per subscriber (NIS).	231	212	220	218	218

* This item also includes investments in the cost of acquisition of subscribers

Section 1.7 – General Environment and Affect of External Factors on Group Operations

The transaction for the purchase of 15% of the share capital of HOT by Netvision, reported by Discount Investments, if and to the extent concluded, might strengthen the position of the IDB Group and of HOT as a communications group in competition with the Group.

2. Fixed-Line Domestic Communications – "Bezeq" – The Israel Telecommunications Corp. Limited ("the Company")

Section 2.1 – General information on areas of operation

Section 2.1.3 - Changes in volume of activity and profitability in the field

For changes in the volume of activity and profitability in this field, see update to section 1.5.3(a) above.

Section 2.2 – Products and Services

Section 2.2.2 - Telephony

On April 7, 2008, a draft amendment to the license and service file of the free call (1-800) service was received from the Ministry of Communications. The significance of the amendment is, inter alia, that the Company's 1-800 subscribers will pay the cellular companies a higher tariff for calls made to them from the cellular network. On May 6, 2008, the Company sent its comments on this amendment to the Ministry of Communications.

Section 2.2.3 – Internet access services

For changes during the first quarter of 2008 in the number of ADSL subscribers, and the average monthly revenue per ADSL subscriber, see the update to the table in section 1.5.3(a) above.

With respect to broadband access services via internet service providers without purchasing a basic telephone service (ADSL only) - the Company began providing this service on May 15, 2008.

Section 2.2.5B - Satellite Services and Broadcasting

See update to section 1.1.6 above with respect to the agreement for sale of the Company's satellite communications operations.

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 12B to the financial statements of the Company for the period ended on March 31, 2008.

Section 2.6 – Competition

For an update regarding publication of the recommendations of the Gronau Commission, see the update to section 1.1 above.

Section 2.6.1 – Telephony

With respect to the Company's petition to the High Court of Justice with respect to the application to enforce the structural separation obligation on HOT, on April 28, 2008, the Company filed a notice of update to the Court requesting to set a hearing. Under the Company's notice, the Gronau Commission's report contains an unequivocal recommendation that the Ministry of Communications enforce structural separation on HOT, in accordance with the separation format in place at the Company.

Section 2.6.6A - Numbering and Number Portability

As at the end of April 2008, approximately 90,000 thousand lines had ported from the Company, most of them going to HOT.

On April 9, 2008, the Ministry of Communications gave notice to the Company and to other communications providers that it was considering amending the numbering plan and prescribing that with respect to the entitlement to number portability a "subscriber" would be deemed to include a NEP licensee to whom telephone numbers have been allocated and who pays for use thereof, and the end user will not be entitled to port such a number. On May 7, 2008, the Company submitted its comments on this amendment, claiming that it would amount to confiscation of the end user's right to decide whether to port the number or not.

On May 4, 2008, the Company received an Administrative Directive from the Ministry of Communications to the effect that a customer which has been allotted an abbreviated business dialing number (asterisk plus four digits) may port such a number. The Company is studying the significance of this Directive.

Section 2.6.7 – The Company's preparations for coping with increasing competition

Sub-section (i) regarding examination of the deployment of uniform infrastructure for the transmission of communications services – the board of directors of the Company had approved entry into detailed planning of an NGN (Next Generation Network) project, to complete the purchasing of soft switch installation and to submit a detailed analysis of the project to the board of directors for discussion.

Section 2.9 – Human resources

Section 2.9.1 - Organizational structure and number of employees based on organizational structure

A. With respect to the organizational structure - the VP Finances and the VP Strategy and Business Development report to the CEO alone.

B. In May 2008, execution of the amendment to the new collective agreement regarding the bringing forward of completion of implementation of the organizational structure, and regarding bringing forward dates of retirement and changes in the mix of retirees who are supposed to retire under the new collective agreement before the end of 2008 was concluded.

Section 2.9.2 – Personnel according to employment framework

During the first three months of 2008, the number of employees of the Company fell from 7,614 employees as at December 31, 2007 to 7458 as at March 31, 2008 (a net reduction of 156 employees) as a result of retirements from the Company (contemporaneous with the recruitment of necessary employees such as sales representatives).

Note that out of 975 employees who are supposed to terminate their employment at the Company between 2006-2008 under early retirement tracks or increased severance pay tracks, under the collective agreement of December 5, 2006 (see section 2.17.4(f) of the periodic report for 2006), as at March 31, 2008, 951 employees had retired.

Section 2.9.6 – Employee incentive schemes

Section 2.9.6.3 - for the allotment of options to directors and senior employees of the Group, including the chairman of the board of directors, see update to section 1.3.2 above.

