August 3, 2016

Quarterly report for the period ended June 30, 2016

- Update to Chapter A (Description of Company Operations) of the Periodic Report for 2015
- Directors' report on the state of the Company's affairs for the period ended June 30, 2016
- Interim Financial Statements as at June 30, 2016

bezeq

Update to Chapter A
(Description of Company Operations)
of the Periodic Report for 2015

bezeq

Update to Chapter A (Description of Company Operations) [1] to the Periodic Report for 2015 ("Periodic Report") of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")

1. General development of the Group's business

Section 1.1.2 - Merger of the Company and DBS

Regarding the Purchase Transaction in which context the Company acquired from Eurocom DBS all its holdings in DBS - on March 21, 2016, the Company paid Eurocom DBS the first installment (of three) for the consideration which is contingent on the business results of DBS in the next three years.

Section 1.4 - Dividend distribution

For information about a dividend distribution in the amount of NIS 776 million in respect of profits from the second half of 2015 that was approved by a general meeting of the Company's shareholders on May 3, 2016, and a recommendation by the Board of Directors on August 3, 2016 in connection with a dividend distribution in the amount of NIS 665 million for profits in the first half of 2016, see Note 8.3 to the Company's Financial Statements for the period ended June 30, 2016.

Outstanding, distributable profits at the report date - NIS 677 million[2] (surpluses accumulated over the last two years, after subtracting previous distributions).

---

[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 2015 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 1.5.4 - Main results and operational data

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

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenues (NIS million)	1,100	1,112	1,088	1,101	1,105	1,113
Operating profit (NIS million)	540	536	427	512	662	547
Depreciation and amortization (NIS million)	185	183	185	184	180	176
EBITDA (Earnings before income taxes depreciation and amortization) (NIS million)(1)	725	719	612	696	842	723
Net profit (NIS million)	326	328	340	256	382	346
Cash flow from current activities (NIS million)	517	539	668	686	456	548
Payments for investments in property, plant & equipment and intangible assets (NIS million)	227	195	197	230	191	231
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	54	41	33	21	80	12
Free cash flow (NIS million) (2)	344	385	504	477	345	329
Number of active subscriber lines at the end of the period (in thousands)(3)	2,151	2,166	2,181	2,193	2,204	2,208
Average monthly revenue per line (NIS) (ARPL)(4)	58	59	60	60	60	61
Number of outgoing minutes (in millions)	1,257	1,316	1,379	1,373	1,396	1,459
Number of incoming minutes (in millions)	1,315	1,348	1,403	1,410	1,386	1,429
Number of active subscriber lines at the end of the period (in thousands)(7)	1,521	1,503	1,479	1,448	1,418	1,390
Number of active subscriber lines at the end of the period (in thousands) - wholesale(7)	323	290	244	177	78	11
Average monthly revenue per Internet subscriber (NIS) - retail	90	91	89	88	88	87
Average bundle speed per Internet subscriber (Mbps)(5)	40.2	38.9	37.8	36.7	34.9	33.2
Churn rate (6)	2.4%	2.9%	2.7%	2.6%	2.4%	2.4%

(1) EBITDA (Earnings before income 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.

B. Pelephone

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue from services (NIS million)	456	455	477	521	502	499
Revenue from sale of terminal equipment (NIS million)	202	216	236	208	219	228
Total revenue (NIS million)	658	671	713	729	721	727
Operating profit (NIS million)	8	1	11	61	53	32
Depreciation and amortization (NIS million)	95	104	100	109	106	104
EBITDA (Earnings before income taxes depreciation and amortization) (NIS million)(1)	103	105	111	170	159	136
Net profit (NIS million)	13	13	11	55	49	36
Cash flow from current activities (NIS million)	180	185	14	163	202	351
Payments for investments in property, plant and equipment and intangible assets (NIS million)	63	51	65	90	199	72
Free cash flow (NIS million) (1)	117	134	(51)	73	3	279
Number of subscribers at the end of the period (thousands) (2) (5)	2,260	2,692	2,651	2,569	2,566	2,565
Average monthly revenue per subscriber (NIS) (ARPU) (3)(6)	68	57	60	68	65	65
Churn rate (4)	6.2%	5.2%	6.7%	6.4%	6.1%	6.5%

(1) Regarding the definition of EBITDA (earnings before income taxes depreciation and amortization) and free cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber data includes 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.

(5) See Section 3.4 below on writing off the CDMA subscribers. In Q2 the number of Pelephone subscribers increased by 67,000, while in contrast Pelephone wrote off 499,000 CDMA subscribers as noted in Section 3.4.

(6) The effect of writing off the CDMA subscribers, as noted in Section 3.4, caused Pelephone's ARPU to increase by NIS 12 in Q2 2016.

C. Bezeq International

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenues (NIS million)	377	395	405	389	391	393
Operating profit (NIS million)	47	37	58	59	62	61
Depreciation and amortization (NIS million)	35	33	35	33	32	32
EBITDA (Earnings before income taxes depreciation and amortization) (NIS million)(1)	82	70	93	92	94	93
Net profit (NIS million)	33	26	42	41	45	44
Cash flow from current activities (NIS million)	69	49	96	69	74	62
Payments for investments in property, plant and equipment and intangible assets (NIS million) (2)	33	37	21	28	26	53
Free cash flow (NIS million) (1)	36	12	75	41	48	9
Churn rate (3)	4.5%	5.2%	4.6%	4.4%	4.2%	4.1%

(1) On the definition of EBITDA (earnings before income taxes depreciation and amortization) 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 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenues (NIS million)	434	439	449	446	439	440
Operating profit (NIS million)	77	57	47	74	70	59
Depreciation and amortization (NIS million)	74	76	88	78	80	76
EBITDA (Earnings before income taxes depreciation and amortization) (NIS million)(1)	151	133	135	152	150	135
Net profit (loss) (NIS million)	(114)	(71)	(110)	(75)	(166)	(3)
Cash flow from current activities (NIS million)	110	158	105	145	106	149
Payments for investments in property, plant and equipment and intangible assets (NIS million)	58	59	43	75	82	65
Free cash flow (NIS million) (1)	52	99	62	70	24	84
Number of subscribers (at the end of the period, in thousands) (2)	623	629	635	637	636	632
Average monthly revenues per subscriber (ARPU) (NIS)(3)	231	231	235	233	231	232
Churn rate (4)	3.6%	4.2%	3.5%	3.9%	3.1%	3.4%

(1) On the definition of EBITDA (earnings before income taxes depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber - a single household or small business customer. In the case of a business customer with multiple 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. The number of subscribers was corrected retrospectively due to an insignificant change in the counting of subscribers among large customers.

(3) Monthly ARPU is calculated by dividing total DBS revenues (from content and equipment, premium channels, advanced products, and other services) by the average number of customers. The average monthly revenue was corrected retrospectively due to an insignificant change in the counting of subscribers among large 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 1.7 - General environment and the influence of outside factors on the Group's activity

Section 1.7.3 - Regulatory oversight and changes in the regulatory environment - wholesale market

Subsection (C) - List of wholesale services and hearing regarding wholesale service files and their prices: further to the description of the petition filed by the Company in HCJ, further to the revised notice submitted by the State to HCJ on January 11, 2016 regarding a review of changes to be made on two issues, on April 4, 2016, the Ministry of Communications distributed a hearing (to the Company and the license holders) regarding a mechanism for reviewing and revising the forecast for demand for the purpose of updating the wholesale market tariffs for 2017 - 2018. On May 10, 2016, the Company submitted its comments on the hearing, whereby, among other things, the components to be examined for the purpose of updating the transfer tariffs should be limited and steps should be taken to guarantee the reliability of the data and prevent manipulation. Furthermore, on May 2, 2016, the Ministry distributed a hearing about revising the service level requirements and introducing a SLA (service level agreement) for the BSA and telephony service, which includes a proposed amendment to the service file on this matter, the purpose of which, according to the Ministry, is to determine that the same level of service should apply to the services in the file and to the retail, telephony and Internet infrastructure services. Furthermore, to ensure that the duty of providing equal service across the board and that a reasonable level of service are maintained in view of the increasing number of subscribers who will be using the Company’s infrastructures, the hearing proposes establishing a mechanism for reporting and submitting information. On June 14, 2016, the Company submitted its comments supporting the Ministry’s approach whereby “the service file should be amended to determine that the same level of service should apply to the services in the file and to the retail services” and consequently, the “service levels per subscriber” in the Company’s license should correspond with the present situation and generally accepted practice, as was stipulated in the past.

Subsection C(3) - Passive wholesale services (physical infrastructures and SLU) - in a letter dated July 6, 2016, the Ministry announced its decision to revise the arrangement in the licenses of the Company and HOT via an updated appendix to the physical infrastructures service file “implementation of security provisions concerning the Bezeq network”. The Company submitted its comments on the subject. A letter accompanying the aforementioned update noted that with the exception of this update “the regulations in the passive services file remain unchanged” and that the Company must implement it immediately without attaching any conditions to provision of the service to providers. On July 14, 2016, the Company stated that it has long been ready to provide a wholesale service for the use of its physical infrastructures in accordance with the service file, and that the regulations have already been applied in the service file. The Company reiterated that the Communications (Telecommunications and Broadcasts) (Use of a Domestic Carrier’s Public Network) Regulations, 2014, and the subsequent service file stipulate that the wholesale market services are designated exclusively for the fixed-line market and not for any other use of the Company’s physical infrastructures, which deviates from the service file and the regulations and that insofar as any changes are being considered in the regulations and the service file, a proper hearing procedure must take place. On this, see also the update to Section 1.7.4 (K) below.

Concerning the Company’s petition to HCJ on the subject of the wholesale market - on May 23, 2016, a ruling was given whereby the court found no legal cause for intervention and would therefore not grant the petition.

Regarding an administrative petition filed by the Company against the imposition of fines in the amount of NIS 8.5 million for implementation of the broadband reform - on May 18, 2016, a preliminary hearing on the petition was held and the case was scheduled for a hearing.

Section D - Cancellation of structural separation

Further to the information in Section 1.1.2 of the Periodic Report (and the amended transaction report dated March 12, 2015 which was included in that section by way of reference) - the Company is continuing to negotiate with the Ministry of Communications on the subject of the cancellation of structural separation.

Section 1.7.4 - Regulatory oversight and changes in the regulatory environment - additional topics

Subsection (D) - further to a description in the Ministry of Communications clarifying document dated October 31, 2013 concerning non-discrimination between subscribers, on April 21, 2016 the Ministry circulated a letter to license holders whereby it intends to examine the possibility of conducting a hearing on the issue of licensing provisions with respect to price discrimination between subscribers, given that the rules and regulations relating to such price discrimination for communications companies are not uniform (fixed line / mobile / telecom / broadcasting) and that consideration should be given to formulating a set of rules that would standardize the regulations for all relevant entities, in a manner that is also consistent with the changes and developments in the market. The letter also mentions that the professional opinion of the Antitrust Authority on this matter was recently accepted.

Addition of subsection J - transfer of powers relating to communications to Minister Tzachi Hanegbi

On July 18, 2016, the Knesset plenum approved the government's announcement in accordance with its powers under Section 31(B) of the Basic Law: The Government, to confer on Minister Tzachi Hanegbi the powers invested in the Minister of Communications whose execution is required in connection with matters pertaining to and/or that significantly affect the Company or one of its subsidiaries, including the exercising of powers in those areas in which the Company or one of its subsidiaries has a monopoly or competes exclusively (or almost exclusively) with another company, and including - the regulation of fixed-line infrastructure and fixed-line telephony and the regulation of multi-channel broadcasts.

Addition of subsection K - Draft resolution proposals as part of the government's Economic Plan for 2017-2018.

On July 31, 2016, the Ministry of Finance published, for public comment, a draft resolution proposal as part of the government's Economic Plan for 2017-2018. This is a preliminary stage of draft resolution proposals only, that were submitted for public comment and there is no certainty that all or part of the proposed resolutions will be approved, if at all. The draft includes a chapter on "Increasing competition in the communications market" which addresses various matters including the obligation of the holder of a general domestic carrier license to allow other domestic carrier license holders to access its passive infrastructure for any use; granting of an exemption from obtaining a building permit to domestic carrier license holders who wish to set up a public communications network including a telecommunications installation (in accordance with the conditions set out in the Building and Planning Law), and also cancellation of the prohibition on performing excavation, ploughing or planting works without a permit from the Minister of Communications or any person he has authorized, and extending the Minister of Communication's power to grant an infrastructure domestic carrier license, among others to an applicant that holds the means of control in which he is a license holder. The draft document also addresses various other matters aimed at increasing competition in multi-channel television, including choosing an operator for the "Idan Plus" broadcasting distribution system and various matters relating to the system, and it also mandates that sports channels and entities that broadcast sports content must grant permits relating to sports content and channels and sets their prices.

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

Section 2.2.5 - Other services

In addition to the "smart home" service that the Company provides, in August 2016 the Company launched the "smart city" service which includes a complete urban management system for a variety of urban services, the purpose of which is to improve service to residents while streamlining and saving municipal resources through the use of advanced technology. Among other things, the system is planned to include a command and control system, wireless surfing all over the city, security cameras as well as the management of various municipal services.

