SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

F O R M 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of December 2016

INTERNET GOLD-GOLDEN LINES LTD.
(Name of Registrant)

2 Dov Friedman Street, Ramat Gan 5250301, Israel
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- ___________

Internet Gold-Golden Lines Ltd.

EXPLANATORY NOTE

The attached exhibits pertain to the Registrant’s indirect controlled subsidiary, Bezeq The Israel Telecommunication Corp. Ltd., (the “Company” and together with its subsidiaries, the “Group”):

99.1 Condensed Consolidated Interim Financial Statements (Unaudited) of the Group as at September 30, 2016.

99.2 Directors' Report on the State of the Group's Affairs for the three month period ended September 30, 2016.

99.3 Update of Chapter A (Description of Group Operations) of the Periodic Report for 2015.

99.4 Company Separate Condensed Interim Financial Information as at September 30, 2016 (Unaudited).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNET GOLD-GOLDEN LINES LTD.
(Registrant)

By /s/ Doron Turgeman
Doron Turgeman
Chief Executive Officer

Date: December 6, 2016

EXHIBIT INDEX

The attached exhibits pertain to the Registrant’s indirect controlled subsidiary, Bezeq The Israel Telecommunication Corp. Ltd., (the “Company” and together with its subsidiaries, the “Group”):

99.1 Condensed Consolidated Interim Financial Statements (Unaudited) of the Group as at September 30, 2016.

99.2 Directors' Report on the State of the Group's Affairs for the three month period ended September 30, 2016.

99.3 Update of Chapter A (Description of Group Operations) of the Periodic Report for 2015.

99.4 Company Separate Condensed Interim Financial Information as at September 30, 2016 (Unaudited).

Exhibit 99.1

Bezeq The Israel Telecommunication Corporation Limited

Condensed Consolidated Interim Financial Statements
September 30, 2016
(Unaudited)

Contents	Page

Somekh Chaikin
KPMG Millennium Tower
17 Ha-Arbaa Street, PO Box 609
Tel Aviv 6100601, Israel
972-3-6848000

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 September 30, 2016 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine 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 September 30 2016, and whose revenues constitute 1% of the total consolidated revenues for the nine 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.

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.

KPMG Somekh Chaikin, an Israeli member firm of the KPMG network of independent member firms affiliated
with KPMG International Cooperative (“KPMG International”), a Swiss entity

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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.)

November 22, 2016

Condensed Consolidated Interim Statements of Financial Position

	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	**938**	1,030	555
Investments	**908**	1,126	762
Trade receivables	**1,998**	2,203	2,058
Other receivables	**220**	220	269
Inventory	**96**	90	115
Total current assets	**4,160**	4,669	3,759
Trade and other receivables	**641**	643	674
Broadcasting rights, net of rights exercised	**450**	458	456
Property, plant and equipment	**6,840**	6,975	6,894
Intangible assets	**3,121**	3,389*	3,332
Deferred tax assets	**1,103**	1,200*	1,178
Deferred expenses and non-current investments	**368**	361	361
Investments in equity-accounted investees	**20**	27	25
Total non-current assets	**12,543**	13,053	12,920
Total assets	**16,703**	17,722	16,679

Condensed Consolidated Interim Statements of Financial Position (Contd.)

		September 30, 2016	September 30, 2015	December 31, 2015
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**Note**	**NIS million**	**NIS million**	**NIS million**
Debentures, loans and borrowings		**2,135**	1,952	1,913
Trade and other payables		**1,599**	1,822	1,657
Current tax liabilities	5.2	**171**	723	624
Liability to Eurocom DBS Ltd, related party	4	**6**	217*	233
Employee benefits		**280**	268	378
Provisions		**87**	87	100
Dividend payable		**665**	933	-
Total current liabilities		**4,943**	6,002	4,905
Loans and debentures		**9,111**	9,125	8,800
Employee benefits		**237**	253	240
Derivatives and other liabilities		**257**	191	226
Deferred tax liabilities		**81**	56	51
Provisions		**47**	70	46
Total non-current liabilities		**9,733**	9,695	9,363
Total liabilities		**14,676**	15,697	14,268
Total equity		**2,027**	2,025	2,411
Total liabilities and equity		**16,703**	17,722	16,679

Shaul Elovitch	**Stella Handler**	**Allon Raveh**
Chairman of the Board of Directors	CEO	CFO Bezeq Group

Date of approval of the financial statements: November 22, 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.

	Nine months ended September 30		Three months ended September 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 10)	**7,580**	7,379	**2,510**	2,602	9,985
Costs of activity					
General and operating expenses(Note 11)	**2,984**	2,801	**994**	1,000	3,869
Salaries	**1,509**	1,442	**501**	506	1,957
Depreciation and amortization	**1,331**	1,225	**442**	457	1,684
Other operating income, net (Note 12)	**(33)**	(171)	**(26)**	(13)	(95)
	5,791	5,297	**1,911**	1,950	7,415
Operating profit	**1,789**	2,082	**599**	652	2,570
Financing expenses (income)					
Financing expenses	**360**	371	**119**	106	376
Financing income	**(49)**	(105)	**(15)**	(6)	(113)
Financing expenses, net	**311**	266	**104**	100	263
Profit after financing expenses, net	**1,478**	1,816	**495**	552	2,307
Share in earnings (losses) of equity accounted investees	**(4)**	15	**(2)**	(1)	12
Profit before taxes on income	**1,474**	1,831	**493**	551	2,319
Taxes on income (Note 5)	**415**	479	**99**	144	598
Profit for the period	**1,059**	1,352	**394**	407	1,721
Earnings per share (NIS)					
Basic earnings per share	**0.38**	0.49	**0.14**	0.15	0.63
Diluted earnings per share	**0.38**	0.49	**0.14**	0.15	0.62

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 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	**1,059**	1,352	**394**	407	1,721
Items of other comprehensive income (loss) (net of tax)	**(6)**	-	**(1)**	(33)	7
Total comprehensive income for the period	**1,053**	1,352	**393**	374	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
Nine months ended September 30, 2016 (Unaudited):							
Balance as at January 1, 2016	**3,874**	**368**	**16**	**390**	**(98)**	**(2,139)**	**2,411**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**1,059**	**1,059**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**-**	**(6)**	**-**	**(6)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(6)**	**1,059**	**1,053**
Transactions with shareholders recognized directly in equity							
Dividends to Company shareholders (see Note 9)	**-**	**-**	**-**	**-**	**-**	**(1,441)**	**(1,441)**
Exercise of options for shares	**4**	**16**	**(16)**	**-**	**-**	**-**	**4**
Balance as at September 30, 2016	**3,878**	**384**	**-**	**390**	**(104)**	**(2,521)**	**2,027**
Nine months ended September 30, 2015 (Unaudited):							
Balance as at January 1, 2015	3,855	253	131	390	(105)	(2,083)	2,441
Profit for the period	-	-	-	-	-	1,352	1,352
Other comprehensive income (loss) for the period, net of tax	-	-	-	-	10	(10)	-
Total comprehensive income for the period	-	-	-	-	10	1,342	1,352
Transactions with shareholders recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(1,777)	(1,777)
Exercise of options for shares	9	61	(61)	-	-	-	9
Balance as at September 30, 2015	3,864	314	70	390	(95)	(2,518)	2,025

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 September 30, 2016 (Unaudited)							
Balance as at July 1, 2016	**3,878**	**384**	**-**	**390**	**(103)**	**(2,250)**	**2,299**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**394**	**394**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(1)**	**394**	**393**
Transactions with shareholders recognized directly in equity							
Dividends to Company shareholders (see Note 9)	**-**	**-**	**-**	**-**	**-**	**(665)**	**(665)**
Balance as at September 30, 2016	**3,878**	**384**	**-**	**390**	**(104)**	**(2,521)**	**2,027**
Three months ended September 30, 2015 (Unaudited)							
Balance as at July 1, 2015	3,860	288	96	390	(72)	(1,982)	2,580
Profit for the period	-	-	-	-	-	407	407
Other comprehensive loss for the period, net of tax	-	-	-	-	(23)	(10)	(33)
Total comprehensive income for the period	-	-	-	-	(23)	397	374
Transactions with shareholders recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(933)	(933)
Exercise of options for shares	4	26	(26)	-	-	-	4
Balance as at September 30, 2015	3,864	314	70	390	(95)	(2,518)	2,025
Year ended December 31, 2015 (Audited)							
Balance as at January 1, 2015	3,855	253	131	390	(105)	(2,083)	2,441
Income 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 as 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

	Nine months ended September 30		Three months ended September 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	**1,059**	1,352	**394**	407	1,721
Adjustments:					
Depreciation and amortization	**1,331**	1,225	**442**	457	1,684
Share in the losses (profits) of equity-accounted investees	**4**	(15)	**2**	1	(12)
Financing expenses, net	**335**	305	**115**	102	307
Profit from gaining control in DBS	**-**	(12)	**-**	-	(12)
Capital gain, net	**(62)**	(172)	**(22)**	(13)	(234)
Income tax expenses	**415**	479	**99**	144	598
Change in trade and other receivables	**116**	196	**53**	51	322
Change in inventory	**7**	6	**2**	6	(20)
Change in broadcasting rights	**9**	2	**8**	13	-
Change in trade and other payables	**(110)**	(174)	**(12)**	21	(271)
Change in provisions	**(12)**	6	**(3)**	(3)	18
Change in employee benefits	**(100)**	-	**(92)**	(1)	110
Change in other liabilities	**(1)**	(10)	**8**	(5)	(9)
Net income tax paid	**(297)**	(337)	**(92)**	(130)	(462)
Net cash from operating activities	**2,694**	2,851	**902**	1,050	3,740
Cash flow used for investing activities					
Purchase of property, plant and equipment	**(901)**	(1,038)	**(290)**	(373)	(1,324)
Investment in intangible assets and deferred expenses	**(180)**	(268)	**(59)**	(54)	(311)
Tax payment for shareholder loans (Note 5.2)	**(461)**	-	**(461)**	-	-
Acquisition of financial assets held for trading and others	**(867)**	(1,229)	**-**	(300)	(1,785)
Proceeds from the sale of financial assets held for trading and others	**711**	2,342	**-**	154	3,260
Proceeds from the sale of property, plant and equipment	**122**	119	**24**	22	151
Cash in a company consolidated for the first time	**-**	299	**-**	-	299
Miscellaneous	**1**	(5)	**2**	(7)	(7)
Net cash from (used in) investment activities	**(1,575)**	220	**(784)**	(558)	283

Condensed Consolidated Interim Statements of Cash Flows (Contd.)

	Nine months ended September 30		Three months ended September 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**	229	**-**	1	1,010
Repayment of debentures and loans	**(1,085)**	(1,116)	**(279)**	(253)	(2,192)
Dividend paid (Note 9)	**(776)**	(844)	**-**	-	(1,777)
Interest paid	**(256)**	(284)	**(32)**	(41)	(494)
Payment to Eurocom DBS for acquisition of DBS loans and shares (Note 4)	**(256)**	(680)	**(198)**	-	(680)
Miscellaneous	**(24)**	(6)	**(9)**	5	5
Net cash used for financing activities	**(736)**	(2,701)	**(518)**	(288)	(4,128)
Net increase (decrease) in cash and cash equivalents	**383**	370	**(400)**	204	(105)
Cash and cash equivalents at beginning of period	**555**	660	**1,338**	826	660
Cash and cash equivalents at end of period	**938**	1,030	**938**	1,030	555

The attached notes are an integral part of these condensed consolidated interim 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 16 – 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 November 22, 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 in the prior year measured in the prior year in 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 statement of income and statement of cash flows for the nine months ended September 30, 2016 include the operating results of DBS for the three months ended March 31, 2015 based on the equity method.

