Bezeq

Immediate Report

Midroog Lowers Credit Rating for Bezeq Debentures to Aa3.il

Assigns Stable Outlook

Tel Aviv, Israel – April 22, 2020 – Bezeq The Israel Telecommunication Corp., Ltd. (TASE: BEZQ), announced today that Midroog, the Israeli credit rating agency, lowered its rating for the Company's debentures from of Aa2.il to Aa3.il and assigned a stable outlook.

Midroog's analysis is attached to this report.

The above information constitutes a translation of the Immediate Report 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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"Bezeq" The Israeli Telecommunication Corp. Ltd.

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"Bezeq" The Israeli Telecommunication Corp. Ltd.

Series Rating	Aa3.il	Rating Outlook: Stable

Midroog is lowering the debenture rating (Series 6, 7, 9, 10, 11 and 12) issued by "Bezeq" The Israeli Telecommunication Corp. Ltd. From Aa2.il to Aa3.il and changing its rating outlook from negative to stable.

Outstanding debentures rated by Midroog:

Debenture Series	Security ID	Rating	Rating Outlook	Final Maturity Date
6	2300143	Aa3.il	Stable	December 1, 2022
7	2300150	Aa3.il	Stable	December 1, 2022
9	2300176	Aa3.il	Stable	December 1, 2025
10	2300184	Aa3.il	Stable	December 1, 2025
11	2300192	Aa3.il	Stable	June 1, 2030
12	2300200	Aa3.il	Stable	June 1, 2030

Primary Rating Considerations

The lowering of the rating derives from our estimation of an anticipated slowdown in the reduction rate of the Company's financial debt in 2020, in light of the continued erosion of the Company's revenues and the market shares of two primary sectors of operation: fixed line infrastructure and television. Furthermore, the existing uncertainty regarding the anticipated dividend policy of the Company as of the third quarter of 2021, especially in light of the current needs at the level of the controlling interest, pose a burden to the Company's credit risk. Pursuant to our previous evaluations, the downward trend of the Company's revenues over the past few years is anticipated to continue in the short- and medium term, but is expected to worsen in light of our renewed evaluation regarding the decline in the number of internet subscribers, compounded with the sharp decline in revenues from the television sector. Expansion of the fixed line fiber infrastructure and the entry of new competitors to the field, encouraged by the Ministry of Communications, is expected to erode Bezeq's relative advantages in the internet infrastructure sector. However, Midroog estimates that the Company's entry into the fiber market will positively influence its results in the medium term, and Bezeq is expected to remain the market leader, although in light of the uncertainty, Bezeq's transition to fiber was not expressed in Midroog's base scenario.

In 2020, we estimate that the Company will present a 7-9% decrease in revenues (pursuant to a 4.2% decrease in 2019), *inter alia*, due to the impact of the Coronavirus crisis on Pelephone's revenues from roaming services and the sale of user equipment. It should be noted that we estimate that the Coronavirus crisis will not have a broad-ranging influence on the Bezeq Group, rather a quite limited one, which also includes a moderating effect on the expenditure side, and we estimate that the rate of decrease in revenues in 2020 will improve to a decrease of 1% in 2021 compared to 2020. In addition, the Company is actively streamlining expenses, including employee salaries, which decreased in 2019 at a rate of 3% compared to 2018, mostly due to a decrease in salaries at Bezeq International and yes. The ratio of salaries to revenues remained stable in 2019, compared to 2018, and is expected to be maintained in the forecasted years as well. Midroog estimates that the decrease in the Company's revenues will lead to a sharp erosion in operating profit.

The Company's FCF (Free Cash Flow)[1] is anticipated to range between NIS 300-600 million in both 2020 and 2021, respectively (compared to NIS 1.0 billion in 2019 and NIS 1.2 billion in 2018), while this depends, *inter alia*, on the scope and impact of the Coronavirus crisis and the realization rate of the Company's real estate assets. In the free cash estimate, Midroog took into account that the manpower cutback at Bezeq will continue and will constitute a significant cash flow payment during the forecasted years, at a scope of NIS 200 million per year. The large reductions implemented by the Company in 2018 and 2019 prevent it from distributing dividends, and we estimate that this will continue until the third quarter of 2021, at least. Midroog estimates that the Company's free cash flow will be directed toward minimizing the financial debt in the forecasted years, pursuant to the Company's strategy. The debt coverage ratio, with a net adjustment to the EBITDA[2], is expected to stand at 2.8-3.0 during the forecasted years, similar to the range over the past two years.