Section 2.6.5 B - Other potentially competing infrastructures

On June 21, 2016, a Ministry of Communications announcement was published whereby the Ministry granted permission to communications companies that have no fixed-line infrastructure (Cellcom and Partner) to compete for investment in IBC. To the best of the Company's knowledge, such authorization requires amendments to the law that have not yet been published (on this, see also the update to Section 1.7.4 (K) above). According to the announcement - Partner informed the Ministry of Communications that it intends to lay optical fibers. The Ministry of Communications welcomed this decision which is consistent with its policy to accelerate the distribution of advanced infrastructures, to encourage the distribution, assimilation and use of advanced technologies such as: 5G, IOT, multi-channel TV and other uses of broadband that are planned for 2020. According to the announcement, all these measures are designed to open the fixed-line market (in which the Company has a monopoly) to competition, with the emphasis on infrastructure upgrading.

Section 2.7.2 – Domestic fixed-line communications infrastructure and equipment

At the end of June 2016, a cable that was identified in one of the Company's underground communications pits near the Ministry of Defense's Kirya base in Tel Aviv, that does not belong to the Company and should not have been there, was disconnected by the Company. It is quite rare to find such invasive infrastructure, which could be a sign of a breach of security (mainly in connection with bugging and information leakage). When it emerged that this cable had been laid by Cellcom, which had unlawfully infiltrated and caused damage to the Company's installations, and following requests from the defense establishment, it was agreed that work to connect the cable would be approved and that no action would be taken with respect to this cable without prior coordination.

On July 1, 2016, Cellcom filed an application to the Tel Aviv Magistrates Court for temporary injunctions against the Company ex-parte, instructing the Company to refrain from disconnecting the cable both with respect to the pit adjacent to the Kirya and with respect to Cellcom infrastructure in other pits owned by the Company, until a ruling is given on a claim it intends to file. That same day, the court granted a temporary order ex-parte instructing the Company not to disconnect the infrastructure in the Kirya communications pit for 10 days, and it determined that a statement of claim will be filed in the case within 7 days. On July 8, 2016, after the Company submitted its position, the court handed down its decision that the temporary relief was no longer necessary following an agreement between the Company and defense entities in connection with this pit, and that it would be difficult to find a basis for issuing orders instructing the Company to act lawfully in relation to other communications pits.

Following this event, both the Company and Cellcom filed complaints with the police. Moreover, the Ministry of Communications and the Antitrust Authority both asked the Company for information about this event and the Company submitted such information.

Section 2.9.6 - Officers and senior management in the Company

On the Company's compensation policy – on May 3, 2016, a general meeting of the Company's shareholders approved the new compensation policy, which entered into force from that date for three years. On this matter, see also an immediate report dated May 4, 2016 about the results of a general meeting of the Company's shareholders on May 3, 2016 to which the new compensation policy was attached, included here by way of reference.

Section 2.11 – Working capital

For information about the Company's working capital, see Section 1.3 in the Directors Report.

At June 30, 2016, the Company has a working capital deficit of NIS 657 million (this figure refers to the Company's separate financial statements. In the Company's consolidated financial statements as at June 30, 2016, there is a working capital deficit in the amount of NIS 208 million).

Section 2.13 - Financing

On a shelf prospectus for the issuance of various Company securities that was published on May 29, 2014 - on May 11, 2016, the Israel Securities Authority granted permission to extend the period of the securities offering in accordance with the shelf prospectus until May 29, 2017.

Section 2.13.1 – Average and effective interest rates on loans, Section 2.13.4 - Credit received during the Reporting Period, and Section 2.13.5 - Company debentures

On April 21, 2016, the Company completed an issuance by way of an expansion of an existing series of marketable debentures (Series 9) in accordance with a shelf prospectus dated May 30, 2014, as amended due to a clerical error on June 5, 2014. Within the context of this issuance, a total of NIS 714,050,000 par value was issued in consideration of NIS 769 million. The conditions of the issued debentures are the same as those of the Series 9 debentures in circulation. On this, see also the Company's reports (shelf offering Report dated April 19, 2016 and the Company's announcement about the results of the issuance in accordance with a shelf offering report dated April 21, 2016), which are included in this report by way of reference, as well as Section 4 of the Directors Report and Note 14 to the Company's Financials for the period ended June 30, 2016.

On June 1, 2016, the Company repaid the last principal payment for Series 5 debentures thus securing final redemption of the debentures.

On June 1, 2016, credit was provided to the Company in the total amount of NIS 900 million, based on undertakings given by banks under conditions described in the 2015 Periodic Report.

The following is an up-to date table of the distribution of long-term loans (including current maturities), including information about the aforementioned issuance and credit:

Loan term	Source of financing	Principal amount (NIS million)	Currency or linkage	Type of interest and change mechanism	Average interest rate	Effective interest rate	Interest range in 2016
Long-term loans	Banks	1,317	Unlinked NIS	Variable, based on prime rate*	1.64%	1.65%	1.64%
	Banks	2,417	Unlinked NIS	Fixed	4.58%	4.63%	2.40%-6.85%
	Non-bank sources	734	Unlinked NIS	Variable, based on annual STL rate**	1.52%	1.58%	1.47%-1.58%
	Non-bank sources	2,217	Unlinked NIS	Fixed	4.53%	4.69%	3.11%-6.65%
	Non-bank sources	3,341	CPI-linked NIS	Fixed	2.49%	2.54%	2.20%-5.30%

* Prime interest rate as at August 2016 – 1.6%.

** YSTL yield per year (517) – 0.124% (average for the last 5 days of trading in May 2016) for the interest period commencing June 1, 2016.

Section 2.13.6 - Credit rating

In connection with an issuance made by the Company in April 2016 (see update to Section 2.13.4) - on April 17, 2016, Standard & Poor's Maalot Ltd. affirmed the ilAA[3] rating (no change from the previous rating) for an issue of the Company's debentures up to an amount of NIS 800 million par value by means of an expansion of Series 9 Debentures. Additionally, on the same day, Midroog Ltd. announced a rating of Aa2.il outlook stable (no change from the previous rating) for debentures issued by the Company in the amount of NIS 800 million par value by means of an expansion of Series 9 Debentures. On this, see two immediate reports published by the Company on April 17, 2016 and April 18, 2016, which are included in this report by way of reference.

On April 25, 2016, Standard & Poor's Maalot Ltd. affirmed a rating of ilAA/Stable for the Company and its debentures (Series 5-10) and for Pelephone, as detailed in the full rating report published in an Immediate Report issued by the Company on April 25, 2016, which is included here by way of reference.

On June 2, 2016, Midroog Ltd. reaffirmed the Aa2.il rating for the Company's debentures (Series 6-10), as detailed in the full rating report published by the Company in an Immediate Report on June 2, 2016 and in a supplementary Immediate Report on July 12, 2016, which are included here by way of reference.

On this, see also Section 4 of the Directors Report.

Section 2.14 - Taxation

For information about taxation, see Note 5 to the Company's Financial Statements for the period ended June 30, 2016.

Section 2.17.4 - Employment agreements

Subsection (E) - on an agreement between the Company and Menorah Mivtachim Insurance Ltd. (**"Menorah"**) relating to arrangements for pension payments - the Commissioner of Insurance approved the policy and it entered into force on March 31, 2016. Accordingly, as of May 1, 2016, Menorah issued policies for retiring employees, and payment of the annuities and related payments is made on the basis of these policies.

Section 2.17.5 - Management agreement:

On June 30, 2016, the general meeting of the Company's shareholders approved the extension of an agreement between the Company and Eurocom Communications Ltd. to provide the Company with on-going management and consulting services for a three-year period commencing June 1, 2016, in consideration of a total of NIS 6,432 million per annum. For additional information, see an Immediate

[3] Company rating ilAA/Stable.

Report dated May 26, 2016 (Convening of a Special General Meeting), which is included in this report by way of reference.

Section 2.18 – Legal proceedings

Subsection (A) on an action together with an application for its certification as a class action from February 2012 on the subject of the accessibility of handsets and services to the disabled public - in April 2016 a compromise settlement in this case was validated as a court ruling thus concluding the proceeding. On this, see also the update to Section 3.17b.

Subsection G concerning two actions together with applications for their certification as class actions, from November 2015 (**"the Preliminary Application"**) and March 2016 (**"the Later Application"**), regarding allegations of preventing competition in the communications market and delaying the implementation of the wholesale market - in May 2016, the Later Application, which discusses the same matter as the Preliminary Application, was struck out. Subsequently, and for the court's approval, the Plaintiff in the Preliminary Application filed an amended application for certification of a class action on the same matter.

Mobile radio-telephone – Pelephone Communications Ltd. ("Pelephone")

Section 3.4 - Trade receivables

In addition to the ongoing write-off of subscribers based on measurement methods, in the second quarter Pelephone implemented a one-time write-off of 499,000 subscribers on the CDMA network who have not made use of outgoing calls / Internet browsing in the last six months, (of which 455,000 are prepaid subscribers and 44,000 are postpaid subscribers). This write-off is further to a series of actions taken by Pelephone to reduce the volume of traffic on this network, including, inter alia, contacting the CDMA subscribers and offering them specific marketing packages to replace the handsets in their possession and replace their car extensions (activity that will also be required for the Accountant General's customers, see Section 3.16 below).

Section 3.6 - Competition

On May 19, 2016, the Ministry of Communications announced its decision to reject the merger request submitted by Golan Telecom and Cellcom in view of the concern that competition in the cellular sector would be affected.

In June 2016, Pelephone decided not to implement the cooperation agreement that it had signed with Cellcom on September 21, 2014, for the maintenance of passive components on cellular sites (through the services of an external contractor who was due to have been selected). Pelephone decided to deal with this issue internally, by means of processes to be carried out by its own employees.

According to an announcement by Hot Mobile, on June 8, 2016, HOT Mobile and Golan Telecom signed an agreement whereby Golan Telecom will be hosted non-exclusively on the cellular network that also serves HOT Mobile. The agreement is subject to regulatory approvals.

According to an announcement by Cellcom, on July 12, 2016, Cellcom and Marathon 018 signed a 4G network sharing agreement on the active radio segment and to provide hosting services in relation to its 2G and 3G networks. Insofar as this agreement is approved, it will increase the number of operators that own infrastructure to six.

Section 3.7 - Property, plant and equipment, and facilities

On March 21, 2016, Pelephone reported that on that morning a fire broke out in Pelephone's switching farm in Kiryat Aryeh in Petach Tikva. The fire caused disruption to surfing and to incoming and outgoing calls for a large number of Pelephone subscribers, including customers of the companies hosted on its network. Pelephone took action on the very same day to transfer these subscribers to a different switch. In the evening of March 27, 2016, Pelephone reported to the Company that work to repair the support system in the switching facility at which the fire had taken place, had been successfully completed and the facility was now fully up and running.

Section 3.15 - Restrictions on and control of Pelephone's operations

In June 2016, the Ministry of Communications announced that it intends, in the near future, to distribute a hearing to discuss a change of policy relating to payment for call completion and SMS completion on the cellular and domestic carrier networks.

Section 3.16 – Significant agreements

On July 14, 2016, a new online tender was conducted by the Ministry of Finance Accountant General for the provision of cellular services to state employees (**"the Tender"**). Pelephone, which, further to winning previous tenders, has provided cellular services to the government and state employees for several years, participated in this Tender as well which it won after being ranked in first place. Pelephone will therefore continue to be the main provider of cellular services to state employees.

Under the terms of the Tender, Pelephone will provide cellular services to an estimated 100,000 subscribers in the civil service over a period of three years (with an option for extension by the state for a total of 45 months beyond the basic 36 months). Pelephone will also provide terminal equipment in the amount of about 10,000 handsets.

The award of this additional tender to Pelephone is expected to continue to generate significant income for Pelephone throughout the period of the agreement. Nevertheless, due to lower prices at the reverse bidding stage as well as the Accountant General's decision to hold separate tenders from time to time for the purchase of terminal equipment over and above the 10,000 handsets that were included in the Tender (a component that was included in its entirety in the previous tender), Pelephone's income and resulting profit are expected to be significantly lower than the revenues and profit from the previous tender.

The above-mentioned forecasts are forward-looking information, as defined in the Securities Law, 1968. The forecasts are based on Pelephone's estimates, assumptions and expectations that might not materialize and/or may materialize in a manner that differs from the foregoing.

Section 3.17 – Legal proceedings

A. Information on additional claims

On March 23, 2016, Pelephone received a claim and an application for its recognition as a class action, which was filed in the Tel Aviv-Jaffa District Court. The plaintiff argues that due to the broadband malfunction on Pelephone's network on March 21, 2016, as a result of a fire in one of its installations, Pelephone customers were unable (whether fully or partially) to receive the services they are entitled to, including making and receiving calls, text messages and cellular surfing. The plaintiff has asked for a monetary refund and compensation for all Pelephone customers who suffered from the malfunction and for compensation for the loss of income for Pelephone customers who require the services in order to conduct their business. The amount of compensation requested per customer is a refund of the proportional amount paid by the customer for each day of the malfunction, plus NIS 10 per private customer and NIS 1,010 per business customer.[4]

On June 13, 2016, Pelephone received a claim and an application for its recognition as a class action, which was filed in the Jerusalem District Court. The Plaintiff argues that Pelephone enrolls its customers without their knowledge and without having asked to do so, in the Smart Call service that blocks incoming marketing calls from various marketing centers, including from the call centers of Pelephone's competitors. Pelephone therefore violates competition and the ability of its customers to move to a competing company, thus enriching itself unlawfully. The Plaintiff estimates the total amount of the claim at NIS 200 million.

