

August 30, 2015

Quarterly report for the period ended June 30, 2015

- Update to Chapter A (Description of Company Operations) of the Periodic Report for 2014
- Directors' Report on the State of the Company's Affairs for the period ended June 30, 2015
- Interim Financial Statements as at June 30, 2015



Update to Chapter A (Description of Company Operations) of the Periodic Report for 2014



The information contained in this report constitutes a translation of the information published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

**Update to Chapter A (Description of Company Operations) ¹
to the Periodic Report for 2014 ("Periodic Report") of
"Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")**

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

Section 1.1.2 - Merger of the Company and DBS

In the matter of the Company's engagement in a transaction with Eurocom DBS to acquire Eurocom DBS's entire holdings in DBS - on June 23, 2015, approval was received from the Minister of Communications to transfer the means of control in DBS in which the Company will control DBS and will hold the entire issued and paid-up capital of DBS. Subsequently, on June 24, 2015, the aforesaid transaction was completed. On this occasion, the Company transferred to Eurocom DBS the cash consideration for the transaction in the amount of NIS 680 million, Eurocom DBS transferred to the Company all its shares and rights to shares in DBS and assigned to the Company its entire rights in the shareholders' loans that it had provided to DBS, and the director in DBS representing Eurocom DBS resigned his position. Upon completion of the transaction, DBS became a wholly owned subsidiary (100%) of the Company.

Section 1.3.3 - Dividend distribution

For information about a dividend distribution in the amount of NIS 844 million in respect of profits from the second half of 2014 that was approved by a general meeting of the Company's shareholders on May 6, 2015, and a recommendation by the Board of Directors on August 30, 2015 in connection with a dividend distribution in the amount of NIS 933 million for profits in the first half of 2015, see Note 7 to the Company's Financial Statements for the period ended June 30, 2015.

Outstanding, distributable profits at the reporting date - NIS 945 million² (surpluses accumulated over the last two years, after subtracting previous distributions and excluding the Special Distribution).

¹ The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2013 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

² Including revaluation gains in the amount of NIS 12 million for an increase in the control of DBS. Pursuant to a Board of Directors' resolution dated February 10, 2015, these revaluation gains will be excluded from the dividend distribution policy and will not be distributed as a dividend.

Section 1.4.4 - Main results and operational data

A. Bezeq Fixed Line (the Company's operations as a domestic carrier)

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenues (NIS million)	1,105	1,113	1,086	1,081	1,073	1,077
Operating profit (NIS million)	662	547	507	498	471	504
Depreciation and amortization (NIS million)	180	176	170	178	172	168
EBITDA (NIS million) (1)	842	723	677	676	643	672
Net profit (NIS million) (8)	382	346	293	263	251	295
Cash flow from operating activities (NIS million)	456	548	499	599	545	616
Payments for investments in property, plant & equipment and intangible assets (NIS million)	191	231	195	210	207	210
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	80	12	82	69	42	28
Free cash flow (NIS million) (2)	345	329	386	458	380	434
Number of active subscriber lines at the end of the period (in thousands) (3)	2,204	2,208	2,205	2,205	2,205	2,214
Average monthly revenue per line (NIS) (ARPL) (4)	60	61	62	63	63	64
Number of outgoing minutes (in millions)	1,396	1,459	1,482	1,588	1,522	1,608
Number of incoming minutes (in millions)	1,385	1,428	1,440	1,498	1,424	1,467
Number of active subscriber lines at the end of the period (in thousands) (7)	1,418	1,390	1,364	1,335	1,308	1,289
Number of active subscriber lines at the end of the period (in thousands) – wholesale (7)	78	11	-	-	-	-
Average monthly revenue per Internet subscriber (NIS) - retail	88	87	85	85	84	82
Average broadband speed per Internet subscriber (Mbps)(5)	34.9	33.2	32.5	24.0	21.9	20.0
Churn rate (6)	2.4%	2.4%	2.5%	2.8%	2.8%	3.0%

- (1) EBITDA (Earnings before interest, taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations which counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices which are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies.
- (2) Free cash flow is a financial index which is not based on GAAP. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net. The Company presents free cash flow as an additional index for assessing its business results and cash flows because the Company believes that free cash flow is an important liquidity index that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets.
- (3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (except for a subscriber during (roughly) the first three months of the collection process).
- (4) Excluding revenues from transmission services and data communication, internet services, services to communications operators and contractor and other works. Calculated according to average lines for the period.
- (5) For bundles with a range of speeds, the maximum speed per bundle is taken into account.
- (6) The number of telephony subscribers who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period.
- (7) Number of active Internet lines including retail and wholesale lines. Retail - internet lines provided directly by the Company. Wholesale - Internet lines provided through a wholesale service to other communications providers.
- (8) Commencing in Q2 2015, the Company revised the internal management reporting structure in connection with financing income for shareholders loans that were provided to DBS and it no longer presents the financing income for shareholder loans as part of financing income for the fixed line domestic carrier segment. Comparison figures were restated so as to reflect the change in reporting structure. In this matter, see Note 12.1 to the Company's Financials.

