November 30, 2020

Bezeq - The Israel Telecommunication Corp. Ltd.

Quarterly Report for Period Ended September 30, 2020

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2019

Directors' Report on the State of the Company's Affairs for the period ended September 30, 2020

Interim Financial Statements as at September 30, 2020

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2020

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2019

Update to Chapter A (Description of Company Operations)[1] of the Periodic Report for 2019 ("Periodic Report") of Bezeq - The Israel Telecommunication Corporation Ltd. ("Company")

1. General development of the Group's business

Section 1.1 - Group activities and business development

Section 1.1.2 - Control of the Company

Regarding the permit for control of the Company and the provisions prescribed therein for amendment of the Articles of Association of the Company, B-Communications and subsidiaries of the Company, and also regarding a request by B-Communications to add to the agenda of the Company's Annual General Meeting a proposal to amend the Company's Articles of Association, as also detailed in Section 8 in Chapter D of the Periodic Report for 2019 - on April 2, 2020, the Company published a notice of convening of an Annual and Special General Meeting of its shareholders on May 14, 2020, having on the agenda, *inter alia*, the approval of an amendment to the Company's Articles of Association as requested by B-Communications. The notice included the position of the Board of Directors, which adopted the recommendation of the ad-hoc committee established by the Board to review the matter, stating, *inter alia*, that the requested changes to the Company's Articles of Association were not found to be in the interest of the Company and all its shareholders, and that the amendment to the Articles of Association of the subsidiaries which was expected to be submitted in the future, as specified in B-Communications' notice, could even discriminate against the Company's other shareholders and therefore could be held unlawful. Later on that same day (April 2, 2020), the Company published B-Communications' comments in connection with the report on the convening of the General Meeting, which, among other things, asserted that intervention by the Board of Directors in the affairs of the General Meeting is not grounded in law or in the Company's Articles of Association, that the recommendation of the Board Committee per se lacks any legal basis, and that amendment of the Company's Articles of Association is in the Company's interest, given that it reflects directives issued by the Ministry of Communications under the Communications Order, the provisions of which apply to the Company and must be complied with by the Company, in part to ensure that it continues to hold its license. On May 14, 2020, the General Meeting resolved not to approve amendment of the Articles of Association of the Company. As noted in Section 8 in Chapter D of the Periodic Report for 2019, the control permit stipulates, among other things, that failure to regulate the aforementioned provisions in the Articles of Association could constitute grounds for revoking the control permit. Additionally, as noted in the Immediate Report of the Company dated April 2, 2020, B-Communications' contention that there is a regulatory obligation for the existence of control in the Company was not accepted by the Company.

See in this regard also two Immediate Reports of the Company on this matter dated April 2, 2020, as well as an Immediate Report of the Company dated May 14, 2020, on the outcome of the meeting, which are included in this report by way of reference.

Regarding footnote 1 (holdings in B-Communications), it should be noted that as of September 9, 2020, B-Communications is no longer traded on the Nasdaq and its shares are traded only on the Tel Aviv Stock Exchange.

Section 1.1.5 - Investigation by the Israel Securities Authority and the Israel Police

Regarding footnote 4 - On May 19, 2020, a judgment was handed down in a petition filed with the High Court of Justice against the Attorney General, the State Attorney's Office, the Company, Walla and Yedioth Ahronoth in the matter of the decision of the Attorney General and the State Attorney's Office not to indict the Company, Walla and Yedioth Ahronoth in the affairs known as Cases 2000 and 4000. The petition was summarily dismissed as being premature.

[1] The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or developments that have occurred in the company's business in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2019 and refers to the section numbers in Chapter A (Description of Company Operations) in that periodic report.

Section 1.5.4 - Main results and operational data

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

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenues (NIS million)	1,042	1,044	1,018	985	1,025	1,020	1,043
Operating profit (NIS million)	446	464	439	296	440	875	531
Depreciation and amortization (NIS million)	222	218	212	225	225	204	207
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	668	682	651	521	665	1,079	738
Net profit (NIS million)	300	229	295	134	175	562	321
Cash flow from operating activities (NIS million)	561	334	611	476	484	416	471
Payments for investments in fixed assets and intangible assets and other investments (NIS million)	272	201	200	193	145*	333*	210
Proceeds from the sale of fixed assets and intangible assets (NIS million)	1	19	7	14	14	340**	39**
Payments for leases	26	26	32	28	25	27	34
Free cash flow (NIS million)(2)	264	126	386	269	328***	396***	266***
Number of active subscriber lines at the end of the period (in thousands)(3)	1,653	1,675	1,693	1,718	1,743	1,768	1,792
Average monthly revenue per telephony line (NIS) (ARPL)(4)	51	51	48	48	49	49	50
Number of outgoing minutes (million)	1,019	1,079	883	820	888	865	926
Number of incoming minutes (million)	1,368	1,293	1,120	1,046	1,099	1,056	1,090
Total number of Internet lines at the end of the period (thousands)(7)	1,565	1,571	1,566	1,575	1,589	1,613	1,635
The number of which provided as wholesale Internet lines at the end of the period (thousands) (7)	570	580	584	592	601	612	624
Average monthly revenue per Internet subscriber (NIS) - retail (ARPU)(8)	100	98	98	98	98	97	96
Average broadband speed per Internet subscriber - retail (Mbps)(5)	71.6	70.4	69.1	67.8	66.2	64.0	61.5
Telephony churn rate (6)	3.4%	2.7%	3.2%	2.9%	3.0%	2.7%	3.0%

(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 is a generally accepted index in the Company's area of operations which counteracts aspects arising from variance of the capital structure, various tax aspects, and the depreciation/amortization method and 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 operations or cash flows. Additionally, the index presented in this report is likely not to be calculated in the same way as corresponding indices in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from the impairment of fixed assets and intangible assets. Commencing January 1, 2019, and to reasonably present economic activity, the Company presents ongoing losses from the impairment of fixed assets and intangible assets in DBS and Walla under the item depreciation and amortization, and ongoing losses from the impairment of broadcasting rights under the item operational and general expenses (in the Income Statement). On this matter, see Note 5 to the Financial Statements for the period ended September 30, 2020 and Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

(2) Free cash flow is a financial index that is not based on GAAP. Free cash flow is defined as cash from current activities less cash for the purchase/sale of fixed assets and intangible assets, net, and from 2018, with the application of IFRS 16, payments for leases are also deducted. 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 indicator of liquidity that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets. On this matter, see Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

(3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (not including a subscriber who neglected to pay his debt to the Company on time in (roughly) the first three months of the collection process).

(4) Calculated according to average lines for the period. On this matter, see also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

(5) For bundles with a range of speeds, the maximum speed per bundle is taken into account.

(6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

(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.

(8) Revenues from retail Internet services are divided by the average number of retail customers in the period. On this matter, see also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

(*) In Q2 2019 - including payment of a betterment levy of NIS 149 million on the sale of the Sakia property. In Q3 2019 - including an amount of NIS 75 million received in respect of a betterment levy.

(**) In Q1 2019 - including proceeds of the Sakia sale of NIS 5 million, as well as a refund of land appreciation tax that was received of NIS 5 million. In Q2 2019 - including the proceeds of the Sakia sale of NIS 323 million.

(***) See the information in (*) and (**).

B. Pelephone

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenue from services (NIS million)	396	394	405	416	446	430	417
Revenue from the sale of terminal equipment (NIS million)	149	141	168	186	166	140	161
Total revenue (NIS million)	545	535	573	602	612	570	578
Operating profit (loss) (NIS million)	(27)	(8)	(13)	(97)	16	(8)	(10)
Depreciation and amortization (NIS million)	147	151	150	163	157	156	157
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	120	143	137	66*	173	148	147
Net profit (loss) (NIS million)	(12)	1	(2)	(69)*	18	2	2
Cash flow from operating activities (NIS million)	143	149	164	146	200	136	195
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	100	73	65	75	72	82	63
Payments for leases	67	48	67	51	76	46	69
Free cash flow (NIS million)(1)	(24)	28	32	20	52	8	63
Number of postpaid subscribers at the end of the period (thousand)(2)	1,986	1,959	1,939	1,911	1,895	1,866	1,842
Number of prepaid subscribers at the end of the period (thousand)(2)	420	417	428	425	415	397	382
Number of subscribers at the end of the period)(2)	2,406	2,376	2,367	2,336	2,310	2,263	2,224
Average monthly revenue per subscriber (NIS) (ARPU)(3)	55	55	58	60	65	64	63
Churn rate(4)	7.1%	6.8%	7.1%	7.3%	7.3%	7.5%	8.6%

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, 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 excluding IOT subscribers) and does not include subscribers connected to Pelephone's service 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, or has performed no surfing activity on his phone or has not paid for Pelephone services. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. It is noted that a customer may have more than one subscriber number ("line"). The subscriber list includes subscribers who use various services (such as data for vehicle media systems), from which the average revenue is substantially lower than for other subscribers.

(3) Average monthly revenue per subscriber (postpaid and prepaid). 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. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from Pelephone's services and subscribers who became inactive during the period, to the average number of active subscribers during the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

* Q4 2019 includes a non-recurring expense of NIS 77 million resulting from implementation of the collective labor agreement.

C. Bezeq International

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenues (NIS million)	315	314	317	330	329	339	341
Operating profit (loss) (NIS million)	(275)	27	29	(190)	(40)	9	25
Depreciation and amortization (NIS million)	42	38	43	51	47	46	46
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	(233)	65	72	(139)	7	55	71
Net profit (loss) (NIS million)	(305)	21	22	(149)	(32)	5	19
Cash flow from operating activities (NIS million)	47	48	60	87	64	48	56
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)(2)	28	33	34	21	40	34	33
Payments for leases	7	8	8	8	8	8	8
Free cash flow (NIS million)(1)	12	7	18	58	16	6	15
Churn rate(3)	7.2%	6.1%	6.7%	6.3%	7.1%	6.2%	6.6%

Some of the figures in the table were revised further to the restatement of the Company's financial statements, as detailed in Section 1.9 and in Note 2.5 to the Company's financial statements for the period ended September 30, 2020.