In the financial statements as at September 30, 2015, provisional amounts were included for attribution of excess cost arising from the acquisition. Subsequent to 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:

	September 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 Further to Note 11.2.1 regarding the additional consideration to be paid to Eurocom DBS in accordance with the amount of the carryforward losses of DBS to be utilized for tax purposes and further to the signing of the assessment agreement as described in Note 5.2 below, in September 2016, the Company paid Eurocom DBS an amount of NIS 198 million (including accrued interest) for the first additional consideration (which was subject, among other things, to the final decision regarding taxation of the losses of DBS), based on the agreement with the Tax Authority regarding the losses of DBS as at December 31, 2013. Following the decision regarding the additional and final losses as at December 31, 2014, the additional amount due to Eurocom DBS will be calculated and paid out, and the unpaid amount will continue to bear interest in accordance with the acquisition agreement up to the payment date.

4.2.4 Further to Note 11.2.6 to the Annual Financial Statements and based on the assessment agreement and taxation decision of the Tax Authority (as described in Note 5.2 below), on September 27, 2016, the shareholder loans amounting to NIS 5.319 billion (including shareholder loans acquired from Eurocom DBS Ltd.) provided to DBS up to June 23, 2016, were converted to equity and recognized in the financial statements of DBS as a premium on shares.

4.2.5 Further to Note 17.8 and Note 28.3.2 to the Annual Financial Statements regarding the agreement of DBS with Space Communication Ltd. ("Space"), (a related party), in September 2016, Space reported that to the best of its knowledge, during ground fueling of the launch rocket for the Amos 6 satellite, the launch rocket exploded, resulting in the total loss of the Amos 6 satellite, which was intended to replace the Amos 2 satellite for DBS broadcasts. Based on information received by Space, according to the updated estimate, the Amos 2 satellite is expected to continue broadcasting until the end of the first quarter of 2017. As at the reporting date, DBS broadcasts are continuing regularly, since they are carried out by the Amos 2 and Amos 3 satellites (space segments will be transferred from Amos 2 to Amos 3). If a replacement is not found by the end of operation of the Amos 2 satellite, it may be necessary to remove a limited number of low-audience channels from DBS broadcasts. DBS is assessing, together with Space, the option of obtaining additional space segments beyond the nine space segments that Space undertook to make available to DBS in the event of the failure of the Amos 6 satellite, which would eliminate the need to remove a limited number of channels as stated, as well as the other implications arising from the loss. To the best of DBS's knowledge, Space is taking steps to find alternative capacity.

If an alternative satellite is not found for DBS's broadcasts by the time the Amos 2 satellite stops operating, and until the alternative satellite starts operating, DBS is expected to broadcast via the Amos 3 satellite only. Accordingly, in this period, there will no longer be dual satellites broadcasts for DBS, and these will depend solely on the broadcasting survivability, availability and ability of this satellite.

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

Since the beginning of its operations, DBS has accumulated considerable losses. As a result of these losses, as at September 30, 2016, DBS had an equity deficit and a working capital deficit of NIS 322 million and NIS 580 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. <u>Income tax</u>

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.

In November 2016, the Knesset plenum passed the first reading of the Economic Efficiency Law (Legislation Amendments for Achieving Budget Objectives for 2017 and 2018), 2016, which includes a reduction in the corporate tax rate to 24% in 2017 and 23% in 2018 onwards. If the bill is approved, the deferred tax assets in the financial statements will be reduced and a tax expense of NIS 82 million will be recognized in the year in which the legislation is completed.

5.2 Further to the Note 6.6.2 to the Annual Financial Statements regarding the stipulation that according to the best judgment of the tax assessor for 2006-2010, and the reservation filed by the Company on this assessment, on September 15, 2016, the Company and the Israel Tax Authority signed an assessment agreement ("the Assessment Agreement”) ending the disputes involving the tax assessor’s claims regarding the financing income from the shareholder loans and about the rights and holdings in DBS acquired by the Company (“the Tax Issue”) and regarding the claims of DBS that its losses should be recognized in full, as recorded in its tax reports. The main points of the Assessment Agreement are as follows:

A. The Company will pay tax in the amount of NIS 462 million.

B. The losses of DBS will amount to NIS 5.26 billion as a final assessment up to December 31, 2013. An additional loss will be added to this amount, for the Tax Issue up to June 2015, in the amount of NIS 315 million (NIS 223 million for 2014 and NIS 91 million for 2015).

C. The Company’s aggregate shareholdings and rights in DBS will be considered as equity in the financial statements of DBS and as a capital investment in the financial statements of the Company, and no other income will be recorded for the Company and it will not pay additional tax for the aforesaid.

In addition, the Tax Authority granted preliminary approval for tax purposes for the merger of DBS with and into the Company, in accordance with Section 103(B) of the Income Tax Ordinance ("the Approval"). The main points of the Approval are as follows:

A. The Approval refers to the losses of DBS, referring to Section 103(H) of the Income Tax Ordinance and stipulates that subsequent to the merger, the losses of DBS as of the merger date may be offset against the profits of the absorbing company, provided that in each tax year, it will not be permitted to offset an amount exceeding 12.5% (spread over eight years) of the total losses of the transferring company and the absorbing company, or 50% of the taxable income of the absorbing company in that tax year prior to offsetting the loss from previous years, whichever is lower.

B. The Approval was granted in accordance with the applicable tax laws in effect at the time. Without derogating from the amount of the losses set out in the Assessment Agreement, if there is any change in the applicable tax laws, the Income Tax Authority will reconsider the taxation decision in accordance with the tax laws applicable at the merger date. However, it was clarified that any change in the tax laws that does not require a change in the Approval will not result in any such change.

C. The Approval is in effect until December 31, 2019. The Income Tax Authority will extend the date of the Approval each year by an additional year, subject to the declaration of the Company and DBS that there has been no material change in their business affairs and subject to the terms of the taxation decision, and subject to the interpretation given to the tax laws, provided that such interpretation is published in writing.

The Assessment Agreement and the taxation decision did not affect the Company's financial results in the reporting period, since, as stated in the financial statements as of December 31, 2015, the effect is included in the financial statements as of such date due to the agreement in principle that was reached with the tax assessor. On September 29, 2016, the Company paid the agreed tax.

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 marketable 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 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, credit facilities amounting to NIS 900 million were made available for the Company, based on the undertakings 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, among other things, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include appropriate provisions of NIS 83 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 September 30, 2016 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 5.8 billion. There is also additional exposure of NIS 1.6 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 description of the Group's contingent liabilities as at September 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		
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.	50	3,406	1,583
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 of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Group in respect of recognition of various salary components as components for calculation of payments to Group employees, some of which have wide ramifications.	8	108	1
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	213	-
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	47	2
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.	8	15	-
Total Legal Claims against the Company and subsidiaries		83	5,790	1,586

* 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, two claims without a monetary estimate and claims amounting to NIS 20 million were filed against Group companies. At the approval date of the financial statements, the chances of these claims cannot yet be assessed. In addition, claims with exposure of NIS 685 million and a claim without a monetary estimate came to an end.

8. Employee Benefits

Further to Note 15.5 to the Annual Financial Statements, on November 22, 2016, the Company's Board of Directors allocated NIS 78.5 million for the voluntary redundancy of 58 employees, in accordance with the terms of the collective agreement of December 2006, as amended in August 2015. In view of the above, the Company is expected to include an expense of NIS 78.5 million in its financial statements for the fourth quarter of 2016

9. Capital

9.1 Below are details of the Company's equity:

Registered			Issued and paid up		
September 30, 2016	September 30, 2015	December 31, 2015	September 30, 2016	September 30, 2015	December 31, 2015
(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
2,825,000,000	2,825,000,000	2,825,000,000	**2,765,444,146**	2,752,517,340	2,762,148,573

9.2 On May 3, 2016, the general meeting of the Company's shareholders approved, further to the recommendation of the Company's Board of Directors of March 16, 2016, the 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.

9.3 On August 30, 2016, the general meeting of the Company's shareholders, further to the recommendation of the Company's Board of Directors on August 3, 2016, approved a distribution of a cash dividend to the shareholders of the Company in the amount of NIS 665 million (representing NIS 0.2404677 per share on the date of record). The dividend was paid on October 6, 2016.

10. Revenues

	Nine months ended September 30		Three months ended September 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	**1,104**	1,169	**367**	386	1,543
Internet - infrastructure	**1,163**	1,149	**388**	379	1,530
Transmission and data communication	**630**	625	**208**	210	840
Other services	**168**	166	**53**	53	212
	3,065	3,109	**1,016**	1,028	4,125
Cellular telephony					
Cellular services and terminal equipment	**1,347**	1,482	**457**	507	1,948
Sale of terminal equipment	**598**	649	**180**	206	884
	1,945	2,131	**637**	713	2,832
International communications, internet and NEP services	**1,106**	1,099	**369**	360	1,487
Multi-channel television	**1,307**	885	**434**	446	1,333
Other	**157**	155	**54**	55	208
	7,580	7,379	**2,510**	2,602	9,985

11. General and Operating Expenses

	Nine months ended September 30		Three months ended September 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	**594**	624	**177**	193	880
Interconnectivity and payments to domestic and international operators	**634**	689	**211**	236	909
Maintenance of buildings and sites	**450**	467	**151**	161	616
Marketing and general	**525**	453	**180**	164	640
Content services	**466**	304	**165**	147	458
Services and maintenance by sub-contractors	**192**	141	**68**	52	199
Vehicle maintenance	**123**	123	**42**	47	167
	2,984	2,801	**994**	1,000	3,869

12. Other Operating Income, Net

	Nine months ended September 30		Three months ended September 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)	**(62)**	(172)	**(22)**	(13)	(234)
Provision for severance pay in voluntary redundancy	**18**	1	**3**	-	117
Others	**11**	-	**(7)**	-	22
Total operating revenue, net	**(33)**	(171)	**(26)**	(13)	(95)

13. Agreements

Further to Note 17.2 to the Annual Financial Statements, in October 2016 the new agreement between Pelephone and Apple Distribution International ("Apple") for the acquisition and distribution of iPhone devices came into effect. In accordance with the agreement, Pelephone is required to purchase a minimum number of devices for an additional three years at the prices in effect at the manufacturer at the actual purchase date.

14. Transactions with interested and related parties

14.1 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, as from June 1, 2016 (the termination date of the current management agreement) through to May 31, 2019, unless one of the parties gives three-months' notice for termination of the agreement.

14.2 For information about the contingent consideration to Eurocom DBS Ltd. for acquisition of DBS, see Note 4.

15. Financial instruments

15.1. Fair value

15.1.1 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.

	September 30, 2016		September 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)	**2,782**	**2,889**	2,216	2,375	1,904	2,044
Debentures issued to the public (CPI-linked)	**3,519**	**3,707**	3,486	3,661	3,816	4,006
Debentures issued to the public (unlinked)	**1,610**	**1,645**	903	953	1,279	1,340
Debentures issued to financial institutions (CPI-linked)	**1,101**	**1,099**	1,757	1,845	1,310	1,314
Debentures issued to financial institutions (unlinked)	**410**	**451**	410	470	403	458
	9,422	**9,791**	8,772	9,304	8,712	9,162

15.1.2 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.

	September 30, 2016	September 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**	194	193
Level 2 – forward contracts	**(184)**	(128)	(157)
Level 3 – contingent consideration for a business combination	**(35)**	(217)*	(233)

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

16. Segment Reporting

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.

