



Chapter 1

ABOUT THE COMPANY AND CORPORATE GOVERNANCE

About The Company And Corporate Governance

Bezeq is an Israeli company, and we at Bezeq are keenly aware of the need for everyone (be it our customers, our business partners, our competitors, the community at large, and even ourselves) to feel at home, and our commitment to make our customers “feel at home” is more than just a slogan!

The Bezeq Group

The Bezeq Group is a major provider of telecommunications services in Israel. The Group has five subsidiaries – Pelephone, Bezeq International, yes, Bezeq Online and Walla (in 2020 an agreement was signed for the sale of Bezeq’s holdings in Walla). This report focuses on Bezeq’s fixed-line operations and does not include the subsidiaries.

Bezeq’s Development over the Years

Bezeq was established in 1980, and in 1984 began operating as a government company, taking over activities that

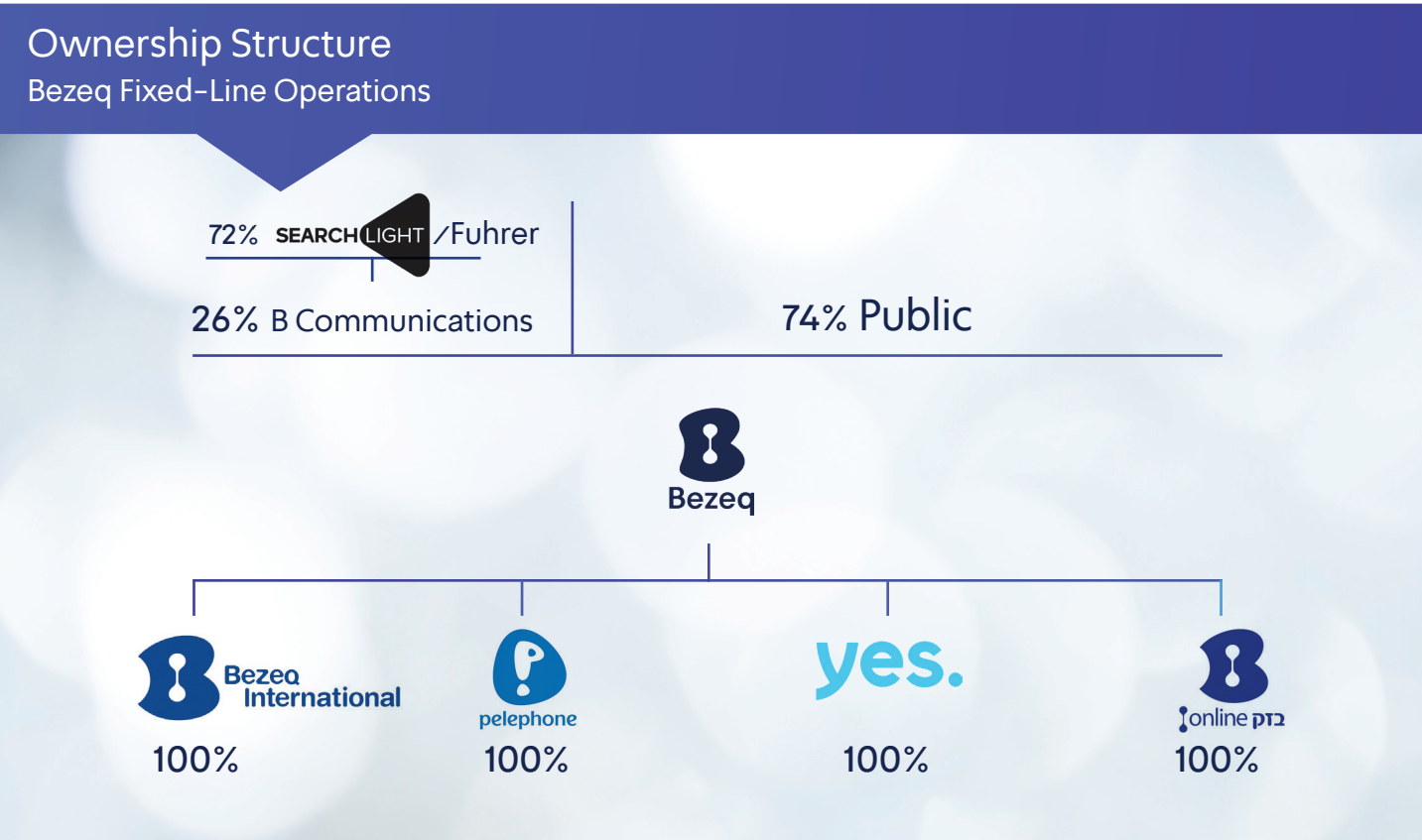
until then had been run directly by the Ministry of Communications. Subsequently, in 1990, it became a public company, whose shares have traded since then on the Tel Aviv Stock Exchange.