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, 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. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

D. DBS

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenues (NIS million)	313	319	338	331	334	337	343
Operating profit (loss) (NIS million)	18	23	9	(6)	20	(24)	(45)
Depreciation, amortization and ongoing impairment (NIS million)	50	50	44	46	50	68	55
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	68	73	53	40	70	44	10*
Net profit (loss) (NIS million)	16	18	14	(7)	15	(27)	(50)*
Cash flow from operating activities (NIS million)	69	39	41	31	37	22	53
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	38	40	37	32	69	73	64
Payments for leases	6	7	7	7	8	7	8
Free cash flow (NIS million)(1)	25	(8)	(3)	(8)	(40)	(58)	(19)
Number of subscribers (at the end of the period, in thousands)(2)	556	557	556	555	558	565	568
Average monthly revenue per subscriber (ARPU) (NIS)(3)	187	190	195	195	195	197	200
Churn rate(4)	5.4%	4.8%	5.9%	5.2%	5.5%	4.9%	5.6%

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, 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 that has more than a certain number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is standardized. The number of business customers that are not small businesses, is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined periodically.

(3) Monthly ARPU is calculated by dividing total DBS revenues (other than revenues from the sale of content to external broadcasting entities) by the average number of customers in the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019. In Q1 2020, DBS updated its definition of ARPU so that it does not include the sale of content to external broadcasting entities. Accordingly, the data for ARPU for the previous periods were restated.

(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2019.

* Q1 2019 includes a non-recurring expense of NIS 45 million resulting from implementation of the collective labor agreement.

Section 1.6 - Group Outlook

The Periodic Report for 2019 and the report for the first quarter of 2020 did not include a forecast of the Group's results for 2020, given the COVID-19 pandemic, the restrictions imposed in connection with the virus and the resulting uncertainty in the global and local economy (see update to Section 1.7.6). Although the economic uncertainty due to the virus remains high, considering the time that has passed since the outbreak of the pandemic and in view of an evaluation of the Bezeq Group's performance during the period of the pandemic, the Company decided to publish a forecast for 2020 in its second quarter reports.

The following is the Group's revised forecast for 2020 based on the information currently known to the Bezeq Group:

- Adjusted net profit[2] for shareholders is expected to be NIS 1.05 billion
- Adjusted EBITDA[2] is expected to be NIS 3.6 billion
- CAPEX[3] is expected to be NIS 1.5 billion

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 the effects of the elimination of the structural separation in the Group and the merger proceedings with subsidiaries and everything they entail, if and insofar as they occur in 2020.

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, on the current economic situation and, accordingly, the Group's ability to implement its plans for 2020, also taking note of changes that may occur in the foregoing, business conditions and the effects of regulatory decisions, technology changes, developments in the structure of the telecommunications market, etc., or insofar as one or more of the risk factors listed in the Periodic Report for 2019 materialize. Additionally, there is no certainty that the forecast will be realized, in whole or in part, *inter alia*, in view of the COVID-19 pandemic and the great uncertainty it has caused.

The Company will report, as necessary, any deviations of ±10% or more from the amounts specified in the forecast.

Regarding the adjusted net profit and the adjusted EBITDA, attention is drawn to the impairment recorded in the Company's books in connection with the asset balances of Bezeq International and in connection with Bezeq International's customers, as set out in Section 1.9 and in the update to Section 4.4, in Notes 2.5, 4.3 and 5 to the financial statements for the period ended September 30, 2020 and in the Company's Immediate Reports dated October 30, 2010, November 8, 2020, November 9, 2020, November 18, 2020 and November 19, 2020 which are included herein by way of reference. Said impairment is not included and therefore does not affect the forecast for "adjusted net profit" and "adjusted EBITDA," since that forecast does not include a one-time impairment loss. However, this impairment will be included and will affect the Company's unadjusted net profit and unadjusted EBITDA in the amount of the impairment.

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

Section 1.7.1 - Communications groups in the Israeli market

Regarding the agreement for the sale of Golan Telecom's shares to Cellcom - To the best of the Company's knowledge, in June 2020 the Anti-Trust Commissioner approved the merger, and on August 13, 2020, the Ministry of Communications approved the merger subject to certain conditions. On August 26, 2020, Cellcom announced the completion of the agreement.

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[2] Adjusted net profit and adjusted EBITDA - excluding other operating expenses/income, net, and non-recurring losses/gains from impairment/increase in value. Adjusted EBITDA and adjusted net profit for 2019 were NIS 3.69 billion and NIS 913 million, respectively (updated amounts that take into account Bezeq International's balances as set out in Section 1.9).

[3] CAPEX - payment (gross) for investments in fixed assets and intangible assets. CAPEX for 2019 was NIS 1.55 billion

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

Subsection 1.7.2.1 - Structural separation - Regarding the Company's petition to the High Court of Justice to abolish the structural separation, on July 15, 2020, the State filed a notice of update in connection with the Company's said petition. In the notice the State advised that on June 30, 2020, the Director-General of the Ministry of Communications submitted to the Minister of Communications the report of the interdepartmental team set up to consider adjustments to the obligation of structural separation in the Bezeq and HOT Groups ("**the Report**"). According to the Report, the team members from the Ministry of Communications and the observers from the Ministry of Finance's Budget Department and from the Competition Authority have recommended to the Minister not to cancel the obligation of structural separation in the Bezeq and HOT Groups at the present time. The notice likewise stated that the team's recommendations were presented to the Minister of Communications, who, after studying and considering the recommendations, will decide on the matter. In light of the foregoing, the State's position is that the petition should be dismissed, and at the very least struck out - with the Company ordered to pay costs.

The Report (which was attached to the State's notice and also published on the Ministry of Communications website) noted, *inter alia*, the following with regard to Bezeq:

- The team and observers have found that the time is not yet ripe for the total cancellation of structural separation in the Bezeq Group, given that the Bezeq Group enjoys strong market power and dominance in the telecommunications market, and that elimination of the structural separation at this time may boost the Bezeq Group's power while hurting its competitors.
- The team's position is that the existing structural separation provisions have yielded results until now, and that cancelling the structural separation at this time would seriously harm competition in the field of telecommunications, which in turn would hurt the public and telecommunications consumers.
- The observers' position is that the present form of structural separation does not serve the competitiveness objectives of the separation and fails to deal with the competitiveness problems in the market. Thus, structural separation should not be left in its current form, and other alternatives should be advanced, such as separation between wholesale and retail activities or separation between passive infrastructure costs and those of the Bezeq Group's other activities.
- Notwithstanding the team's position on the elimination of structural separation at this time, it did find that it is possible to make certain changes in the overall regulation that could potentially improve the public service and influence the structural separation. Thus, for example, in parallel with the team's work, the Ministry of Communications promoted a sweeping change in the method of marketing the "reverse bundle." In the past two years, the Ministry of Communications has not opposed the Bezeq Group's moves to reduce the separation between the subsidiaries' operations. Additionally, the team has recommended to the Minister of Communications to consider changing the prevailing separation in Israel between the infrastructure service and ISP service (see in this regard the update to Section 1.7.2.2).

It was likewise added that since the issue of structural separation is not a binary one, the team believes that the matter must be further examined, in light of, among other things, market changes. The team recommends granting the Ministry additional time to continue working as it has till now, or to proceed by any other method to be decided by the Minister of Communications, for the purpose of reviewing the alternatives and making recommendations regarding the implementation of the selected alternative.

The Company is currently studying the implications of both the State's position and the Report, while standing firm on its arguments in the petition (the Company submitted on July 27, 2020 its response which rejects the State's position). On August 9, 2020, the court issued a decision ruling that the petition will be set for a hearing (the hearing has been scheduled for January 6, 2021).

Subsection 1.7.2.2 - Marketing joint service bundles with a subsidiary - on March 25, 2020, the Company received a letter from the Director-General of the Ministry of Communications containing a temporary decision (the validity of which was limited to three months while the coronavirus remained active) concerning a change in the marketing arrangements for the reverse bundle, according to which, among other things, the requirement to split the reverse bundle after a year has been cancelled and the Company will be able to contact customers at any time to renew the reverse bundle. The Company will have to offer all suppliers as part of the reverse bundle (including major suppliers that at the hearing it had been intended to exclude). Further to the above, on June 18, 2020, the Company received the decision of the Director-General of the Ministry of Communications establishing that the changes that had been made temporarily would become permanent. The Company believes that doing away with the requirement to split the reverse bundle should in itself have a positive effect on its Internet activity, to an extent that cannot be estimated at this stage, *inter alia*, given that, apart from this decision, the results of its said activity will also be affected by the moves of its competitors and by customer behavior.

Regarding a notice of intention to impose a financial sanction on the Company for failure to fully comply with the provisions of the license with respect to the reverse bundle - on June 30, 2020, the Company received a demand to pay a financial sanction amounting to NIS 2,013,760 in connection with the marketing of the reverse bundle. The Company paid the amount of the sanction.

Hearing to examine separation of broadband infrastructure services from Internet access (ISP) services

On October 4, 2020, a "Hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services" was published, according to which the Ministry of Communications plans to take policy steps, including, *inter alia*, amending the licenses of the infrastructure owners – the Company and Hot Telecom – so that as of January 1, 2022 they will be allowed to provide end customers with an integrated Internet service consisting of the components currently known as "broadband access service to ISP providers" and "ISP service," at the terms specified in the hearing, among them a prohibition on the infrastructure owners to make certain customers different marketing offers before and after January 1, 2022 ("**effective date**"). The table below summarizes the marketing of the services by the infrastructure providers before and after the effective date:

	Until the Effective Date			**As of the Effective Date**		
	Infrastructure only	Reverse bundle	Future offer of a combined service	Infrastructure only	Reverse bundle	Combined service
Customers currently subscribed to the service	Yes	Yes	No	Yes	Yes (at the discretion of the infrastructure provider)	Yes
Customers seeking to sign up to the service	Yes	No	No	No	No	Yes

For further information on this matter and for details of the terms specified in the hearing and the hearing documents, see the Company's Immediate Report dated October 5, 2020, which is included herein by way of reference.