B. Pelephone

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenue from services (NIS million)	502	499	584	610	622	637
Revenues from sale of equipment (NIS million)	219	228	251	214	221	280
Total revenue (NIS million)	721	727	835	824	843	917
Operating profit (NIS million)	53	32	74	122	127	126
Depreciation and amortization (NIS million)	106	104	111	108	105	106
EBITDA (1)	159	136	184	231	232	232
Net profit (NIS million)	49	36	59	100	106	108
Cash flow from operating activities (NIS million)	202	351	158	286	420	349
Payments for investments in property, plant and equipment and intangible assets (NIS million)	199	72	80	83	85	73
Free cash flow (NIS million) (1)	3	279	78	203	335	276
Number of subscribers at end of the period (thousands) (2)	2,566	2,565	2,586	2,600	2,610	2,631
Average monthly revenue per subscriber (NIS) (ARPU) (3)	65	65	75	78	79	80
Churn rate (4)	6.1%	6.5%	5.6%	7.3%	6.5%	7.5%

- (1) Regarding the definition of EBITDA and free cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.
- (2) Subscriber data include Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network) and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, performed no surfing activity on his phone or has not paid for Pelephone services. It is noted that a customer may have more than one subscriber number ("line").
- (3) Average monthly revenue per subscriber. The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period.
- (4) The churn rate is calculated at the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the period, to the average number of active subscribers during the period.

C. Bezeq International

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenues (NIS million)	391	393	398	385	366	355
Operating profit (NIS million)	62	61	57	59	58	58
Depreciation and amortization (NIS million)	32	32	33	32	33	32
EBITDA (NIS million) (1)	94	93	90	92	90	90
Net profit (NIS million)	45	44	39	42	41	42
Cash flow from operating activities (NIS million)	74	62	71	71	95	74
Payments for investments in property, plant and equipment and intangible assets (NIS million) (2)	26	53	28	27	23	31
Free cash flow (NIS million) (1)	48	9	43	44	72	43
Churn rate (3)	4.9%	4.1%	4.7%	4.5%	3.7%	4.0%

(1) Regarding the definition of EBITDA and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) The item also includes long term investments in assets.

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

D. DBS

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenues (NIS million)	439	440	440	432	428	424
Operating profit (NIS million)	70	59	57	76	67	73
Depreciation and amortization (NIS million)	80	76	78	75	74	70
EBITDA (NIS million) (1)	150	135	135	151	141	143
Net profit (loss) (NIS million)	(166)	(3)	(87)	(86)	(115)	(34)
Cash flow from operating activities (NIS million)	106	149	122	101	106	113
Payments for investments in property, plant and equipment and intangible assets (NIS million)	82	65	94	64	68	78
Free cash flow (NIS million) (1)	24	84	27	38	38	35
Number of subscribers (at the end of the period, in thousands) (2)	638	634	632	623	613	607
Average monthly revenues per subscriber (ARPU) (NIS)(3)	230	232	234	233	234	234
Churn rate (4)	3.1%	3.4%	2.9%	3.2%	3.1%	3.6%

(1) Regarding the definition of EBITDA and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.

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

(3) Monthly ARPU is calculated by dividing total DBS revenues (from content and equipment, premium channels, advanced products, and other services) by average number of customers.

(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period.

Section 1.5 - Forecast regarding the Group

On the forecast for the Group for 2015 as published in the 2014 financials - the forecast remains unchanged after the execution of the transaction for the purchase of all the holdings in DBS (see update to Section 1.1.2) and after approval of the amendment to the collective labor agreement (see update to Section 2.9).

Section 1.6 - General environment and the influence of external factors on the Group's activity

Section 1.6.3 - Regulatory oversight and changes in the regulatory environment - wholesale market

Following the High Court of Justice ("HCJ") ruling of March 25, 2015 that a round-table discussion must be held with the participation of the Company and the State, as a form of post hearing, to examine the Company's arguments (professional and technical arguments, including technical issues which the Company claims are impossible to implement), in an effort to clarify such issues wherever possible and make the necessary amendments, and after which the Company and the State must submit statements to the Court within 60 days, the Company and the Ministry of Communications held discussions on the subject of the possible implementation of the wholesale telephony service and issues pertaining to the economic pricing model.