Section 2.9.7 – Company officers and senior executives

On April 17, 2008, the board of directors of the Company, after receiving the consents of the remunerations committee and the audit committee of the board of directors, approved the conditions of employment of the chairman of the board of directors as set out in the immediate report of the Company published on April 18, 2008. The conditions of employment of the chairman of the board of directors require the consent of the general meeting of shareholders of the Company, which has been convened for June 1, 2008.

Section 2.13 – Finance

Section 2.13.4 - Credit received after December 31, 2007

The Company has not taken any loans during the report period.

Section 2.13.6 – Credit Rating

On May 21, 2008, the Midroog Rating Company gave notice that it had returned the Company's rating (which is Aa1) from negative to stable in light of the improvement in the Company's financial results, and the continued presentation of a strong financial profile, compensation for erosion in the fixed line communications segment via operations in the other segments and very low rates of financing despite the distribution of all of the net profit as a dividend after the switch in the control core of the Company.

Section 2.13.7 – Estimate of raising funds in the coming year (2008) and sources of financing

In the Company's assessment, the Company might, from time to time, raise short-term loans from banks and/or other credit providers to bridge gaps in cash flow as may arise, if at all, from time to time.

Section 2.15 – Environmental protection

Following termination of the strike at the Ministry of the Environment, the process of obtaining operations permits for communications and broadcasting facilities by the Commissioner for Radiation is moving forward.

Section 2.16 – Limitation and regulation of Company activities

Section 2.16.1 – Supervision of the Company's tariffs

Sub-section (a) (regarding the update of the Company's tariffs) – on March 20, 2008, a letter was received from the Ministry of Communications under which the next update (on June 1, 2008) would be based on the existing tariff outline prescribed by the Gronau Commission in 2003, in accordance with the formula set out in the Communications Regulations regarding calculation and linkage of payments for telecommunications services (the "Calculations Regulations"). Under the letter, after and to the effect that the Gronau Commission's recommendations are adopted regarding policy and rules of competition in the communications market, the path will be laid for the work of a commission to prescribe new tariff arrangement for the coming years. On May 11, 2008, the Company received a letter from the Ministry of Communications under which, on June 1, 2008, an annual update of the Company's tariffs is expected to apply in accordance with the recommendations of the Gronau Commission (regarding the Company's tariffs), and that the Minister of Communications intends to make regulations under which the interconnect tariffs currently paid to domestic carriers by an international carrier, cellular licensee or other domestic carrier regarding call completion on a domestic network will be reduced by an average rate of around 2%. With respect to the update of the Company's tariffs, see also the update regarding publication of the recommendations of the Gronau Commission in section 1.1 above.

Section 2.16.5 - Immunities

On May 19, 2008, the Company received a letter, dated May 18, 2008, from the Ministry of Communications, addressed to communications licensees, stating that the Ministry of Communications is of the opinion that following the adoption of the Civil Wrongs Ordinance Amendment (No. 10) Law, 5765-2005, under which the restrictions on the State's liability in tort were reduced, there might be grounds to consider reducing the existing immunity arrangement granted to general licensees and special general licensees. The licensees were requested to provide their positions to the Ministry of Communications by June 18, 2008. The Company is examining the Ministry's letter in order to formulate its position.

Section 2.16.7 - Antitrust laws

Sub-section H - with respect to the Antitrust Commissioner's ruling that the Company had abused its market status in handling an interconnection fault between the Company's network and that of HOT, against the backdrop of labor disruptions by the Company's employees - on March 16, 2008, the Company filed an appeal against the Commissioner's ruling. In this regard, see also Note 7C(1) to the financial statements of the Company for the period ended March 31, 2008.

Section 2.16.9 - Proposed Legislation to Amend the Consumer Protection Law

During the month of April 2008, an amendment of the Consumer Protection Law regarding fixed transactions was approved by the Knesset (the "Amendment"). Under the Amendment, dealers will be required to inform consumers of the date of termination of a fixed transaction prior to termination of such, and of the conditions that will apply after the date of termination. In addition, dealers will be required to obtain the positive consent of the consumer to continue with the contract beyond the fixed period. If positive consent is not obtained, the consumer will be disconnected from the service to which the fixed transaction applied, apart from basic telephone services as defined in the Communications Law (voice services). This Amendment will come into force as of 2009. The Company is examining the significance of implementation of the Amendment, and is preparing for implementation of it. The Company's hearing regarding the amendment to the Company's license and those of other licensees in this regard, proposed by the Ministry of Communications, is also continuing. Furthermore, the Consumer Protection Law regarding disconnection from ongoing services was approved by the Knesset, and the law regarding spam was approved by the Economics Committee of the Knesset, pending second and third readings as was a bill regarding spam and a bill regarding technician visits (the latter with certain reservations by the Government).