B. Information on terminated claims

Section 3.17.1B - on a claim and application for its certification as a class action from February 2012 that was filed in the Jerusalem District Court against Pelephone, the Company, Cellcom and Partner - in April 2016, the court approved the compromise settlement between the parties to drop the suit in return for implementing a series of accessibility adjustments and benefits for

---

4 Notably, after this claim was filed, Pelephone received two other applications for certification as class actions in connection with the same event where a motion had been filed to strike them out under Section 7 of the Class Actions Law, 2006.

people with disabilities. In addition, the group of defendants will credit the plaintiffs with insignificant amounts. On this, see also the update to Section 2.18.

Section 3.17.1 D - on a claim and application for its certification as a class action from August 2012 that was filed in the Central Region District Court against Pelephone, Cellcom and Partner- in May 2016, the court approved the agreements reached by the parties whereby the application will be struck out and Pelephone will change its practices relating to the acceptance of handsets and parts for repair.

3. Bezeq International – international communications, Internet and NEP services - ("Bezeq International")

Section 4.15 – Legal proceedings

In June 2016, a claim was filed in the Jerusalem District Court against Bezeq International together with a motion for its certification as a class action. The subject of the action is the allegation that Bezeq International misleads its customers by selling them surfing packages with speeds of 100 MB, whereas the actual speed provided to customers is tens of percent lower The Plaintiff estimates the amount of the class action at NIS 187 million.

4. DBS - Multi-channel television Satellite Services (1998) Ltd. ("DBS")

Section 5.1 - General information about this area of activity

Section 5.1.2 - in June 2016, the Filber Committee published its conclusions and recommendations on the regulation of the broadcasting market. The main points are:

A. Definition of content providers for subscribers

The Committee recommends defining audiovisual content providers as follows: (a) small provider - has a market share greater than 10% of market revenues; (b) small, stable provider - has a market share greater than 10% of the revenues for 3 consecutive years; (c) substantial provider - has a market share greater than 20% of revenues. (DBS is a substantial provider).

"Narrow regulations" will apply to small providers by virtue of the license they receive (including obligations to mark and classify content, provide accessibility for the disabled, protect children, regulation of marketing content, cross ownership and regulations for news broadcasting, if they choose to broadcast news). Small providers will also be allowed to choose as a source of funding either advertisements (under regulations to be defined on the basis of existing rules on this subject) or subscription fees. Small, stable providers and substantial providers will be subject to "narrow regulations" as well as "broad regulations" that include obligations to invest in and show original Israeli productions.

B. Original productions:

The Committee recommends a gradual reduction whereby the total investment obligation of substantial providers (HOT and DBS) with respect to original productions will decrease gradually from 8% to 6.5% in 2021, whereas the investment in quality productions will increase from 4% to 5% of the provider's revenues.

C. Regulation of must-sell requirements and competition in the content sector

1. The Committee recommends imposing a must-sell obligation to sell a sports channel to licensed content providers, and a must-sell obligation to sell sports programs to sports channels. The programs will be offered for sale by the channel purchasing the broadcasting rights, according to the average cost+ per subscriber model. The complete channels will be offered for sale at an average price per subscriber to be determined by the channel's owner and collected equally based on the total number of subscribers of all the providers. An obligation will be imposed on independent channels receiving funding for original productions and on sports channels to receive "approval for broadcasting in Israel," which will include an obligation to sell sports broadcasts as detailed below, as well as a "special license" appendix giving them the right to switch between broadcasting platforms against payment of a channel transfer fee.
2. The transfer fee for channels on the cable network will be updated by the Minister by January 1, 2017. This decision will also apply to DBS.

3. Regarding independent channels, the Commission adopts the recommendation of the "Eyal Committee" for distributing the ownership of rights in purchased original productions or independent productions according to the principles set out in the Report. Additionally, at the end of the first three years after the initial broadcasting of a work, the independent channels receiving original production funding will be subject to a must-sell requirement, to enable additional broadcasting of the original productions they produced on behalf of the substantial providers. The selling price will be determined by the independent channels, and its reasonableness will be examined over time by the Minister and the Council.

4. The Committee further recommends applying to the Antitrust Authority to grant general permission for cooperation between the owners of the independent channels in marketing and billing so as to enable the supply of joint content packages to subscribers.

D. <u>Cancellation of the Standard package and the New Basic Package</u>

It is proposed that the Standard Package which HOT and DBS are currently obligated to provide, should be cancelled. It is further proposed that on February 22, 2017, when the Minister’s decision regarding the Basic Package expires, an upgraded package will be offered, called the "core-package," to include – apart from the mandatory channels which the license holders are required to transmit to subscribers by law – a sports channel and a children's channel that will be produced in Israel. Furthermore, 75% of the original productions will be available to all core-package subscribers on VOD, which will be provided equally to all subscribers to the core-package. The price of the core-package will be set by the substantial providers such that its current price will serve as an upper price limit and its reasonableness will be examined by the Minister and the professional entities. If the price is found to be unreasonable, the Minister will set the binding maximum price.

E. <u>Leveling the playing field: de-regulation</u>

The Committee is of the opinion that the regulator must conduct a comprehensive review of the existing consumer regulations, with a view to narrowing its focus, to the extent possible, in terms of essential consumer issues related to its sphere of authority, to the market structure and competition in the market and to companies operating in the sector and the services they provide. The Committee further recommends that where possible, the specific regulations applying to broadcasting be replaced ex-ante with general rules established for providers and with non-intervention in specific matters.

F. <u>Regulatory requirements for a commercial license holder</u>

1. It is proposed to simplify the regulatory regime so that anyone broadcasting a channel that is funded by advertisements, including a license holder for cable broadcasts that broadcasts a dedicated channel, will be granted a commercial license.

2. In order to help out new commercial license holders who have still not consolidated their competitive and economic position in the market, it is proposed to grant industry protections to a "new commercial license holder," who achieved more than three years earlier a market share of at least 10% of total revenues from advertisements in the market of commercial license holders, and to an "established commercial license holder," who achieved a market share of at least 15% of revenues from advertisements, and to subject them to narrow regulation with no obligation to invest in original productions.

3. “Ordinary commercial license holders” who achieved a market share of at least 20% of total revenues from advertisements will be subject to broad regulations that include an obligation to invest in original Israeli productions as well as an obligation to broadcast news, including a minimum expenditure on news broadcasts. All license holders will be subject to regulation regarding cross ownerships and regarding news broadcasts.

4. The Committee also recommends reducing the amount that commercial license holders are required to invest in making local quality productions (starting from 2019) and in purchased local productions, as well as gradually reducing the obligation to invest minimum amounts in news broadcasts.

G. Marketing content

The Committee recommends that the Minister should adopt the principles prescribed in its interim recommendations (as noted in Section 5.1.2 of the annual report) and to authorize the Council of the Consolidated Authority to set rules for this regulation.

Regarding some of the recommendations, including the recommendations relating to regulation of competition in the content sector and to the Basic Package, the Committee recommends establishing a dedicated professional team consisting of representatives of the Ministry of Communications, the Council and representatives of the Budget Department, to submit specific recommendations for implementation to the Minister of Communications, after hearing the relevant entities, by November 1, 2016.

DBS is still studying the Committee's recommendations and conclusions and neither DBS nor the Company is able, at this stage, to assess the scope and extent of the effect of the recommendations on their business, should they be adopted and depending on their final form and manner of adoption.

Section 5.9.2 - Terminal equipment

In April 2016, DBS entered into a framework agreement with Draco Ltd. (supplier of decoders) and Altech (manufacturer of decoders) for the development and supply of advanced HDPVR decoders. DBS might be dependent on these entities.[5]

Section 5.15.5 - S&P Maalot ratings for DBS and its debentures

In July 2016, S&P affirmed the "ilAA" rating of DBS, with a stable outlook. The announcement mentioned that any change in the Company's rating will affect the rating of DBS.

Section 5.16 - Taxation

DBS submitted its objection to the tax assessments for 2010-2011 that it received in December 2015, and it received an extension to submit a detailed objection with respect to these tax assessments until September 2016.

Section 5.17 - Restrictions on and supervision of the company

Section 5.17.3 - Pursuant to the Hearing Document published by the Council, in March 2016, the Council passed a resolution on the policy of special offers and the application of transparency instructions which entered into force in July 2016, the main points of which are as follows:

1. Each primary deal (a deal including the broad basic package, the narrow basic package or any other basic package that will be offered in the future) will be priced for a defined and fixed period of 4 to 18 months only (**"the First Price Period"**) during which no price increase will be allowed.
2. Notwithstanding the foregoing, it will be possible to grant an additional discount during the first four months of the First Price Period.
3. It will not be possible to cancel a special deal during the First Price Period, unless permitted by law.
4. It will be possible to agree in advance with a subscriber on the price that will apply after the First Price Period, subject to the following conditions: (a) The continuation prices must be set out in the rules and regulations of the special deal for which the subscriber signed up; (b) DBS may adjust the continuation prices only for linkage to the CPI, where this has been specified in the rules and regulations of the special deal; (c) DBS must provide the subscriber with written notice during the period of notification specified in Section 13A of the Consumer Protection Law and

---

[5] Replacing one manufacturer with another does not, of itself, involve additional material costs, however a substantial preparatory period is required to adapt the decoders of the alternative supplier to the broadcasting and distribution systems of DBS (which is also dependent on the supplier of these services, Cisco, as noted in Section 5.9.4 of the Periodic Report), which could, in the event of the termination of the engagement at short notice, cause DBS to lose revenues.

will give notice by invoice and by text message as set out in the Consumer Protection Law (d) following the expiration of the First Price Period DBS may terminate the special deal in a notice provided at least 30 days in advance.

5. All primary deals must be publicized on the website (excluding special retention offers). It is not mandatory to publish bonuses and compensation offers (the Council has authorized the Chairman of the Council to reach agreements also on publication to people who do not subscribe to Internet services).
6. The customer service centers must offer subscribers the best deals that are relevant to them.
7. The provisions of the decision will not apply at this stage to business customers and with respect to economies of scale, including kibbutzim, workers' committees and the like.
8. The Council does not intend to prevent differentiation between special deals targeting new customers and those targeting existing customers.
9. A preparatory period of three months has been set, which the Chairman of the Council has been authorized to extend if she considers this necessary. This period was not extended.

Section 5.18.1 - Space segment leasing agreement:

In June 2016, during the course of a routine, periodic maneuver of the Amos 2 satellite, the channels broadcast to DBS customers were shut down for about two hours, during which time DBS transferred the broadcasts to the Amos 3 satellite. When the normal function of the Amos 2 satellite was restored, the broadcasts were returned to it and DBS resumed normal, ongoing operation to its subscribers.

Section 5.19.1 - Pending legal proceedings

In April 2016, a claim was filed against DBS in the Tel Aviv District Court together with a motion to certify it as a class action. According to the plaintiffs, who are DBS subscribers, the condition included in the agreement between DBS and its customers, which allows a subscription to be put on hold for a limited period thus avoiding the payment of a subscription fee for this period, and provided that the freeze is for a period of at least 30 days (**"the Condition"**) is a discriminatory condition and is unreasonable in a standard contract. Furthermore, the plaintiffs contend that DBS allows customers to have their subscription frozen for shorter periods if they make the request by phone - which the plaintiffs argue misleads consumers and is unfair conduct and, among other things, is in breach of the provisions of the Contracts Law, the consumer protection laws and constitutes unjust enrichment.

The plaintiffs have asked the court to order the cancellation of the Condition of the agreement and alternatively to determine that DBS's conduct as described above is misleading and not in good faith. The court is also asked to instruct DBS to compensate the subscribers who are members of the group in the total amount of NIS 736 million for the periods in which they ostensibly did not utilize its services but they were deprived of their right to freeze their subscription, as claimed, in view of the aforementioned condition.

Section 5.19.1 A (application to approve a class action relating to Channel 5+ broadcasts) - in June 2016, the court recommended that further changes be made in the compromise settlement, which insofar as they are accepted by the parties, an amended compromise settlement must be submitted to the court.

August 3, 2016	
Date	Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Shaul Elovitch, Chairman of the Board of Directors

Stella Handler, CEO

Bezeq - The Israel Telecommunication Corp. Ltd.

Board of Directors' Report on the State of the Company's Affairs for the Period Ended June 30, 2016

We hereby present the Board of Directors' report on the state of affairs of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group"), for the six months ended June 30, 2016 ("the Six Month Period") and the three months then ended ("the Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2015 is also available to the reader.

On March 23, 2015, the Company assumed control of DBS Satellite Services (1998) Ltd.

("DBS") and has consolidated DBS from that date ("DBS's Consolidation").

For more information, see Note 4.2 to the financial statements.

In its financial statements, the Group reports on four main operating segments:

1. **Domestic Fixed-Line Communications**
2. **Cellular Communications**
3. **International Communications, Internet and NEP Services**
4. **Multi-Channel Television**

It is noted that the Company's financial statements also include an "Others" segment, which comprises mainly online content and commerce services (through "Walla") and contracted call center services (through "Bezeq Online"). The "Others" segment is immaterial at the Group level.