Nature of Ownership and Legal Form of Organization

Company structure and structure of holdings in the Company

As of December 31, 2019, B Communications held 26.34% of the Company’s shares, with the remaining shares held by the public. B Communications (B-Com) is an Israeli public company whose shares are traded on the Tel Aviv Stock Exchange (until September 2020 its shares were dual-listed on the NASDAQ).

B-Com’s shares are owned by Searchlight Capital Partners (60%) and the Fuhrer Family Office (12%).



Bezeq's Unique Services

We offer our business and residential customers a wide range of telecom services, facilitated by an array of solutions based on our high-quality infrastructure. Among other things, we provide telephony services, Internet access infrastructure services, data transmission and communication services, cloud and digital services, and a wholesale service for use of the Company's physical infrastructures.

In addition, Bezeq affords its customers a variety of relevant technological solutions, namely: fiber optic deployment, retail services, data center services, integration services for businesses, and e-commerce.

More information on this subject can be found in the chapters "Service and Customers" and "Environmental Responsibility."

Company Structure

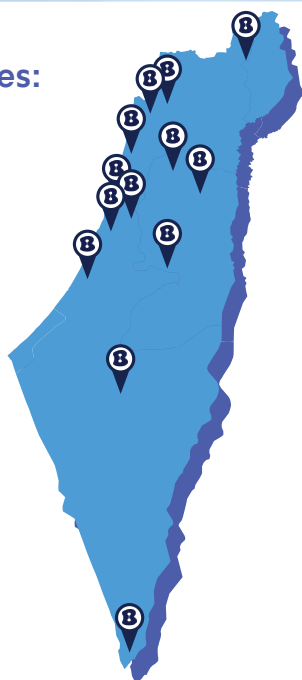
Bezeq comprises five management departments and eight divisions, employing approximately 5,300 people. The Company is headquartered in Holon, with additional centers located throughout Israel. Service centers, points of sale and technical support centers provide service to company customers nationwide. As of December 31, 2019, the Company had 23 sales and service centers, as well as 13 stores and stalls across Israel, serving 1.675 million telephony customers and 1.57 million Internet customers – 580 thousand of them in the wholesale market.

Information on the Company's structure and partial data on the number of employees, as of December 31, 2019:



Location of Bezeq centers and stores:

1. Kiryat Shmona
2. Karmiel
3. Haifa
4. Afula
5. Umm al-Fahm
6. Netanya
7. Tel Aviv
8. Jerusalem
9. Petach Tikva
10. Rishon Lezion
11. Ashdod
12. Beersheba
13. Eilat



נתונים כספיים:

	2019	2018
Revenues (NIS million)	4,073	4,196
Operating profit (NIS million)	2,142	1,224
Depreciation and amortization (NIS million)	861	850
EBITDA (NIS million)	3,003	2,074
Net profit (NIS million)	1,192	567
Cash flow from operating activities (NIS million)	1,847	2,206
Payment for investments in fixed assets and intangible assets and other investments (NIS million)	881	976
Proceeds from the sale of fixed assets and intangible assets (NIS million)	407	227
Payments for leases	114	99
Free cash flow (NIS millions)	1,259	1,358

Stakeholder Engagement

We believe in fair business practices based on transparency and regular communication with the Company's stakeholders. We consider a dialogue with the stakeholders to be an important tool for identifying potential issues and adapting services to the needs on the ground. In this context, we map the different stakeholders and monitor their various needs.