The Company estimates that abolishing the separation between infrastructure providers and ISP providers will have a positive impact on its business. However, if the arrangements proposed in the hearing for the period up to the effective date are accepted, they are expected to harm the Company's marketing capabilities, to the detriment of its business operations, and to put difficulties in the way of the launch of the fiber optic project. Furthermore, as regards Bezeq International, said abolition of the separation could adversely affect its results and/or impair the value of its assets. On November 5, 2020, the Company submitted its comments on the hearing, mainly addressing the need to amend the proposed restrictions for the period up to the effective date.

Regarding the marketing of service baskets by HOT – according to the hearing published by the Ministry on October 22, 2020, it is proposed to amend the licenses of Hot Net and Hot Mobile, so that they are allowed to submit an application (in an abridged procedure) for marketing approval for a joint basket of services comprising their services and those of HOT Telecom and HOT Cable Communication Systems Ltd. Such service baskets are not subject to an unbundling requirement, but the holders of Internet service licenses must be offered a parallel basket at the same terms.

Section 1.7.4 - Additional regulatory aspects relevant to the entire Group or several Group companies

Subsection 1.7.4.4(B) - Amendment on the subject of the IPv6 protocol (Internet addresses) - Regarding a Ministry of Communications decision dated July 3, 2019 concerning the transition to the IPv6 protocol, on May 12, 2020, the Ministry of Communications approved (further to a hearing published on this subject) a deferment of three months in the date of implementation of the first milestone set in the decision (15 months instead of 12 months), in view of the outbreak and effects of the COVID-19 pandemic.

Subsection 1.7.4.8 - Hearing on millimeter waves - Further to a hearing on this subject on April 6, 2020, an amendment was published to the Wireless Telegraph Order (Non-Application of the Ordinance) (no. 2), 1982. The amendment stipulates that under certain conditions, the Wireless Telegraph Ordinance will not be applied with respect to the use of frequencies of 57-66 GHz in the V-Band. (It should be noted that on September 15, 2020, an amendment was published that expands the exemptions for the above range of frequencies under certain conditions, both those intended to be used as outdoor point-to-point fixed wireless stations and those intended to operate indoors only.) Additionally, on August 2, 2020, a further amendment was published to the same Order, stipulating that under certain conditions, the Wireless Telegraph Ordinance will not be applied with respect to other uses.

Subsection 1.7.4.9 - Hearing on asymmetry - On November 2, 2020, the Ministry of Communications published a decision in the hearing and an amendment to the BSA and telephony wholesale service file, which, among other things, imposes on the infrastructure owners, including the Company, obligations with respect to periodic publications on the API interface and on its website regarding the deployment of an advanced network. In addition, the Company is required to publish detailed statistical information on an internal interface between the operators, regarding a wide range of parameters. The amendment to the service file further stipulates that the Company must provide the ISP providers with a specification for the API that is suited to them and to complete its development and announce the deployment of the network within the times specified in the amendment to the service file. Further to the above, an amendment was made to the Company's license regarding the submission of an engineering plan and implementation of upgrades/developments on the network.

On August 9, 2020, a memorandum on the Communications (Telecommunications and Broadcasting) Law (Amendment No.___) (Change in the Regulatory Framework for the Provision of Telecommunications Services), 2020 was published on the Government Legislation website, for the submission of public comments until August 30, 2020. In the law memorandum it is proposed to change the regulatory framework existing in the Law (under which the main regulatory tool is a license for the provision of telecommunications and broadcasting services), abolishing the obligation to obtain in advance a specific license (per person and per operation) as a condition for implementing a telecommunications operation, and also eliminating the distinction between the types of licenses (general, general special, and restricted) listed in the Law. Instead, it is proposed that the basis for regulating the provision of communications services in Israel will be a general authorization, which is a public document setting in advance clear and detailed conditions applicable in an identical manner to all the services providers, and allowing any party interested in provided telecommunications services to know in advance the conditions by which it may operate and to begin operating without applying for or receiving a license. Additionally, the definition of a "telecommunications service" and a "telecommunications facility" that are subject to regulation will be narrowed, and accordingly the number of regulated services will be reduced. According to the explanatory notes to the memorandum, the immediate effect of such an amendment would be to reduce the number of license holders from more than 150 to approximately 30. In the memorandum it is proposed that a regulated telecommunications service will be a service provided to the public that is one of the following: (1) a service provided in conjunction with the operation of a telecommunications network, being substantially: an Internet access service, a data transmission service; (2) a telephony service. (The Minister will be authorized to broaden the definition.) Telecommunications operations that do not involve the provision of a service to the public, excluding the laying of an underwater cable, will, according to the proposal, not be subject to regulation under the Law. In other words, the obligation to receive a license to perform telecommunications operations – will be cancelled. An individual license (not an authorization) will continue to be a condition for the provision of a telecommunications service that has one of the following characteristics: the service is provided through a satellite telecommunications network; the service is provided through a mobile radio-telephone network; the service is provided through an access network having a minimum number of users, as determined by the Minister in regulations; the service is provided by a municipal company or a municipal subsidiary or a local authority; the Minister has determined that a telecommunications service that has certain characteristics or that is provided by a certain type of service provider requires a license, where he considers that the provision of the services under a general authorization could harm state security, the public welfare, the efficient use of a scarce resource or the promotion of competition. According to the explanatory notes, the proposed change in the regulatory framework will reduce the bureaucratic burden, lower market entry barriers and be in line with generally accepted practice around the world in the communications sector. On August 30, 2020, the Company submitted its comments on the memorandum, stating that notwithstanding the need to facilitate essential services (in particular those based on physical infrastructure), a multiplicity of operators could affect other regulatory arrangements in the market, undermining the foundations of the communications sector and impacting the Company's investment considerations, due to inability to compete on equal terms in areas in which deployment would be carried out by providers based on a general license. Moreover, the amendment to the law could result in entry of tens of parties into the Company's infrastructures and uncontrolled use thereof, with all that implies.

Regarding the decision in the hearing in the matter of licensing of new operators for the provision of Internet access infrastructure services – see update to Section 2.6.3.

On November 24, 2020, an amendment to the Consumer Protection Law was published, providing for the Consumer Protection Authority to set up and manage a database to restrict dealers from contacting consumers by way of marketing calls (including by way of electronic communications) for the purpose of entering into a transaction. Under the amendment, the database will include telephone numbers of consumers wishing to restrict such marketing calls to them, and dealers will be prohibited to make such a marketing call to a consumer whose telephone number is included in the database (subject to the exceptions specified in the Law). The effective date of the amendment in this regard is 18 months from the date of its publication. The Company and the Group are unable at this stage to assess the effect of the amendment on their marketing and sales capabilities.

Section 1.7.6 - COVID-19 pandemic

During the period from the date of publication of the Periodic Report for 2019 until the date of publication of this report, the virus continued to spread and its effects widened. This was reflected, *inter alia*, in the imposition of various restrictions, including restrictions on civilian movement and assembly, on employment and on transport, and a significant contraction in economic activity.

In view of the impact of the virus on the local and global economy and on the Group's companies, including a high degree of uncertainty, a material adverse effect on the Group's results is possible, mainly as a function of the duration and scope of the restrictions. At this stage, the repercussions of the pandemic are mainly reflected in a significant drop in revenues from Pelephone's roaming services as well as a certain decline in revenues from the business sector in all the Group's companies. The overall impact of the COVID-19 pandemic on the financial and business position of the Group's companies has been mixed, with the growth in Company operations along with the measures taken by the Group's companies to counteract the effects of the pandemic largely offsetting the decrease in revenues from Pelephone's roaming services. Furthermore, should the pandemic continue, this may adversely affect revenues from terminal equipment sales as well the amounts and times of collection, mainly from some of the small to medium business customers of the Group. At the same time, thus far, due to the effects of the pandemic, there has been a certain growth in demand for some communications services and in the revenues from those services. For an assessment of indications of impairment in connection with the value of Pelephone, see Note 5.4 to the Company's Financial Statements for the period ended September 30, 2020.

The Company's aforementioned estimates are forward-looking information and they might change in line with various developments relating to the COVID-19 pandemic and its effects, particularly the duration and scope of the pandemic, the nature and extent of the economic and other related restrictions, as well as the intensity and duration of the economic slowdown that may develop as a result.

The Group's companies are taking various measures to address the risks and exposures arising from the pandemic, also taking into account its prolongation, including cutting expenses and adjusting their operations to the situation.

It should be noted that during this period various measures have been taken by the Ministry of Communications (and also by the Council and Chairman of the Council with respect to DBS) to help the communications market deal with the implications of the pandemic, including the grant of temporary reliefs to the communications companies (some of which have already lapsed), *inter alia*, regarding call center response times, number portability, connection and pick-up of equipment and reverse bundles.

Regarding this section, see also Section 3 of the Directors' Report and Note 1.2 to the financial statements for the period ended September 30, 2020.

Section 1.8 – Bezeq Group's Business Strategy

Regarding streamlining processes and the promotion of synergy among the subsidiaries – In the first nine months of 2020, the subsidiaries' workforce contracted by approximately 330 employees.

Further to previous resolutions of the Company's Board of Directors regarding the Bezeq Group's business strategy, including activity for the sale of the subsidiaries Bezeq Online and Walla, on September 15, 2020, the Company entered into an agreement with The Jerusalem Post Ltd. ("**buyer**") for the sale of all the Company's holdings in Walla, for a total consideration of NIS 65 million, of which NIS 55 million in cash, and the balance of NIS 10 million through the Company's entitlement to receive from the buyer and Walla (and their related entities) advertising space for a period of seven years from the transaction closing date. The sale agreement includes the Company's undertaking to indemnify the buyer in certain circumstances. The closing of the transaction is subject to the approval of the Competition Commissioner (which was received on October 21, 2020) and ministerial approval (the Prime Minister and the Communications Minister), as well as other conditions that are included in the sale agreement. See also in this regard the Company's Immediate Report dated September 15, 2020, which is included herein by way of reference, as well as Note 15.2 to the financial statements for the period ended September 30, 2020.