The Group's results were as follows:

	1-6.2016	1-6.2015	Increase (decrease)		4-6.2016	4-6.2015	Increase (decrease)	
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%
Profit	**665**	945	(280)	(29.6)	**377**	482	(105)	(21.8)
EBITDA (operating profit before depreciation and amortization)	**2,079**	2,198	(119)	(5.4)	**1,056**	1,245	(189)	(15.2)

The statement of income and statement of cash flows for the reporting period and the Quarter include the results of Multi-Channel Television operations. The statement of income and statement of cash flows for the six months ended June 30, 2015, include the results of DBS's operations for the three month period ended March 31, 2015, accounted for as per the equity method.

The results of the reporting period and Quarter, compared to the corresponding period and quarter last year, were mainly affected by lower operating profits in the Domestic Fixed-Line Communications segment due to a reduction in capital gains on real estate sales, and in the Cellular Communications segment.

Profit in the reporting period, as compared to the same period last year, was also affected by higher taxes resulting from the reduction in the corporate income tax rate applicable to deferred tax assets, an increase in net finance expenses as detailed below, and DBS's Consolidation at the end of first quarter of 2015.

1. The Board of Directors' explanations on the state of the Company's affairs, the results of its operations, equity, cash flows, and additional matters

1.1 Financial position

	Jun. 30, 2016	Jun. 30, 2015	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Cash and current investments	**2,250**	1,825	425	23.3	The increase was attributable to the Domestic Fixed-Line Communications segment, including the receipt of loans and the issue of debentures. This increase was partially offset by a decrease in the Cellular Communications and Multi-Channel Television segments.
Current trade and other receivables	**2,263**	2,478	(215)	(8.7)	The decrease was due to a reduction in trade receivables in the Cellular Communications segment, mainly due to lower revenues from services and a decrease in trade receivables in the other Group segments.
Inventory	**109**	96	13	13.5	
Non-current trade and other receivables	**647**	655	(8)	(1.2)	
Property, plant and equipment	**6,872**	6,980	(108)	(1.5)	
Intangible assets	**3,195**	3,468*	(273)	(7.9)	The decrease was mainly due to write-downs of excess acquisition costs attributed to intangible assets upon assuming control of DBS. The decrease was further attributable to lower balances in the Domestic Fixed-Line Communications and Cellular Communications segments.
Deferred tax assets	**1,099**	1,194*	(95)	(8.0)	The decrease in tax assets was mainly a result of the reduction in the corporate tax rate from 26.5% to 25% on January 1, 2016.
Other non-current assets	**852**	853	(1)	(0.1)	
Total assets	**17,287**	17,549	(262)	(1.5)	

1.1 Financial Position (Contd.)

	Jun. 30, 2016	Jun. 30, 2015	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Debt to financial institutions and debenture holders	**11,504**	11,368	136	1.2	The increase was due to net debenture issuance and receipt of loans in the Domestic Fixed-Line Communications segment, which was mostly offset by debenture repayments in the Multi-Channel Television segment.
Trade and other payables	**1,576**	1,786	(210)	(11.8)	The decrease was reported across all Group segments.
Liabilities towards Eurocom D.B.S. Ltd.	**208**	217*	(9)	(4.1)	
Other liabilities	**1,700**	1,598	102	6.4	The increase was mainly due to employee benefit liabilities in the Domestic Fixed-Line Communications segment.
Total liabilities	**14,988**	14,969	19	0.1	
Total equity	**2,299**	2,580	(281)	(10.9)	Equity comprises 13.3% of the balance sheet total, as compared to 14.7% of the balance sheet total as of June 30, 2015.

* Re-stated, see Note 4.2.1 concerning a business combination made in the previous year.

1.2 Results of operations

1.2.1 Highlights

	1-6.2016 NIS millions	1-6.2015 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	4-6.2016 NIS millions	4-6.2015 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Revenues	**5,070**	4,777	293	6.1	**2,511**	2,603	(92)	(3.5)	The increase in the reporting period was due to the consolidation of DBS. In contrast, revenues in the reporting period and Quarter were down across Group segments, mainly in the Cellular Communications segment.
Depreciation and amortization	**889**	768	121	15.8	**440**	451	(11)	(2.4)	The increase in the reporting period was due to the consolidation of DBS and the amortization of excess costs incurred when assuming control.
Labor costs	**1,008**	936	72	7.7	**495**	497	(2)	(0.4)	The increase in the reporting period was mainly due to the consolidation of DBS.
General and operating expenses	**1,990**	1,801	189	10.5	**972**	1,002	(30)	(3.0)	The increase in the reporting period was due to the consolidation of DBS. In contrast, expenses for other Group segments were down in the reporting period and Quarter.
Other operating income, net	**7**	158	(151)	(95.6)	**12**	141	(129)	(91.5)	The decrease in net income was mainly due to a decrease in capital gains from real estate sales in the Domestic Fixed-Line Communications segment.
Operating profit	**1,190**	1,430	(240)	(16.8)	**616**	794	(178)	(22.4)	
Finance expenses, net	**207**	166	41	24.7	**105**	129	(24)	(18.6)	The increase in net expenses in the reporting period was mainly due to greater expenses in the Domestic Fixed-Line Communications segment and finance income on shareholders' loans given to DBS to the amount of NIS 21 million, recognized in the corresponding period but not included since April 1, 2015, following the merger. The decrease in net expenses in the Quarter was attributable to the Multi-Channel Television segment.
Share in the gains (losses) of investees	**(2)**	16	(18)	-	**(1)**	-	(1)	-	The corresponding period included the effect of DBS's results in the first quarter of 2015.
Income tax	**316**	335	(19)	(5.7)	**133**	183	(50)	(27.3)	Following the decrease in the corporate tax rate, from 26.5% to 25%, applicable from January 1, 2016, the Group decreased its tax assets and liabilities for deferred taxes and recognized deferred tax expenses of NIS 64 million in the first quarter of 2016 (see Note 5 to the financial statements).
Profit for the period	**665**	945	(280)	(29.6)	**377**	482	(105)	(21.8)	

1.2.2 Operating segments

A Revenue and operating profit data, presented by the Group's operating segments:

	1-6.2016		1-6.2015		4-6.2016		4-6.2015	
	NIS millions	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**
Revenues by operating segment								
Domestic Fixed-Line Communications	**2,212**	**43.6**	2,218	46.4	**1,100**	**43.8**	1,105	42.4
Cellular Communications	**1,329**	**26.2**	1,448	30.3	**658**	**26.2**	721	27.7
International Communications, Internet and NEP Services	**772**	**15.2**	784	16.4	**377**	**15.0**	391	15.0
Multi-Channel Television	**873**	**17.2**	879	18.4	**434**	**17.3**	439	16.9
Other and offsets	**(116)**	**(2.2)**	(552)*	(11.5)	**(58)**	**(2.3)**	(53)	(2.0)
Total	**5,070**	**100**	4,777	100	**2,511**	**100**	2,603	100

	1-6.2016		1-6.2015		4-6.2016		4-6.2015	
	NIS millions	**% of segment revenues**	**NIS millions**	**% of segment revenues**	**NIS millions**	**% of segment revenues**	**NIS millions**	**% of segment revenues**
Operating profit by segment								
Domestic Fixed-Line Communications	**1,076**	**48.6**	1,209	54.5	**540**	**49.1**	662	59.9
Cellular Communications	**9**	**0.7**	85	5.9	**8**	**1.2**	53	7.4
International Communications, Internet and NEP Services	**84**	**10.9**	122	15.6	**47**	**12.5**	62	15.9
Multi-Channel Television	**134**	**15.3**	129	14.7	**77**	**17.7**	70	15.9
Other and offsets	**(113)**	**-**	(115)*	-	**(56)**	**-**	(53)	-
Consolidated operating profit/ % of Group revenues	**1,190**	**23.5**	1,430	29.9	**616**	**24.5**	794	30.5

(*) Including offsets for the Multi-Channel Television segment, whose results were included as per the equity method in the first quarter of 2015.

1.2.2. Operating segments (contd.)

B Domestic Fixed-Line Communications Segment

	1-6.2016 NIS millions	1-6.2015 NIS millions	Increase (decrease) NIS millions	Increase (decrease) NIS millions	4-6.2016 NIS millions	4-6.2015 NIS millions	Increase (decrease) NIS millions	%	Explanation
Fixed-line telephony	**758**	799	(41)	(5.1)	**374**	396	(22)	(5.6)	The decrease was due to lower average revenue per phone line and a decrease in the number of lines.
Internet - infrastructure	**792**	770	22	2.8	**398**	387	11	2.8	The increase was mainly due to growth in the number of Internet subscribers through the wholesale service and higher ARPU (retail), offset by a decline in the number of retail Internet subscribers.
Transmission, data communications and others	**662**	649	13	2.0	**328**	322	6	1.9	
Total revenues	**2,212**	2,218	(6)	(0.3)	**1,100**	1,105	(5)	(0.5)	
Depreciation and amortization	**368**	356	12	3.4	**185**	180	5	2.8	
Salaries	**447**	453	(6)	(1.3)	**217**	226	(9)	(4.0)	
General and operating expenses	**342**	356	(14)	(3.9)	**170**	176	(6)	(3.4)	The decrease was mainly due to a reduction in advertising costs and interconnect fees to telecom operators.
Other operating income, net	**21**	156	(135)	(86.5)	**12**	139	(127)	(91.4)	The decrease in net income was mainly due to lower capital gains from real estate sales.
Operating profit	**1,076**	1,209	(133)	(11.0)	**540**	662	(122)	(18.4)	
Finance expenses, net	**206**	175	31	17.7	**105**	100	5	5.0	The increase in net expenses was mainly due to recognition of finance expenses on the fair value of future long-term bank credit (as opposed to finance income recognized in the corresponding period and quarter). The increase was partially offset, mainly by lower interest expenses following loan and debenture repayments, and a reduction in linkage difference expenses.
Taxes on income	**216**	306	(90)	(29.4)	**109**	180	(71)	(39.4)	The decrease was mainly due to a reduction in pre-tax profits and the reduction in the corporate tax rate from 26.5% to 25% starting January 1, 2016.
Segment profit	**654**	728	(74)	(10.2)	**326**	382	(56)	(14.7)	

1.2.2 Operating segments

C Cellular Communications segment

	1-6.2016 NIS millions	1-6.2015 NIS millions	Increase (decrease) NIS millions	NIS millions	4-6.2016 NIS millions	4-6.2015 NIS millions	Increase (decrease) NIS millions	%	Explanation
Services	**911**	1,001	(90)	(9.0)	**456**	502	(46)	(9.2)	The decrease was due to market competition driving down rates and migration of existing customers to cheaper plans offering greater data bandwidth at current market prices. Revenues from repair services were also down.
Equipment sales	**418**	447	(29)	(6.5)	**202**	219	(17)	(7.7)	The decrease was mainly due to a change in the sales mix, reflected in a decrease in high-end cellular handset sales, offset by an increase in the sale of accessories and non-cellular electronics such as multimedia products. Furthermore, lower-end cellular handset sales were up in the reporting period.
Total revenues	**1,329**	1,448	(119)	(8.2)	**658**	721	(63)	(8.7)	
Depreciation and amortization	**199**	210	(11)	(5.2)	**95**	106	(11)	(10.4)	
Salaries	**191**	192	(1)	(0.5)	**94**	96	(2)	(2.1)	
General and operating expenses	**930**	961	(31)	(3.2)	**461**	466	(5)	(1.1)	The decrease was mainly due to a reduction in the cost of handset sales following a change in the sales mix as aforesaid. The decrease was further due to a reduction in interconnect fees, leasing costs, and repair service and expanded warranty costs. This decrease in expenses was partially offset by increased frequency fee costs, following the acquisition of 4G-LTE frequencies and an increase in advertising costs and distribution commissions following the increase in the number of subscribers transferring to Pelephone.
Operating profit	**9**	85	(76)	(89.4)	**8**	53	(45)	(84.9)	
Finance income, net	**23**	28	(5)	(17.9)	**11**	14	(3)	(21.4)	The decrease was mainly due to a decrease in credit reflected in installment-based equipment sales.
Income tax	**6**	28	(22)	(78.6)	**6**	18	(12)	(66.7)	The decrease was attributable to the reduction in profit before taxes.
Segment profit	**26**	85	(59)	(69.4)	**13**	49	(36)	(73.5)	

1.2.2 Operating segments

D International Communications, Internet and NEP Services

	1-6.2016 NIS millions	1-6.2015 NIS millions	Increase (decrease) NIS millions	NIS millions	4-6.2016 NIS millions	4-6.2015 NIS millions	Increase (decrease) NIS millions	%	Explanation
Revenues	**772**	784	(12)	(1.5)	**377**	391	(14)	(3.6)	The decrease was due to decreased revenues from transferring calls between global operators (hubbing) and decreased revenues from international calls due to a decrease in call minutes driven by continued competition with cellular operators and increasing use of substitute software products. The decrease was partially offset by higher Internet service revenues, due to growth in the number of customers.
Depreciation and amortization	**68**	65	3	4.6	**35**	33	2	6.1	
Salaries	**165**	152	13	8.6	**82**	74	8	10.8	The increase was mainly due to salary updates after signing the collective agreement in the first quarter of 2016.
General and operating expenses	**441**	445	(4)	(0.9)	**213**	222	(9)	(4.1)	The decrease was due to a reduction in the cost of call transfers between global operators and international call expenses, offset by higher Internet service costs corresponding to revenues as aforesaid.
Other finance expenses (income)	**14**	-	14	-	**-**	-	-	-	Other expenses comprise a one-time signing bonus and salary updates for prior periods following the signing of a collective labor agreement in the first quarter of 2016.
Operating profit	**84**	122	(38)	(31.1)	**47**	62	(15)	(24.2)	
Finance expenses, net	**5**	3	2	66.7	**3**	2	1	50.0	
Tax expenses	**20**	30	(10)	(33.3)	**11**	15	(4)	(26.7)	
Segment profit	**59**	89	(30)	(33.7)	**33**	45	(12)	(26.7)	