	Nine months ended September 30, 2016 (Unaudited):						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multichannel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,063	1,945	1,106	1,306	154	-	7,574
Inter-segment revenues	238	33	50	1	14	(330)	6
Total revenues	3,301	1,978	1,156	1,307	168	(330)	7,580
Depreciation and amortization	556	290	103	225	13	144	1,331
Segment results – operating profit (loss)	1,595	36	129	196	(24)	(143)	1,789
Finance expenses	326	2	11	530	1	(510)	360
Financing income	(27)	(39)	(4)	(8)	(5)	34	(49)
Total financing expenses (income), net	299	(37)	7	522	(4)	(476)	311
Segment profit (loss) after financing expenses, net	1,296	73	122	(326)	(20)	333	1,478
Share in profits (losses) of associates	-	-	1	-	(3)	(2)	(4)
Segment profit (loss) before taxes on income	1,296	73	123	(326)	(23)	331	1,474
Taxes on income	299	15	31	1	-	69	415
Segment results – net profit (loss)	997	58	92	(327)	(23)	262	1,059
Segment assets	8,086	3,293	1,212	1,590	199	879	15,259
Segment liabilities	12,670	571	446	1,912	99	(1,022)	14,676

	Nine months ended September 30, 2015 (Unaudited):						
	Domestic fixed-line communication	**Cellular communications**	**International communications and internet services**	**Multichannel television**	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	3,108	2,131	1,097	1,324	149	(440)	7,369
Inter-segment revenues	211	46	76	1	16	(340)	10
Total revenues	3,319	2,177	1,173	1,325	165	(780)	7,379
Depreciation and amortization	540	319	98	234	10	24	1,225
Segment results – operating profit	1,721	146	182	203	(8)	(162)	2,082
Finance expenses	333	3	11	468	1	(445)	371
Financing income	(20)	(42)	(5)	(22)	(13)	(3)	(105)
Total financing expenses (income), net	313	(39)	6	446	(12)	(448)	266
Segment profit (loss) after financing expenses, net	1,408	185	176	(243)	4	286	1,816
Share in profits (losses) of associates	-	-	-	-	(1)	16	15
Segment profit (loss) before taxes on income	1,408	185	176	(243)	3	302	1,831
Taxes on income	424	45	46	1	-	(37)	479
Segment results – net profit (loss)	984	140	130	(244)	3	339	1,352

	Three months ended September 30, 2016 (Unaudited):						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multichannel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,013	638	369	434	53	-	2,507
Inter-segment revenues	76	11	15	-	7	(106)	3
Total revenues	1,089	649	384	434	60	(106)	2,510
Depreciation and amortization	188	92	35	75	5	47	442
Segment results – operating profit (loss)	519	27	45	62	(7)	(47)	599
Finance expenses	102	-	4	204	1	(192)	119
Financing income	(9)	(14)	(2)	-	-	10	(15)
Total financing expenses (income), net	93	(14)	2	204	1	(182)	104
Segment profit (loss) after financing expenses, net	426	41	43	(142)	(8)	135	495
Share in profits (losses) of associates	-	-	1	-	(1)	(2)	(2)
Segment profit (loss) before taxes on income	426	41	44	(142)	(9)	133	493
Taxes on income	83	9	11	-	-	(4)	99
Segment results – net profit (loss)	343	32	33	(142)	(9)	137	394

	Three months ended September 30, 2015 (Unaudited):						
	Domestic fixed-line communication	**Cellular communications**	**International communications and internet services**	**Multichannel television**	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	1,029	713	361	446	49	-	2,598
Inter-segment revenues	72	16	28	-	9	(121)	4
Total revenues	1,101	729	389	446	58	(121)	2,602
Depreciation and amortization	184	109	33	78	4	49	457
Segment results – operating profit (loss)	512	61	59	74	(3)	(51)	652
Finance expenses	142	-	4	168	-	(208)	106
Financing income	(4)	(11)	(1)	(19)	(4)	33	(6)
Total financing expenses (income), net	138	(11)	3	149	(4)	(175)	100
Segment profit (loss) after financing expenses, net	374	72	56	(75)	1	124	552
Share in losses of associates	-	-	-	-	(1)	-	(1)
Segment profit (loss) before taxes on income	374	72	56	(75)	-	124	551
Taxes on income	118	17	15	-	-	(6)	144
Segment results – net profit (loss)	256	55	41	(75)	-	130	407

	Year ended December 31, 2015 (Audited)						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multichannel television	Other	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
Depreciation and amortization	725	419	132	322	13	73	1,684
Segment results – operating profit (loss)	2,148	157	240	250	(15)	(210)	2,570
Finance 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 taxes on income	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
Segment assets	7,311	3,269	1,160	1,667	659	1,163	15,229
Segment liabilities	12,117	513	343	6,685	104	(5,494)	14,268

Adjustment of profit or loss for reporting segments

	Nine months ended September 30		Three months ended September 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	**1,956**	2,252	**653**	706	2,795
Financing expenses, net	**(311)**	(266)	**(104)**	(100)	(263)
Amortization of surplus cost for intangible assets	**(140)**	(94)	**(47)**	(47)	(150)
Share in profits (losses) of associates	**(4)**	15	**(2)**	(1)	12
Loss for operations classified in other categories and other adjustments	**(27)**	(17)	**(7)**	(7)	(16)
Cancellation of results for a segment classified as an associate (up to gain of control)	**-**	(59)	**-**	-	(59)
Profit before taxes on income	**1,474**	1,831	**493**	551	2,319

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

17.1. Pelephone Communications Ltd.

Selected data from the statement of financial position

	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**1,251**	1,503	1,420
Non-current assets	**2,042**	1,913	1,854
Total assets	**3,293**	3,416	3,274
Current liabilities	**493**	576	448
Long-term liabilities	**78**	98	70
Total liabilities	**571**	674	518
Capital	**2,722**	2,742	2,756
Total liabilities and equity	**3,293**	3,416	3,274

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 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	**1,379**	1,522	**468**	521	1,999
Revenues from sales of terminal equipment	**599**	655	**181**	208	891
Total revenues from services and sales	**1,978**	2,177	**649**	729	2,890
Cost of services and sales	**1,675**	1,781	**536**	586	2,383
Gross profit	**303**	396	**113**	143	507
Selling and marketing expenses	**198**	179	**65**	59	247
General and administrative expenses	**69**	71	**21**	23	98
Other operating expenses	**-**	-	**-**	-	5
	267	250	**86**	82	350
Operating profit	**36**	146	**27**	61	157
Finance expenses	**2**	3	**-**	-	4
Financing income	**(39)**	(42)	**(14)**	(11)	(53)
Financing income, net	**(37)**	(39)	**(14)**	(11)	(49)
Profit before taxes on income	**73**	185	**41**	72	206
Taxes on income	**15**	45	**9**	17	55
Profit for the period	**58**	140	**32**	55	151

17.2. Bezeq International Ltd.

Selected data from the statement of financial position

	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**521**	520	456
Non-current assets	**702**	725	714
Total assets	**1,223**	1,245	1,170
Current liabilities	**348**	397	314
Long-term liabilities	**98**	64	29
Total liabilities	**446**	461	343
Capital	**777**	784	827
Total liabilities and equity	**1,223**	1,245	1,170

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 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	**1,156**	1,173	**384**	389	1,578
Operating expenses	**760**	751	**256**	251	1,015
Gross profit	**396**	422	**128**	138	563
Selling and marketing expenses	**168**	156	**55**	49	209
General and administrative expenses	**85**	86	**28**	29	116
Other expenses (income), net	**14**	(2)	**-**	1	(2)
	267	240	**83**	79	323
Operating profit	**129**	182	**45**	59	240
Finance expenses	**11**	11	**4**	4	15
Financing income	**(4)**	(5)	**(2)**	(1)	(7)
Financing expenses, net	**7**	6	**2**	3	8
Share in the profits of equity-accounted investees	**1**	-	**1**	-	
Profit before taxes on income	**123**	176	**44**	56	232
Taxes on income	**31**	46	**11**	15	60
Profit for the period	**92**	130	**33**	41	172

17.3. DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

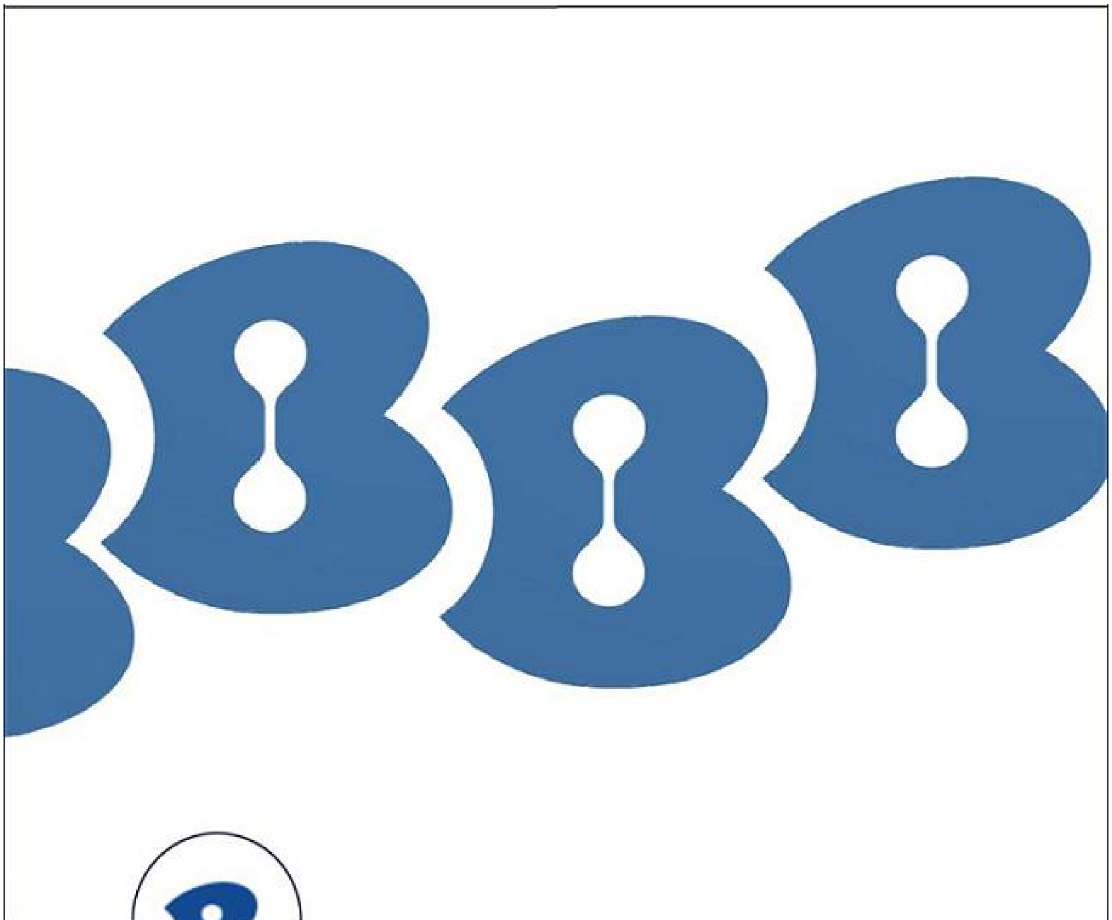
	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**313**	500*	319
Non-current assets	**1,277**	1,372	1,348
Total assets	**1,590**	1,872	1,667
Current liabilities	**893**	954*	903
Long-term liabilities	**696**	1,373	892
Loans from shareholders	**323**	4,453	4,890
Total liabilities	**1,912**	6,780	6,685
Capital deficit	**(322)**	(4,908)	(5,018)
Total liabilities and capital deficit	**1,590**	1,872	1,667

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 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	**1,307**	1,325	**434**	446	1,774
Operating expenses	**947**	948	**314**	314	1,289
Gross profit	**360**	377	**120**	132	485
Selling and marketing expenses	**97**	107	**35**	37	140
General and administrative expenses	**67**	67	**23**	21	95
	164	174	**58**	58	235
Operating profit	**196**	203	**62**	74	250
Finance expenses	**65**	70	**26**	13	122
Financing expenses for shareholder loans, net	**465**	398	**178**	155	513
Financing income	**(8)**	(22)	**-**	(19)	(32)
Financing expenses, net	**522**	446	**204**	149	603
Loss before taxes on income	**(326)**	(243)	**(142)**	(75)	(353)
Taxes on income	**1**	1	**-**	-	1
Loss for the period	**(327)**	(244)	**(142)**	(75)	(354)

* Reclassified

Bezeq - The Israel Telecommunication Corp. Ltd.
Board of Directors' Report on the State of the Company's Affairs for the Period Ended September 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 nine months ended September 30, 2016 ("the 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:

	1-9.2016	1-9.2015	Increase (decrease)		7-9.2016	7-9.2015	Increase (decrease)	
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%
Profit	**1,059**	1,352	(293)	(21.7)	**394**	407	(13)	(3.2)
EBITDA (operating profit before depreciation and amortization)	**3,120**	3,307	(187)	(5.7)	**1,041**	1,109	(68)	(6.1)

The statement of income and statement of cash flows for the Period and the Quarter include the results of the Multi-Channel Television segment. The statement of income and statement of cash flows for the nine months ended September 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, compared to the corresponding period 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 lower operating profits in the Cellular Communications segment due to decreased revenues. Results were also affected by changes in taxes on income and by DBS's Consolidation at the end of the first quarter of 2015, as explained below.