On April 20, 2015, the Company received a letter from the Director General of the Ministry of Communications on the subject of providing wholesale telephony service. According to the letter, further to the meetings between the Ministry and the Company pursuant to the above-mentioned HCJ ruling, it emerges, according to the Ministry, that provision of the wholesale services on the Bezeq network is technically feasible, with slight adjustments, within a short period and at negligible cost. The letter also states that the Ministry believes there are several possible technological solutions to providing the service in accordance with the service portfolio on time, and the letter includes a summary of three of these solutions. The Ministry therefore expects Bezeq to prepare for providing the service on the scheduled date (May 17, 2015). To this end, by April 27, 2015 the Company was required to submit documents to the Ministry describing the computerized interface for this service, and the letter also stipulates that insofar as Bezeq fails to submit these documents on time, the Ministry will take the view that Bezeq has no intention of providing the wholesale telephony service in accordance with its license, and it will take every available course of action (a copy of the letter sent by the Director General of the Ministry of Communications is attached to the Company's immediate report dated April 20, 2015, included in this report by way of reference). On April 26, 2015, the Company submitted its comments on this letter, completely rejecting the allegation that it had used the argument of the unfeasibility of the implementation to avoid providing the telephony services, and that the "technological solutions" presented in the Ministry's letter do not resolve the problem of unfeasibility and make it impossible to provide wholesale telephony services on the Company's existing network; nor are they consistent with the format for providing the services as defined in the service portfolio (in this context, the Company even suggested appointing an independent expert to examine the feasibility of the options put forward by the Ministry of Communications). Furthermore, the Company noted that the documents relating to the computerized interface for the service cannot be prepared as long as the service itself is impossible to implement (or even, taking the Ministry's position, until the format for the service has been defined and, according to the Ministry, several options may be possible).

On May 7, 2015, the Minister of Communications, Minister of Finance and Ministry of Communications submitted an updated notice on the Company's aforementioned petition, whereby, after the Ministry of Communications held meetings with the Company subsequent to the HCJ decision, the Ministry concluded that the provision of wholesale telephony services by the Company was technically feasible and that had the Company made preparations in advance, there would have been no technical impediment to opening the wholesale market in this field on the scheduled date, May 17, 2015. As for the economic issues, the notice stated that the Ministry of Communications had concluded that the Company's arguments that the tariffs were unreasonable should not be accepted. Nevertheless, after re-examining the Company's arguments, it had reached the conclusion that there was room to make certain changes in matters concerning the demand for data usage and requirements concerning the quality of the service as defined in the service portfolio (which the Ministry believes do not affect the tariffs), including the Ministry's intention to publish a preliminary hearing for the entire market and not to enforce requirements concerning the quality of the service at this stage. The notice included expert opinions by the Ministry's engineering and economic professionals. On May 25, 2015, the Company submitted its revised notice in this proceeding. In the

revised notice, the Company rejects the statements in the State's update, and noted that contrary to the State's conclusions (1) the various solutions put forward by the Ministry for providing telephony services in a wholesale market are not technically feasible. (2) The tariffs determined by the Ministry of Communications for the provision of the wholesale market services are unreasonable. The Company further asserts that the Ministry of Communications has not completed the discussions to evaluate the Company's arguments, as requested by HCJ, and has held steadfastly to its decisions such that the unreasonableness of such decisions has remained unchanged. The Company's revised notice included an engineering opinion prepared by an external expert and an internal economic opinion (together with an external comparative study indicating that the wholesale price in European countries on which the Ministry relied, is more than double the price determined by the Israeli ministry). On June 15, 2015, HCJ handed down its decision that the case would be returned to the tribunal. The hearing of the petition was set for September 16, 2015. The Company and the Ministry of Communications are currently negotiating in an attempt to find solutions to the disputes.

Until May 16, 2015, retail subscribers were transferred to a wholesale subscription (wholesale BSA service) via a non-automated process (a manual process that requires the intervention of Company employees). Notably, the Ministry of Communications and some of the communications operators had complaints regarding the Company's work capacity at that stage. As of May 17, 2015, the transfer is made by means of an automated process that does not require human intervention.