Section 1.9 – Event or Matter Outside the Ordinary Course of the Company's Business

At the beginning of November 2020, in the framework of preparing the quarterly report and as part of the controls performed over the process of preparing and closing the financial statements for the period ended September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses. Following the discovery of the discrepancies, the management of Bezeq International began an immediate examination of the matter and carried out actions, checks and compensating procedures, investing substantial efforts and resources, for the purpose of preparing the financial statements in accordance with the law.

For details on the effect of the correction of the discrepancies on the Company's equity and on the recognition of an additional impairment loss due to an adjustment in the value of operations and in the book value of Bezeq International, as well as the adjustment by a restatement of the Group's financial statements in light of the findings of said examination, see Notes 2.5 and 5 to the Company's financial statements for the period ended September 30, 2020.

The Company's Board of Directors appointed an independent external investigator to conduct and in-depth examination of the events and circumstances of this matter. The investigation is underway as of the day of publication of the financial statements.

For further details in this regard, see also the Company's Immediate Reports dated November 9, 2020, November 18, 2020 and November 19, 2020, which are included herein by way of reference, Chapter 2 of the Board of Directors Report and Chapter E (Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2020). Likewise, regarding legal proceedings connected with this matter, see update of Section 2.18.1.

2. Domestic Fixed-Line Communications - Bezeq - The Israel Telecommunication Corporation Ltd. ("Company")

Section 2.2.6 - Other services

Subsection 2.2.6.1 on the deteriorating payment ethics of communications operators, deferment of payments and an increase in the volume of dispute claims - On April 27, 2020, the Company informed the Ministry of Communications, through its attorneys, that it would not continue to provide wholesale services to service providers that do not pay for these services, including that it would no longer provide technician services to service providers that fail to pay for this service. The Company further clarified that should the Ministry prevent it from taking such action, it intended to exercise all its rights in this regard. On May 12, 2020, the Ministry announced that it was investigating the issues arising from the letter of the Company's attorneys. In its response of June 11, 2020 to the Ministry's letter, the Company stated that in light of the Ministry's notice that it intended to consider an arrangement for the matter, the Company was of the opinion that the Ministry must act as soon as possible to implement such an arrangement, and it even suggested in its response a payment enforcement procedure. The Company likewise clarified that it was reserving its rights and arguments in the matter, since the letter does not provide an answer to the Company's contentions. In November 2020, the Ministry of Communications invited the communications operators to a "round table" meeting on the subject of the obligation to make payments, and according to its notice, it intends to review the guideline on this subject (which until now has been to submit financial disputes to the courts for resolution).

<u>Section 2.6.3 - Internet infrastructure segment</u>

Regarding the Minister of Communications' announcement within the framework of the draft economic plan for 2020 concerning an evaluation of the re-regulation of the Israeli retail Internet market, including abolition of the separation of Internet services into infrastructure services and Internet access (ISP) services, as well as a hearing to examine the separation between broadband infrastructure services and ISP services, see updates of Sections 2.7.2 and 1.7.2.2.

Subsection 2.6.3.5 regarding IBC - To the best of the Company's knowledge, in September 2020 an investment agreement was signed, pursuant to which HOT is to become a partner in the IBC fiber optic project, and an IRU agreement was signed between HOT and IBC, pursuant to which HOT is to acquire the right to use infrastructure that will be set up by IBC. The closing of the agreements is subject to regulatory and third party approvals.

Subsection 2.6.3.6 on a hearing on licensing for new operators to provide Internet access infrastructure services - On October 13, 2020, the Minister of Communications issued his decision in the hearing, significantly reducing the threshold requirements for receiving a license to provide broadband infrastructure services. The reduction, which is to be temporary, will be implemented by offering the possibility of receiving a special license (for 36 months from the date of the decision) instead of a single license. The special license will be granted subject to the conditions set out in the decision, among them that the service under the special license may be provided to no more than 8,000 private subscribers and no more than 800 network endpoints of business subscribers. On the face of it, it appears to the Company that under certain circumstances the Minister's decision may adversely affect its business to an extent that the Company is unable to estimate at the present time. See in this regard the Company's Immediate Report dated October 15, 2020, which is included herein by way of reference.

<u>Section 2.6.6 - The Company's deployment and ways of coping with the intensifying competition</u>

Subsection 2.6.6.7 on the Company’s Be router - As of the date of publication of the Report, the Company had 520,000 customers using the Be router (approximately 52% of the Company’s retail Internet customers). Additionally, the Company markets products such as Bspot and Be Mesh to extend the range of home Internet networks, selling 240,000 units of these products as of the date of publication of the Report.

<u>Section 2.7.2 - Infrastructure and domestic fixed-line communications equipment</u>

<u>The telephony network</u>

The Company completed the replacement of its telephony switch and transferred all its telephony customers to the new switch.

<u>The Internet network</u>

Use of the 35B technology - On April 7, 2020, the Company requested the Ministry of Communications to allow it to use these infrastructures immediately, mainly in view of the significant increase during the COVID-19 pandemic in the volume of use of the Internet by a large number of subscribers simultaneously. On July 12, 2020, the Company received the approval of the Ministry of Communications for the use of this technology. In accordance with the Ministry's approval, the service will be launched four months after distribution of the service interface characterization to the ISPs. Due to the technology's attributes, deployment is partial (in the Company's estimation, to some 230,000 subscribers) and does not cover all the Company's sites. As of the date of publication of the Report, this partial deployment has almost been completed. At this stage, the Company plans to launch a broadband speed of up to 200 Mbps (versus a current speed of up to 100 Mbps) for customers hooked up to sites where said technology has been deployed. The launch of the new speed is not expected to materially affect the Company's revenues, among other reasons, due to the partial scope of the deployment.

<u>On the status of regulatory decisions regarding the deployment of, and provision of services on, a fiber optic network (fiber optic project)</u>

<u>(1) Policy for deployment of fixed-line ultra-broadband infrastructure in Israel</u>

Further to the publication on November 5, 2019 for public comments of the recommendations of the Inter-Ministerial Team to Examine the Policy for Deployment of Fixed-Line Ultra-Broadband Infrastructures in Israel ("**Inter-Ministerial Team**" or "**Team**"), and to the publication on June 14, 2020 for public comments of the Inter-Ministerial Team's recommendations in connection with the HOT Group (as detailed in the Immediate Report dated June 15, 2020, which is included herein by way of reference) - on July 20, 2020, the Ministry of Communications published the report of the Inter-Ministerial Team (dated July 15, 2020) containing its final recommendations ("**Report**"), as well as the Minister of

Communications' announcement that he had decided to adopt the Team's recommendations with several changes as detailed below.

According to the Report, the following are the main points of the regulatory framework recommended by the Inter-Ministerial Team:

"A. Bezeq will be able to choose the statistical areas in which it will deploy and operate an ultra-broadband network to all households in those areas ("**Deployment Areas**"). Notice of the selected statistical areas will be given to the Ministry of Communications ("**Ministry**"), and Bezeq's obligation to complete the deployment in these areas within five years will be written into law. The milestones for completion of the deployment obligation, and the minimum timeframes for linking up customers in the Deployment Areas, will be established in its license. If Bezeq does not notify the Ministry of the Deployment Areas, and no updated deployment obligation for an ultra-broadband network is established in its license, the array of regulatory obligations currently applying to Bezeq and the other license holders will not change.

B. HOT Telecom will not be required to deploy an ultra-broadband network that does not use its existing access network. Likewise, there will be no change in HOT Telecom's existing universal deployment obligation for services provided based on its coaxial cable network. Should HOT Telecom choose to provide advanced services on its coaxial cable network, it will be possible to consider changes in the existing deployment obligation. In any event, the provision of advanced services is subject to the presentation to the Ministry of a deployment plan that addresses engineering and economic implications, and the approval of such a plan.

C. To encourage deployment of an ultra-broadband network in the statistical areas where Bezeq announced that it would not be deploying an ultra-broadband network ("**Incentive Areas**"), a fund will be established to provide financial incentives for deployment of an ultra-broadband network to all households in those areas ("**Universal Fund**" or "**Fund**"). The Fund will allocate money through competitive procedures aimed at allocating the Fund's resources efficiently over the years of its operation, with the primary criterion for selecting the winners being the ratio between the number of households to which the network has been deployed and the amount allocated.

D. The Universal Fund will be financed by annual payments of license holders (including Bezeq) under the Communications (Telecommunications and Broadcasting) Law 5742-1982 ("**Law**" or "**Communications Law**"), which engage primarily in the provision of data transmission services ("**Infrastructure-Related Entities**"), as well as corporations affiliated with Infrastructure-Related Entities that provide communications services, *inter alia*, as part of a package of services that includes telecommunications services of Infrastructure-Related Entities ("**Marketing-Related Entities**"). Payment to the Fund will be at a rate of 0.5% of these entities' annual revenues.

E. To encourage Bezeq to commit to extensive deployment and to reduce the Incentive Areas, and in order to decrease the costs of deployment in the Incentive Areas and to facilitate competition in these areas despite the absence of multiple infrastructures, the Team recommends:

1. Establishing restrictions on Bezeq's deployment in the Incentive Areas;
2. Determining that Bezeq will not be able to compete in the competitive procedures for the allocation of funds from the Universal Fund;
3. Setting the cost of using Bezeq's physical infrastructures in the Incentive Areas based on a different calculation method than the one established for the regulation of the wholesale market, so that the cost will be substantially lower;
4. Determining that the winners of the competitive procedure for deployment in an Incentive Area will be obligated to provide BSA services on the ultra-broadband network to be deployed in that area to other license holders.