1.2.2 Operating segments

E Multi-Channel Television

	1-6.2016 NIS millions	1-6.2015 NIS millions	Increase (decrease) NIS millions	NIS millions	4-6.2016 NIS millions	4-6.2015 NIS millions	Increase (decrease) NIS millions	%	Explanation
Revenues	**873**	879	(6)	(0.7)	**434**	439	(5)	(1.1)	The decrease was mainly due to a reduction in the average number of subscribers.
Depreciation and amortization	**150**	156	(6)	(3.8)	**74**	80	(6)	(7.5)	
Salaries	**122**	131	(9)	(6.9)	**60**	62	(2)	(3.2)	
General and operating expenses	**467**	463	4	0.9	**223**	227	(4)	(1.8)	
Operating profit	**134**	129	5	3.9	**77**	70	7	10.0	
Finance expenses, net	**31**	53	(22)	(41.5)	**12**	55	(43)	(78.2)	The decrease was mainly due to a reduction in debenture factoring and interest expenses following the early repayment of the 2012 debentures, and in the Quarter, was also due to changes in the fair value of financial assets and a decrease in linkage difference expenses following a more modest rise in the CPI in the present Quarter as compared to the same quarter last year.
Finance expenses for shareholder loans, net	**287**	244	43	17.6	**179**	181	(2)	(1.1)	Expenses in the reporting period were up, mainly due to an increase in interest and factoring expenses. In the Quarter, the increase in expenses was offset by lower linkage difference expenses.
Tax expenses	**1**	1	-	-	**-**	-	-	-	
Segment loss	**(185)**	(169)	(16)	9.5	**(114)**	(166)	52	(31.3)	

1.3 Cash flow

	1-6.2016 NIS millions	1-6.2015 NIS millions	Increase (decrease) NIS millions	Increase (decrease) NIS millions	4-6.2016 NIS millions	4-6.2015 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Net cash from operating activities	1,792	1,801	(9)	(0.5)	870	840	30	3.6	The decrease in net cash from operating activities in the reporting period was mainly attributable to the Cellular Communications segment, mainly due to a decrease in net profits and a more moderate decrease in trade receivables balances as compared to last year's decrease. This decrease was offset by DBS's Consolidation, and an increase in cash from operating activities in the Domestic Fixed-Line Communications segment. The increase in net cash in the Quarter was attributable to the Domestic Fixed-Line Communications segment due to changes in working capital.
Net cash from (used in) investing activities	(791)	778	(1,569)	-	(668)	1,156	(1,824)	-	The increase in net cash used in investing activities was due to the net purchase of held-for-trade financial assets in the Domestic Fixed-Line Communications segment, as compared to net sales in the last-year period and quarter, and was also due to NIS 299 million in cash added in the first quarter of 2015 after assuming control of DBS.
Net cash used in financing activities	(218)	(2,413)	2,195	(91.0)	(85)	(2,338)	2,253	(96.4)	The decrease in net cash used in financing activities was mainly due to a debenture issuance and receipt of loans in the Domestic Fixed-Line Communications segment in the present Quarter to the amount of NIS 1,661 million, as compared to a debenture issuance of NIS 228 million in the Multi-Channel Television segment in the corresponding quarter. Furthermore, payment of NIS 680 million was made to Eurocom D.B.S in the corresponding quarter, for the purchase of DBS's shares and loans, as compared to NIS 58 million paid in the reporting period.
Net increase (decrease) in cash	783	166	617	-	117	(342)	459	-	

<u>Average volume in the reporting Period:</u>

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 10,857 million.

Supplier credit: NIS 937 million.

Short-term credit to customers: NIS 2,043 million. Long-term credit to customers: NIS 494 million.

1.3. Cash flow (contd.)

As of June 30, 2016, the Group had a working capital deficit of NIS 208 million, as compared to a working capital deficit of NIS 588 million on June 30, 2015.

According to its separate financial statements, the Company had a working capital deficit of NIS 657 million as of June 30, 2016, as compared to a working capital deficit of NIS 1,783 million on June 30, 2015.

The reduction in the working capital deficit was mainly due to higher cash balances in the Domestic Fixed-Line Communications segment, including following the receipt of loans and the issuance of debentures.

The Company's Board of Directors has reviewed, among other things, the Company's cash requirements and resources, both at present and in the foreseeable future, has reviewed the Company's and the Group's investment needs, the Company's and the Group's available credit sources, and has conducted sensitivity analysis to unexpected deterioration in the Company and the Group's business. In this context, the Company's Board of Directors has determined that the aforesaid working capital deficit does not indicate any liquidity problem in the Company and the Group and that there is no reasonable concern that the Company and the Group will fail to meet their existing and foreseeable obligations on time (even in the event of unexpected deterioration in the Company's and the Group's business). The Company and the Group can meet their existing and foreseeable cash requirements, both through available cash balances, through cash from operating activities, through dividends from subsidiaries, by continuing to utilize guaranteed credit facilities for 2016 and 2017 under pre-determined commercial terms, and by raising debt from bank and non-bank sources.

The above information includes forward-looking information, based on the Company's assessments concerning its liquidity. Actual data may differ materially from these assessments if there is a change in any of the factors taken into account in making them.

2. Market Risk - Exposure and Management

Surplus liabilities exposed to changes in the nominal NIS-based interest rate were up NIS 1.2 billion, following receipt of loans and expansion of Debentures (Series 9) (see Note 6 to the financial statements). This increase was partially offset, mainly by repayment of Debentures (Series 8) in the Domestic Fixed-Line Communications segment (see Section 4 below). Other than the above, fair value sensitivity analysis data as of June 30, 2016 do not differ materially from sensitivity analysis data as of December 31, 2015.

3. Disclosure Concerning the Company's Financial Reporting

Due to the material nature of legal actions brought against the Group, which cannot yet be assessed or for which the Group cannot yet estimate its exposure, the auditors drew attention to these actions in their opinion concerning the financial statements.

4. Details of debt certificate series

4.1 On April 21, 2016, the Company completed the issuance of 714,050,000 debentures of NIS 1 par value each by way of expansion of Series 9 under a shelf offering report. Total proceeds (gross) were NIS 769 million. The terms of the debentures issued as aforesaid are identical to the terms of the Debentures (Series 9) already in circulation. Following the expansion of this series, total liabilities for Debentures (Series 9) have become material compared to the Company's overall liabilities balance.

4.2 Debentures (Series 5 and 8)

	Debentures (Series 5)	Debentures (Series 8)
Repaid on June 1, 2016	NIS 397,828,629 par value Final repayment	NIS 443,076,688 par value
Par value revaluated as of June 30, 2016	-	NIS 443,209,624 Total liability has become immaterial compared to all Company liabilities
Fair and market value as of June 30, 2016	-	NIS 466,522,450

4.3 Debentures (Series 6-10) are rated Aa2.il/Stable by Midroog Ltd. ("Midroog") and ilAA/Stable by Standard & Poor's Maalot Ltd. ("Maalot"). For current and historical ratings data for the debentures, see the Company's immediate report of June 2, 2016 (ref. no. 2016-01-043158), its immediate report of July 12, 2016 (ref. no. 2016-01-080467), and its immediate report of April 18, 2016 (ref. no. 2016-01-050395) (Midroog), and its immediate reports of April 25, 2016 (ref. no. 2016-01-055276) and April 17, 2016 (ref. no. 2016-01-050347) (Maalot).

The rating reports are included in this Board of Directors' Report by way of reference.

5. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of June 30, 2016, see the Company's reporting form on the MAGNA system, dated August 4, 2016.

We thank the managers of the Group's companies, its employees, and shareholders.

Shaul Elovitch
Chairman of the Board

Stella Handler
CEO

Date of signature: August 3, 2016

Bezeq The Israel Telecommunication Corporation Limited

Condensed Consolidated Interim Financial Statements as at June 30, 2016 (Unaudited)

bezeq

Contents		**Page**

Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 531 2000

Review Report to the Shareholders of
"Bezeq" -The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of "Bezeq" -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – "the Group") comprising of the condensed consolidated interim statement of financial position as of June 30, 2016 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three-month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial in accordance with IAS 34 "Interim Financial Reporting", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 1% of the total consolidated assets as of June 30 2016, and whose revenues constitute 1% of the total consolidated revenues for the six and three month periods then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 531 2000

In addition to that mentioned in the previous paragraph, based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 7.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 3, 2016

Condensed Consolidated Interim Statements of Financial Position

	June 30, 2016	June 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
Assets	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents	**1,338**	826	555
Investments	**912**	999	762
Trade receivables	**2,029**	2,256	2,058
Other receivables	**234**	222	269
Inventories	**109**	96	115
Total current assets	**4,622**	4,399	3,759
Trade and other receivables	**647**	655	674
Broadcasting rights, net of rights exercised	**455**	471	456
Property, plant and equipment	**6,872**	6,980	6,894
Intangible assets	**3,195**	3,468*	3,332
Deferred tax assets	**1,099**	1,194*	1,178
Deferred expenses and non-current investments	**376**	354	361
Investments in equity-accounted investees	**21**	28	25
Total non-current assets	**12,665**	13,150	12,920
Total assets	**17,287**	17,549	16,679

Condensed Consolidated Interim Statements of Financial Position (Contd.)

	June 30, 2016	June 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**NIS million**	**NIS million**	**NIS million**
Debentures, loans and borrowings	**1,958**	1,924	1,913
Trade and other payables	**1,576**	1,786	1,657
Current tax liabilities	**628**	699	624
Liability to Eurocom DBS Ltd, related party	**208**	217*	233
Employee benefits	**370**	271	378
Provisions	**90**	90	100
Total current liabilities	**4,830**	4,987	4,905
Loans and debentures	**9,546**	9,444	8,800
Employee benefits	**239**	238	240
Derivatives and other liabilities	**252**	163	226
Liabilities in respect of deferred taxes	**75**	67	51
Provisions	**46**	70	46
Total non-current liabilities	**10,158**	9,982	9,363
Total liabilities	**14,988**	14,969	14,268
Total shareholders' equity	**2,299**	2,580	2,411
Total liabilities and equity	**17,287**	17,549	16,679

Shaul Elovitch	**Stella Handler**	**Dudu Mizrahi**
Chairman of the Board of Directors	CEO	Deputy CEO and CFO

Date of approval of the financial statements: August 3, 2016

* Restated, see Note 4.2.1 for information about a business combination in the prior period.

The attached notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 9)	**5,070**	4,777	**2,511**	2,603	9,985
Cost of operations					
General and operating expenses(Note 10)	**1,990**	1,801	**972**	1,002	3,869
Salaries	**1,008**	936	**495**	497	1,957
Amortization and depreciation	**889**	768	**440**	451	1,684
Other operating expenses (income), net (Note 11)	**(7)**	(158)	**(12)**	(141)	(95)
	3,880	3,347	**1,895**	1,809	7,415
Operating profit	**1,190**	1,430	**616**	794	2,570
Financing expenses (income), net (Note 12)					
Financing expenses	**241**	265	**123**	164	376
Financing income	**(34)**	(99)	**(18)**	(35)	(113)
Financing expenses - net	**207**	166	**105**	129	263
Profit after financing expenses, net	**983**	1,264	**511**	665	2,307
Share in the profits (losses) of equity accounted investees	**(2)**	16	**(1)**	-	12
Income before taxes on income	**981**	1,280	**510**	665	2,319
Income tax (Note 5)	**316**	335	**133**	183	598
Profit for the period	**665**	945	**377**	482	1,721
Earnings per share (NIS)					
Basic earnings per share	**0.24**	0.34	**0.14**	0.18	0.63
Diluted earnings per share	**0.24**	0.34	**0.14**	0.17	0.62

The attached notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Profit for the period	**665**	945	**377**	482	1,721
Items of other comprehensive income (loss) (net of tax)	**(5)**	33	**5**	16	7
Total comprehensive income for the period	**660**	978	**382**	498	1,728

The attached notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Six months ended June 30, 2016 (Unaudited):							
Balance as at January 1, 2016	3,874	368	16	390	(98)	(2,139)	2,411
Profit for the period	**-**	**-**	**-**	**-**	**-**	**665**	**665**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**-**	**(5)**	**-**	**(5)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(5)**	**665**	**660**
Transactions with shareholders recognized directly in equity							
Dividends to Company shareholders (see Note 8)	**-**	**-**	**-**	**-**	**-**	**(776)**	**(776)**
Exercise of options for shares	**4**	**16**	**(16)**	**-**	**-**	**-**	**4**
Balance at June 30, 2016	**3,878**	**384**	**-**	**390**	**(103)**	**(2,250)**	**2,299**
Six months ended June 30, 2015 (Unaudited):							
Balance at January 01, 2015	3,855	253	131	390	(105)	(2,083)	2,441
Profit for the period	-	-	-	-	-	945	945
Other comprehensive income for the period, net of tax	-	-	-	-	33	-	33
Total comprehensive income for the period	-	-	-	-	33	945	978
Transactions with shareholders recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(844)	(844)
Exercise of options for shares	5	35	(35)	-	-	-	5
Balance at June 30, 2015	3,860	288	96	390	(72)	(1,982)	2,580

The attached notes are an integral part of these condensed consolidated interim financial statements

Condensed Consolidated Interim Statements of Changes in Equity(Contd.)