On May 11, 2015, the Company received notice from the Ministry of Communications of its intention to impose a monetary sanction in connection with the implementation of the broadband reform (the "**Notice**"), whereby, as detailed in the supervisory report attached to the Notice, the Ministry found that the Company was not in compliance with the directives prescribed in the service portfolio and that such course of conduct amounted to a violation under Item (5) of Section D of the Addendum to the Communications Law (Telecommunications and Broadcasting), 1982. The Ministry therefore intends to impose on the Company a monetary sanction of NIS 11,343,800, which is the maximum amount prescribed by the law. According to the Notice, the Ministry believes that the Company's conduct since the launching of the reform amounts, at the very least, to a violation of the provisions of the service portfolio in the following matters:

1. The Company conducted customer retention calls prior to completing the transition (to wholesale);
2. The Company did not enable implementation of a verbal transition process during the interim period until the establishment of an automated interface;
3. The Company did not comply with the timeframe prescribed for transferring an infrastructure subscriber from the Company to a service provider, and for transferring a subscriber between suppliers on the Company's infrastructure
4. The Company operated the service provider call center in a limited scope compared with the other centers, thereby discriminating between the different types of subscribers.

The explanations provided in the Notice stated, among other reasons, that the violation made it difficult to create competition in the market, assisted the Company in maintaining its monopolistic market share and the resulting high revenues, and that the Company's conduct could harm and even prevent an important and significant reform in the Israeli communications market, which was designed to ensure the public's interest, consumers' welfare and competition in various markets, including in the Internet and telephony sectors, and in the future in the commercial broadcasting and other sectors

The Company dismissed the Notice and submitted its counter-arguments, including that it rejects the unsubstantiated statements and determinations in the Notice in the context of preventing the reform and monopolistic practices. At the same time, the Company presented the Ministry's unreasonable course of conduct and the updating of the service portfolio in excess of its authority, while disregarding the complexity of the non-automated processes and the time frame prescribed for them.

On June 1, 2015, the Ministry of Communications published a hearing concerning the use of terminal equipment in a wholesale market, whereby it is considering the establishment of an "associate arrangement" for the BSA service file, according to which retail subscribers that become wholesale subscribers will be able to continue to use the Company's terminal equipment for a further 6 months, after which the equipment will be returned to the Company. On June 30, 2015, the Company filed its position opposing the arrangement under consideration, which infringes upon the Company's proprietary rights and expropriates its property, is contrary to the approach and justification underlying the wholesale service in that it detracts from the service provider's responsibility at the Company's expense, where there is no market failure, lack of infrastructure or bottleneck, and it fails

to comply with the clause limiting infringement of a basic right. On the same date, Bezeq International filed its position which also opposes the arrangement under consideration and asks for the conditions of the arrangement to be amended.

On June 15, 2015, the Antitrust Authority asked the Company for information as part of a review being conducted by the Antitrust Commissioner in relation to the provision of wholesale services on the Company's network, including information about requests to connect customers as part of the wholesale market, the dates of visits by technicians and Company documents relating to the reform of the wholesale market. The Company submits the information as requested by the Authority.

Section 1.6.4 - Regulatory oversight and changes in the regulatory environment - additional topics

Sub-section F - Enforcement and monetary penalties - the Ministry of Communications has recently made extensive use of the oversight powers and has issued notice of its intention to impose monetary sanctions on the Company regarding on-going regulatory matters as well as matters pertaining to implementation of the wholesale market. The Company submitted its comments on these oversight reports and notice of the imposition of such penalties to the Ministry.

2. Bezeq ("the Company") - Domestic fixed-line communications

Section 2.7.4 – Real estate

Sub-section A - concerning the Company's right to receive a site in Sakia, further to the Company's talks with the planning authorities vis-a-vis exercising the Company's rights under the planning authorization contract between the Company and ILA - in April 2015, a detailed outline plan was submitted to the Regional Planning Committee and published for objections, which determined the purposes, uses, building rights and construction provisions for the zoning in the plan.

Section 2.9 – Human resources

On August 30, 2015, the Company's Board of Directors approved an amendment (no. 5) to the special collective labor agreement from December 5, 2006 between the Company, the union and the Histadrut. The main points of the amendment are:

1. An extension of the collective labor agreement and the retirement arrangements through December 31, 2021 and amendments thereof.
2. As part of the retirement arrangements, the Company will be entitled, at its discretion, to terminate the employment of up to 203 tenured employees (including new tenured employees) each year.
3. The estimated cost of the agreement, including wage improvements and not including the retirement of employees which is subject to the Company's discretion, is NIS 280 million throughout the period of the agreement (of which about NIS 30 million are contingent on the Company's performance).

Section 2.11 – Working capital

See Section 1.3 of the Board of Directors' Report for information about the Company's working capital.

At June 30, 2015, the Company has a working capital deficit in the amount of NIS 1,667 million (this figure refers to the Company's separate financial statements. In the Company's consolidated financial statements as at June 30, 2015, there is a working capital deficit in the amount of NIS 472 million).