F. Three years after the commencement of the Fund's operation, an inter-ministerial committee will review the pace of deployment in the Incentive Areas, the efficiency of the competitive procedure and the deployment financing cost, in order to consider the need for changes in the competitive procedure as well as additional examination timelines, and will also formulate a recommendation regarding the Fund's continued operation."

Additionally, the Report's recommendations with respect to HOT Telecom include a recommendation to allow HOT to make use of the BSA service on the ultra-broadband network of another. However, to ensure such use is made as a complementary, and not alternative, means for the network's upgrade by HOT Telecom, the use will be allowed only with the presentation of an engineering plan for the upgrade of HOT Telecom's network, and the plan's approval by the Ministry, thereby ensuring that HOT Telecom will start providing ultra-broadband services independently.

As mentioned above, the Minister of Communications has decided to adopt the Team's recommendations, with several changes, the major ones being:

- The first allocation of funds by the Universal Fund will be take place already in 2021 (instead of 2022).
- During the first three years of the Universal Fund's operation, it will be possible to weight various criteria (proximity to border, economic, security and social robustness of the area, and narrowing of gaps between Israel's center and periphery) on the scale of 10% of households to which the network will be deployed in Incentive Areas, per year.
- In the event that HOT Telecom chooses to deploy an ultra-broadband network that is not based on its existing access infrastructure, it should be subject to a 30% minimum deployment obligation as well as an obligation to meet a periphery-to-center deployment ratio of 1:1.
- In the event that HOT Telecom wins a competitive procedure in an Incentive Area, the households given access to hook up to an advanced network in that area will not be taken into account in evaluating HOT Telecom's compliance with the deployment obligations prescribed in its license.
- Communications regulations will be enacted in a manner enabling HOT Telecom to make use of the BSA service on Bezeq's network only after HOT has presented an engineering plan for network upgrade, approved by the Ministry.

Further to the above, on September 13, 2020, the Israeli government approved the promotion of nationwide deployment of advanced communication infrastructures in Israel, in accordance with the final recommendations of the Inter-Ministerial Team. Implementation of the substance of the government's decision requires an amendment to the Communications Law. On September 18, 2020, a memorandum on the Communications (Telecommunications and Broadcasting) Law (Amendment) (Advanced Network), 5780-2020 was published, and on October 8, 2020, the Company submitted its comments on the memorandum. Subsequently, on November 9, 2020, the Communications (Telecommunications and Broadcasting) Bill (Amendment – Guidelines on Advanced Network Deployment), 5781-2020 was published (as a private member's bill).

Further to the government's aforesaid approval, on September 14, 2020, the Company's board of directors approved the launch and start-up of the Company's plan for deployment of ultra-broadband fixed-line infrastructure ("**Fiber Project**"). The Fiber Project is a complex and resource-intensive project involving significant investments of billions of shekels by the Company over the years of its execution, and it is expected to include a massive deployment of fiber optics throughout Israel on a wide scale that will enable the provision of ultra-fast Internet services.

Some of the information contained in this section is forward-looking information, as the term is defined in the Israeli Securities Law, which is based on the Company's assessments, assumptions and expectations, and it may change depending on regulatory developments and decisions, technological developments and developments in the communications market.

<u>(2) Rates for service on ultra-broadband fiber optic infrastructure</u>

Regarding rates for wholesale BSA services on the Company's network - Further to a hearing of the Ministry of Communications to determine a maximum rate for an ultra-broadband access service running on the Company's fiber-optic network, on August 25, 2020, the Minister of Communications issued a decision on changes in the structure and amount of the rates, in which he adopted the recommendations of the Ministry's professional staff. Further thereto, the Communications (Telecommunications and Broadcasting) Regulations (Use of Public Network of a Domestic Operator) (Amendment No. 2), 5780-2020 came into effect, setting maximum rates for an ultra-broadband access service running on the Company's fiber-optic network. Accordingly, the maximum rate for a fiber-optic-based BSA service for access and data transfer at a cumulative speed of up to 550 Mbps will be NIS 71 per customer per month (excluding VAT), and for access and data transfer at a cumulative speed above 550 Mbps and up to 1,100 Mbps – NIS 79 per customer per month (excluding VAT). The regulations did not set a controlled rate for initial installation of internal wiring to the subscriber's premises, and the Company may demand a reasonable payment for this service (the rates are specified in the June 2020 price lists and will be adjusted once a year on January 1, starting in 2021, according to changes in the consumer price index. At the recommendation of the Ministry's professional staff, these rates will remain in force for three years and will then be replaced by a fixed rate).

Regarding a hearing to determine a standard price for fiber-optic-based Internet services (FTTP) - On June 25, 2020, the Ministry of Communications published a decision in the hearing, whereby in the provision of Internet access services using fiber optics to a residential building (Fiber to the Home - FTTH) for private subscribers, license holders will not be able to offer subscribers different terms or a different rate based on the infrastructure offered. It was also noted in the decision that what was stated in the letter of the Ministry's Director-General dated February 23, 2015 (which included the clarification that the type of infrastructure offered would be a reasonable attribute justifying distinguishing between one group of subscribers and another) would continue to be applicable to Internet access services that are not provided through fiber optics to a residential building.

(3) Joint use of fiber-optic infrastructure in existing residential buildings

Regarding a hearing on the joint use of fiber optic infrastructure in existing residential buildings - on July 27, 2020, the Ministry of Communications' decision of July 22, 2020 in the hearing was published. Pursuant to the decision, an administrative directive was issued (attached to the decision), with effect from July 27, 2020, regarding the manner of implementing the joint use of fiber optic infrastructure in existing residential buildings, including, *inter alia*, the principles for implementing joint use (including the obligation of a domestic operator deploying the fiber infrastructure in a residential building with no fiber infrastructure, to turn to every other domestic operator with an offer to make joint use of the fiber infrastructure it will be deploying in the building), a procedure for implementing joint use, principles for determining the payment for joint use (to be based on the proportionate share of the cost of setting up the fiber infrastructure plus a reasonable premium for the joint operator), the need to reach an agreement among the domestic operators regarding the level of service and the maintenance of fibers, and prohibition of discrimination. The decision further states that the establishment of an arrangement for joint use in existing buildings where the fiber optic infrastructure has already been deployed will be examined separately by the Ministry, and that an examination will also be made of the need for adjustments to the recommendations of the Inter-Ministerial Team to Examine the Policy for Deployment of Fixed-Line Ultra-Broadband Infrastructures in Israel, which were adopted by the Minister of Communications on July 15, 2020 (see update of this section above). See also in this regard the Company's Immediate Report dated July 27, 2020, which is included herein by way of reference. In spite of the binding directive and the Company's requests to Partner and Cellcom, the Company has still not received details of the buildings in which deployment is planned by Cellcom and Partner starting from the date of entry of the decision into force (July 27, 2020).

As to deployment in new residential buildings, a draft amendment to the Planning and Construction Regulations (Application for a Permit, Its Conditions and Fees) was distributed for comments (until August 17, 2020), establishing, *inter alia*, provisions for the installation of telecommunications infrastructure in new buildings. According to the explanatory notes to the draft amendment, under the current wording of the regulations, the telecommunications infrastructure that is installed today in new buildings includes a coaxial cable (used for cable and satellite broadcasting), as well as another telecommunications infrastructure of copper cables used for telephony and Internet. This amendment is intended to establish provisions for the setup of advanced fiber optic telecommunications infrastructures in new buildings by the contractors already at the time of the construction. On August 17, 2020, the Company submitted professional comments on the draft amendment to the regulations.

(4) Other matters

On July 2, 2020, the draft economic plan for 2020 was published for public comments, including, *inter alia*, a proposed government decision to amend the Communications (Telecommunications and Broadcasting) Law, 1982 on a series of topics related to the promotion of nationwide deployment of advanced communications infrastructure in Israel, further to the recommendations of the Inter-Ministerial Team in this regard. In this context, it was stated that note would be taken of the announcement by the Minister of Communications that the Ministry of Communications would complete, within 90 days, an evaluation of the re-regulation of the retail Internet market in Israel, including abolition of the separation of Internet services into infrastructure services and Internet access (ISP) services, considering the need to balance between market competition and the consumer's best interests and to simplify the purchase of Internet services in Israel for the end users, including recommendations for appropriate transitional provisions to maintain market competition, to the extent needed (regarding a subsequent hearing that was published on the subject, see update of Section 1.7.2.2).

On August 25, 2020, the Ministry of Communications' decision and the recommendations of the director of the Engineering Administration in the Ministry concerning an advanced network with a very high capacity were published. The decision adopts the recommendations of the professional staff and defines the criteria for the characterization of an advanced network, which would allow any operator to select the composition of technologies by which it provides the service to its subscribers. According to the decision, an advanced network is a network that meets one of the following criteria:

Criterion 1 – An FTTH fiber-optic network based entirely on fiber cabling to an optical outlet in the customer's home.

Criterion 2 – A wired network able to provide, under normal peak load conditions, services to the end user at the QoS (Quality of Service) defined in the decision, which includes, *inter alia*, a minimum download speed of 1000 Mbps and a minimum upload speed of 200 Mbps.

This definition will serve as the basis for determining the deployment obligation for the infrastructure owners (the Company and HOT) and for the participants in tenders in the Incentive Areas, and it joins other decisions of the Ministry in connection with the fiber-optic deployment plan.

Section 2.7.4 - Real estate

In October 2020 the Company vacated the management offices in the Azrieli Towers in Tel Aviv and moved to its new offices at 7 Hamanor St. in Holon.