Stakeholder	Meetings with different suppliers	Chapter
Customers	The corporate website and customer service serve as communication channels	Customer Service
Suppliers	Hold meetings with the different suppliers	Organizational Ethics and Operational Excellence
Government authorities	On matters relating to our business activity, Bezeq engages with regulatory bodies, government authorities and their representatives	
Community and social organizations	Maintain ongoing relationship with nonprofit organizations operating within the community, and reporting their social contribution on the website	Social Responsibility
Subsidiaries	Manage the subsidiaries via the respective boards of directors	
Employees	Management and the Human Resources Division hold ongoing dialogue with the employees, while engaging and maintaining a working relationship with the trade union representatives, via a variety of communication channels	Employees and Work Environment
Investors	Maintain ongoing dialogue with investors, followed by in-depth work on relevant topics. Additionally, there is an orderly procedure for the transfer of information with maximum transparency	About the Company and Corporate Governance

Corporate Governance At Bezeq

Corporate Governance Approach

Proper, high-quality corporate governance is the basis for appropriate conduct at all company levels. We at Bezeq invest substantial resources in continually increasing the level of corporate governance.

Bezeq operates vis-à-vis B-Com, which is the holder of the control permit of the Company, in accordance with the law. B-Com is controlled by the US-based private equity firm Searchlight Capital Partners and by TNR Investments Ltd., a private company incorporated in Israel and wholly controlled by David and Michal Fuhrer. In this context, an orderly procedure was established for the transfer of information to B-Com, and an ongoing dialogue is maintained with B-Com, in accordance with the law as well as Bezeq's compliance program, inter alia regarding general meetings of the Company's shareholders, updating of the lists of the Company's affiliates, etc. Some of the directors on the Company's board also hold positions at B-Com, and the relationship with them is maintained in accordance with the law and the board of directors' work procedure, in the same way as with the other members of the board.

Board of Directors

In the reported year, 8 directors served on the Company's board of directors:

Name	Title	Date of Birth
Shlomo Rodav*	Chairman of the Board	October 27, 1949
Amnon Dick	Chairman of the Compensation Committee (external director)	November 20, 1952
Zeev Vurembrand	Chairman of the Financial Statements Review Committee (external director)	June 19, 1951
Idit Lusky	Chairman of the Audit Committee	August 16, 1950
David Granot	Independent director	January 30, 1947
Darren Glatt	Director	November 18, 1975
Ran Fuhrer	Director	September 2, 1984
Joseph Abergel	Director on behalf of the employees	July 15, 1958

Additionally, two substitute directors were appointed to the board:

Philip Bacal (substitute director replacing Darren Glatt at board meetings he is unable to attend) – 13.09.1985 (Date of Birth)

Tal Fuhrer (substitute director replacing Ran Fuhrer at board meetings he is unable to attend) – 15.12.1977 (Date of Birth)

During the reported year, Doron Turgeman, Ami Barlev and Rami Nomkin ended their tenure as directors of the Company. Up to the report publication date, the chairman of the board, Shlomo Rodav, also stepped down from his position.

Currently, Gil Sharon* holds the position of chairman of the board. Up to the report publication date, Tomer Raved also was appointed as director.

Directors' Experience and Background

- 6 directors have financial and accounting expertise
- 2 directors have a significant background in industry
- 4 directors have international experience/experience in work with emerging markets
- 3 directors have experience in corporate governance, risk management and regulation
- 5 directors have experience in business leadership and management

Gender Diversification on the Board

One woman serves on the board of directors, equal to 11.1% of the total number of directors. We take into account the importance of gender diversity on the board of directors and in the Company in general.

Type of committee	Number of meetings in the reported year	Directors' absences in the reported year
Audit Committee	16	2
Financial Statements Review Committee	10	3
Compensation Committee	13	1
Security Committee	1	0

Effectiveness of the Board of Directors

The Company examines the effectiveness of the board of directors' work as a tool for strengthening corporate governance. There are orderly audit processes at Bezeq for checking the level of effectiveness of the board of directors' work. The audits are carried out by the internal auditor and by the board of directors itself, with the auditor's assistance.

The Company devotes a great deal of attention to the subject of corporate governance. Numerous conclusions have been incorporated into its corporate governance policy and detailed procedures have been put in place to regulate the matter.

Bezeq endeavors to strike the correct balance between working according to the different procedures and preventing excessive bureaucracy.