Midroog estimates that the telecommunications market is characterized by consistently growing demands and low sensitivity compared to the economic outcomes. However, technological and structural changes have lowered the barriers prior to entering the industry, as have the regulatory efforts to increase competition and weaken the power of the incumbent infrastructure owners. The Company has a distribution of business lines across the segments of the telecommunications market, as well as leading market shares in each of the four primary operational sectors of its activities, including dominance in the business sector as well. Midroog estimates that in upcoming years, Bezeq will continue to be the leading player in the telecommunications market in Israel, in all areas of its operations. However, we believe that the limitations imposed on Bezeq to offer bundled packages, which constitute a significant market advantage, also constitute a point of weakness that casts a shadow on its business positioning.

The Israeli internet infrastructure subscriber market is composed of 2.5 million subscribers[3] as at the end of 2019 (2.4 million subscribers in 2018), of which Bezeq has 1.57 million subscribers, constituting a market segment of 63% at the end of 2019, a decrease from the rate of 69% in 2018 (1.66 million subscribers). The Company lost 5% of its internet infrastructure subscribers over the past year, with an emphasis on changing the trend line and a decrease in the number of wholesale subscribers. The Company's revenues from the internet infrastructure until recently setoff the erosion of revenues from telephony, to a degree. Midroog predicts that Bezeq's leading status in the fixed line infrastructure market for internet services will continue to erode, as a consequence of the structural changes in the telecommunications market, which include, *inter alia*, the deployment of a fiber optic infrastructure by Partner and Cellcom, which merged with IBC, as well as the increase of competition from Hot for "single" internet subscribers. It should be noted that at this stage, Bezeq is technologically inferior regarding a significant number of the internet subscribers in the private sector at the maximum possible bandwidth on the existing infrastructure, and the Company is working to mitigate its influence on the retail customers.

The Company's high scope of subscribers results in low operating costs and network maintenance for the Company compared with the Hot network, its main competitor, but in light of the maximum internet speed, which is significantly lower than the primary competitors, our estimate is that the Company will soon need to decide, with the consent of the Ministry of Communication, on the outline for the transition to the fiber infrastructure. Midroog's estimation is that the outline proposed by the Ministry of Communication for deploying the fibers, which will also include cancellation of the universal deployment requirement, while

[1] Cash flow following operational leasehold payments and other expenses related to employee retirement, prior to payment of the financial debt principle.

[2] EBITDA is calculated after expenses for employee retirement, but before other income/expenses that are not related to employee retirement.

[3] According to the Company's estimates, and includes internet subscribers who use services that utilize the Company's infrastructures (retail and wholesale); estimate regarding the number of subscribers to Hot (retail and wholesale), Partner (fiber) and Cellcom (fiber and IBC).

providing the Company with the option to determine the national deployment rate, alongside an increase in the wholesale market price of the fibers compared to the cost of an internet line today, constitute steps that could positively impact the Company's business results in the medium term. Midroog estimates that the Company will complete the discussions with the regulators during 2020 and begin the process of deploying the fibers during 2021. Midroog estimates that the Company is capable of reaching significant coverage of the households within a few years. However, in light of the existing uncertainty regarding the final outline and the Company's decision regarding the scope of deployment, at this stage, Midroog did not take into account the influence of the fiber optic deployment on the Company's revenues.

Midroog estimates that the transition to the telecommunications infrastructure in Israel to the fiber technology, which will gradually increase when Bezeq in fact connects to households, is expected to spark competition between the players in the market, including the veteran infrastructure owners, Bezeq and Hot, and the relatively new players. Midroog estimates that the acquisition of Golan Telecom by Cellcom is not expected to lead to a material change in the balance of powers in the market. On the other hand, the future actions of Partner and Hot in the fixed line infrastructure market, which according to reports considered a merger between them that has not yet come to fruition, are uncertain. We estimate that a decision to merge the two companies, or alternately if one of them joins the fiber initiative, could significantly impact the balance of powers in the industry. Midroog estimates that Bezeq will maintain its status as leader with the fiber infrastructure when the national deployment of the fiber infrastructure begins operations, thanks to an early broad deployment to 1.5 million households, which constitutes 60% of the households in Israel[4], alongside high-level engineering and service capabilities.

The television sector is expected to continue to suffer from a decline in the number of premium subscribers and in revenues, primarily due to subscribers switching to low-cost OTT broadcasts at significantly lower profitability than the traditional premium packages.