Section 2.9.5 - Officers and senior management of the Company

On June 22, 2020, the Chairman of the Board, Mr. Shlomo Rodav, resigned from his position as director and Chairman of the Board of the Company and its subsidiaries, and on June 23, 2020, the Company's Board of Directors decided to approve the appointment of the independent director Mr. David Granot as Interim Chairman, up to the appointment of a permanent chairman (it is noted that on August 16, 2020, Mr. Granot announced that he would be stepping down from his position as Interim Chairman of the Board, effective from the end of that day). On August 2, 2020, the Company's Board of Directors decided to approve the appointment of Mr. Gil Sharon as director and Chairman of the Board of the Company, from the date on which Mr. Sharon would give notice, during August 2020, of the assumption of the position (Mr. Sharon began serving as Chairman of the Board of Directors on August 27, 2020). On September 6, 2020, a Special General Meeting of the Company's shareholders approved Mr. Sharon's appointment as a director of the Company up to the next Annual General Meeting of the Company's shareholders. The terms of reference of Mr. Sharon will be submitted for approval by the General Meeting, as required by law, following consideration and approval by the Remuneration Committee and the Board of Directors

At the date of publication of the report, the Company has nine serving directors, of which three are external directors, one is an independent director (who is not an external director) and five are not independent directors (including one director representing the employees).

On May 14, 2020, the General Meeting of the Company’s shareholders approved, among other things, additional amendments to the compensation policy for the Company’s senior officers, as detailed in the Company’s Immediate Reports dated April 2, 2020, and May 14, 2020, regarding the convening and outcome of the meeting, which are included herein by way of reference.

Section 2.11 - Working capital

For information about the Company’s working capital, see Section 4.3 in the Directors' Report.

Section 2.13 - Financing

On April 7, 2020, the Company published a listing and unlocking prospectus for Debentures (Series 11 and 12) and a shelf prospectus (bearing the date April 8, 2020) (“**Prospectus**”). Subsequently, further to Section 2.1.2 of the Prospectus and in accordance with the provisions of Section 2.3(E) of the deeds of trust of the Debentures (Series 11 and 12) dated July 10, 2019, on April 26, 2020, these debentures were delisted from the TASE's TACT Continuous Institutional Trading System and listed on the TASE’s Main Board. On this matter, see two Immediate Reports of the Company dated April 7, 2020 concerning the Prospectus and a timetable for listing on the Main Board, which are included herein by way of reference.

On May 27, 2020, the Company completed an offering of Debentures (Series 11 and 12) under a shelf offering report dated May 26, 2020 published pursuant to the Prospectus, by way of expansion of the series which are listed on the TASE's Main Board. In this offering 231,906,000 Debentures (Series 11) were issued for NIS 243,919,000 and 470,000,000 Debentures (Series 12) were issued for NIS 480,481,000. See also in this regard the Company's Immediate Report dated May 27, 2020 concerning the results of the offering, which is included herein by way of reference.

Additionally, in June 2020 the Company made early repayment of a private loan from a financial institution of NIS 500 million (principal).

The table below shows the updated breakdown of the Company's long-term loans (including current maturities), including information on the offerings and the early repayment mentioned above as well as current payments, as of September 30, 2020.

Loan term	Funding source	Principal (NIS million)	Type of currency or linkage	Type of interest and adjustment mechanism	Average interest rate	Effective interest rate	Range of nominal interest rates in 2020
Loan term	Banks	1,591	Unlinked shekel	Fixed	3.71%	3.87%	3.20%-6.85%
	Nonbank sources	107	Unlinked shekel	Variable based on the annual interest rate for Treasury bills	1.44%	1.50%	1.43%-1.54%
	Nonbank sources	3,993	Unlinked shekel	Fixed	3.11%	3.20%	3.20%-5.25%
	Nonbank sources	3,708	Unlinked shekel	Fixed	1.99%	2.03%	1.70%-3.70%

Yield of Treasury bills for the year (811) – 0.042% (average of last five business days of August 2020), for the interest period beginning on September 1, 2020.

Section 2.13.6 - Credit rating

On April 22, 2020, Midroog Ltd. (“**Midroog**”) downgraded the Company’s Debentures (Series 6, 7, 9, 10, 11 and 12) to Aa3.il with a stable outlook. Furthermore, on May 4, 2020, S&P Global Rating Maalot Ltd. ("**Maalot**") affirmed its ilAA- rating for the Company and its Debentures and it upgraded the rating outlook to stable.

Further to that stated above regarding the offering of Debentures (Series 11 and 12) - On May 26, 2020, Midroog and Maalot announced that they were assigning the aforementioned ratings (Aa3.il/stable and ilAA, respectively) to the offering of debentures by way of series expansion in an amount of up to NIS 710 million nominal value.

In this regard and regarding the aforementioned rating reports, see Immediate Reports of the Company dated April 22, 2020 and May 26, 2020 (Midroog) and May 4, 2020 and May 26, 2020 (Maalot). See also in this regard Section 6 of the Directors' Report.

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

Section 2.16.1 - Control of Company tariffs

Further to the hearing published by the Ministry of Communications on April 28, 2020 concerning exceptional use of fixed-line call minutes, in view of the COVID-19 pandemic, which led some fixed-line subscribers to significantly increase their use of fixed-line calls, on May 10, 2020, the Minister of Communications approved a temporary amendment to the provisions of the alternative payment packages provided by the Company, based on the outline proposed by the Company, that allowed a retroactive increase in the call packages in the event of use beyond a certain limit. On August 2, 2020, the Ministry of Communications published an additional hearing on exceptional uses of fixed-line call minutes, in which it was proposed to determine in advance that starting from the date of imposition of restrictions due to the COVID-19 pandemic, and subject to a notice by the Ministry, appropriate arrangements would come into effect, while as far as the Company was concerned, the Ministry would work with the Company to put in place a voluntary arrangement similar to the previous arrangement made as mentioned above. On September 17, 2020, the Company received the Ministry of Communications' decision accepting the new voluntary arrangement proposed by the Company, which includes approval in advance of alternative payment baskets that include increased use.

Subsection 2.16.1.8 regarding a preliminary supervisory report on the subject of price quotes for transmission services, sent to the Company on May 19, 2019 by the Ministry of Communications - On July 27, 2020, the Ministry of Communications notified the Company of its decision to terminate the supervisory proceeding.

Subsection 2.16.1.18 on the Communications Regulations (Telecommunications and Broadcasting) (Use of Public Telecommunications Network of a Domestic Operator), 5775-2014 ("**Regulations**") - On November 29, 2020, the Communications Notice (Telecommunications and Broadcasting) (Use of Public Telecommunications Network of a Domestic Operator), 5781-2020 ("**Notice**") was published, adjusting for 2021 the demand forecast indices defined in the Communications Regulations (Telecommunications and Broadcasting) (Use of Public Telecommunications Network of a Domestic Operator), 5775-2014, from which the rates for use of wholesale services of the infrastructure owners are derived based on formulas contained in the Regulations (it should be noted that the exact adjusted rates for 2021 have not yet been published). The Company's revenues from these services are affected both by the rates and by the actual scope of use of the Company's network, which depends on the behavior of the different communications operators. Based on estimates of the scope of use of the Company's network by the communications operators during 2021, the Company believes that the adjusted rates expected in light of the demand forecast indices in the Notice, may have a material adverse effect on its results for 2021. The Company has reservations regarding the process and method used by the Ministry of Communications to determine some of the demand forecast indices in the Notice, and it is considering how to proceed in this matter.

Some of the information contained in the above paragraph is forward-looking information as defined in the Securities Law, which is based on assessments, assumptions and expectations of the Company, including the scope of use of the Company's network and the behavior of the different communications operators. Accordingly, this information may not materialize, or may materialize in a significantly different manner, depending on whether the above assessments are realized.

<u>Section 2.16.2 - The Company’s Domestic Carrier License</u>

On October 26, 2020, the Company received from the Communications and Postal Services Officer in the Judea and Samaria Civil Administration a general license to provide domestic wired telecommunications services within the area of Judea and Samaria. The introductory letter accompanying the license states that the license refers to the general license issued to the Company by the competent entities in the Ministry of Communications, with the necessary adjustments for the area, and that it reflects the existing situation in the field of infrastructures that are owned by the Company and for which it is responsible. Accordingly, no material change is expected in the Company's mode of operation in Judea and Samaria from before the grant of the license (however, it is noted that the license in principle allows the Company to improve the efficiency of the service in the area by using technician of the entire Group, subject to an appropriate procedure to be formulated by the Company and submitted for approval to the Communications and Postal Services Officer).

Subsection 2.16.2.9(B), regarding a guarantee provided by the Company for the Ministry of Communications - In accordance with an amendment to the Company’s license, the guarantee deposited by the Company was lowered as of May 1, 2020, to NIS 15 million.

<u>Section 2.16.3 - The Communications Order</u>

Subsection 2.16.3.6, regarding a hearing on the subject of a change in the requirement for an Israeli Entity to hold a minimum percentage of the means of control in a general license - On July 8, 2020, an amendment was published in Reshumot (the Official Government Gazette) to some of the Communications Regulations stipulating the "Israeli" requirement, such that a possibility was added to exchange the "Israeli" requirement with Section 13 of the Communications Law, which would apply to the relevant license holder alternative provisions to the "Israeli" requirement. To the best of the Company's knowledge, a corresponding amendment has yet to be made to the Communications Order.

<u>Section 2.16.4 - Wholesale market</u>

Section 2.16.4.4, regarding wholesale telephony service - On May 27, 2020 the Company received a letter from the Ministry of Communications on the subject of the telephony minutes service, including a ruling on the dispute between the Company and the service providers Partner and Cellcom concerning interpretation of the service portfolio in the matter of the provision of value added services. In accordance with the ruling of the Ministry, which accepted the Company’s position in the matter, the telephony service that the Company offers the service providers will allow the service provider incoming and outgoing calls, and also will allow the provision of all value added services beyond the basic telephony services that the infrastructure owner offers to its customers. The value added services under the service portfolio will be provided by the service provider’s switch, and the Company will not be obligated to offer the value added services through the switch it operates (except in the case where there is no possibility to provide them using the service provider’s switch). In accordance with the Ministry’s notice, on completion of all the actions required for the supply of the telephony service, the Company is required to update the Ministry on the date when it will be ready to provide the service as required under the service portfolio. As the Company has noted in its reports, it has been ready since the beginning of 2019 to supply wholesale telephony in conformity with the Ministry’s ruling in its notice, and it intends to act in accordance with the Ministry’s notice. It should be noted that in the Ministry’s letter it was pointed out that the Ministry’s ruling does not express a position on the Company’s compliance with the provisions of the service portfolio regarding the telephony service, nor will it prevent the Ministry from taking supervisory and enforcement proceedings in this matter.