Section 2.13 - Financing

On April 2, 2015 and on May 6, 2015, the Company entered into agreements with banking institutions in which context the banks undertook to provide the Company with credit in 2016 to recycle future debt, in the aggregate amount of NIS 900 million. The undertaking is to provide credit to the Company in June 2016 with an average duration of 4.6 years (repayment in five, equal annual installments as of June 1, 2019 until June 1, 2023), at an aggregate interest rate of 3.7% (fixed, shekel non-linked interest). Furthermore, on June 11, 2015, the Company entered into an additional agreement with a financial institution in which context the financial institution undertook to provide

the Company with further credit of NIS 500 million to recycle a future debt of the Company in 2016. The undertaking is to provide credit to the Company in December 2016 with an average duration of 4.9 years (repayment in five, equal annual installments from December 15, 2019 through December 15, 2023), at an aggregate interest rate of 4.3% (fixed, shekel non-linked interest). The terms of all the above undertakings and the loans to be provided thereunder, include terms that are similar to those given in relation to other loans provided to the Company, as detailed in Part C, Note 11.2.1 of the 2014 Periodic Report. These conditions include: an undertaking to refrain from creating additional liens over the Company's assets (under certain restrictions); an undertaking whereby, in the event that the Company assumes an undertaking towards a particular party in connection with meeting financial covenants, the Company shall also assume an identical undertaking with respect to this credit (subject to certain exceptions), and also accepted terms for immediate repayment (such as breach events, insolvency, liquidation or receivership and so forth), and cross default (with certain restrictions), that will also apply, mutatis mutandis, with respect to the periods of the undertaking to provide credit.

Additionally, the Company is working to obtain an undertaking to provide credit in 2017, and at the date of the report it received such undertaking in the amount of NIS 400 million.

On August 30, 2018, the Board of Directors authorized the Company's management to review the possible issuance of one or more new series of debentures to the public by virtue of the Company's shelf offering from May 2014. It should be clarified that no final decision on the issuance and scope of the issuance has been made, and the conditions of the debentures have yet to be determined. The issuance is subject, in part, to a final decision by the Company's Board of Directors, publication of a shelf offering and obtaining the approval of the Tel Aviv Stock Exchange Ltd. for listing the debentures for trade. The foregoing should not be construed as an undertaking by the Company to carry out the issuance and/or a public offering of securities, and there is no certainty that the issuance will actually take place and/or what its conditions will be.

On April 21, 2015, Maalot affirmed a rating of iIAA/Stable for the Company. In this matter, see also Section 5 of the Directors' Report.

See Section 5 of the Directors' Report on the repayments of a bond fund (Series 5) and a bond fund (Series 8).

On August 30, 2015, the Board of Directors of the Company approved the providing of a guarantee by the Company to uphold an undertaking by DBS to pay all the outstanding debts towards the holders of Debentures in Series B and C of DBS (in the amount of NIS 1.05 billion and NIS 307 million respectively), and this against a reduction of the annual rate of interest that the debentures will bear (by 0.5% and 1% respectively), as well as a cancellation of certain provisions sureties in the deeds of trust and debentures, and all in accordance with the conditions of the debentures' deeds of trust and the debentures. Pursuant to the foregoing, the Company is working to sign appropriate letters of guarantee. For the conditions of these debentures, see also Section 5.15 in Chapter of the 2014 Periodic Report.

Section 2.15.3 – Permits

Concerning high-voltage facilities - at the date of this report, radiation permits for 27 HV facilities have been received. Two additional facilities are still in the process of obtaining such permits.

Section 2.16.5 - Authority with respect to real estate

On May 7, 2015, the Ministry of Communications published a hearing on the subject of wiring in residential buildings. As part of the hearing it announced that taking note of the 2010 amendment to the Planning and Construction Regulations, which prescribes that the owner of a building permit must install three conduits from the boundary of the property to the building's internal communications cabinet, and that due to complaints by IBC concerning the lack of available conduits, it is considering, inter alia, determining that Bezeq and Hot groups will each use one conduit from the boundary of the property to the building's internal communications cabinet and to the communications cabinets on each floor, and that they must vacate conduits in existing buildings and make the necessary modifications following IBC's requests in certain circumstances. The Company submitted its objection to the aforesaid determinations, in part due to a lack of justification, proportionality and necessity.

Section 2.16.8 – Antitrust Laws

Concerning sub-section G - negotiations with the Antitrust Commissioner whereby the Company abused its position as a monopoly and determined unfair purchase and sale prices of a service in a

monopoly in a sales promotion campaign - on March 31, 2015, the Company appealed the decision to the Antitrust Court, and submitted the opinion and affidavit of an economic expert, in which the Company asked that the court instruct that the determination is nullified, and alternatively for its repeal. In this appeal, the Company also argued that there had been no negative margin, that the decision had ignored various tests of negative margin and margin squeeze, that under the circumstances there was no concern of harm to competition, that in practice competition had not been adversely affected and that there had been no breach of relevant sections of the Antitrust Law. The Company also pointed out that the Authority had been in breach of administrative obligations while formulating the decision and by its very publication, which should also lead to cancelling the decision.