The Company has good liquidity due to cash balances and short-term investments totaling NIS 1.6 billion as at December 31, 2019 and free cash flow of NIS 400-500 million in 2020 (after payment of current maturities for leaseholds), compared with anticipated principle payments 12 months in advance at a scope of about NIS 1.0 billion. The Company reduced its payments for the upcoming years by extending the duration of the debt and adapting it to its free cash flow - a positive procedure that contributes to our estimate of its high financial flexibility. The Company does not have financial targets and has good accessibility to a range of sources of financing due to its strong cash flows, though to a lesser degree than in the past. The Company has no signed lines of credit.

Credit Outlook

The stable credit outlook stems from our estimation that the business status of the Company supports the Midroog base scenario regarding the Company's revenues and operational cash flows during the next year or two, and that the Company is expected to maintain coverage ratios suitable to the rating level, alongside relatively strong liquidity.

Elements that could lead to an increase of the rating:

- Meeting a debt coverage ratio that is adapted to the net EBITDA of up to 2.0 over time.
- Improvement of the operational cash flows and the coverage ratios beyond our estimation.

Elements that could lead to a decrease of the rating:

- Regulation that could significantly harm the Company's business status, beyond our estimation.
- Significant loss of market sectors in the various sectors due to increased competition.

[4] From the Company's financial statements and recommendation of a joint staff of offices to examine the policy for deployment of ultra-broadband fixed line telecommunication infrastructures in Israel.

Primary Considerations Involved in the Rating

Strong business status in a turbulent market that undergoes structural changes which consistently impact the decrease in revenues and cash flows

Technological developments that led to an increase in the data transfer rate ("broadband speed" or "bandwidth") and regulatory processes to open the infrastructure market have led to significant structural changes in the telecommunications market over the past few years, and these are expected to continue in upcoming years as well. These changes fundamentally alter the manner in which telecommunication services are consumed and in general, have a negative impact on the stability of the operational environment for the traditional telecommunication companies, Bezeq included. Bezeq is the leading company in the telecommunications market in Israel, with revenues of NIS 9.0 billion in 2019, commanding significant market segments in most of the telecommunication sectors in Israel, with a market share of 63% in internet infrastructures, 21% in the cellular field, and 32% in the field of multi-channel television[5]. Furthermore, the Company possesses significant market share in the field of telecommunication services provided to the business sector. The Company owns a fixed line telecommunication infrastructure that is deployed nationwide, which gives it a technological advantage, business flexibility and a strategic and monopolistic status in the fixed line field. In addition, the Company benefits from ownership of a nationally-distributed cellular infrastructure via Pelephone.

However, erosion in Bezeq's revenues and profits in all sectors of its operations is evident, as a result of heavy price pressure in the cellular and television sectors, coupled with a sharp decline in the number of television subscribers, as well as a decrease in the number of internet infrastructure subscribers, appearing for the first time in 2019. The Company's revenues decreased by 4.2% in 2019 in comparison with 2018, following a decrease of 4.8% in 2018. Midroog estimates that in 2020, the Company's revenues will continue to erode at a range of NIS 600 – 700 million (7-9%) in light of the erosion of the Company's operations, as well as due to the impact of COVID-19. This decline will be significantly moderated in 2021, in our opinion, and will stand at a decrease rate of 1% compared with 2020.

Expansion of the fixed line fiber infrastructure and the long-time entry of new competitors to the field, encouraged by the Ministry of Communication, is expected to erode Bezeq's relative advantages in the internet infrastructure sector.

In 2019, the Israeli telecommunications market began to deal with the challenges of upgrading its infrastructures, both the infrastructure for supplying fixed line internet, which mainly involves the transfer of private customers to an infrastructure based on fiber optics, and later, the upgrading of the existing cellular infrastructure to fifth generation technology, which will require significant capital expenditures. As part of the preparations of the companies for the infrastructure upgrade, Cellcom connected with the IBC initiative, while Cellcom is also in the process of acquiring Golan Telecom. In the event that the merger transaction is approved, this is expected to strengthen Cellcom's status in the market, but our estimation is that the transaction is not expected to lead to a material change in the balance of powers in the market, or to constitute a significant alternative to the dominance of Bezeq. On the other hand, the future actions of Partner and Hot in the fixed line infrastructure market, which according to reports considered a merger between them that has not yet come to fruition, are uncertain. We estimate that a decision to merge the two companies, or alternately if one of them joins the fiber initiative, could significantly impact the balance of powers in the industry. In 2019, a decrease in the number of Bezeq's internet infrastructure subscribers was witnessed for the first time, at a rate of 5%. The decrease was caused, *inter alia*, by the increase in competition over internet subscribers by Hot, as well as the intensification of the deployment of the fiber