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Three months ended June 30, 2016 (Unaudited)							
Balance at April 01, 2016	3,878	384	-	390	(108)	(1,851)	2,693
Profit for the period	-	-	-	-	-	377	377
Other comprehensive income for the period, net of tax	-	-	-	-	5	-	5
Total comprehensive income for the period	-	-	-	-	5	377	382
Transactions with shareholders recognized directly in equity							
Dividends to Company shareholders (see Note 8)	-	-	-	-	-	(776)	(776)
Balance at June 30, 2016	3,878	384	-	390	(103)	(2,250)	2,299
Three months ended June 30, 2015 (Unaudited)							
Balance at April 01, 2015	3,858	272	112	390	(88)	(1,620)	2,924
Profit for the period	-	-	-	-	-	482	482
Other comprehensive income for the period, net of tax	-	-	-	-	16	-	16
Total comprehensive income for the period	-	-	-	-	16	482	498
Transactions with shareholders recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(844)	(844)
Exercise of options for shares	2	16	(16)	-	-	-	2
Balance at June 30, 2015	3,860	288	96	390	(72)	(1,982)	2,580
For the year ended December 31, 2015 (audited)							
Balance at January 01, 2015	3,855	253	131	390	(105)	(2,083)	2,441
Profit in 2015	-	-	-	-	-	1,721	1,721
Other comprehensive income for the year, net of tax	-	-	-	-	7	-	7
Total comprehensive income for 2015	-	-	-	-	7	1,721	1,728
Transactions with shareholders recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(1,777)	(1,777)
Exercise of options for shares	19	115	(115)	-	-	-	19
Balance at December 31, 2015	3,874	368	16	390	(98)	(2,139)	2,411

The attached notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Cash flows from operating activities					
Profit for the period	**665**	945	**377**	482	1,721
Adjustments:					
Amortization and depreciation	**889**	768	**440**	451	1,684
Share in the losses (profits) of equity-accounted investees	**2**	(16)	**1**	-	(12)
Financing expenses - net	**220**	203	**107**	136	307
Profit from gaining control in DBS	**-**	(12)	**-**	-	(12)
Capital gain, net	**(40)**	(159)	**(29)**	(148)	(234)
Income tax expenses	**316**	335	**133**	183	598
Change in trade and other receivables	**63**	145	**75**	61	322
Change in inventory	**5**	-	**14**	(9)	(20)
Change in broadcasting rights	**1**	(11)	**1**	(11)	-
Change in trade and other payables	**(98)**	(195)	**(137)**	(150)	(271)
Change in provisions	**(9)**	9	**3**	6	18
Change in employee benefits	**(8)**	1	**(9)**	(3)	110
Change in other liabilities	**(9)**	(5)	**(6)**	(4)	(9)
Net income tax paid	**(205)**	(207)	**(100)**	(154)	(462)
Net cash from operating activities	**1,792**	1,801	**870**	840	3,740
Cash flow used for investing activities					
Purchase of property, plant and equipment	**(611)**	(665)	**(317)**	(363)	(1,324)
Investment in intangible assets and deferred expenses	**(121)**	(214)	**(70)**	(148)	(311)
Acquisition of financial assets held for trading and others	**(867)**	(929)	**(867)**	(489)	(1,785)
Proceeds from the sale of financial assets held for trading and others	**711**	2,188	**515**	2,067	3,260
Proceeds from the sale of property, plant and equipment	**98**	97	**56**	84	151
Cash in a company consolidated for the first time	**-**	299	**-**	-	299
Sundries	**(1)**	2	**15**	5	(7)
Net cash used for investing activities	**(791)**	778	**(668)**	1,156	283

Condensed Consolidated Interim Statements of Cash Flows (Contd.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows used in financing activities					
Issue of debentures and receipt of loans (Note 6)	**1,661**	228	**1,661**	228	1,010
Repayment of debentures and loans	**(806)**	(863)	**(756)**	(805)	(2,192)
Dividend paid (Note 8)	**(776)**	(844)	**(776)**	(844)	(1,777)
Interest paid	**(224)**	(243)	**(192)**	(223)	(494)
Payment to Eurocom DBS for acquisition of DBS shares and loans (Note 4)	**(58)**	(680)	**-**	(680)	(680)
Sundries	**(15)**	(11)	**(22)**	(14)	5
Net cash used in finance activities	**(218)**	(2,413)	**(85)**	(2,338)	(4,128)
Net increase (decrease) in cash and cash equivalents	**783**	166	**117**	(342)	(105)
Cash and cash equivalents at beginning of period	**555**	660	**1,221**	1,168	660
Cash and cash equivalents at end of period	**1,338**	826	**1,338**	826	555

The attached notes are an integral part of these condensed consolidated interim financial statements.

Notes to the Financial Statements

1. General

Reporting Entity

Bezeq – The Israel Telecommunication Corporation Limited ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company include those of the Company and its subsidiaries (together referred to as "the Group"). The Group is a principal provider of communication services in Israel (see also Note 15 – Segment Reporting).

2. Basis of Preparation

2.1 The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting, and Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as at December 31, 2015 and the year then ended, and their accompanying notes ("the Annual Financial Statements"). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on August 3, 2016.

2.4 Use of estimates and judgment

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

The judgments made by management, when applying the Group's accounting policies and the key assumptions used in assessments that involve uncertainty, are consistent with those applied in the Annual Financial Statements.

3. Reporting Principles and Accounting Policy

The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements.

4. Group entities

4.1 A detailed description of the Group entities appears in Note 11 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

4.2. DBS Satellite Services (1998) Ltd. ("DBS")

4.2.1 Business combination that was executed in the preceding year and was measured in the preceding year by provisional amounts

As described in Note 11.2 to the Annual Financial Statements regarding a business combination in 2015, in March 2015 the Company acquired control in DBS. Accordingly, the Statements of Income and Statement of Cash Flows for the six months ended on June 30, 2015 include the operating results of DBS for the period of three months ended March 31, 2015, using the equity accounting method.

In the financial statements as at June 30, 2015, provisional amounts were included for attribution of excess cost arising from the acquisition. On completion of the acquisition and the preparation of an agreement in principle with the tax authorities for the deductible carryforward losses of DBS, as described in Note 11.2.4 to the Annual Financial Statements, amounts were adjusted retrospectively as follows:

	June 30, 2015		
	As previously reported	**Effect of retrospective adjustment**	**As reported in these financial statements**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Deferred tax asset, net of deferred tax liabilities	830	340	**1,170**
Goodwill	609	(224)	**385**
Liability to Eurocom DBS	(101)	(116)	**(217)**

4.2.2 Further to Note 11.2.1 regarding the additional consideration to be paid to Eurocom DBS based on the operating results of DBS in the three years as from the acquisition transaction, in March 2016 the Company paid the first installment (out of three) in the amount of NIS 58 million for the operating results of DBS in 2015.

4.2.3 <u>Financial position of DBS</u>

Since the beginning of its operations, DBS has accumulated considerable losses. The loss of DBS in 2015 amounted to NIS 354 million and the loss in the six months ended June 30, 2016, amounted to NIS 185 million. As a result of these losses, as of June 30, 2016, DBS had an equity deficit and a working capital deficit of NIS 5,203 million and NIS 470 million, respectively.

The management of DBS believes that the financial resources at its disposal, which include the deficit in working capital and receipt of loans from the Company, will be sufficient for its operations for the coming year.

5. Income tax

5.1 On January 4, 2016, the Knesset plenum approved a bill to amend the income tax ordinance that includes a reduction in corporate tax by 1.5% from 26.5% to 25%, as from January 1, 2016. Consequently, in the financial statements for the first quarter of 2016, the Group reduced the deferred tax assets and liabilities and recognized an expense of NIS 64 million for deferred tax expenses.

5.2 Further to Note 6.6.2 to the Annual Financial Statements regarding the decision according to the tax assessor's best judgment for 2009-2010 and the Company's reservation on this assessment, the reservation was rejected and on March 30, 2016, the Company received a written assessments order in accordance with section 152(B) of the Income Tax Ordinance. The Company and the tax assessor are continuing negotiations to reach a signed agreement based on the memorandum of understanding as described in Note 6.6.2 to the Annual Report and to obtain preliminary approval from the Tax Authority for carrying out the merger of the Company with DBS in accordance with the provisions of section 103B of the Ordinance.

6. Debentures, loans and borrowings

6.1 On April 21, 2016, the Company completed an issuance of 714,050,000 debentures of NIS 1 par value each by way of expansion of Series 9 under a shelf prospectus. The total consideration (gross) that was received amounted to NIS 769 million. For information about the terms of the debentures, see Note 12.3 to the Annual Financial Statements.

6.2 Further to the provision of Note 12.6 to the Annual Financial Statements concerning receipt of undertakings from banks and institutions to provide credit for the Company for 2016-2017, on June 1, 2016 a credit facilities amounting to NIS 900 million were made available for the Company, based on the undertakings given by the banks. The credit terms are set out in Note 12.6 to the Annual Financial Statements.

7. Contingent liabilities

During the normal course of business, legal claims were filed against Group companies or there are pending claims against the Group ("in this section: "Legal Claims").

In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the legal claims, the financial statements include appropriate provisions of NIS 88 million, where provisions are required to cover the exposure arising from such legal claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at June 30, 2016 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 7.6 billion. There is also additional exposure of NIS 2.2 billion for claims, the chances of which cannot yet be assessed.

In addition, motions for certification of class actions have been filed against the Group companies, for which the Group has additional exposure beyond the aforesaid, since the exact amount of the claim is not stated in the claim.

This amount and all the amounts of the additional exposure in this note are linked to the CPI and are stated net of interest.

For updates subsequent to the reporting date, see section 7.2 below.

7.1 Following is a detailed description of the Group's contingent liabilities as at June 30, 2016, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims that cannot yet be assessed
		NIS million		
Claims of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Company in respect of recognition of various salary components as components for calculation of payments to Company employees, some of which have wide ramifications in the Company.	**9**	**106**	**-**
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	**51**	**5,252**	**2,267**
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	**3**	**212**	**1**
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	**3**	**44**	**3**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	**11**	**2,001***	**-**
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the authorities (including property taxes) or by the authorities to the Group companies.	**11**	**14**	**-**
Total legal claims against the Company and subsidiaries		**88**	**7,629**	**2,271**

* Total exposure of NIS 2 billion for a claim filed by a shareholder against the Company and officers in the Company, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method of calculating the damage to be determined).

7.2 Subsequent to the reporting date, a claim in a total amount of NIS 34 million was filed against Group companies. At the approval date of the financial statements, the chances of this claim cannot yet be assessed. Furthermore, a claim for which the Company's exposure was NIS 20 million has ended.

8. Equity

8.1 Below are details of the Company's equity:

Registered			Issued and paid up		
June 30, 2016	June 30, 2015	December 31, 2015	June 30, 2016	June 30, 2015	December 31, 2015
(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
No. of shares	No. of shares	No. of shares	No. of shares	No. of shares	No. of shares
2,825,000,000	2,825,000,000	2,825,000,000	**2,765,444,146**	2,748,349,912	2,762,148,573

8.2 On May 3, 2016, the general meeting of the Company's shareholders (further to the recommendation of the Company's Board of Directors of March 16, 2016) approved a distribution of a cash dividend to the shareholders of the Company in the amount of NIS 776 million (representing NIS 0.2806059 per share on the date of record). The dividend was paid on May 30, 2016.

8.3 On August 3, 2016, the Board of Directors of the Company resolved to recommend to the general meeting of the Company's shareholders to distribute a cash dividend to the shareholders in the amount of NIS 665 million. As at the approval date of the financial statements, the dividend has not yet been approved by the general meeting.