Section 2.18 – Legal proceedings

Subsection G on a claim and an application for its certification as a class action that was filed against the Company in the Haifa District Court in which it is alleged that the Company does not permit existing customers to connect to the its infrastructure at the prices offered to new customers for the same service - on August 11, 2015, the court authorized the motion to abandon the application to certify the action as a class action without an order for legal costs.

Concerning sub-section J on an application to certify a claim as a derivative claim in the matter of a Company transaction for acquisition of all the holdings and shareholders' loans of Eurocom DBS in DBS ("**the First Application**") - on April 2, 2015 an additional application was filed in the Tel Aviv District Court (Economics Department) ("**the Second Application**") to certify a derivative claim in the same matter by a private shareholder who owns 30 shares of the Company and a company under his full ownership that holds 1000 Company shares ("**the Applicants**"), against the Company and against Eurocom DBS and Shaul Elovitch (Chairman of the Company's Board of Directors and an indirect controlling shareholder of the Company and Eurocom), against members of the Company's Board of Directors who approved the transaction, against three other Company directors, as claimed, for their influence over the resolutions passed by the sub-committee of the Company's Board of Directors, and against Bank of America Merrill Lynch for its professional liability and alleged negligence in estimation of the purchase price ("**the Respondents**"). The Applicants request, inter alia, that the court approve the filing of a derivative claim in the Company's name, in which Eurocom DBS and Shaul Elovitch will be required to return a total of NIS 518 million, which in the opinion of the Applicants and their economic expert, constitutes the "unfair surplus consideration" paid for acquiring the outstanding shares of Eurocom DBS, to determine the liability of the respondent directors and the liability of the Bank of America Merrill Lynch for contracting in the transaction, and to obligate them to pay the entire amount up to a total of NIS 518 million which shall not be returned to the Company's coffers, as noted above, or alternatively to obligate all the Respondents for payment of NIS 477 million which is the price obtained, according to the Applicants, on the assumption of credit of only 70% of the value of the synergies in favor of DBS (instead of 100%). On June 25, 2015, the Court resolved to strike out the Second Application, further to the application that was submitted on this matter. Accordingly, the hearing on the First Application will proceed.

In August 2015, the Company received an application to certify as a class action an action that had been filed in the Tel Aviv District Court. The application, which was filed by a Company subscriber, alleges that the Company abused its monopoly position to price its services in a manner that restricts the ability of the Company's competitors to offer fixed-line telephony services at competitive prices. This includes by offering its customers special offers in which it charges a lower price for its fixed-line telephony services than the price charged only for internet infrastructure services, namely for an input which is critical to the activity of its competitors in the market that operate using VoB technology (on this, it should be noted that in November 2014, the Antitrust Authority issued a ruling whereby the Company abused its position as a monopoly and the Company appealed the ruling in the Antitrust Court - see Section 2.16.8 (g) in Chapter A of the 2014 reports and an update to that section in this report). The applicant argues that the loss caused to the public as a result of the foregoing is estimated by examining the difference between the existing price in the fixed-line telephony market and comparing it with the hypothetical price that would have prevailed in a market with sophisticated competition that in turn would have resulted in lower prices in the long term. Based on an economic opinion (which the applicant mentions but was not included in the documents received by the Company), the applicant estimates the amount of the class action at NIS 244 million. The applicant claims that the members of the class action group are all the customers of the fixed-line telephony services, irrespective of whether the services are provided by the Company or its competitors, including by VoB technology, from January 15, 2011 and up to the date of submittal of the application.

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

Section 3.1.5 A - Establishment of cellular networks using advanced technologies

On May 20, 2015, Pelephone paid NIS 96 million in license fees for the LTE frequencies tender and deposited a guarantee of NIS 80 million with the Ministry of Communications as required in the tender. On August 9, 2015, the Ministry of Communications informed Pelephone that as a direct outcome of its winning the tender for the allocation of 4G frequencies, Pelephone's license had been amended thus allowing it to provide LTE (4G) services, and that it was also allocated the dedicated frequencies it had been awarded as part of that tender. The amendment to the license includes: permission to operate 4G services, rules for network sharing among operators (based on the models specified in the amendment), and definitions for systemic performance and requirements (quality and cover) that the 4G network must comply with (based on a periodic classification).