[5] The data regarding the market segments is quoted from the public financial statements.

optic infrastructure by IBC and Cellcom, which united, as well as by Partner. In light of the number of subscribers to Bezeq's fixed line network, which was 1.57 million internet subscribers and 1.7 million telephony subscribers in 2019, Bezeq has benefited from low network operation and maintenance costs compared with Hot's network, its primary competitor. However, Bezeq's network currently supplies retail customers a low maximum broadband speed in comparison with the Hot infrastructure, and in comparison with the fiber optic infrastructure, in areas where such an infrastructure has already been deployed. At this stage, there is uncertainty regarding the rate of loss of the market share to the fiber players, which is also dependent on Bezeq's entry to the fiber project and the regulations that will apply in this area. The outline proposed by the Ministry of Communication, which will include, *inter alia,* cancellation of the universal deployment requirement, while providing the Company with the option to determine the national deployment rate, alongside an increase in the wholesale market price of the fibers compared to the cost of an internet line today, constitute steps that could positively impact the Company's business results in the medium term. Midroog estimates that the Company is capable of reaching significant coverage of households within a few years. Midroog also estimates that the Company will complete the discussions with the regulators during 2020 and begin the process of deploying the fibers during 2021. However, in light of the uncertainty that exists regarding the final outline and the scope of the deployment that the Company will choose, Midroog did not take into account the effect of the fiber optic deployment on the Company's revenues. Our estimate is that despite the uncertainty regarding the market structure in the fiber age and the negative trend in the Company's revenues in the fixed line sector, the early deployment of the fiber optic infrastructure to 1.5 million households, alongside its high-level engineering and service capabilities, give the Company a relative advantage to maintain its dominant status regarding the fiber infrastructure as well. In the base scenario, Midroog assumes a continued decrease in the number of Bezeq's internet subscribers in 2020 as a result of the decrease in the Company's market share, with an emphasis on more profitable retail subscribers. As such, we assumed a 3-4% decrease in Bezeq's revenues from its internet infrastructure, which will be partially set-off by the natural growth of the market, and parallel to a continued decrease in the fixed line telephony revenue at a rate similar to that of previous years (10% a year).

The television sector is expected to continue to suffer from a decline in the number of premium subscribers and in revenues, primarily as a result of subscribers switching to low-cost OTT broadcasts at significantly lower profitability than the traditional premium packages.

The growth in the bandwidth supports fundamental structural changes in the television industry, primarily the ability to broadcast content without owning the infrastructure, which lowers a significant entry hurdle that existed in the television market for many years. The upsurge of Netflix, Apple TV, Disney + and similar technologies, which market content databases for direct viewing via the internet network, pose an alternative to the traditional multi-channel television operators, which are built on a model that markets broad channel packages and broadcasts. The traditional operators still benefit from a few local entry barriers, such as the local language, the tastes of local consumers, as well as sports broadcasts that are currently distributed on the local level, as well as the fact that they make viewing accessible in a user-friendly manner. In Israel, the revolution in this area is expressed by the entry of Cellcom and Partner TV, marketing television content packages via internet infrastructures ("OTT" – Over The Top) that they purchase from Bezeq (primarily) and at a limited degree, at this stage, via the fiber infrastructure that they own. Their entry was characterized by a level of prices that was significantly lower than the local market offerings and with a tailwind from the upsurge of content giants such as Netflix, which constituted an integral part of the value offered by the companies. In addition to the increasing competition with the veteran operators, the more segmented the market became, with diverse packages and a wide price range, the greater the competition became between the low-cost players – among themselves, and with the content giants. However, it should be noted that the cost of purchasing the internet infrastructure and the costs for content cast a significant shadow on the profitability of the television operations among the new operators, and there is uncertainty regarding the stability of the business model applied by these operators. According to the figures from the Ministry of Communication, in 2019, the market share of OTT television broadcasts (including Next and