9. Revenues

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Domestic fixed-line communication					
Fixed-line telephony	**737**	783	**363**	388	1,543
Internet - infrastructure	**775**	770	**389**	387	1,530
Transmission and data communications	**422**	415	**210**	208	840
Other services	**115**	113	**56**	55	212
	2,049	2,081	**1,018**	1,038	4,125
Cellular telephony					
Cellular services and terminal equipment	**890**	975	**446**	489	1,948
Sale of terminal equipment	**418**	443	**202**	219	884
	1,308	1,418	**648**	708	2,832
International communications, internet and NEP services	**737**	739	**360**	368	1,487
Multi-channel television	**873**	439	**434**	439	1,333
Others	**103**	100	**51**	50	208
	5,070	4,777	**2,511**	2,603	9,985

10. General and operating expenses

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Terminal equipment and materials	**417**	431	**201**	205	880
Interconnectivity and payments to domestic and international operators	**423**	453	**211**	241	909
Maintenance of buildings and sites	**299**	306	**145**	156	616
Marketing and general	**345**	289	**168**	160	640
Content services	**301**	157	**147**	144	458
Services and maintenance by sub-contractors	**124**	89	**61**	55	199
Vehicle maintenance	**81**	76	**39**	41	167
	1,990	1,801	**972**	1,002	3,869

11. Other operating expenses (income), net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Capital gain from the sale of property, plant and equipment (mainly real estate)	**(40)**	(159)	**(29)**	(148)	(234)
Provision for voluntary redundancy severance payments	**15**	1	**14**	1	117
Others	**18**	-	**3**	6	22
Total operating income, net	**(7)**	(158)	**(12)**	(141)	(95)

12. Financing expenses (income), net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**182**	195	**92**	105	339
Linkage and exchange rate differences	**11**	40	**25**	40	51
Decrease of provision for tax assessor interest expenses	**-**	-	**-**	-	(76)
Other financing expenses	**48**	30	**6**	19	62
Total financing expenses	**241**	265	**123**	164	376
Income for credit in sales	**22**	28	**11**	13	52
Interest and linkage differences from loans to an associate	**-**	21	**-**	-	21
Other financing income	**12**	50	**7**	22	40
Total financing income	**34**	99	**18**	35	113
Financing expenses - net	**207**	166	**105**	129	263

13. Transactions with interested and related parties

On June 30, 2016 the general meeting of the Company's shareholders (after approval by the Company's compensation committee and Board of Directors) approved extending the engagement between the Company and Eurocom Communications Ltd. in an amended agreement to provide the Company with ongoing management and consultation services for NIS 6.4 million per year. The term of the agreement is for three years, from June 1, 2016 (the termination date of the current management agreement) through to May 31, 2019, unless either of the parties gives three-months prior notice of termination of the agreement.

14. Financial instruments

14.1. Fair value

14.1.1 Financial instruments at fair value for disclosure purposes only

The table below shows the differences between the carrying amount and the fair value of financial liabilities. The methods used to estimate the fair values of financial instruments are described in Note 29.8 to the Annual Financial Statements.

	June 30, 2016		June 30, 2015		December 31, 2015	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and institutions (unlinked)	**2,774**	**2,928**	2,197	2,358	1,904	2,044
Debentures issued to the public (CPI-linked)	**3,487**	**3,733**	3,459	3,634	3,816	4,006
Debentures issued to the public (unlinked)	**1,595**	**1,648**	890	949	1,279	1,340
Debentures issued to financial institutions (CPI-linked)	**1,286**	**1,293**	1,952	2,089	1,310	1,314
Debentures issued to financial institutions (unlinked)	**403**	**450**	403	463	403	458
	9,545	**10,052**	8,901	9,493	8,712	9,162

14.1.2 Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, with details of the evaluation method. The methods used to estimate the fair value are described in Note 29.7 to the Annual Financial Statements.

	June 30, 2016	June 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: investment in exchange-traded funds and financial funds	**48**	200	193
Level 2: future credit from banks	**(6)**	36	2
Level 2: forward contracts	**(182)**	(93)	(157)
Level 3: contingent consideration for a business combination	**(237)**	(217)*	(233)
Level 3: investment in non-marketable shares	**-**	9	2

* Restated, see Note 4.2.1 for information about a business combination in the preceding period.

15. Segment Reporting

15.1 Further to Note 11.2 to the annual financial statements, the Company's investment in DBS was presented on the basis of the equity method up to March 23, 2015. As from this date, the financial statements of DBS are consolidated with the financial statements of the Group. The Group reports on multichannel television as an operating segment without adjustment to ownership rates and excess cost in all reporting periods.

15.2 Operating segments

	Six months ended June 30, 2016 (Unaudited):						
	Domestic fixed-line communica tion	Cellular communica tions	International communica-tions and internet services	Multichannel television	Others	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	**2,050**	**1,307**	**737**	**872**	**101**	**-**	**5,067**
Inter-segment revenues	**162**	**22**	**35**	**1**	**7**	**(224)**	**3**
Total revenues	**2,212**	**1,329**	**772**	**873**	**108**	**(224)**	**5,070**
Amortization and depreciation	**368**	**199**	**68**	**150**	**8**	**96**	**889**
Segment results – operating profit (loss)	**1,076**	**9**	**84**	**134**	**(17)**	**(96)**	**1,190**
Financing expenses	**224**	**2**	**8**	**330**	**1**	**(324)**	**241**
Financing income	**(18)**	**(25)**	**(3)**	**(12)**	**(5)**	**29**	**(34)**
Total financing expenses (income), net	**206**	**(23)**	**5**	**318**	**(4)**	**(295)**	**207**
Segment profit (loss) after financing expenses, net	**870**	**32**	**79**	**(184)**	**(13)**	**199**	**983**
Share in losses of associates	**-**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Segment profit (loss) before income tax	**870**	**32**	**79**	**(184)**	**(15)**	**199**	**981**
Taxes on income	**216**	**6**	**20**	**1**	**-**	**73**	**316**
Segment results – net profit (loss)	**654**	**26**	**59**	**(185)**	**(15)**	**126**	**665**

	Six months ended June 30, 2015 (Unaudited):						
	Domestic fixed-line communica tion	Cellular communica tions	International communica-tions and internet services	Multichannel television	Others	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	2,079	1,418	736	878	100	(440)	4,771
Inter-segment revenues	139	30	48	1	7	(219)	6
Total revenues	2,218	1,448	784	879	107	(659)	4,777
Amortization and depreciation	356	210	65	156	6	(25)	768
Segment results – operating profit	1,209	85	123	129	(4)	(112)	1,430
Financing expenses	220	3	7	320	1	(286)	265
Financing income	(45)	(31)	(4)	(23)	(9)	13	(99)
Total financing expenses (income), net	175	(28)	3	297	(8)	(273)	166
Segment profit (loss) after financing expenses, net	1,034	113	120	(168)	4	162	1,264
Share in earnings of associates	-	-	-	-	-	16	16
Segment profit (loss) before income tax	1,034	113	120	(168)	4	177	1,280
Taxes on income	306	28	31	1	-	(31)	335
Segment results – net profit (loss)	728	85	89	(169)	4	208	945

15.2 Operating Segments (contd.)

	Three months ended June 30, 2016 (Unaudited):						
	Domestic fixed-line communica tion	Cellular communica tions	International communica-tions and internet services	Multichannel television	Others	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	**1,018**	**647**	**360**	**434**	**52**	**-**	**2,511**
Inter-segment revenues	**82**	**11**	**17**	**-**	**2**	**(112)**	**-**
Total revenues	**1,100**	**658**	**377**	**434**	**54**	**(112)**	**2,511**
Amortization and depreciation	**185**	**95**	**35**	**74**	**3**	**48**	**440**
Segment results – operating profit (loss)	**540**	**8**	**47**	**77**	**(8)**	**(48)**	**616**
Financing expenses	**115**	**2**	**4**	**206**	**-**	**(204)**	**123**
Financing income	**(10)**	**(13)**	**(1)**	**(15)**	**(1)**	**22**	**(18)**
Total financing expenses (income), net	**105**	**(11)**	**3**	**191**	**(1)**	**(182)**	**105**
Segment profit (loss) after financing expenses, net	**435**	**19**	**44**	**(114)**	**(7)**	**134**	**511**
Share in losses of associates	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Segment profit (loss) before income tax	**435**	**19**	**44**	**(114)**	**(8)**	**134**	**510**
Taxes on income	**109**	**6**	**11**	**-**	**-**	**7**	**133**
Segment results – net profit (loss)	**326**	**13**	**33**	**(114)**	**(8)**	**127**	**377**

	Three months ended June 30, 2015 (Unaudited)						
	Domestic fixed-line communica tion	Cellular communica tions	International communica-tions and internet services	Multichannel television	Others	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,037	709	368	438	51	-	2,603
Inter-segment revenues	68	12	23	1	3	(107)	-
Total revenues	1,105	721	391	439	54	(107)	2,603
Amortization and depreciation	180	106	33	80	3	49	451
Segment results – operating profit (loss)	662	53	62	70	(2)	(51)	794
Financing expenses	122	-	3	240	1	(202)	164
Financing income	(22)	(14)	(1)	(4)	(5)	11	(35)
Total financing expenses (income), net	100	(14)	2	236	(4)	(191)	129
Segment profit (loss) after financing expenses, net	562	67	60	(166)	2	140	665
Taxes on income	180	18	15	-	-	(30)	183
Segment results – net profit (loss)	382	49	45	(166)	2	170	482

15.2 Operating Segments (contd.)

	For the year ended December 31, 2015 (audited)						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multichannel television	Others	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	4,122	2,831	1,485	1,774	197	(440)	9,969
Inter-segment revenues	285	59	93	-	24	(445)	16
Total revenues	4,407	2,890	1,578	1,774	221	(885)	9,985
Amortization and depreciation	725	419	132	322	13	73	1,684
Segment results – operating profit (loss)	2,148	157	240	250	(15)	(210)	2,570
Financing expenses	362	4	15	635	2	(642)	376
Financing income	(30)	(53)	(7)	(32)	(17)	26	(113)
Total financing expenses (income), net	332	(49)	8	603	(15)	(616)	263
Segment profit (loss) after financing expenses, net	1,816	206	232	(353)	-	406	2,307
Share in profits (losses) of associates	-	-	-	-	(2)	14	12
Segment profit (loss) before income tax	1,816	206	232	(353)	(2)	420	2,319
Taxes on income	492	55	60	1	-	(10)	598
Segment results – net profit (loss)	1,324	151	172	(354)	(2)	430	1,721

15.3 Adjustment of profit or loss for reporting segments

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Operating profit for reporting segments	**1,303**	1,546	**672**	847	2,795
Financing expenses, net	**(207)**	(166)	**(105)**	(129)	(263)
Amortization of surplus cost for intangible assets	**(93)**	-	**(47)**	-	(150)
Share in profits (losses) of associates	**(2)**	16	**(1)**	-	12
Loss for operations classified in other categories and other adjustments	**(20)**	(57)	**(9)**	(53)	(16)
Cancellation of results for a segment classified as an associate (up to gain of control)	**-**	(59)	**-**	-	(59)
Income before taxes on income	**981**	1,280	**510**	665	2,319

16. Condensed Financial Statements of Pelephone, Bezeq International, and DBS

16.1. Pelephone Communications Ltd.

Selected data from the statement of financial position

	June 30, 2016	June 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**1,224**	1,468	1,420
Non-current assets	**2,081**	1,952	1,854
Total assets	**3,305**	3,420	3,274
Current liabilities	**516**	553	448
Long-term liabilities	**73**	96	70
Total liabilities	**589**	649	518
Equity	**2,716**	2,771	2,756
Total liabilities and equity	**3,305**	3,420	3,274

Data from the Profit and Loss Statement

	Six months ended June 30		Three months ended June 30		Year ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**911**	1,001	**456**	502	1,999
Revenues from sale of terminal equipment	**418**	447	**202**	219	891
Total revenues from services and sales	**1,329**	1,448	**658**	721	2,890
Cost of services and sales	**1,139**	1,195	**560**	588	2,383
Gross profit	**190**	253	**98**	133	507
Selling and marketing expenses	**134**	120	**68**	57	247
General and Administrative Expenses:	**47**	48	**22**	23	98
Other operating expenses	**-**	-	**-**	-	5
	181	168	**90**	80	350
Operating profit	**9**	85	**8**	53	157
Financing expenses	**2**	3	**2**	-	4
Financing income	**(25)**	(31)	**(13)**	(14)	(53)
Financing income, net	**(23)**	(28)	**(11)**	(14)	(49)
Profit before taxes on income	**32**	113	**19**	67	206
Taxes on income	**6**	28	**6**	18	55
Profit for the period	**26**	85	**13**	49	151

16.2. Bezeq International Ltd.

Selected data from the statement of financial position

	June 30, 2016	June 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**485**	507	456
Non-current assets	**719**	736	714
Total assets	**1,204**	1,243	1,170
Current liabilities	**296**	340	314
Long-term liabilities	**105**	72	29
Total liabilities	**401**	412	343
Equity	**803**	831	827
Total liabilities and equity	**1,204**	1,243	1,170

Data from the Profit and Loss Statement

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**772**	784	**377**	391	1,578
Operating expenses	**504**	501	**246**	250	1,015
Gross profit	**268**	283	**131**	141	563
Selling and marketing expenses	**113**	106	**56**	53	209
General and Administrative Expenses:	**57**	56	**28**	28	116
Other expenses (income), net	**14**	(2)	**-**	(2)	(2)
	184	160	**84**	79	323
Operating profit	**84**	123	**47**	62	240
Financing expenses	**8**	7	**4**	3	15
Financing income	**(3)**	(4)	**(1)**	(1)	(7)
Financing expenses - net	**5**	3	**3**	2	8
Profit before taxes on income	**79**	120	**44**	60	232
Taxes on income	**20**	31	**11**	15	60
Profit for the period	**59**	89	**33**	45	172

16.3. DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	June 30, 2016	June 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**403**	623*	319
Non-current assets	**1,312**	1,392	1,348
Total assets	**1,715**	2,015	1,667
Current liabilities	**873**	972*	903
Long-term liabilities	**873**	1,577	892
Loans from shareholders	**5,172**	4,299	4,890
Total liabilities	**6,918**	6,848	6,685
Capital deficit	**(5,203)**	(4,833)	(5,018)
Total liabilities and capital deficit	**1,715**	2,015	1,667

Data from the Profit and Loss Statement

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**873**	879	**434**	439	1,774
Operating expenses	**633**	634	**312**	313	1,289
Gross profit	**240**	245	**122**	126	485
Selling and marketing expenses	**62**	70	**24**	35	140
General and Administrative Expenses:	**44**	46	**21**	21	95
	106	116	**45**	56	235
Operating profit	**134**	129	**77**	70	250
Financing expenses	**43**	76	**27**	59	122
Financing expenses for shareholder loans, net	**287**	244	**179**	181	513
Financing income	**(12)**	(23)	**(15)**	(4)	(32)
Financing expenses - net	**318**	297	**191**	236	603
Loss before income tax	**(184)**	(168)	**(114)**	(166)	(353)
Taxes on income	**1**	1	**-**	-	1
Loss for the period	**(185)**	(169)	**(114)**	(166)	(354)

* Reclassified

Bezeq The Israel Telecommunication Corporation Ltd.