Section 2.16.11 – Establishment of communications facilities – National Outline Plan 36

On April 17, 2008, the Company submitted its objections to the proposed wording of the national communications outline plan NOP/36A regarding small broadcast installations, and the national communications outline plan NOP/36B regarding large broadcast installations. In summary, the objections are that the plans, as currently worded, particularly with respect to the changes in definitions of small and large broadcast installations, give rise to practical difficulties which might prevent the Company from providing the public with some of the varied services that it provides, and that it is required by law to provide.

Section 2.17 – Material agreements

With respect to section 2.17.4(f) – the new collective agreement of December 5, 2006 – for the amendment to the agreement, see update to section 2.9.1 above.

Section 2.18 – Legal proceedings

For updates on the subject of legal proceedings, see Note 7 to the financial statements of the Company for the period ended March 31, 2008.

3. Cellular – Pelephone Communications Ltd. (“Pelephone”)

Section 3.2.1 – Services

At the end of March 2008, the Ministry of Communications published a document of a public hearing regarding the policy of regulating the provision of telephone trading services via a public telecommunications network. Telephone trading services including voice and visual information services, entertainment services, dating services, etc., provided to subscribers via terminal equipment connected to a network. It is important to note that the field of telephone trading services is a significant source of income in the content world of Pelephone and the other cellular carriers. Following the proposed regulation, the Regulator is seeking to dramatically change the conduct of the telephone trading services sector, in a way that might also harm Pelephone’s revenues in this area. The Ministry of Communications has asked all relevant persons operating in the field of telephone trading for responses to the aforesaid hearing by May 29, 2008. Pelephone is formulating its position in this regard.

Section 3.7 – Competition

For an update regarding publication of the recommendations of the Gronau Commission, see the update to section 1.1 above.

Section 3.18 – Restriction and control of Pelephone's actions

Section 3.18.1.4 – the Consumer Protection law

During the month of April 2008, an amendment of the Consumer Protection Law regarding fixed transactions was approved by the Knesset. In this regard, see section 2.16.9 above.

Section 3.18.3.1(f) – Pelephone’s license

During the month of March 2008, the Ministry of Communications passed a resolution to implement the amendment of the MRT licenses under which the maximum obligation term for customers who are not business customers would be reduced to 18 months, and the carriers would be required to offer customers a reasonable no-obligation alternative. This resolution was passed following a hearing into this matter. Implementation of the amendment began on April 22, 2008.

Section 3.18.3.1(g) – Pelephone’s license

During the first quarter of 2008, Pelephone submitted its response to a hearing regarding fixed-term transactions, with respect to the policy format presented. However, on April 14, a request was received from the Ministry of Communications for responses to a further hearing in this regard, under which the Ministry of Communications proposed a new ruling to the effect that a fixed tariff would apply during the obligation period, i.e., as distinct from the previous hearing: the current amendment proposes that during the obligation period, it will not be possible to amend tariffs. Pelephone is studying the significance of this and will formulate its response.

Section 3.21 – Legal proceedings

For updates on the subject of legal proceedings, see Note 7 to the financial statements of the Company for the period ended March 31, 2008.

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

Section 4.1.2 – Statutory and Standards Limitations on Bezeq International

On March 12, 2008, a report was published by the Commission to Formulate Detailed Recommendations on Policy and Rules of Competition in the field of Communications in Israel headed by Prof. Reuven Gronau. Inter alia, the report includes recommendations regarding the areas of operations of Bezeq International, which, if adopted by the Ministry of Communications in setting its policy, will affect the management of Bezeq International's business. Thus, the Commission recommended: that a permit be given to the subsidiaries of the Company to supply unbundled service packages, including the Company's telephony and broadband services, after implementation of the local loop unbundling arrangement (see update to section 1.1 above); that on such date, the subsidiaries shall be granted special domestic carrier licenses for the provision of domestic carrier services that are not VOB; and that the entry of new players controlled by the mobile telephony companies shall be permitted into the international call sector, after the method of prescription of tariffs for international calls via mobile handsets is changed so that the international call tariff is set by the international calling company, which will pay the cellular carrier in accordance with the tariff set out in the Interconnect Regulations for call completion.

For an update regarding publication of the recommendations of the Gronau Commission, see also update to section 1.1 above.

Section 4.9 – Intangible assets

On March 23, 2008, Bezeq International signed an agreement with Gil A.R. Telecom Systems ("**Gil A.R.**") under which Bezeq International purchased all of the operations of Gil A.R. relating to the sale, leasing and service of communications products and switches manufactured by Avaya Office.

Section 4.14 - Investments

As at March 31, 2008, Bezeq International held 34.38% (32.42% under full dilution) of the share capital of Walla! Communications Ltd.