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

	Sept 30, 2016	Sept 30, 2015	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Cash and current investments	**1,846**	2,156	(310)	(14.4)	The decrease was mainly attributable to the Cellular Communications and Multi-Channel Television segments.
Current trade and other receivables	**2,218**	2,423	(205)	(8.5)	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	**96**	90	6	6.7	
Non-current trade and other receivables	**641**	643	(2)	(0.3)	
Property, plant and equipment	**6,840**	6,975	(135)	(1.9)	The decrease was mainly attributable to the Cellular Communications and Multi-Channel Television segments, and was partially offset by an increase in the Domestic Fixed-Line Communications segment.
Intangible assets	**3,121**	3,389*	(268)	(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	**1,103**	1,200*	(97)	(8.1)	The decrease in tax assets was mainly a result of a decrease in the corporate tax rate, from 26.5% to 25%, on January 1, 2016. (See Note 5.1 to the financial statements).
Other non-current assets	**838**	846	(8)	(0.9)	
Total assets	**16,703**	17,722	(1,019)	(5.7)	

1.1. Financial Position (Contd.)

	Sept 30, 2016	Sept 30, 2015	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Debt to financial institutions and debenture holders	**11,246**	11,077	169	1.5	The increase was due to net debenture issuance and receipt of net loans in the Domestic Fixed-Line Communications segment, and was mostly offset by debenture repayments in the Multi-Channel Television segment.
Trade and other payables	**1,599**	1,822	(223)	(12.2)	The decrease was reported across all Group segments.
Current and deferred tax liabilities	**252**	779	(527)	(67.7)	The Company paid NIS 461 million in taxes under an agreement between the Company and the tax authorities (see Note 5.2 to the financial statements).
Liabilities towards Eurocom D.B.S. Ltd.	**6**	217*	(211)	(97.2)	Payments to Eurocom D.B.S. for purchase of DBS's loans and shares (see note 4.2 to the financial statements).
Dividends payable	**665**	933	(268)	(28.7)	For more information, see Note 9 to the financial statements.
Other liabilities	**908**	869	39	4.5	
Total liabilities	**14,676**	15,697	(1,021)	(6.5)	
Total equity	**2,027**	2,025	2	0.1	Equity comprises 12.1% of the balance sheet total, as compared to 11.4% of the balance sheet total on September 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

	1-9.2016	1-9.2015	Increase (decrease)		7-9.2016	7-9.2015	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**7,580**	7,379	201	2.7	**2,510**	2,602	(92)	(3.5)	The increase in the present Period was due to DBS's Consolidation, to the amount of NIS 422 million, starting from the second quarter of 2015. In contrast, revenues in the reporting Period and Quarter were down across the Group's main segments, mainly in the Cellular Communications segment.
Depreciation and amortization	**1,331**	1,225	106	8.7	**442**	457	(15)	(3.3)	The increase in the present Period was due to DBS's Consolidation, to the amount of NIS 67 million, and a write-down of excess acquisition costs incurred when assuming control.
Salaries	**1,509**	1,442	67	4.6	**501**	506	(5)	(1.0)	The increase in the present Period was mainly due to DBS's Consolidation to the amount of NIS 55 million.
General and operating expenses	**2,984**	2,801	183	6.5	**994**	1,000	(6)	(0.6)	The increase in the present Period was due to DBS's Consolidation to the amount of NIS 248 million. In contrast, expenses were down in the Group's other primary segments.
Other operating income, net	**33**	171	(138)	(80.7)	**26**	13	13	100.0	The decrease in net income in the present Period was mainly due to a decrease in capital gains on real estate sales in the Domestic Fixed-Line Communications segment.
Operating profit	**1,789**	2,082	(293)	(14.1)	**599**	652	(53)	(8.1)	
Finance expenses, net	**311**	266	45	16.9	**104**	100	4	4.0	In the same period last year, the Company recognized NIS 21 million in finance income on shareholder loans to DBS, which are not included as of April 1, 2015, following the consolidation. Furthermore, net finance expenses were up in the Multi-Channel Television segment.
Share in the gains (losses) of investees	**(4)**	15	(19)	-	**(2)**	(1)	(1)	100.0	The last-year period included the effect of DBS's results in the first quarter of 2015.
Taxes on income	**415**	479	(64)	(13.4)	**99**	144	(45)	(31.3)	The decrease in tax expenses as detailed below for the Domestic Fixed-Line Communications segment was offset in the reporting Period to the amount of NIS 64 million following a reduction of a tax asset, due to the corporate tax rate reduction from 26.5% to 25% starting January 1, 2016.
Profit for the period	**1,059**	1,352	(293)	(21.7)	**394**	407	(13)	(3.2)	

1.2.2 Operating segments

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

	1-9.2016		1-9.2015		7-9.2016		7-9.2015	
	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	**3,301**	**43.5**	3,319	45.0	**1,089**	**43.4**	1,101	42.3
Cellular Communications	**1,978**	**26.1**	2,177	29.5	**649**	**25.8**	729	28.0
International Communications, Internet and NEP Services	**1,156**	**15.3**	1,173	15.9	**384**	**15.3**	389	15.0
Multi-Channel Television	**1,307**	**17.2**	1,325	17.9	**434**	**17.3**	446	17.1
Other and offsets	**(162)**	**(2.1)**	(615)*	(8.3)	**(46)**	**(1.8)**	(63)	(2.4)
Total	**7,580**	**100.0**	7,379	100.0	**2,510**	**100.0**	2,602	100.0

	1-9.2016		1-9.2015		7-9.2016		7-9.2015	
	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	**1,595**	**48.3**	1,721	51.9	**519**	**47.7**	512	46.5
Cellular Communications	**36**	**1.8**	146	6.7	**27**	**4.2**	61	8.4
International Communications, Internet and NEP Services	**129**	**11.2**	182	15.5	**45**	**11.7**	59	15.2
Multi-Channel Television	**196**	**15.0**	203	15.3	**62**	**14.3**	74	16.6
Other and offsets	**(167)**	**-**	(170)*	-	**(54)**	**-**	(54)	-
Consolidated operating profit/ % of Group revenues	**1,789**	**23.6**	2,082	28.2	**599**	**23.9**	652	25.1

(*) 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

B Domestic Fixed-Line Communications Segment

	1-9.2016 NIS millions	1-9.2015 NIS millions	Increase (decrease) NIS millions	%	7-9.2016 NIS millions	7-9.2015 NIS millions	Increase (decrease) NIS millions	%	Explanation
Fixed-line telephony	**1,133**	1,194	(61)	(5.1)	**375**	395	(20)	(5.1)	The decrease was due to lower average revenues per phone line and a decrease in the number of lines.
Internet - infrastructure	**1,191**	1,155	36	3.1	**399**	385	14	3.6	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	**977**	970	7	0.7	**315**	321	(6)	(1.9)	
Total revenues	**3,301**	3,319	(18)	(0.5)	**1,089**	1,101	(12)	(1.1)	
Depreciation and amortization	**556**	540	16	3.0	**188**	184	4	2.2	
Salaries	**672**	685	(13)	(1.9)	**225**	232	(7)	(3.0)	The decrease was due to employee retirements and an increase in salaries attributed for investment, offset by salary increases.
General and operating expenses	**525**	542	(17)	(3.1)	**183**	186	(3)	(1.6)	The decrease was mainly due to a reduction in building maintenance and interconnect fees to telecom operators.
Other operating income, net	**47**	169	(122)	(72.2)	**26**	13	13	100.0	Capital gains on real estate sales were down in the reporting Period (and up in the Quarter).
Operating profit	**1,595**	1,721	(126)	(7.3)	**519**	512	7	1.4	
Finance expenses, net	**299**	313	(14)	(4.5)	**93**	138	(45)	(32.6)	Net finance expenses were down in the Quarter, mainly due to the last-year quarter including finance expenses on the fair value of future long-term bank credit.
Taxes on income	**299**	424	(125)	(29.5)	**83**	118	(35)	(29.7)	Tax expenses were down due to the decrease in pre-tax income, the reduction in the corporate tax rate, the Company ceasing its tax provisions for shareholder loans to DBS after reaching an arrangement with the tax authorities, and adjusting tax balances for previous years.
Segment profit	**997**	984	13	1.3	**343**	256	87	34.0	

1.2.2 Operating segments

C Cellular Communications segment

	1-9.2016	1-9.2015	Increase (decrease)		7-9.2016	7-9.2015	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Services	**1,379**	1,522	(143)	(9.4)	**468**	521	(53)	(10.2)	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. Furthermore, in the last-year quarter, the Company received a one-time rebate of NIS 18 million from the tax authorities.
Equipment sales	**599**	655	(56)	(8.5)	**181**	208	(27)	(13.0)	The decrease was mainly due to a a change in the sales mix, reflected in lower sales volumes of high-end cellular devices and more sales of lower-end cellular devices. Sales of accessories, electronic products and non-cellular multimedia products were also up.
Total revenues	**1,978**	2,177	(199)	(9.1)	**649**	729	(80)	(11.0)	
Depreciation and amortization	**290**	319	(29)	(9.1)	**92**	109	(17)	(15.6)	
Salaries	**284**	282	2	0.7	**94**	90	4	4.4	
General and operating expenses	**1,368**	1,430	(62)	(4.4)	**436**	469	(33)	(7.0)	The decrease was mainly due to a decrease in the cost of handset sales, mirroring the change in the sales mix as aforesaid. The decrease was further due to a reduction in network operating expenses and expenses to telecom operators. This decrease in expenses was partially offset by increased distribution fees due to growth in the number of subscribers migrating to Pelephone, and in the Period was also due to an increase in frequency fees following the purchase of 4G LTE frequencies.
Operating profit	**36**	146	(110)	(75.3)	**27**	61	(34)	(55.7)	
Finance income, net	**37**	39	(2)	(5.1)	**14**	11	3	27.3	
Taxes on income	**15**	45	(30)	(66.7)	**9**	17	(8)	(47.1)	
Segment profit	**58**	140	(82)	(58.6)	**32**	55	(23)	(41.8)	