Section 3.6.2 C - Infrastructure sharing

On March 29, 2015, the Minister of Communications announced that the infrastructure sharing agreements between Cellcom and Golan Telecom must be changed significantly before the Ministry of Communications will review the agreements in detail. As far as Pelephone is aware, the companies are studying the repercussions of the required changes and are taking action to apply these changes in order to obtain the Minister's approval of the agreements.

On April 20, 2015, Partner and Hot Mobile announced that the Minister of Communications had approved the network sharing agreement between them. To the best of Pelephone's knowledge, the cellular network shared by the companies will operate through a joint venture of these two companies ("**the Joint Venture**"). The Joint Venture's entire operation is subject to obtaining a communications license for the venture and to the allocation of frequency bands in the 1800 Mhz spectrum that Partner and Hot Mobile won as part of the 4G frequency tender.

On July 8, 2015, the Antitrust Commissioner's decision was received granting a conditional exemption from a restrictive arrangement to the Joint Venture between Pelephone and Cellcom for the maintenance of passive components on cellular sites owned by Pelephone and Cellcom, including the reduction of costs by sharing the passive network components on these sites (including antennae), and the construction and maintenance of the shared sites by means of a supplier ("**the External Contractor**") to be chosen jointly by Pelephone and Cellcom ("**the Agreement**"). The exemption was granted, inter alia, on condition that each of the companies may independently enter into an agreement with a third party for the provision of hosting services on sites owned by the company and sites owned by the other company. In addition, the exemption limits the companies with respect to the employment of a party who is an employee, consultant or officer with the External Contractor, and the transfer of information which is not required as part of the Agreement among the companies themselves and between the External Contractor and either of the companies. The exemption is in force for a period of 10 years.

On August 9, 2015, the Ministry of Communications informed Hot Mobile that its license had been amended to facilitate the rendering of advanced services based on the use of LTE technologies and the allocation of the relevant frequencies that it had won the right to use according to the results of the tender. Furthermore, the Ministry of Communications announced that both Hot Mobile and Partner may use the frequency bands allocated to each of them through the MOCN, and that the MCON is also entitled to operate the cell-based radio centers by means of these frequency bands. The Ministry of Communications also granted the joint venture a special license to provide cellular radio infrastructure services to the cellular telephony operators. The license is valid for 10 years.

Section 3.6.2 D - MVNO - Mobile Virtual Network Operator

On July 7, 2015, Pelephone signed an agreement to acquire the activity of Alon Cellular. The agreement is subject to regulatory approvals that have not yet been received.

According to information published in the media, in July 2015, Cellcom acquired the activity of Home Cellular, a virtual cellular communications network operator.

Section 3.9 – Human resources

On August 3, 2015, Pelephone received notice from the New General Federation of Labor ("Histradrut") - Cellular, Internet and Hi-tech Workers' Union, of a labor dispute in accordance with the Settlement of Labor Disputes Law, 1957 and a strike beginning on August 17, 2015 onwards ("**the Announcement**"). According to the Notice, the matters in dispute are unilateral decisions taken

by Pelephone, specifically Pelephone allegedly undertaking organizational or structural changes that have implications on the working conditions, as well as Pelephone expanding the areas and scope of outsourced work. The workers are demanding to negotiate these issues. Pelephone rejected these arguments in previous correspondence. There has been no change during the 14 day notice period required by law.

Section 3.12.3 - Credit rating

On April 21, 2015, Maalot affirmed a rating of iIAA/Stable for the Company and a rating of iIAA for Debentures (Series C) of Pelephone.

Section 3.15.3 – Site construction licensing

As part of a notice and application for a further extension by the State on July 15, 2015, the State announced, among other things, that on May 14, 2015, a new government had been formed in Israel and that it had resolved to transfer to the Minister of Finance most of the Minister of the Interior's powers under the Planning and Construction Law, including the authority to promulgate regulations under Section 266C of the Planning and Construction Law. The State also advised that on July 13, 2015, the Knesset plenum had approved the transfer of authority from the Minister of the Interior to the Minister of Finance. The State further argued that the Minister of Finance must be given reasonable time to study the issue of the promulgation of regulations under Section 266C of the Planning and Construction Law, and to formulate his opinion on the subject. Under these circumstances and to enable the Minister of Finance as well as the Ministers of Communications and Environmental Protection to study the subject which is the subject of the petitions and formulate their opinions, the State requested a further time extension to submit its revised notice until December 15, 2015. On July 19, 2015, HCJ granted the requested extension.

