

March 26, 2018

Attn.

Mr. David Granot, Acting Chairman of the Board of Directors

All members of the Board of Directors

“Bezeq” The Israel Telecommunication Corp Limited (“The Company”)

Re: Comments on Notice of Convening an Annual and Special General Meeting

Further to previous correspondence of our institutional clients who together hold 6.5% of the Company’s shares (“Institutional Shareholders”), below are comments of the Institutional Shareholders to the report published by the Company on March 23, 2018 convening an Annual and Special General Meeting that will take place on April 26, 2018 (“The Notice” and “the Meeting”, respectively).

In the Notice there is a misleading description concerning the request of Institutional Shareholders, who in this matter represent the interest of the shareholding public in Israel. We straight away wish to clarify that the Institutional Shareholders do not wish to increase the Board in an exceptional manner beyond its present size.

The Notice describes two alternatives: The Company’s proposal to increase the Board from 9 directors to 13 directors, and another proposal that the Notice presents as derived from the proposal of Institutional Shareholders to increase the Board to 15 directors. **This is misleading since the Board has not yet internalized the change in the firm position of the Institutional Shareholders and their determination to act to improve the Company’s corporate governance.**

The entire interest of the Institutional Shareholders is to strengthen the Company’s Board with independent professionals in order to achieve an improvement in the corporate governance of the Company and Group companies through the appointment of external directors on their behalf.

Increasing the Board to 15 directors **is not derived** from the proposal of the Institutional Shareholders to appoint three new external directors. Approval of the proposal of the Institutional Shareholders will increase the Board from 9 to 12 directors only. It is the Company that is proposing increasing the Board, and it is in fact assuming that its proposal will receive support at the Meeting. Moreover, the Meeting is also likely not to renew the tenure of some of the existing directors who are not external.

One necessary solution to preserve the size of the Board is the dismissal or resignation of two external directors, Mr. Mordechai Keret and Mrs. Tali Simon (“the Two External Directors”) who currently are continuing their tenure in the Company. It is well known that the

support of the said External Directors, in their capacity as the Company's gatekeepers, had a material influence in the approval of interested party transactions in the Company in recent years and in the implementation of other actions for which there is considerable doubt whether they were carried out in the interests of the general shareholders.

To our surprise, even after members of the Board were investigated last year by the Securities Authority about transactions and actions and the Securities Authority recommended indicting senior members of the Company, and also following a better understanding today of the poor level of corporate governance that prevailed in the Company in previous years, a period when the Two External Directors were serving, the Board has not acted in recent months to terminate the tenure of these Two External Directors, in our opinion due to various considerations that perhaps are not in the interests of the Company and its shareholders. **We hereby request to bring to the attention of the Company's Board of Directors the desire of the Institutional Shareholders to terminate the tenure of the Two External Directors. To this end the Institutional Shareholders request that this matter be placed on the agenda of the Meeting** (in accordance with legal provisions in this respect). As you are aware, this letter is sent in parallel to a letter of some of the Institutional Shareholders directly requesting the termination of the tenure of the Two External Directors, which will result in the size of the Board, even following the appointment of 3 new external directors by the public, being only 10 directors.

On this matter it should be recalled that the requests of the Institutional Shareholders have been made in the interest of all the shareholders, derived inter alia from the Company's control structure and the fact that the general shareholders hold 73.6% of the Company's share capital, while the Company's (direct) controlling shareholder, B Communications Ltd, holds only 26.4%.

We demand that the Company publicize this letter as a position statement.

Yours sincerely,

Gal Staal, Chairman, Entropy Group

Mati Aharon, CEO, Entropy Corporate
Governance Consulting Ltd

Copies:

Representatives of Amitim, Old Pension
Arrangement Fund

Institutional Representatives of Meitav-Dash

Investment House Representatives of Clal Insurance
Company Ltd

Institutional Representatives of Menora Mivtachim
Group