1.2.2 Operating segments

D International Communications, Internet and NEP Services

	1-9.2016	1-9.2015	Increase (decrease)		7-9.2016	7-9.2015	Increase (decrease)		
	NIS millions	**NIS millions**	**NIS millions**	**%**	**NIS millions**	**NIS millions**	**NIS millions**	**%**	**Explanation**
Revenues	**1,156**	1,173	(17)	(1.4)	**384**	389	(5)	(1.3)	The decrease was due to decreased revenues from call transfers 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 revenues from internet services, due to growth in the number of subscribers and higher revenues from PBX sales.
Depreciation and amortization	**103**	98	5	5.1	**35**	33	2	6.1	
Salaries	**248**	226	22	9.7	**83**	75	8	10.7	The increase was mainly due to salary updates after signing the collective agreement in the first quarter of 2016.
General and operating expenses	**662**	669	(7)	(1.1)	**221**	221	-	-	The decrease in the Period was due to a reduction in the cost of call transfers between global operators (hubbing) and international call expenses, offset by higher internet service costs corresponding to the above revenues.
Other finance expenses (income)	**14**	(2)	16	-	**-**	1	(1)	(100)	Other expenses were attributable to the collective labor agreement signed in the first quarter of 2016.
Operating profit	**129**	182	(53)	(29.1)	**45**	59	(14)	(23.7)	
Finance expenses, net	**7**	6	1	16.7	**2**	3	(1)	(33.3)	
Share in the earnings of associates	**1**	-	1	-	**1**	-	1	-	
Tax expenses	**31**	46	(15)	(32.6)	**11**	15	(4)	(26.7)	
Segment profit	**92**	130	(38)	(29.2)	**33**	41	(8)	(19.5)	

1.2.2 Operating segments

E Multi-Channel Television

	1-9.2016	1-9.2015	Increase (decrease)		7-9.2016	7-9.2015	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**1,307**	1,325	(18)	(1.4)	**434**	446	(12)	(2.7)	The decrease was mainly due to a decrease in the average number of subscribers.
Depreciation and amortization	**225**	234	(9)	(3.8)	**75**	78	(3)	(3.8)	
Salaries	**186**	200	(14)	(7.0)	**64**	69	(5)	(7.2)	
General and operating expenses	**700**	688	12	1.7	**233**	225	8	3.6	
Operating profit	**196**	203	(7)	(3.4)	**62**	74	(12)	(16.2)	
Finance expenses (income), net	**57**	48	9	18.8	**26**	(6)	32	-	Expenses were up mainly due to a change in the fair value of financial assets. Furthermore, data for the last-year quarter include finance income from a reduction in the interest rate on the debentures. This increase was partially offset by lower interest and debenture discount expenses following the early repayment of the 2012 Debentures.
Finance expenses for shareholder loans, net	**465**	398	67	16.8	**178**	155	23	14.8	The increase was mainly due to higher interest and discounting expenses.
Tax expenses	**1**	1	-	-	**-**	-	-	-	
Segment loss	**(327)**	(244)	(83)	34.0	**(142)**	(75)	(67)	89.3	

1.3 Cash flow

	1-9.2016	1-9.2015	Change		7-9.2016	7-9.2015	Change		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Net cash from operating activities	**2,694**	2,851	(157)	(5.5)	**902**	1,050	(148)	(14.1)	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. The decrease was further attributable to the Domestic Fixed-Line Communications segment, due to changes in working capital. The decrease was partially offset by DBS's Consolidation to the amount of NIS 171 million. Net cash for the Quarter was down mainly due to Domestic Fixed-Line Communications operations, due to changes in working capital (mainly employee retirement payments).
Net cash from (used in) investing activities	**(1,575)**	220	(1,795)	-	**(784)**	(558)	(226)	40.5	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 in the reporting Period, a tax payment on finance income from shareholder loans of NIS 461 million in the present 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	**(736)**	(2,701)	1,965	(72.8)	**(518)**	(288)	(230)	79.9	The decrease in net cash used in financing activities in the present Period was mainly due to cash inflows from a debenture issuance and receipt of loans in the Domestic Fixed-Line Communications segment 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 last-year period. Furthermore, payment of NIS 256 million was made to Eurocom D.B.S in the present Period (of which NIS 198 million in the present Quarter) for the purchase of DBS's shares and loans, as compared to NIS 680 million paid in the last-year period.
Net increase (decrease) in cash	**383**	370	13	3.5	**(400)**	204	(604)	-	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 11,030 million.

Supplier credit: NIS 921 million.

Short-term credit to customers: NIS 2,033 million. Long-term credit to customers: NIS 484 million.

1.3. Cash Flows (contd.)

As of September 30, 2016, the Group had a working capital deficit of NIS 783 million, as compared to a working capital deficit of NIS 1,333 million on September 30, 2015.

According to its separate financial statements, the Company had a working capital deficit of NIS 1,163 million as of September 30, 2016, as compared to a working capital deficit of NIS 2,398 million on September 30, 2015.

This reduction in the working capital deficit was mainly due to a decrease in current liabilities in the Domestic Fixed-Line Communications segment, including a decrease in tax liabilities, dividends payable and liabilities to Eurocom D.B.S. Ltd., and in the Company's separate financial statements was also attributable to the repayment of a loan from a subsidiary.

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/loans 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 September 30, 2016 do not differ materially from sensitivity analysis data as of December 31, 2015.

3. Disclosure Concerning the Company's Financial Reporting

3.1 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.

3.2 Material events subsequent to the financial statements' date

On November 22, 2016, the Company's Board of Directors approved a budget of NIS 78.5 million for early retirement of 58 employees under an early pension plan (see Note 8 to 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 expansion of this Series, total liabilities for Debentures (Series 9) became 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
Revaluated par value as of September 30, 2016	-	NIS 443,209,624 The liability became immaterial compared to the Company's overall liabilities balance
Fair and market value as of September 30, 2016	-	NIS 466,965,660

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 supplementary 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 September 30, 2016, see the Company's reporting form on the MAGNA system, dated November 23, 2016.

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

Shaul Elovitch Chairman of the Board	Stella Handler CEO

Signed: November 22, 2016

Exhibit 99.3

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

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. Moreover, further to the Company entering into a tax assessment agreement with the Tax Authority and a taxation decision in the matter of financing income, shareholders loans, the losses and merger of DBS, on September 27, 2016 under the terms of the Purchase Transaction, the Company paid the first additional consideration component (which is contingent, inter alia, on obtaining a final ruling regarding the taxation of DBS's losses). On this, see also the Company's Immediate Report dated September 25, 2016, included here by way of reference and the update to Section 2.14 in this report, as well as Notes 4 and 5 in the Company's financial statements for the period ended September 30, 2016.

Section 1.4 - Dividend distribution

For information about a dividend distribution in the amount of NIS 776 million in respect of profits in the second half of 2015 that was approved by a general meeting of the Company's shareholders on May 3, 2016, and in connection with a dividend distribution in the amount of NIS 665 million in respect of profits in the first half of 2016 that was approved by the general meeting of the Company's shareholders on August 30, 2016, see Note 9 to the Company's financial statements for the period ended September 30, 2016. The outstanding distributable profit at the report date is NIS 406 million[2] (surpluses accumulated in the last two years after reducing 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)

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenues (NIS million)	1,089	1,100	1,112	1,088	1,101	1,105	1,113
Operating profit (NIS million)	519	540	536	427	512	662	547
Depreciation and amortization (NIS million)	188	185	183	185	184	180	176
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	707	725	719	612	696	842	723
Net profit (NIS million)	343	326	328	340	256	382	346
Cash flow from operating activities (NIS million)	526	517	539	668	686	456	548
Payments for investments in property, plant & equipment and intangible assets (NIS million)	207	227	195	197	230	191	231
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	22	54	41	33	21	80	12
Free cash flow (NIS million) (2)	341	344	385	504	477	345	329
Number of active subscriber lines at the end of the period (in thousands)(3)	2,137	2,151	2,167	2,181	2,193	2,204	2,208
Average monthly revenue per line (NIS) (ARPL) (4)	58	58	59	60	60	60	61
Number of outgoing minutes (in millions)	1,297	1,257	1,316	1,379	1,373	1,396	1,459
Number of incoming minutes (in millions)	1,382	1,314	1,348	1,403	1,410	1,386	1,429
Number of active subscriber lines at the end of the period (in thousands)(7)	1,539	1,521	1,503	1,479	1,448	1,418	1,390
Number of active subscriber lines at the end of the period - wholesale (in thousands) (7)	347	323	290	244	177	78	11
Average monthly revenue per Internet subscriber (NIS) - retail	89	90	91	89	88	88	87
Average bundle speed per Internet subscriber (Mbps)(5)	41.8	40.2	38.9	37.8	36.7	34.9	33.2
Churn rate, telephony subscribers (6)	2.6%	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

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue from services (NIS million)	468	456	455	477	521	502	499
Revenue from sale of terminal equipment (NIS million)	181	202	216	236	208	219	228
Total revenue (NIS million)	649	658	671	713	729	721	727
Operating profit (NIS million)	27	8	1	11	61	53	32
Depreciation and amortization (NIS million)	92	95	104	100	109	106	104
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	119	103	105	111	170	159	136
Net profit (NIS million)	32	13	13	11	55	49	36
Cash flow from operating activities (NIS million)	152	180	185	14	163	202	351
Payments for investments in property, plant and equipment and intangible assets (NIS million)	64	63	51	65	90	199	72
Free cash flow (NIS million) (1)	88	117	134	(51)	73	3	279
Number of subscribers at the end of the period (thousands) (2) (5)	2,348	2,260	2,692	2,651	2,569	2,566	2,565
Average monthly revenue per subscriber (NIS) (ARPU) (3)(6)	68	68	57	60	68	65	65
Churn rate (4)	6.1%	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 Internet 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 on the write-off of the CDMA subscribers. In Q2, the number of Pelephone subscribers increased by 67,000 while in contrast Pelephone wrote-off 499,000 subscribers, as noted in Section 3.4.

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

C. Bezeq International

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenues (NIS million)	384	377	395	405	389	391	393
Operating profit (NIS million)	45	47	37	58	59	62	61
Depreciation and amortization (NIS million)	35	35	33	35	33	32	32
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	80	82	70	93	92	94	93
Net profit (NIS million)	33	33	26	42	41	45	44
Cash flow from operating activities (NIS million)	65	69	49	96	69	74	62
Payments for investments in property, plant and equipment and intangible assets (NIS million) (2)	24	33	37	21	28	26	53
Free cash flow (NIS million) (1)	41	36	12	75	41	48	9
Churn rate (3)	5.5%	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

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenues (NIS million)	434	434	439	449	446	439	440
Operating profit (NIS million)	62	77	57	47	74	70	59
Depreciation and amortization (NIS million)	75	74	76	88	78	80	76
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	137	151	133	135	152	150	135
Net profit (loss) (NIS million)	(142)	(114)	(71)	(110)	(75)	(166)	(3)
Cash flow from operating activities (NIS million)	154	110	158	105	145	106	149
Payments for investments in property, plant and equipment and intangible assets (NIS million)	50	58	59	43	75	82	65
Free cash flow (NIS million) (1)	104	52	99	62	70	24	84
Number of subscribers (at the end of the period, in thousands) (2)	618	623	629	635	637	636	632
Average monthly revenues per subscriber (ARPU) (NIS)(3)	233	231	231	235	233	231	232
Churn rate (4)	4.5%	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 set-top boxes (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 1.6 - Forecast regarding the Group

Regarding the forecast for the Group for 2016 as published in the 2015 Financials:

Based on the information which is currently known to the Bezeq Group, the Group's free cash flow[3] for 2016 is expected to be approximately NIS 2.2 billion.

There is no change in the Company's estimates relating to the other parameters in the forecast as published (net profit and EBITDA[4]), after adjustment for provisions for early retirement and the effect of collective labor agreements that were signed in the total amount of NIS 140 million (including a provision of NIS 78.5 million by the Company, as detailed in the update to Section 2.9.3). Moreover, if the reduction in the corporate tax rate is approved before December 31, 2016, the 2016 financials are expected to include a decrease in the Company's tax asset, and accordingly reduced net profit for shareholders. On this matter, see Note 5 to the Company's consolidated financial statements for the period ended September 30, 2016.