Section 3.17 – Legal proceedings

In May 2015, an action was filed against Pelephone in the Tel Aviv District Court together with an application for its certification as a class action, on grounds that Pelephone had discriminated against customers who contracted with it by not providing them with the lowest price that is offered for such services; and that it discriminated against its new customers over existing customers who were awarded monetary benefits for joining Pelephone. This was allegedly contrary to Pelephone's obligation, as provided in its license and by law, to refrain from discriminatory practices with respect to the prices of the services it offers. Notably, in 2013, a claim was filed against Pelephone on similar grounds, and such claim is still pending in court (see Section 3.17.1(E) in Chapter A of the 2014 Periodic Report). The applicant seeks for Pelephone to reimburse the members of the class group for the difference between the price they paid for the services and the lowest price customers such as themselves could have paid for the same services. Additionally, the applicant asked the court to require Pelephone to offer all customers identical terms and to display them in its various advertisements. The applicant estimates the action at millions of shekels and even more.

In May 2015, Pelephone received a financial claim together with an application for its certification as a class action, which was filed in the Tel Aviv District Court. The claim is based on the allegation that Pelephone violated a compromise settlement approved by the court as part of a ruling that was handed down on another class action that the same applicant had filed against Pelephone (see Section 3.17.2B in Chapter A of the 2014 Periodic Report). The subject of the alleged violation relates to the sale of earphones by Pelephone. The applicant estimates the amount of the application at NIS 410 million.

In August 2015, Pelephone received a claim together with an application for its certification as a class action that had been filed in the Central District Court against Pelephone and against two communications companies and a company operating in the insurance and finance industry. The main subject of the action is the allegation that one of the communications companies had made improper use of its database and that in contravention of the Protection of Privacy Law, 1981, it had transferred or sold information about its customers to the other respondents, Pelephone included. The claim against Pelephone can be summarized as the purchase or receipt of such information and its utilization for marketing purposes, in a manner that violates the provisions of the Communications Law with respect to the sending of unsolicited advertising material (spamming). The applicant does not specify the amount of the action against Pelephone.

4. Bezeq International – international communications, Internet and NEP services - (“Bezeq International”)

Section 4.13.2 D - NEP license

On July 23, 2015, the Ministry of Communications extended the NEP license that had been granted to Bezeq International, until July 31, 2020.

Section 4.13.4 - Key regulatory developments

On June 15, 2015, Bezeq International filed an application with the Ministry of Communications to obtain a uniform general license, pursuant to the provisions of the Communications (Telecommunications and Broadcasts) (Procedures and Conditions for Obtaining a Uniform General License), 2010.

5. Multi-channel television - DBS Satellite Services (1998) Ltd. (“DBS”)

As of June 24, 2015, DBS is a wholly owned subsidiary of the Company, further to the completion of the transaction between the Company and Eurocom DBS for the acquisition of Eurocom DBS's holdings in DBS. On this, see the above update to Section 1.1.2.

Section 5.15.3 - Institutional financing

In April-May 2015, DBS issued additional debentures (Series B), by way of an expansion of the series, in the total amount of NIS 228 million.

Section 5.19.1 - Pending legal proceedings

Sub-section A - An action in the matter of disconnecting customers from Channel 5+ and a motion for its certification as a class action - in May 2015, the parties filed a motion in the court to approve the compromise settlement whereby DBS will grant the members of the class action group a bonus and it will also pay compensation to the class plaintiff as well as lawyer's fees to his attorney. At the date of this report, the Attorney General's opinion on the compromise settlement had not been received and the court has not given its decision regarding approval of the compromise settlement.

Sub-section E - action in the matter of subtitles that accompany DBS television broadcasts and a motion for its certification as a class action - on June 30, 2015, the parties filed an agreed application for the applicant to abandon the action and the motion for certification. On July 7, 2015, a ruling was issued in which the court approved the application for abandonment.

In July 2015, a claim was filed against DBS in the Central District Court together with an application for its certification as a class action, concerning alleged discrimination against DBS customers who were not offered or were not given the best possible conditions or the lowest price for the services received from Yes; that it discriminated against its new customers over existing customers who were awarded special offers or a bonus for joining Yes; and an allegation of discrimination against new customers who are introduced by company employees, over other new customers. This was allegedly contrary to the obligation applicable to Yes, as provided in its license and by law, to refrain from discriminatory practices with respect to the prices of the services it offers. The applicant has asked that Yes should compensate members of the class action group with the financial difference between the price that each of them actually paid Yes for the services, and the lowest price they could have paid for the same services. Furthermore, the applicant asked the court to instruct Yes to offer and provide its services freely to any applicant under identical conditions and to display these conditions in its various advertisements. The applicant did not present the amount of the group claim due to a lack of data, although she estimates the scope of the loss as tens of millions of NIS.

August 30, 2015

Date

Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Shaul Elovitch, Chairman of the Board of Directors

Stella Handler, CEO