Training of Directors

Bezeq provides training to new directors in the Company's business and in the laws applicable to the Company and its directors, and it continues to provide on-the-job training suited to each director's role in the Company as well as in matters relevant to the period and to the needs of the board.

Compensation Policy

The Company's compensation policy for its officers is fully published in its public reports, and the complete compensation plan can be read on the MAGNA system (the Electronic Proper Disclosure System of the Israel Securities Authority). The officers' bonus, which is subject to discretion, may be based, inter alia, on qualitative criteria such as the officer's contribution to corporate governance, a proper control and ethical environment, etc., in keeping with the Company's officer compensation policy.

In 2019, the performance of some of the Group's vice presidents also was measured based on perception surveys/customer service excellence and satisfaction surveys.

Proper Management and Prevention of Corruption

Zero Tolerance for Unlawful Conduct

The current board of directors is relatively new, with all the directors currently holding office having been appointed within the last three and a half years. Some of the changes were made further to the investigations launched by the Israel Securities Authority and the Israel Police in June 2017.

Integrity and fairness are our watchword, and we will not tolerate any violation of these principles.

Compliance and Legal Mechanisms

The Company's operations are overseen by numerous regulators, with whom it cooperates and conducts itself transparently, among them the Ministry of Communications, Securities Authority, Anti-Trust Authority, Privacy Protection Authority, Accessibility Commissioner, Ministry of Industry, Trade and Employment and the Ministry of Environmental Protection.

The diagram below compares the number of pending and decided legal cases on various issues in 2018 compared with 2019:

Legal proceedings against the Company



Legal Proceedings

Under the Protective Labor Laws

Mainly including claims of individual employees regarding unlawful dismissal, incidental rights and discrimination.

Anticompetitive Practices and/or Antitrust Violations

Mainly including allegations of abuse of the Company's position, harm to competition, and the imposition of sanctions on the Company.

Violation of Social/Economic Laws and/or Regulatory Directives

Further to investigations by the Israel Securities Authority in the years 2017-2018, several legal proceedings were instituted against the Company and Company officers at the time, regarding interested-party transactions made between the Company or its subsidiaries and the Company's then controlling shareholder or affiliates thereof. These proceedings are pending and have been stayed due to ISA investigations and proceedings related to those investigations. In addition, another proceeding is pending regarding alleged reporting failures by the Company.

Investigations and Claims

Bezeq-yes transaction: In 2015, a transaction took place for the sale of Eurocom's shares in yes to Bezeq. Subsequently, in the years 2017-2018 an investigation was instituted by the Israel Securities Authority regarding the conduct of the Company and the controlling shareholders in the transaction and the involvement of the interested parties in the approval of the transaction.

On January 1, 2020, an indictment was filed in the Jerusalem District Court against the Company's former controlling shareholder, Mr. Shaul Elovitch, on various charges in the so-called Case 4000 affair.

Additionally, to the best of the Company's knowledge, further to the above investigations, indictments were filed against some of the officers involved.

The Company does not have full information about the investigations, their content, and the materials and evidence in the possession of the legal authorities. **At the same time, the Company has drawn numerous lessons and implemented the necessary measures to prevent the recurrence of similar cases.** Moreover, once the constraints on carrying out reviews and controls related to issues that arose in the investigations are lifted, such reviews and controls will be completed as required.

Investigations and Claims

Details of the actions taken by the Company to correct the material weakness (determined as a result of the above investigations) appear in Chapter E of the Company's financial report for 2018. Below are some of the actions that were taken by the Company to correct said material weaknesses:

- Changes in the composition of the board of directors.
- Changes in the composition of the management of the Company and the subsidiaries.
- Retaining professional accounting services to support the process of preparing the group's financial statements for 2017
- Adding compensatory procedures in relation to the activities of certain officers on issues that affect financial reporting and disclosure, in order to deepen the internal control on those issues.
- A special review of the adequacy of the control processes in the Company by external consultants, led by the Company's internal auditor and under the supervision of a special, independent committee from among the Company's board members.
- A special review of the issues of corporate governance led by the Company's internal auditor and supported by outside consultants. A follow-up review by the Company's internal auditor showed that the issues had been properly dealt with.