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations and do not include additional effects, insofar as there are any, of the provision for early retirement of employees and/or the signing of collective labor agreements, beyond the foregoing. The Group's forecasts are based, *inter alia*, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, the economic situation and accordingly, the Group's ability to implement its plans in 2016. Actual results may differ from these estimates, taking note of changes which may occur in the foregoing, in business conditions and the effects of regulatory decisions, technology changes, developments in the structure of the telecommunications market, and so forth, or insofar as one or more of the risk factors listed in Sections 2.20, 3.20, 4.17 and 5.21 in the 2015 Financials, materializes.

Section 1.7 - General environment and the influence of outside factors on the Group's activity

Section 1.7.2 - Activities of Bezeq Group as a communications group and the structural separation restriction

Subsection (B) - Easing of structural separation - approval to market joint service bundles with restrictions - further to the information in this section, including on the dispute between Bezeq and Partner and Cellcom - the Company and the Ministry of Communications are discussing the issue. On this matter, see also the update to Section 1.7.3(D) (Cancellation of structural separation).

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 obligation to provide 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. In July 2016, the Ministry submitted a draft procedure on the movement of customers between operators for the operators comments. The Company submitted its comments on July 28, 2016 whereby the procedures will impede movement between service providers in the wholesale market and movement to service in the retail market. The Company proposed appropriate formal principles and procedures to simplify movement between each of the links in the service provider chain.

3 For a definition of free cash flow, see note (2) to the table in the update to Section 1.5.4 A.

4 For a definition of EBITDA, see note (1) to the table in the update to Section 1.5.4 A.

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, dated July 11, 2016, 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 formal hearing procedure must take place. The Company and the Ministry corresponded on the subject and on November 2, 2016 the Company received a reply that the Ministry reiterates the information in its aforementioned letter and it is willing to consider the need for a decision (which is not conditional) regarding specific segments that were extended specifically for the exclusive use of a service provider on isolated cellular sites. In response to this letter, on November 13, 2016, the Company wrote to the Ministry of Communications Director General rejecting the information in the letter with a request to appear before the Director General on the subject. On this matter, see also the description of a claim by Cellcom and Partner below and the update to Section 1.7.4(K).

On 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.

On September 26, 2016, the Company received an action that was filed by way of an opening motion in the Tel Aviv District Court by Cellcom Israel Ltd., Partner Communications Ltd. and another applicant (all of them together: "the Applicants") for declarative relief and orders for mandamus against the Company. In the context of the action, the court is asked, inter alia: (1) to declare that the Company is obligated to market those ISPs who are among the Applicants (013 Netvision and 012 Smile) as part of the joint bundles marketed by the Company ("Reverse Bundle") in an equal manner and in accordance with the Ministry's instructions, and to instruct the Company to do so. (2) To declare that the obligations imposed on the Company with respect to the supply of managed wholesale broadband access include an obligation to install and connect customers of 013 Netvision and 012 Smile to the Company's infrastructure up to the first socket in their home, and to instruct the Company to do so. (3) To declare that the Company is obligated to allow the Applicants and/or any one of them to use the passive infrastructure that it owns and to instruct the Company to do so.

Subsection 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 continues to negotiate with the Ministry of Communications on the subject of the gradual cancellation of structural separation, including the possibility that in the first stage companies will be allowed to merge while maintaining separation between operating segments in the merged company.

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. On August 9, 2016, the Ministry of Communications sent an RFI to examine the existing regulations on this subject. The Group's companies were in favor of differential pricing. The Company also emphasized that any decision must reflect a uniform, non-discriminatory policy in relation to all the operators in the market.

Subsection G(2)- amendment of licenses to ensure operational continuity by communications companies in emergency situations - on November 1, 2016, the Ministry published a hearing for comments to be received by December 1, 2016, on a further amendment to the licenses of the communications companies regarding their deployment to ensure operational continuity in emergencies, including provisions concerning the installation of supporting infrastructure on core sites. The Company is studying the hearing and will submit its comments.

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 - Proposed Economic Plan for 2017-2018.

On November 2, 2011 a first reading was passed of the government's Economic Plan (Legislative Amendments for Implementing the Economic Policy for Fiscal Years 2017 and 2018) Bill, 2016. During the discussion in the Knesset House Committee in which the bill is split up for discussion by different committees, it was decided that the discussion of the communications section would take place in the Economic Affairs Committee. The bill includes a chapter concerning communications that addresses various matters, including:

The obligation of a licensed domestic carrier (according to the explanation - any domestic carrier license holder including a special, general license holder) to allow access to its passive infrastructure (excluding the passive infrastructure of a licensed domestic carrier owned by IEC and which it requires, for the purpose of its operations as the holder of a critical service provider license) by other licensed domestic carriers, for any use whatsoever. This means allowing IBC and HOT Telecom to use the Company's infrastructure. Insofar as the current version of the bill is passed, it will be favorable towards the Company's direct competitors (HOT and IBC), who are ostensibly obligated to provide universal service (on this, see the update to Section 2.6). Furthermore, it will affect the commercial relationship between the Company and the communications operators. The bill also includes the granting of an exemption from obtaining a building permit for licensed domestic carriers or holders of a special license who were given powers under Chapter 6 of the Communications Law, who establish a public telecom network or any part thereof, including a telecom installation (under the conditions prescribed in the Planning and Building Law). At the same time, the bill abolishes a provision in the Communications Law whereby a license holder's plan to lay an underground cable network in public land will be deemed approved from 60 days after the plan is submitted, insofar as no other decision is received by that date from the local planning and building committee. Furthermore, the prohibition on carrying out excavation, ploughing or planting works without a permit from the Minister of Communications or any person he appoints was repealed. The draft document also addresses various other matters aimed at increasing competition in the multi-channel television sector, including amendments to the law on the distribution of broadcasts via digital channels, choosing an operator for the Idan Plus broadcasting distribution system and various matters relating to the system, provisions relating to the broadcasting of TV channels on the Internet, and it also obligates sports channels and entities that broadcast sports content to grant permits relating to sports content and channels and it sets their prices. On this matter, see also the update to Section 5.1.

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 Competition

On September 28, 2016, the Advisory Committee that was appointed in accordance with the Communications (Telecommunications and Broadcasts) (Advisory Committee) Regulations, 2011, submitted a recommendation to the Minister of Communications to postpone the date for implementing its decision from November 13, 2014 on the subject of laying HOT Telecom infrastructure, by one year, to November 13, 2017, where no later than December 31, 2016 HOT is required to provide its services to all subscribers on OTT technology on broadband Internet (which in practice belongs to the Company) in all the communities in which it does not currently serve. On this matter, see also the update to Section 1.7.4 (K).

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. 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, the Company disconnected a cable that was identified in one of its 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. 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 Magistrate's 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. On September 14, 2016, Cellcom's action was struck out while the Company's undertaking regarding the aforementioned pit remained in place until discussions between the parties are complete, as agreed, or some other agreement is reached vis-a-vis the Ministry of Communications, and without derogating from their right to file a claim in the future regarding their losses in connection with the aforementioned events.

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

Section 2.9.3 - Early retirement plans

On November 22, 2016, the Board of Directors approved an additional budget of NIS 78.5 million for 2016 for the early retirement of 58 employees on the early retirement track in accordance with the conditions of the collective labor agreement from December 2006, as amended in August 2015. On this matter, see also Note 8 to the Company's consolidated financial statements for the period ended September 30, 2016.

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 September 30, 2016, the Company has a working capital deficit of NIS 1,163 million (this figure refers to the Company’s financial statements. In the Company's consolidated financial statements as at September 30, 2016, there is a working capital deficit in the amount of NIS 783 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 matter, 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 6 to the Company’s financial statements for the period ended September 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	1,253	Unlinked NIS	Variable, based on prime rate*	1.64%	1.65%	1.27%-1.80%
	Banks	2,389	Unlinked NIS	Fixed	4.58%	4.62%	2.40%-6.85%
	Non-bank sources	734	Unlinked NIS	Variable, based on annual STL rate**	1.52%	1.58%	1.47%-1.55%
	Non-bank sources	2,210	Unlinked NIS	Fixed	4.53%	4.69%	3.11%-6.65%
	Non-bank sources	3,353	CPI-linked NIS	Fixed	2.49%	2.54%	2.20%-3.70%

* Prime interest rate - 1.6% at November 2016.

** STL yield per year (817) – 0.126% (average of the last five trading days of August 2016) for the interest period commencing September 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[5] 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 matter, see also Section 4 of the Directors Report.

Section 2.14 - Taxation

On September 15, 2016, the Company signed a tax assessment agreement with the Tax Authority ("the Tax Assessment Agreement"), ending the dispute involving the assessing officer's claims concerning financing income from the shareholder loans and in respect of the rights and holdings that the Company acquired in DBS ("the Tax Issue") and concerning DBS's claims that its entire losses, as they are recorded in its statements, should be recognized for tax purposes. In addition, a taxation decision was reached in the Agreement which includes the Tax Authority's preliminary approval for the merger of DBS with and into the Company, in accordance with the provisions of Section 103B of the Income Tax Ordinance ("the Approval").

According to the Tax Assessment Agreement, the Company will pay tax in the amount of NIS 462 million,[6] and the total losses of DBS will be set at NIS 5.26 billion as a final assessment as of December 31, 2013, where a further loss will be added to this amount for the tax issue through June 2015 in the amount of NIS 315 million (NIS 223 million for 2014 and NIS 91 million for 2015). Moreover, all the Company's holdings and rights in DBS will be treated as equity in DBS's books and a capital investment in the Company's books, and no other income will be recorded for the Company, nor will any additional tax be paid with respect to the foregoing.

5 Company rating ilAA/Stable.

6 The Company made this payment on September 29, 2016.

In parallel, the Tax Authority gave approval for tax purposes to perform the merger of DBS with and into the Company, in accordance with the provisions of Section 103B of the Income Tax Ordinance, DBS's losses at the date of the merger may be set off against the profits of the acquiring company provided that in each tax year, the amount offset does not exceed 12.5% of the aggregate losses (spread out over 8 years) of the merging company and the acquiring company or of 50% of the acquiring company's taxable income in that tax year, prior to setting-off the loss from previous years, whichever is lower.

As part of the conditions of the agreement according to which the Company purchased Eurocom's holdings in DBS (50.2%) ("the Purchase Agreement") from Eurocom, a condition was prescribed for payment of a contingent consideration component which is, inter alia, that a final decision is made on taxation of DBS's losses. Following the entering into Tax Assessment Agreement and the taxation decision, on September 27, 2016, the Company paid an amount that reflects a principal of NIS 188 million for this consideration component, based on the conditions of the Purchase Agreement.

Subsequently, on September 27, 2016, the Board of Directors of the Company and the Board of Directors of DBS approved conversion of the shareholder loans registered in the Company's name in DBS's books (including the shareholder loans purchased from Eurocom DBS Ltd.) that were provided until June 23, 2016, of which the outstanding amount, including principal and interest accrued at September 27, 2016 is NIS 5.3 billion, into equity to be recorded in DBS's books as a premium on shares. On this matter, see also the update to Section 5.18.4.

On this matter, see also the Company's Immediate Reports dated September 18, 2016, September 25, 2016 and September 28, 2016, included here by way of reference.

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

Section 2.16 - Restrictions and control of the Company's operations

Section 2.16.1 - Control of Company tariffs

On July 26, 2017, a temporary order was signed applicable from June 1, 2016 whereby payments for the Company's services will not be updated on June 1, 2016 under the Payments Regulations. The temporary order includes amendments concerning the update data to be taken into account on the date of the next update which will be June 1, 2017.