Sting) was about a quarter (25%) of the total multi-channel televisions subscribers in Israel, and we estimate that this will increase in 2020 to a third of all subscribers. Midroog estimates that the gradual transition by yes to OTT-format broadcasts is going to turn this technology into the central broadcasting method used in Israel within the medium term. OTT broadcasts currently suffer from a degree of technological inferiority compared with the existing broadcasting methods of Hot and yes, but this inferiority is expected to be significantly minimized with the transition to television broadcasts via the fiber optic infrastructure. Midroog's base scenario assumes a continued, relatively sharp erosion of television sector revenues at Bezeq, at a rate of 5-7% a year (a decrease of 9% in 2019), in light of the 5-8% decrease in the number of premium subscribers to yes, which will be partially offset by an increase in Sting TV subscribers, while the change in the mix of subscribers will continue to erode the average revenue per subscriber.

The cellular sector is characterized by a constant increase in the data communication rate, in light of the growing supply of applications, but the commoditization of the bandwidth, alongside sunk costs in the infrastructure in broad deployment, led to the drop in the price of cellular services and competitive pressure.

As aforementioned, the incumbent cellular operators have increased their foothold in the field of telecommunication services via the internet since the opening of the wholesale market, by primarily marketing telecommunication packages that also include a broadband infrastructure and multi-channel television services, and these constitute a gradually increasing segment of their revenues. Midroog estimates that the large number of players, alongside low differentiation and strong price deviation of the customers, will preserve the high level of competition in the cellular industry, but Midroog is not ruling out the possibility of a certain degree of moderation of the competition in the foreseeable future due to the cash flow pressures of the operators, and in light of the preparations of the Ministry of Communication and the operators for future investments in fifth generation technology. Midroog's base assumption is that material investments in fifth generation technology will only begin in the medium-long term, not before the development of business models that will establish the predictions of the revenues and returns on these investments. In the base scenario for 2020, Midroog takes into account a relatively sharp decrease in revenues of the entire cellular industry, including Pelephone, in light of the forecasted sharp decrease in revenue from roaming services, due to the outbreak of COVID-19, which led to cancellation of overseas flights during March and April, and the estimate is that this will continue during the upcoming months as well and into the vacation season of July – September. The decline in revenues from roaming services is expected to lead to a material decrease in the bottom line of the cellular operators, including Pelephone. Furthermore, we estimate a decline in revenues from the sale of user equipment, both due to the decrease in open stores and due to customers limiting their expenditures. We estimate stability, and even a slight increase, in the market share of Pelephone in terms of the number of subscribers, but an erosion of average revenue per subscriber (aside from the influence of roaming services) in light of the Company's growth strategy. Our evaluation is that Pelephone's revenues is liable to be harmed at a range of NIS 300 – 400 million in 2020, compared to 2019, of which NIS 200 – 300 million is the harm caused by the COVID-19 crisis. In 2021, we assume that Pelephone's revenues will be rehabilitated to its current level. As such, we estimate that this year, Pelephone will slip down to relatively heavy operational and net losses.

Erosion of operating profit and free cash flow – Savings in salaries partially compensate the revenue decrease

Pursuant to the primary assumptions described above, Midroog's base scenario assumes that the Company's revenues will range between NIS 8.2 – 8.3 billion in 2020, and between NIS 8.0 – 8.2 billion in 2021. Similar to other telecommunication companies, the lion's share of the Company's expenses is fixed, and therefore, a significant part of the decrease in the Company's revenues directly trickles down to the operational and net profit, while the Company is capable of minimizing the decrease in its net profit by streamlining its expenses. Over the past two years, the Company implemented significant processes to minimize its workforce, and our estimation is that these processes will continue in 2020 and 2021 as well, causing the Company heavy cash flow costs. Despite the heavy costs, our estimation is that the effect of the streamlining plans is a positive one for the Company's operations, in light of the relatively short return period. It should also be noted, however, that salaries at Bezeq and its subsidiaries naturally creep upward at an average rate of 2-3% annually, due to collective agreements, which offset the rate of the wage streamlining each year. In 2019, the Company recorded a (consolidated) decrease of 3% in its salaries and related costs, primarily from Bezeq International and yes, due to the streamlining plan executed that year. This is a significant decrease compared with previous years, which led to the rate of salaries compared to revenues remaining stable. Midroog's base scenario assumes a decrease in salaries in 2020 at a rate of 5-7% compared to 2019, which includes the impact of the COVID-19 crisis that resulted in employees being put on unpaid leave, and a more minor decrease in 2021 at a rate of 1% due to the continuation of the retirement plans at Bezeq fixed-line and at the subsidiaries.