As the Company has noted in its reports, it estimates that implementation of wholesale telephony in general is likely to adversely affect its financial results; however, the Company still cannot assess the extent of the impact, which could be material, since this depends on different variables including the scope of demand for the service, price levels of alternative products currently on the market (such as VOB service), etc.

Section 2.16.8 - Economic competition laws

Subsection 2.16.8.3 on the conditions set in the Competition Authority's approval for the merger between the Company and DBS - On November 24, 2020, the Competition Authority published for public comment an amendment it is considering to the merger conditions, whereby, in view of market changes that impact on the entry barriers to the multi-channel television market and the opening of the sector to competition, the Commissioner is considering: (1) Canceling Section 4 of the merger conditions, which provides that the television services of the Company (and of related parties) (in this section – "**Bezeq**") shall be sold and provided at equal terms to all Bezeq customers, whether or not they purchase additional services from Bezeq; and the price of television services in a bundle of services shall be presented separately from the other services. (2) Revising Section 6 of the merger conditions, which provides that Bezeq and yes shall cancel all exclusivity arrangements to which they are party with respect to television content other than local productions, and they shall not be parties to such exclusivity arrangements, such that the section will not apply to the purchase of foreign content (except for sports content). The deadline set for the submission of comments on the proposed amendment to the merger conditions is December 24, 2020. Insofar as the amendment under consideration is implemented, it will enable DBS to sell a bundle of services that includes television services and the Company's Internet services on an inseparable basis. As regards the sale of such a bundle of services by the Company, it now requires only the approval of the Ministry of Communications.

Subsection 2.16.8.7, regarding a notice of intention to apply a charge (considering the imposition of an additional financial sanction on the Company in the amount of NIS 8,285,810 for failure to respond to a demand to provide information and data and for providing misleading data, as part of a review carried out by the Competition Authority in connection with subject of the ruling) - On July 24, 2020, the Competition Tribunal approved an accord between the Company and the Competition Commissioner for an agreed order under the Economic Competition Law in connection with a notice of intention to apply a charge, whereby the Company will pay the Treasury a sum of NIS 4.2 million (“**Accord**”), and gave it the force and effect of an order. Under the Accord, the Company admitted that it did not provide full information as required in the responses to demands for data from the Competition Authority in connection with the ruling (before the ruling was made), in contravention of Section 46(b) of the Economic Competition Law. On the other hand, the Company did not admit that at the time of its response it knew that the information provided was incorrect. The Accord provides that subject to the approval of the agreed order by the Competition Tribunal and payment to the Treasury, the Competition Commissioner or Competition Authority will not take enforcement measures against the Company or its representatives for contravening the provisions of Section 46(b) of the Economic Competition Law in connection with the information demanded in the investigation preceding the ruling and provided by the Company to the Competition Authority prior to signing the Accord (“**Arrangement**”). It is emphasized that this Arrangement will in no way affect the continuation of the proceedings concerning the actual ruling, against which the Company filed an appeal with the Competition Tribunal on May 7, 2020.

Section 2.18 - Legal proceedings

Section 2.18.1 - Pending legal proceedings

Subsection A - On July 12, 2020, an amended statement of claim was filed, containing amendments which, among other thing, delete the matter of the reduction in the interconnect fees and narrow the definition of the class of plaintiffs with respect to the wholesale market reform, pursuant to the court's judgment in the rehearing. Additionally, the total amount of the claim was amended and is now estimated by the plaintiff at NIS 687 million (instead of a total of NIS 2 billion based on the "out-of-pocket" method, or, alternatively, NIS 1.1 billion based on the "approximate out-of-pocket" method, according to the pre-amendment wording of the statement of claim). It should be noted that no economic opinion has been attached to the amended statement of claim

Subsections B, G, H, I, J - Regarding a further stay of proceedings in these cases in view of the ISA investigation and proceedings arising from it, in view of the position of the ISA on a further stay of proceedings, the handling of these cases was put on hold until the second half of September 2020. At the request of the State, the deadline for submitting update notices regarding the continued stay of proceedings in these cases was extended to December 1, 2020.

Subsection C, K - Regarding the motion to certify a class action in Subsection K, on the court's recommendation, the hearing of the motion to strike was transferred to the Lod Central District Court where the motion to certify a class action from March 2018, described in Subsection C, is being conducted. On June 25, 2020, the court ruled that the parties must petition for appropriate instructions in the proceeding at the end of the stay of proceedings in that same motion to certify a class action from March 2018. Regarding two motions for the discovery of documents under Section 198A of the Companies Law to enable consideration of the filing of a motion to certify a derivative action in connection with the Competition Commissioner's ruling on abuse of the Company's position, mentioned in Subsection K, on April 22, 2020, the Supreme Court approved an agreed motion to consolidate the hearing of the two motions. On June 23, 2020, the Company filed a motion to stay the proceedings in the discovery motions, up to the completion of the work of the Claims Committee that was set up for this purpose and the submission of its recommendations to the Company's Board of Directors. No decision has been handed down as yet in the motion. On July 19, 2020, the Company submitted its response to the motions. On September 8, 2020, the Attorney General gave notice that he would appear in the proceeding and concurrently submitted his position, that any decision on the filing of an appeal against the decision which the petitioners claims establishes the damage that was caused to the Company, could obviate a derivative action as long as such decision is not final. Additionally, regarding the stay of proceedings in the motion from March 2018, described in Subsection C - on July 30, 2020, the court approved a motion by the Attorney General to continue the stay of proceedings in the case until May 2, 2021. The Attorney General will advise regarding his updated position by that date.

Subsection L - Regarding the motion to certify a class action against the Company and against another service company on the grounds of the entitlement of certain population groups to discounts on payments for essential services provided to them by the defendants, on June 25, 2020, a judgment was handed down striking out the claim due to failure to pay a fee.

Subsection M - Regarding the motion to certify a class action concerning the breakdown of fixed payment components in payment notices, which was filed against the Company and against another respondent, on April 28, 2020, the court ordered the petitioners to split the motion for certification into two separate motions, one for each respondent in accordance with the cause of action against each of them. Accordingly, on May 10, 2020, separate motions were filed. Subsequently, in view of the court's ruling to replace the petitioner due to doubts about her competence, on June 17, 2020, an amended motion for certification was filed (by other petitioners), in which the aggregate amount of the claim of all the members of the alleged class was estimated at NIS 63 million. On November 17, 2020, the claim was certified as a class action. According to the decision, the class on whose behalf the class action will be conducted consists of all customers of the Company who were charged a fixed payment, as defined in Section 13B(b3) of the Consumer Protection Law, without the Company specifying the fixed payment components and their amounts in invoices or payment notices sent to them after June 25, 2018. The questions common to all members of the class are: whether the Company breached its duty under said section of the Consumer Protection Law to specify in its invoices or payment notices the fixed payment components and their amounts; and the amount of the reimbursement due to the class members for the breach of this duty. The remedy sought is the refund of the fixed payment the customers were charged. The Company plans to file an application for leave to appeal the certification decision.

In May 2020, a motion to certify a class action was filed against the Company in the Tel Aviv District court, alleging that the Company misled customers who joined the B144 service for businesses on the Internet (advertising for businesses on the Internet using the B144 website) ("Service") to think that the cost of the Service depended upon actual use up to the charge ceiling, whereas in fact it charged its customers the ceiling amount even if in practice less use was made. Accordingly, it was requested to include in the definition of the class of plaintiffs on whose behalf the class action would be conducted all customers and/or subscribers of the Company who signed up for the various types of service packages, starting from the date when marketing of the Service by the Company began, and who were charged by the Company said excess amounts. According to what is said in the motion, the amount of the claim is "NIS 27,537 per petitioner and any future amount that will accrue to all members of the class." Next to this it is noted in handwriting "NIS 908,721,000" - however, neither in the motion nor in the statement of claim is there any explanation or calculation in respect of this amount, other than the statement in the body of the motion that "this concerns thousands or tens of thousands of consumers". In addition, nonfinancial damage is claimed in general.

In October 2020, a motion for discovery and inspection of documents prior to the filing of a derivative action under section 198A of the Companies Law, was filed with the Jerusalem District Court against the Company and against Bezeq International in connection with the collection of charges from Bezeq International customers. The motion alleges that the respondents made misrepresentations that led to an inflated value for Bezeq International, by including in their financial statements "dormant subscribers" that do not use Bezeq International's services but continue to pay subscription fees. The upshot, according to that alleged, is that with the discovery of this activity, Bezeq International's value was "slashed by hundreds of millions of shekels." This loss, it is alleged, is the result of malicious or at the very least derelict conduct on the part of company officers who were aware of the matter, but refrained from rectifying it, or alternatively, were remiss in clarifying the true situation of Bezeq International. In this regard, see also update of Section 4.4. Additionally, regarding motions to certify class actions that were filed against Bezeq International in this matter, see update of Section 4.12.

In November 2020, an additional motion for discovery and inspection of documents prior to the filing of a derivative action under section 198A of the Companies Law, was filed with the Jerusalem District Court against the Company and against Bezeq International ("**Respondents**"), asking that the Respondents be issued with an order for discovery and inspection of various documents concerning asset balances in Bezeq International's books (see Section 1.9), further to the immediate report in the matter issued by the Company on November 9, 2020, which is included in this Report by way of reference.