Section 4.19 – Legal proceedings

With respect to section 4.19.2 of the periodic report of the Company for 2007, regarding the claim filed against Bezeq International and against two other international carriers on grounds of breach of patent for a pre-paid telephone system by persons claiming to be the inventors and owners of such patent, on April 16, 2008, counsel for the plaintiffs filed a notice to the Court in which he gave notice that the settlement negotiations that had been being conducted by the parties had not resulted in any agreement and therefore, the Court is requested to set down a date for pre-trial and dates for the conclusion of discovery proceedings, perusal of documents and responses to interrogatories. As at the date of this report, a ruling has not yet been handed down in the application.

For further updates on the subject of legal proceedings, see Note 7 to the financial statements of the Company for the period ended March 31, 2008.

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

Section 5.1.3 – Developments in markets in the area of operations

Section 5.1.3.3 – the private bill regarding the inclusion of two designated channels and the education television channel in the DTT system was approved under first reading by the Knesset Plenum. A number of private bills dealing with the addition of other channels to the cluster of channels intended for broadcast via the DTT system were also submitted to the Knesset and to the best of DBS’s knowledge, they are currently in the initial processes of enactment.

Section 5.1.3.5 – in March 2008, the Minister of Communications published the recommendations of the Gronau Commission. The recommendations deal with the areas of telephony, internet and multi-channel broadcasts. Among other recommendations, the Commission recommended requiring multi-channel broadcasting companies to offer their subscribers a narrow channel package containing 5-10 channels, having the characteristics set out in the recommendations. The Commission also recommended not to remove the structural separation applying to the Company at this stage, due to its status in the field of fixed-line telephony, and recommended that subsidiaries of the Company, including DBS, not be allowed to supply “service packages” including the Company’s services (including IPTV services) until others of its recommendations regarding infrastructure and the Company’s services are applied.

For an update regarding publication of the recommendations of the Gronau Commission, see also the update to section 1.1 above.

Section 5.15.1 – Specific legal restrictions on operations

During the month of April 2008, an amendment of the Consumer Protection Law regarding fixed transactions was approved by the Knesset. In this regard, see section 2.16.9 above.

Section 5.6.5 – Principal methods for coping with competition

Section 5.6.5(g) – “basket of services” – as of April 2008, DBS has ceased marketing a basket of services to its subscribers containing broadcasts and high-speed internet connection infrastructure, and has commenced selling the Company’s campaigns regarding high-speed internet connection infrastructure such that subscriber contracts regarding such infrastructure are made with the Company only.

Section 5.13 – Finance

Section 5.13.6 – as at March 31, 2008, DBS is in compliance with the financial stipulations under the financing agreement (as amended).

Section 5.16.2 – Space segment lease agreements

Second space agreement – on April 28, 2008, the Amos 3 satellite, to be operated by HLL, and intended as a downstream satellite for Amos 1 and Amos 2, was successfully launched. According to information provided to DBS by HLL, the procedures for testing and stationing the satellite in the appropriate part of space are expected to end in June 2008. When Amos 1 goes out of service, the leased capacity on Amos 1 is to be transferred to Amos 2 and Amos 3.

The information above regarding the stationing of the Amos 3 satellite is forward-looking information, based, to the best of DBS’s knowledge, on technical and technological parameters relating to the satellite. Therefore, technical faults and other events might postpone or prevent the final stationing of the Amos 3 satellite in space. The transfer of some of DBS’s broadcasts via the Amos 3 satellite is also dependent upon reaching an agreement with HLL. As at the date of this report, a date for commencement of transmission of broadcasts via Amos 3 has yet to be set.

Section 5.17 – Joint Venture agreements

Section 5.17.1 – as set out in section 5.6.5(g), this joint venture has ended.

Section 5.18 – Legal proceedings

Re the deficit demand from the Customs Department (Section 5.18.7): In April 2008, a response was received from the Legal Department of the Taxation Authority relating only to the VAT charges on the principal in the deficit demand. The Taxation Authority's response stated that there is nothing preventing the VAT in the cash invoice from being paid by DBS, which shall be entitled to deduct the input tax contained therein, despite the fact that the Taxation Authority views Eurocom Communications as the importer of the smart cards. The Taxation Authority's response also states that the aforesaid shall not have implications on Eurocom Communications' obligation for purchase tax imposed upon the smart cards.

For further updates on the subject of legal proceedings, see Note 7 to the financial statements of the Company for the period ended March 31, 2008.

Section 5.21.3 – Special risks to DBS

Section 5.21.3.5 - as set out in the update to section 5.16.2 above, the Amos 3 satellite was launched in April 2008, but its stationing in space has not yet been completed.

21.5.08	
Date	Bezeq – The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:

Shlomo Rodav – Chairman of the Board

Avi Gabbay, CEO