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 thousand per annum. For additional information, see an Immediate 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 3.17 (B).

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.

In August 2016, two claims together with two motions for their certification as class actions were filed against the Company in the Tel Aviv District Court by the same plaintiff who is a customer of the Company. In one of the motions filed against the Company and against an ISP it is argued, inter alia, that the Defendants act unlawfully with respect to the transfer of Internet subscribers from one ISP to another in that the subscriber is not disconnected immediately from the abandoned ISP and as a result the subscriber is charged twice for the same service. According to the information in the motion, the amount of the class action is unknown. In the second motion, which was filed only against the Company, it is argued, inter alia, that the Company unlawfully charges NIS 5.93 per month for "support and warranty" service which the Plaintiff claims he has no need for. According to the information in this motion as well, the amount of the class action is unknown.

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

Section 3.4 - Trade receivables

In Q2, Pelephone implemented a one-time write-off of 499,000 subscribers (of which 455,000 are prepaid subscribers and 44,000 are postpaid subscribers) on the CDMA network who have not made use of outgoing calls / internet browsing in the last six months, and this over and above the on-going write-off which is performed according to the method for measuring 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.

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 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 3.9.7 - Announcement of a labor dispute

On the announcement of a labor dispute from August 3, 2015 - on June 6, 2016 the application that Pelephone had filed for temporary relief to prevent the continuation of a slowdown and disruption of work was struck out, based on the announcement whereby the parties had reached a settlement.

On November 3, 2016, Pelephone was informed by the New General Federation of Labor ("Histradrut") - Union of Cellular, Internet and Hitech Workers, that a labor dispute was announced in accordance with the Settlement of Labor Disputes Law, 1957 and a strike beginning November 17, 2016 onwards ("the Announcement"). According to the Announcement, the main issues under dispute are the introduction of unilateral structural / organizational changes that significantly impact working conditions, workers' rights and job security, including changes to their job description and infringement of the work conditions of sales reps in the private division call centers. Pelephone rejected these arguments in previous correspondence.

Section 3.10 - Trade payables

On October 1, 2016, a new agreement entered into force with Apple Distribution International ("Apple") for the purchase and distribution of iPhone handsets, whereby Pelephone will undertake to purchase a minimum annual quantity of handsets over an additional three-year period at manufacturer's prices that will be in force on the actual date of the purchases. Pelephone estimates that as in previous years, these quantities will account for a substantial share of the number of handsets that it expects to sell during the agreement period.

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

In June 2016, it was publicized in the media that the Ministry of Communications 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. Concurrently, the Ministry of Communications contacted Pelephone for information and incidental to that request, it even mentioned this intention in a letter sent to Pelephone (on another subject).

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, the reduced 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), led to a significant reduction of Pelephone's income from the Accountant General's customer compared with revenues 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. On August 28, 2016, the application was consolidated with another application to certify a class action that was filed in connection with the same event, while another application filed on this matter was struck out.

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.

On October 10, 2016, Pelephone received a claim and an application for its recognition as a class action, which was filed in the Central District Court. The plaintiff argues that Pelephone and another cellular company do not allow their subscribers to make full use of their pre-purchased packages for overseas travel, and this by setting discriminatory, unlawful conditions whereby the international package can only be used for a short period (a week to one month) and at the end of this period any outstanding, unutilized amount in the package expires without any refund. The plaintiffs do not expressly state the amount of the action against the Defendants, but estimate the loss caused to the group members from the discriminatory condition at tens of millions of shekels a year.

B. Information on terminated claims

Section 3.17.1 (B) - 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 people with disabilities. In addition, the group of defendants will credit the plaintiffs with insignificant amounts. On this matter, 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.

Section 3.17.1 (G) – On a claim and application for its certification as a class action from August 2015 that was filed against Pelephone and three other respondents - on November 21, 2016, the applicant's abandonment of the application to certify the action as a class action against Pelephone was approved and his personal claim against Pelephone was dismissed.

Section 3.17.1. (H) - On a claim and application for its certification as a class action from November 2015 that was filed in the Central Region District Court against Pelephone and two other cellular companies - on September 15, 2016 the court dismissed the applicant's personal claim and the application to recognize it as a class action.

4. 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.

In September 2016, a claim was filed against Bezeq International together with a motion for its certification as a class action that was filed against Bezeq International and two other international operators ("the Defendants") in the Central Region District Court. The subject of the action is the tariff that the Defendants collect for outgoing international calls made by random customers. The Plaintiff argues that this tariff is excessive and unreasonable, and it therefore contravenes Section 17 of the Communications Law. The Plaintiff does not specify the amount of the action against the Defendants.

Section 4.15.1 (subsections A and C) concerning two claims and applications to certify them as class actions that were filed against Bezeq International and other international operators in which it is argued that Bezeq International misled customers who purchased prepaid international phone cards with respect to the number of minutes on the phone cards - on September 15, 2016 a ruling was given approving a compromise settlement that the parties had signed in relation to the two proceedings, in which context Bezeq International will allow calls to be made in the amount of NIS 5 million for no charge, and it will also pay NIS 550,000 in compensation and legal fees to the class plaintiffs. The approval of the settlement arrangement brings the claims to an end and *res judicata* applies to all the arguments therein, to the extent they pertain to Bezeq International.

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

Section 5.1 - General information about this area of activity

Section 5.1.1 - In October 2016 the government published the proposed Economic Plan for 2017 and 2018 (Legislative Amendments for the Implementation of Economic Policy for Fiscal Years 2017 and 2018), 2016 **("Economic Arrangements Bill")** in which the communications chapter includes several proposals that might have repercussions on this area of activity. The main points of the proposals are:

A. Operation of a DTT system -

The Ministers of Communications and Finance will be authorized to appoint an operating entity to operate the system to be chosen by tender. In addition to a permit for operating the system, the chosen private operating entity will also receive from the Council a general license for broadcasting via digital broadcasting channels, to broadcast additional channels of its choice, which will be financed through subscription fees or commercials.

Furthermore, the Council will have the power to grant a special license for broadcasting via digital broadcasting channels to an entity that wishes to broadcast one channel on the system, where these licenses will be covered by the provisions pertaining to the holders of cable broadcasting licenses under the Communications Law, with the relevant adjustments.

B. Distribution of "open broadcasts"[7] over the Internet -

The operating entity will be obligated to set up a website and distribute the open broadcasts over the Internet, by way of an additional original broadcast, such that everyone will be able to watch these broadcasts on the operating entity's website, in real time and free of charge, and this in addition to distribution of the content via the digital broadcasting channels.

Moreover, the operating entity will be obligated to provide access to the open broadcasts that it distributes in a manner that gives the content providers[8] access to the open broadcasts and they will be entitled to distribute them.

Content providers will be permitted to broadcast open broadcasts and provide access to them via the Internet even without obtaining permission from owners of the rights in the open broadcasts and in programs included in the content under the Copyright Law, 2007, and the Performers and Broadcasters Law, 1984, and free of charge, when the conditions prescribed in the bill are met, including providing access to the open broadcasts free of charge.

When the bill enters into force, the proposed arrangement concerning secondary broadcasting by content providers will apply with respect to open channels. Regarding commercial channels that the system is obligated to transmit, the onset of the arrangement will be postponed by five years, during which special arrangements, as specified in the transition provision prescribed in the bill, will apply.

DBS is currently studying the proposals in the Economic Arrangements Bill and it is unable to estimate whether they will be adopted and in what version or scope they will be adopted, or the scope and extent of the impact of these amendments, insofar as they are adopted, on its business.

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7 Defined as television broadcasts distributed via digital broadcasting channels as specified in the bill.

8 In the bill, a "content provider" is defined as one whose principal activity is the broadcasting of diverse content to the Israeli public, provided that the content is broadcast at its initiative, via an interface that it controls, irrespective of whether the broadcast content can be viewed in real time, simultaneously by the public, or the viewer chooses when and where to view the content.

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 on sports channels towards licensed content providers, and a must-sell obligation on sports enterprises towards 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.

Under the Economic Arrangements Bill and pursuant to the Filber Committee’s key recommendations, it was determined that the obligation to share sports content will be regulated at two levels:

First is an obligation that will apply to the owners of rights in significant sports enterprises (up to seven, to be determined by the Council) that are broadcast to the Israeli public, to grant licenses to broadcast the significant sports enterprise to the producer of a sports channel that requests such a license, in return for a price that is based on an average cost per subscriber: the price paid by the owner of the right in the significant sports enterprise for that right, plus reasonable profit, divided by the number of viewers exposed to the significant sports enterprise broadcast by the owner of the right therein and by producers of the sports channels who applied for a license in accordance with the conditions of the bill.

The second level is an obligation that will apply to the producer of a sports channel that broadcasts sports content to the Israeli public from one or more of the aforementioned significant sports enterprises or from another sports enterprise determined by the Council, to grant to any content provider that so requests, a license to broadcast the sports channel at a price that is based on a multiple of the number of viewers who are exposed to the broadcasts of that content provider (but not less than the minimum number of subscribers to be determined by the Minister) at a price per viewer determined by the producer of the sports channel and that is uniform for all the content providers.

(2) The channel transfer fee 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. Cancellation of the Standard Package and the New Basic Package

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. Leveling the playing field: deregulation

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. Regulatory requirements for a commercial license holder

(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.[9]

Section 5.12.5 - Labor unionization

In September 2016, DBS signed a collective agreement with the New National Labor Federation ("Histadrut") and DBS's workers committee. Following are the main points of the agreement:

1. The agreement is in force from the date on which it was signed through September 27, 2019. After this date, the agreement will be extended automatically for a period of 12 months at a time, unless either party gives notice that it wishes to change the agreement. The agreement will apply to all the workers of DBS (except for a certain percentage of employees and managers).

2. Among other things, the agreement specifies the periods after which a DBS employee will be considered a permanent employee, mechanisms that involve the workers committee in decision making relating to the filling of positions and termination of the employment of permanent employees in DBS, as well as annual wage increases and other economic benefits that DBS will give the workers during the agreement period.

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.

For a description of the tax assessment agreement that the Company signed with the Tax Authority, and a taxation decision issued in this context, see the update to Section 2.14.

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.

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[9] 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.

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 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.

In September 2016, Spacecom reported that to the best of its knowledge, an explosion occurred during ground fueling of the launch rocket for the Amos 6 satellite causing total loss of the satellite, which was scheduled to replace the Amos 2 satellite for DBS's broadcasts. Spacecom informed DBS that according to revised estimates, Amos 2 is expected to continue broadcasting until the end of the first quarter of 2017. This estimate regarding the date of terminating broadcasts from Amos 2 is forward-looking information, as this term is defined in the Securities Law, which is based, inter alia, on the information that DBS received from Spacecom, which is partially even beyond the control of Spacecom and depends on its engagements with third parties, physical and technical conditions relating to the operation of the satellite and its broadcasting ability as well as weather conditions. Consequently, this estimate may not materialize, or it may materialize in a manner that differs significantly from that foreseen, in part depending on conditions relating to operation of the satellite, to its proper function, and to external factors that affect operation of the satellite and the activity of Spacecom.

At the date of this report, DBS continues to broadcast normally, since its broadcasts are transmitted via the Amos 2 and Amos 3 satellites (including the transfer of additional space segments from Amos 2 to Amos 3). It is possible that in the future, if a replacement is not found before Amos 2 ceases to function, it will be necessary to remove a limited number of low-audience channels from DBS broadcasts, since in this case it will broadcast exclusively via Amos 3. DBS is reviewing the possibility of receiving extra space segments from Spacecom, in addition to the nine segments that Spacecom undertook to provide to DBS in the event of a malfunction of the Amos 6 satellite, which would eliminate the need to remove a limited of number channels, as noted above, as well as other implications arising from the loss. As far as DBS is aware, Spacecom is working to find such alternative capacity.