Operating profit before other income/expenses is expected, in our estimation, to range between NIS 1.4 – 1.5 billion in 2020 (17% of revenues), compared with NIS 1.8 billion in 2019 (20.4%). We assume that the erosion in operating profit will continue in 2021 as well, to a lesser degree. The ratio of operating profit before other income/expenses to total average assets will be 9% in the forecasted year, compared with 12% in 2019. This rate is positively impacted by the deletion of assets on the Company's balance sheet for 2018 and 2019.

The halting of dividends supported the reduction of the financial debt, but the rate at which the leverage is being lowered is expected to slow down due to the erosion of sources from operations, while in the medium term, the probability of resuming the distributions has increased

In 2019, the Company reduced its gross adjusted financial debt by NIS 1.8 billion, of which NIS 1 billion were funded from the Company's free cash flow, including consideration from sale of the Sakia complex, and the balance from the decrease in cash balances and the decrease in operational leasehold liabilities. Midroog estimates that in light of the continued erosion of revenues, which is expected to intensify this year due to the impact of the COVID-19 crisis on Pelephone's revenues, the debt reduction rate is expected to slow down in 2020 and range between NIS 400 – 500 million, and a similar amount is also expected during the following year.

Midroog estimates that Bezeq's FCF is expected to range between NIS 400 – 500 million in 2020 and between NIS 300 – 500 million in 2021, as follows: 1) According to Midroog's base scenario, the Company's FFO (Funds From Operations), including expenses for employee retirement, will range between NIS 2.3 – 2.4 billion in 2020 and between NIS 2.2 – 2.3 billion in 2021; 2) During each of these years, we estimate capital investments of NIS 1.9 billion (including payments for leaseholds – excluding the interest component); 3) The Company is expected to realize the last real estate assets in its possession that are earmarked for use this year, and Midroog assumes receipts of up to NIS 100 million in 2020, and receipts of NIS 200 – 300 million in 2021.

The significant reductions implemented by the Company on the balance sheet in 2018 and 2019 prevent Bezeq from distributing dividends, and we estimate that this will continue until the third quarter of 2021. In addition, in March 2019, Bezeq decided to cancel its dividend policy, and as Midroog estimated, the Company took advantage of the free cash flow during these years to reduce debt. Midroog placed positive weight in its rating on the strategy that the Company's management implemented, which included, *inter alia*, reduction of the financial debt and broad streamlining processes at Bezeq fixed-line and at the subsidiaries. However, the existing uncertainty regarding the Company's future dividend policy, and especially in light of the existing needs of the controlling interest, raise the Company's credit risk. Midroog estimates that the return to the distribution policy is expected to hinder the Company's ability to continue the trend of reducing the Company's financial debt during the years following the forecasted years.

As such, Midroog anticipates that the net adjusted financial debt will be reduced by NIS 600 – 1,000 million cumulatively in 2020-2021. The Company's coverage ratios are slow compared with the rating level, and we even expect them to be eroded during the short-medium term, so that the ratio of adjusted net debt to EBITDA[6] will range between 2.8 – 3.0 during 2020-2021 (2.7 in 2019), and the ratio of adjusted net debt to FFO will range between 3.8 – 4.0 during the same years (3.5 in 2019). The interest coverage ratio (FFO + net financing costs/ net financing costs) is also expected to erode, and to range between 6.0 – 6.5 during the forecasted years (6.9 in 2019).

Financial flexibility is negatively impacted by erosion of the operational cash flows, but still supported by a strong liquidity base and a lack of financing limitations

The Company has good liquidity due to cash balances and investments of NIS 1.6 billion as at December 31, 2019, as well as a positive FCF for 2020 ranging between NIS 400 – 500 million, as described above in Midroog's base scenario, compared to payments anticipated 12 months in advance at a scope of NIS 1.0 billion (excluding current maturities for operational leaseholds). In 2019, the Company implemented processes to extend the duration of the amortization schedule over the upcoming years and to adapt it to the Company's available cash flow. The Company has a negative lien on all of its assets on behalf of all of its financing entities. The Company has good financial flexibility that is supported by good accessibility to the banking system and the capital markets, but the Company does not have signed lines of credit. Near the date of publication of this report, the Company published a shelf prospectus for the public after being unable to do so recently due to investigations of the Company and former senior officers therein. The publication of the prospectus supports the Company's financial flexibility.

[6] See footnote 2.

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