Condensed Separate Interim Financial Information as at June 30, 2016

(Unaudited)

bezeq

The information contained in these separate interim financial information constitutes a translation of the separate interim financial 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.

Contents	**Page**

Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 531 2000

To:
The Shareholders of “Bezeq”- The Israel Telecommunication Corporation Ltd.

Subject: Special auditors’ report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq”- The Israel Telecommunication Corporation Ltd. (hereinafter – “the Company”) as of June 30, 2016 and for the six and three-month periods then ended. The separate interim financial information is the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 141 million as of June 30, 2016, and the loss from this investee company amounted to NIS 9 million for six-month period then ended. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 531 2000

Conclusion

Based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 5.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 3, 2016

Condensed Separate Interim information of Financial Position

	June 30, 2016	June 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**845**	65	110
Investments, including derivatives	**859**	757	648
Trade receivables	**711**	796	668
Other receivables	**102**	122	119
Loans granted to investees	**100**	309	288
Total current assets	**2,617**	2,049	1,833
Trade and other receivables	**192**	156	180
Property, plant and equipment	**4,810**	4,715	4,753
Intangible assets	**242**	276	255
Investment in investees	**6,647**	7,213*	7,217
Loans granted to investees	**450**	85	374
Investments	**104**	87	101
Total non-current assets	**12,445**	12,532	12,880
Total assets	**15,062**	14,581	14,713

Condensed Separate Interim Information of Financial Position (contd.)

	June 30, 2016	June 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,527**	1,615	1,660
Loan from an investee	**-**	434	434
Trade and other payables	**544**	612	636
Current tax liabilities	**627**	677	619
Provisions (Note 5)	**54**	57	60
Employee benefits	**314**	220	330
Liability to Eurocom DBS Ltd, an affiliate	**208**	217*	233
Total current liabilities	**3,274**	3,832	3,972
Debentures and loans	**8,654**	7,772	7,879
Loan from an investee	**325**	-	-
Employee benefits	**201**	195	203
Deferred tax liabilities	**64**	54	33
Derivatives and other liabilities	**245**	148	215
Total non-current liabilities	**9,489**	8,169	8,330
Total liabilities	**12,763**	12,001	12,302
Equity			
Share capital	**3,878**	3,860	3,874
Share premium	**384**	288	368
Reserves	**287**	414	308
Deficit	**(2,250)**	(1,982)	(2,139)
Total equity attributable to equity holders of the Company	**2,299**	2,580	2,411
Total liabilities and equity	**15,062**	14,581	14,713

Shaul Elovitch	**Stella Handler**	**Dudu Mizrahi**
Chairman of the	CEO	Deputy CEO and CFO

Date of approval of the financial statements: August 03, 2016

* Reclassified due to a business combination measured in the preceding year by provisional amounts, see Note 1.3.1

The attached notes are an integral part of this condensed separate interim financial information.

Condensed Separate Interim Information of Profit or Loss

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 2)	**2,212**	2,218	**1,100**	1,105	4,407
Cost of operations					
Salaries	**447**	453	**217**	226	912
Amortization and depreciation	**368**	356	**185**	180	725
Operating and general expenses (Note 3)	**342**	356	**170**	176	721
Other operating expenses (income), net (Note 4)	**(21)**	(156)	**(12)**	(139)	(99)
Cost of Activities	**1,136**	1,009	**560**	443	2,259
Operating profit	**1,076**	1,209	**540**	662	2,148
Financing expenses (income)					
Financing expenses	**224**	220	**115**	122	362
Financing income	**(18)**	(45)	**(10)**	(22)	(30)
Financing expenses - net	**206**	175	**105**	100	332
Profit after financing expenses, net	**870**	1,034	**435**	562	1,816
Share in earnings of investees, net	**11**	217	**51**	100	397
Income before taxes on income	**881**	1,251	**486**	662	2,213
Taxes on income	**216**	306	**109**	180	492
Profit for the period attributable to the owners of the Company	**665**	945	**377**	482	1,721

Condensed Separate Interim Information of Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**665**	945	**377**	482	1,721
Items of other comprehensive income (loss) for the period including actuarial gains and hedging transactions, net of tax	**(5)**	33	**5**	16	7
Total comprehensive income for the period attributable to equity holders of the Company	**660**	978	**382**	498	1,728

The attached notes are an integral part of these condensed separate interim financial information.

Condensed Separate Interim Information of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**665**	945	**377**	482	1,721
Adjustments:					
Amortization and depreciation	**368**	356	**185**	180	725
Share in earnings of investees, net	**(11)**	(217)	**(51)**	(100)	(397)
Financing expenses - net	**204**	178	**101**	96	323
Profit from gaining control in an investee	**-**	(12)	**-**	-	-
Capital gain, net	**(40)**	(157)	**(29)**	(146)	(233)
Income tax expenses	**216**	306	**109**	180	492
Sundries	**(6)**	(3)	**(4)**	(2)	(19)
Change in trade and other receivables	**(32)**	(76)	**23**	(2)	53
Change in trade and other payables	**(79)**	(111)	**(81)**	(131)	(75)
Change in provisions	**(6)**	10	**3**	7	12
Change in employee benefits	**(18)**	(11)	**(10)**	(3)	104
Net cash (used in) from operating activities due to transactions with subsidiaries	**(30)**	(23)	**(23)**	(5)	2
Net income tax paid	**(175)**	(181)	**(83)**	(100)	(350)
Net cash from operating activities	**1,056**	1,004	**517**	456	2,358
Cash flows from investing activities					
Investment in intangible assets	**(39)**	(37)	**(23)**	(17)	(71)
Proceeds from the sale of property, plant and equipment	**95**	92	**54**	80	146
Acquisition of financial assets held for trading and others	**(855)**	(729)	**(855)**	(289)	(1,535)
Proceeds from the sale of financial assets held for trading and others	**644**	2,180	**506**	2,060	3,065
Purchase of property, plant and equipment	**(383)**	(385)	**(204)**	(174)	(778)
Sundries	**(1)**	2	**15**	5	(7)
Net cash from investment activities due to transactions with subsidiaries	**85**	197	**149**	241	109
Net cash from (used for) investing activities	**(454)**	1,320	**(358)**	1,906	929
Cash flow from finance activities					
Issue of debentures and receipt of loans	**1,661**	-	**1,661**	-	782
Repayment of debentures and loans	**(798)**	(752)	**(749)**	(752)	(1,349)
Dividend paid	**(776)**	(844)	**(776)**	(844)	(1,777)
Payment to Eurocom DBS for acquisition of DBS shares and loans	**(58)**	(680)	**-**	(680)	(680)
Interest paid	**(186)**	(200)	**(169)**	(182)	(384)
Sundries	**(21)**	(11)	**(24)**	(14)	3
Net cash from (used for) financing activities due to transactions with subsidiaries	**311**	(20)	**311**	(20)	(20)
Net cash from (used for) financing operations	**133**	(2,507)	**254**	(2,492)	(3,425)
Net increase (decrease) in cash and cash equivalents	**735**	(183)	**413**	(130)	(138)
Cash and cash equivalents at beginning of period	**110**	248	**432**	195	248
Cash and cash equivalents at the end of the period	**845**	65	**845**	65	110

The attached notes are an integral part of this condensed separate interim financial information.

Notes to the Condensed Separate Interim Financial Information

1. Manner of preparing financial information

1.1. Definitions

The Company: Bezeq The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2015.

1.2. Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial information for the year ended December 31, 2015 and in conjunction with the condensed interim consolidated financial statements as at June 30, 2016 ("the Consolidated Financial Statements").

The accounting policies used in preparing these condensed separate interim financial information are in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2015.

1.3. Reclassified due to a business combination measured in the preceding year

As a result of completion of the transaction to acquire the entire holdings of Eurocom DBS in DBS shares and shareholders loans on June 24, 2015, as set out in Note 11.2 to the Consolidated Statements, various amounts were reclassified as described below.

1.3.1 A business combination measured in the preceding year by provisional amounts.

In the separate financial information as at June 30, 2015, provisional amounts were included for recording of excess cost arising from the acquisition. On completion of the acquisition and the drafting of an agreement in principle with the tax authorities regarding the deductible carryforward losses of DBS, as described in Note 11.2.4 to the Annual Financial Statements, amounts were adjusted retrospectively as follows:

	Balance as at June 30, 2015 (unaudited)		
	As previously reported	Effect of retrospective application	As reported in these financial statements
	NIS million	NIS million	NIS million
Investment in investees	7,097	116	7,213
Liability to Eurocom DBS	(101)	(116)	(217)

2. Revenues

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Fixed-line telephony	**758**	799	**374**	396	1,586
Internet - infrastructure	**792**	770	**398**	387	1,542
Transmission and data communication	**543**	530	**270**	264	1,058
Other services	**119**	119	**58**	58	221
	2,212	2,218	**1,100**	1,105	4,407

3. Operating and general expenses

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**95**	98	**46**	47	202
Marketing and general	**87**	95	**44**	48	188
Interconnectivity and payments to communications operators	**67**	75	**33**	37	145
Services and maintenance by sub-contractors	**34**	30	**17**	14	60
Vehicle maintenance	**35**	36	**18**	19	78
Terminal equipment and materials	**24**	22	**12**	11	48
	342	356	**170**	176	721

4. Other operating expenses, net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital gain from the sale of property, plant and equipment (mainly real estate)	**(40)**	(157)	**(29)**	(146)	(233)
Provision for voluntary redundancy severance payments	**15**	1	**14**	1	117
Others	**4**	-	**3**	6	17
Other operating expenses, net	**(21)**	(156)	**(12)**	(139)	(99)

5. Contingent liabilities

During the normal course of business, legal claims were filed against the Company or there are various pending claims ("in this section: "Legal Claims").

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of these litigations, the financial statements include appropriate provisions in the amount of NIS 54 million, where provisions are required to cover the exposure arising from such litigation.

In the Company's opinion, the additional exposure (exceeding the foregoing provisions), as of June 30, 2016 due to legal claims filed against the Company on various matters, which are unlikely to be realized, amounts to a total of NIS 2.7 billion. This amount includes exposure of NIS 2 billion for a claim by shareholders against the Company and officers of the Company which the plaintiff estimates to be NIS 1.1 billion or NIS 2 billion (based on the method to be fixed of calculating the damages) In addition, the Company has further exposure in the amount of NIS 925 million for claims, the success of which cannot be assessed at this stage. The foregoing amounts are linked to the consumer price index and are before the addition of interest.

Furthermore, other claims have been filed against the Company as class actions with respect to which the Company has additional exposure beyond the aforesaid amounts, which cannot be quantified as the exact amounts of the claims are not stated in the claims.

Subsequent to reporting date, claims for which exposure amounted to NIS 20 million were concluded.

For further information concerning contingent liabilities see Note 7 to the Consolidated Statements.

6. Dividends from investees

6.1 In May 2016, Pelephone Communications Ltd. paid a cash dividend to the Company, which was announced in March 2016, in the amount of NIS 66 million.

6.2 In May 2016, Bezeq International Ltd. paid a cash dividend to the Company, which was announced in February 2016, in the amount of NIS 83 million.

6.3 In May 2016, Walla Communications Ltd. paid a cash dividend to the Company, which was announced in February 2016, in the amount of NIS 434 million. The dividend was received through offsetting a loan that the Company received from Walla and that was due to be repaid on the same date.

6.4 In July 2016 the board of directors of Pelephone decided to distribute a dividend to the Company in the amount of NIS 26 million in October 2016.

6.5 In July 2016 the board of directors of Bezeq International decided to distribute a dividend to the Company in the amount of NIS 59 million in October 2016.

7. Events in the reporting period

7.1 On February 10, 2016 the Company provided Bezeq International a loan in the amount of NIS 125 million to be repaid in three equal annual installments from February 2017. The loan bears annual interest of 2.56%.

7.2 On May 23, 2016 the Company received a loan from Pelephone in the amount of NIS 325 million. The loan bears annual interest of 3.41% and is repayable in four equal annual installments from December 1, 2022.