DBS believes, and based on the information it received from Spacecom, in view of the expected transfer of additional space segments from Amos 2 to Amos 3 as noted above, and insofar as such additional, alternative capacity is not found for DBS's broadcasts, that the limitations to the activity of the Amos 3 satellite due to the malfunction of the satellite battery, might, for certain short periods, at night, affect some of DBS's broadcasts.

Section 5.18.4 - Agreements between DBS and the Company

In September, 2016, the boards of directors of the Company and of DBS approved conversion of the shareholder loans registered in the Company's name in DBS's books (including loans purchased from Eurocom) that were provided until June 23, 2016, of which the outstanding amount, including principal and interest accrued at September 27, 2016 was NIS 5,319,400 thousand, into equity to be recorded in DBS's books as a premium on shares. On this matter, see also the update to Section 2.14.

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 settlement arrangement must be submitted to the court. Further to an additional decision of the court from August 2016 (after the review of an amended settlement arrangement that was submitted to it), the parties submitted an amended settlement arrangement to the court, as per the court's proposal. According to the settlement arrangement signed by the parties, that was validated as a court ruling in November 2016, DBS will give a bonus to each of the group members of which the total value, for the entire group, is NIS 14 million (when fully exercised).

Section 5.19.1 D - (motion to certify a claim as a class action on the subject of price discrimination) - with the agreement of the parties, the court ruled that in view of the fact that a hearing on corresponding cases against other defendants, which raise similar questions of fact and justice, has been deferred by the court that is hearing these cases, and in view of the fact that a motion is pending to move the hearing on these motions to another court, the proceedings in relation to the motion for certification are on hold until another decision is made.

Section 5.21.3 - DBS specific risks

Subsection D - As mentioned in Section 5.18.1, insofar as no alternative is found for DBS's broadcasts before the Amos 2 satellite terminates its operations, and as long as there is no substitute satellite, DBS is expected to broadcast exclusively via the Amos 3 satellite. As a result, in any such period, there will be no duplication on the satellites via which DBS broadcasts are transmitted and the broadcasts will be entirely dependent on the redundancy, availability and regular broadcasting capacity of this satellite.

November 22, 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 Corporation Ltd.

Condensed Separate Interim Financial Information as at September 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.

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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 September 30, 2016 and for the nine 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 132 million as of September 30, 2016, and the loss from this investee company amounted to NIS16 million and NIS 7 million for the nine and three month period's then ended , respectively. 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.

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.)

November 22, 2016

Condensed Separate Interim Information of Financial Position

	September 30, 2016 (Unaudited) NIS million	September 30, 2015 (Unaudited) NIS million	December 31, 2015 (Audited) NIS million
Assets			
Cash and cash equivalents	**412**	346	110
Investments	**859**	878	648
Trade receivables	**706**	756	668
Other receivables	**106**	114	119
Dividend receivable	**85**	172	-
Loans granted to investees	**110**	289	288
Total current assets	**2,278**	2,555	1,833
Trade and other receivables	**198**	147	180
Property, plant and equipment	**4,828**	4,749	4,753
Intangible assets	**234**	263	255
Investment in investees	**6,612**	7,186*	7,217
Loans granted to investees	**443**	83	374
Investments	**104**	99	101
Total non-current assets	**12,419**	12,527	12,880
Total assets	**14,697**	15,082	14,713

Condensed Separate Interim Information of Financial Position (cont'd)

	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,711**	1,664	1,660
Loan from an investee	**-**	434	434
Trade and other payables	**613**	716	636
Current tax liabilities	**169**	716	619
Provisions (Note 5)	**51**	53	60
Employee benefits	**226**	220	330
Liability to Eurocom DBS Ltd, related party	**6**	217*	233
Dividend payable	**665**	933	-
Total current liabilities	**3,441**	4,953	3,972
Debentures and loans	**8,398**	7,673	7,879
Loan from an investee	**325**	-	-
Employee benefits	**200**	211	203
Deferred tax liabilities	**64**	42	33
Derivatives and other liabilities	**242**	178	215
Total non-current liabilities	**9,229**	8,104	8,330
Total liabilities	**12,670**	13,057	12,302
Capital			
Share capital	**3,878**	3,864	3,874
Share premium	**384**	314	368
Reserves	**286**	365	308
Deficit	**(2,521)**	(2,518)	(2,139)
Total equity attributable to equity holders of the Company	**2,027**	2,025	2,411
Total liabilities and equity	**14,697**	15,082	14,713

Shaul Elovitch
Chairman of the Board of Directors

Stella Handler
CEO

Alon Raveh
CFO Bezeq Group

Date of approval of the financial statements: November 22, 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 these condensed separate interim financial information.

Condensed Separate Interim Information of Profit or Loss

	Nine months ended September 30		Three months ended September 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)	**3,301**	3,319	**1,089**	1,101	4,407
Costs of activity					
Salaries	**672**	685	**225**	232	912
Depreciation and amortization	**556**	540	**188**	184	725
Operating and general expenses (Note 3)	**525**	542	**183**	186	721
Other operating income, net (Note 4)	**(47)**	(169)	**(26)**	(13)	(99)
Cost of Activities	**1,706**	1,598	**570**	589	2,259
Operating profit	**1,595**	1,721	**519**	512	2,148
Financing expenses (income)					
Financing expenses	**326**	333	**102**	142	362
Financing income	**(27)**	(20)	**(9)**	(4)	(30)
Financing expenses, net	**299**	313	**93**	138	332
Profit after financing expenses, net	**1,296**	1,408	**426**	374	1,816
Share in earnings of investees, net	**62**	368	**51**	151	397
Profit before taxes on income	**1,358**	1,776	**477**	525	2,213
Taxes on income	**299**	**424**	**83**	**118**	**492**
Profit for the period attributable to the owners of the Company	**1,059**	1,352	**394**	407	1,721

Condensed Separate Interim Information of Comprehensive Income

	Nine months ended September 30		Three months ended September 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	**1,059**	1,352	**394**	407	1,721
Items of other comprehensive income (loss) for the period including actuarial gains and hedging transactions, net of tax	**(6)**	-	**(1)**	(33)	7
Total comprehensive income for the period attributable to equity holders of the Company	**1,053**	1,352	**393**	374	1,728

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

Condensed Separate Interim Information of Cash Flows

	Nine months ended September 30		Three months ended September 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	**1,059**	1,352	**394**	407	1,721
Adjustments:					
Depreciation and amortization	**556**	540	**188**	184	725
Share in earnings of investees, net	**(62)**	(368)	**(51)**	(151)	(397)
Financing expenses, net	**299**	318	**95**	140	323
Profit from gaining control in an investee	**-**	(12)	**-**	-	-
Capital gain, net	**(62)**	(170)	**(22)**	(13)	(233)
Income tax expenses	**299**	424	**83**	118	492
Miscellaneous	**(10)**	(6)	**(4)**	(3)	(19)
Change in trade and other receivables	**(50)**	(36)	**(18)**	40	53
Change in trade and other payables	**(64)**	(57)	**15**	54	(75)
Change in provisions	**(10)**	5	**(4)**	(5)	12
Change in employee benefits	**(107)**	(9)	**(89)**	2	104
Net cash (used in) from operating activities due to transactions with subsidiaries	**(9)**	(24)	**21**	(1)	2
Net income tax paid	**(257)**	(267)	**(82)**	(86)	(350)
Net cash from operating activities	**1,582**	1,690	**526**	686	2,358
Cash flows from investing activities					
Investment in intangible assets	**(57)**	(51)	**(18)**	(14)	(71)
Proceeds from the sale of property, plant and equipment	**117**	113	**22**	21	146
Acquisition of financial assets held for trading and others	**(855)**	(1,029)	**-**	(300)	(1,535)
Proceeds from the sale of financial assets held for trading and others	**644**	2,329	**-**	149	3,065
Purchase of property, plant and equipment	**(572)**	(601)	**(189)**	(216)	(778)
Tax payment for shareholders loans	**(461)**	-	**(461)**	-	-
Miscellaneous	**1**	(6)	**2**	(8)	(7)
Net cash from investment activities due to transactions with subsidiaries	**83**	223	**(2)**	26	109
Net cash flows from (used in) investment activities	**(1,100)**	978	**(646)**	(342)	929
Cash flow from finance activities					
Issue of debentures and receipt of loans	**1,661**	-	**-**	-	782
Repayment of debentures and loans	**(897)**	(802)	**(99)**	(50)	(1,349)
Dividends paid	**(776)**	(844)	**-**	-	(1,777)
Payment to Eurocom DBS for acquisition of DBS shares and loans	**(256)**	(680)	**(198)**	-	(680)
Interest paid	**(202)**	(217)	**(16)**	(17)	(384)
Miscellaneous	**(21)**	(7)	**-**	4	3
Net cash from (used for) financing activities due to transactions with subsidiaries	**311**	(20)	**-**	-	(20)
Net cash from (used for) financing operations	**(180)**	(2,570)	**(313)**	(63)	(3,425)
Net increase (decrease) in cash and cash equivalents	**302**	98	**(433)**	281	(138)
Cash and cash equivalents at beginning of period	**110**	248	**845**	65	248
Cash and cash equivalents at the end of the period	**412**	346	**412**	346	110

The attached notes are an integral part of these 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 September 30, 2016 ("the Consolidated Financial Statements").

The accounting policies used in preparing this 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 September 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 Consolidated Financial Statements, amounts were adjusted retrospectively as follows:

	Balance as at September 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	7,070	116	7,186
Liability to Eurocom DBS	(101)	(116)	(217)

2. Revenues

	Nine months ended September 30		Three months ended September 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	**1,133**	1,194	**375**	395	1,586
Internet - infrastructure	**1,191**	1,155	**399**	385	1,542
Transmission and data communication	**804**	797	**261**	267	1,058
Other services	**173**	173	**54**	54	221
	3,301	3,319	**1,089**	1,101	4,407

3. Operating and general expenses

	Nine months ended September 30		Three months ended September 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	**144**	152	**49**	54	202
Marketing and general	**142**	144	**55**	49	188
Interconnectivity and payments to communications operators	**101**	110	**34**	35	145
Services and maintenance by sub-contractors	**50**	47	**16**	17	60
Vehicle maintenance	**53**	57	**18**	21	78
Terminal equipment and materials	**35**	32	**11**	10	48
	525	542	**183**	186	721

4. Other operating expenses, net

	Nine months ended September 30		Three months ended September 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)	**(62)**	(170)	**(22)**	(13)	(233)
Provision for severance pay in voluntary redundancy	**18**	1	**3**	-	117
Others	**(3)**	-	**(7)**	-	17
Other operating expenses, net	**(47)**	(169)	**(26)**	(13)	(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 51 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 September 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 937 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 date of the financial statements, claims for which exposure amounted to NIS 146 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 October 2016, Pelephone Communications Ltd. paid a cash dividend to the Company, which was announced in August 2016, in the amount of NIS 26 million.

6.5 In October 2016, Bezeq International Ltd. paid a cash dividend to the Company, which was announced in August 2016, in the amount of NIS 59 million.

7. Events in and subsequent to 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.

7.3 On September 5, 2016, the Company provided Bezeq International a loan in the amount of NIS 20 million to be repaid in a single payment on September 11, 2017. The loan bears annual interest of 2.56%.

The loan offset the payment of loans provided in previous years, on the same date.

7.4 On November 6, 2016, the Company provided DBS a loan in the amount of NIS 65 million to be repaid in four equal installments from 2022-2025. The loan bears annual interest of 3.6%.

7.5 For further information concerning income tax see Note 5 to the Consolidated Statements.

7.6 For further information concerning employee retirement see Note 8 to the Consolidated Statements.