In November 2020, a claim and a motion for its certification as a class action were filed with the Tel Aviv District Court (Economic Department) by a private individual claiming to be a shareholder of the Company ("**Petitioner**"), against the Company, B-Communications Ltd., the Company's CEO and the Company's board members ("**Respondents**"). The motion is for certification of a class action for compensation of the Petitioner and the members of the represented class in respect of damages which the motion alleges they suffered, "as a result of the Company's reporting and disclosure omissions in its Tel Aviv Stock Exchange ("**TASE**") filings and the concealment of material information from the investors," in connection with a public report "concerning moves by the Ministry of Communications to eliminate the problem of duplicate subscriptions in ISP services, and concerning the widespread and significant extent of the problem of duplicate subscriptions in the subsidiary Bezeq International ("**Bezeq International**") and their material adverse effect on the operations of the subsidiary and the Company." According to the motion, the class is defined as anyone who purchased the Company's shares between August 17, 2020 and October 30, 2020 and held all or some of said shares on October 30, 2020, with the exception of the Respondents and/or parties on their behalf and/or bodies affiliated with them. The motion claims that the damages sustained by the class members as a result of the events that are the subject of the action total between NIS 55 million and NIS 65 million, based on an expert opinion attached to the motion.

In November 2020, a claim and a motion for its certification as a class action were filed with the Tel Aviv District Court (Economic Department) by a private individual ("**Petitioner**") claiming to be a holder of Company shares and B-Communications shares, against the Company, B-Communications and 72 other respondents, including past and present officers of both companies ("**Respondents**"). The motion is for certification of a class action for compensation of the Petitioner and the members of the represented classes in respect of damages which the motion alleges they suffered as a result of the Respondents' acts and omissions in failing to disclose to the investors prima facie material information they were required to disclose by law, in connection with the report of the two companies from November 9, 2020, according to which, Bezeq International's books contain unexplained balances of net assets (receivables less payables) totaling tens of millions of shekels, a significant proportion of which apparently originates in past periods of more than 15 years ago. The classes are defined in the motion as: "(a) Anyone who purchased Company shares between November 8, 2005 and November 9, 2020, with the exception of the Respondents or parties on their behalf, and (b) Anyone who purchased B-Communications shares on the TASE between November 8, 2007 and November 9, 2020, with the exception of the Respondents and/or parties on their behalf. The amount of the class action specified in the statement of claim is "over NIS 2.5 million (for purposes of subject-matter jurisdiction)," while according to an economic opinion attached to the motion, "the drop in the price of the security" due to the information contained in the immediate report of November 9, 2020 is estimated at 5.26%-5.40% for the Company and at 9.07%-9.36% for B-Communications.

Section 2.18.3 - Legal proceedings against an investee company outside the main area of activity (Walla)

In July 2020, a claim and a motion to certify the claim as a class action were filed in the Tel Aviv-Yafo District Court against Walla. The claim alleges that users of Walla's "Walla! News" website seeking to consume content in the form of short video clips were deceived regarding the number and/or duration of the commercial advertisements to which they must be exposed as a condition for viewing the desired content and/or regarding the waiting time until the desired content can be viewed. According to the petitioners, this deception has caused them and the other class members damage, reflected, *inter alia*, in loss of time, longer screen-time exposure and infringement of their autonomy. The motion states that the amount of the class action cannot be accurately assessed at this stage (it is noted in the body of the motion that the total compensation for all the class members is estimated, on a preliminary basis only, at more than NIS 5 billion).

In November 2020, a class action certification motion was filed with the Central District Court against Walla and three other respondents ("**Respondents**"), alleging, *inter alia* that the Respondents, who operate popular websites, display on their sites, within content that is clearly intended for children and teenagers, advertisements which are prohibited by law to be displayed to underage individuals. The motion defines the class as all underage residents of Israel who browsed apps and/or sites operated by the Respondents starting seven years before the filing of the certification motion until a final judgment is rendered in the claim. According to the motion, the individual damage of each of the petitioners has been put at NIS 1,000, while the petitioners are unable at this stage to estimate the amount of the class claim. It should be noted that a certification motion is pending against Walla since December 2018 on a similar matter (Section 2.18.3(b)) of the Periodic Report for 2019).

Subsection C - Regarding a further stay of proceedings in the case in view of the ISA investigation and proceedings arising from it, at the request of the State, the deadline for submitting an update notice regarding the stay of proceedings in the case was extended to December 1, 2020.

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

Section 3.6 - Competition

Section 3.6.1 - Regarding the agreement for the sale of Golan Telecom's shares to Cellcom, see update of Section 1.7.1.

Section 3.8 - Intangible assets

Section 3.8.2.3 - On June 1, 2020, Pelephone returned to the Ministry of Communications frequencies of 5 mega bandwidth each in the 850 MHz spectrum, such that the amount of frequencies in the 850 MHz spectrum held by it decreased from 10 MHz to 5 MHz.

Section 3.8.2.4 - On July 1, 2020, the Ministry of Communications approved Pelephone temporary use of frequencies of 10 MHz bandwidth each in the 700 MHz range, up to the publication of the tender results. On August 4, 2020, the financial pricing procedure in the tender began, and on August 12, 2020, Pelephone was notified by the Tenders Committee that it had been awarded a range of frequencies, further to its participation in the tender, as follows:

1. Award of 10 mega in the 700 MHz range (for a period of 15 years); of 20 mega in the 2600 MHz range (for a period of 10 years); and of 100 mega in the 3500 MHz range (for a period of 10 years). The period of the license does not change by virtue of the tender, and will be renewable under the terms of the license ("**Allocation of Frequencies**"). It is noted that the frequencies awarded to Pelephone are for the exclusive use of the Pelephone network, which will give the Pelephone network a competitive edge. It is also noted that companies that do not own existing networks were not awarded frequencies.

2. The Allocation of Frequencies was awarded to Pelephone at a total cost of NIS 88,230,000, with the payment date set for September 2022. It is noted in this context that the tender also specified that incentives may be received, as described in Section 3.8.2.4 of the chapter Description of Company Operations in the Periodic Report, including receipt of a conditional grant in respect of the deployment of 5G sites according to the conditions specified in the tender, which can reach a total of NIS 200 million for all the winners of the tender.

On October 1, 2020, Pelephone's license was amended in accordance with the results of the award (shortly before, Pelephone was allocated the frequencies it had been awarded, as stated). Following the amendment of the license, Pelephone began operating the 5G frequencies at the broadcasting sites that were upgraded by it.

The aforesaid Allocation of Frequencies will facilitate support for growth in 4G Internet volume and offering of 5G services in the future at much higher Internet speeds than current speeds, which, in turn, will enable expansion of the range of advanced uses of the cellular network, such as smart cities, IOT services, mission-critical, low-latency services, private networks, etc., all this in order to provide a competitive solution in the market, which will entail ongoing investments.

In this regard, see also Note 15.1 to the financial statements for the period ended September 30, 2020.

Section 3.14.2 - Pelephone’s mobile radio telephony (MRT) license

Subsection 3.14.2.1 - In April 2020, the bank guarantee was lowered and set at NIS 45 million, with Ministry of Communications approval.

Section 3.16.1 - Pending legal proceedings

Subsection E - Regarding an appeal filed in July 2019 against the District Court's decision to dismiss a motion to certify a class action that was filed against Pelephone in February 2014, alleging that Pelephone acted in a manner amounting to harassment of a large consumer public by making repeated telephone calls aimed at recruiting customers, on June 24, 2020 the Supreme Court handed down a judgment pursuant to which, on the Supreme Court's recommendation, the appellant retracted the appeal and the appeal was dismissed.

Subsection H - Regarding a motion to certify a class action that was filed against Pelephone and another cellular company in October 2016 on the grounds that they do not allow their subscribers to make full use of their overseas travel packages purchased in advance, on April 5, 2020, a judgment was given dismissing the motion. On June 29, 2020, an appeal was filed on the judgment by the petitioners in the motion to certify the class action.

Subsection I. – Regarding a motion to certify a class action that was filed against Pelephone, alleging that the public had incurred damages due to a fire that broke out in one of the switching stations operated by Pelephone, on October 30, 2020, a judgment was issued approving a settlement between the parties, pursuant to which Pelephone is to offer a benefit in the form of 50,000 discount vouchers for the purchase of cellphone accessories worth NIS 30 each, including VAT, and amounting in the aggregate to NIS 1.5 million. Additionally, Pelephone is to pay compensation to the class plaintiffs and the fees of the petitioners' attorneys, for a total of NIS 350,000.

Subsection L - Regarding a motion to certify a class action that was filed against Pelephone and other companies, alleging that they marketed and/or provided mobile radio-telephone service for Xiaomi cell phones from which it was not possible to call emergency numbers in Israel, on July 26, 2020, a judgment was handed down approving an agreed motion to withdraw the certification motion and dismiss the petitioner's personal claim.

Section 3.19 - Discussion of risk factors

Section 3.19.3.8 - Insofar as the COVID-19 pandemic continues (see update of Section 1.7.6), this could result in impairment of the Company's assets.

4. International communications, Internet and NEP services – Bezeq International Ltd. ("Bezeq International")

Section 4.4 - Customers

Regarding customers of Bezeq International and their characteristics, the diverse consumption characteristics associated with the purchase of Internet packages by the public has resulted in a certain percentage of customers buying ISP services from more than one Internet access provider, while actually using the services of only one provider. On September 10, 2020, the Ministry of Communications issued a letter to the operators expressing the concern that some of the subscribers for Internet services or other services such as an electronic mail box do not use these services and are not even aware of their existence. The Ministry recommends in its letter to the operators that they act to inform the subscribers that do not use these services and stop charging them, and requests to receive periodic reports on the matter during the next six months. The letter also states that the Ministry will consider in the future whether to issue binding directives in this regard, if independently initiated actions do not substantially minimize the problem. On November 8, 2020, an additional letter was received in the matter from the Ministry of Communications, asking that by the next reporting deadline (set for December 17, 2020) the data reported to the Ministry by the telecom operators reflect a substantial minimization of the problem, and that – as stated in its previous letter – in the event the problem is not substantially minimized, the Ministry will take various measures, including issuing binding directives in this regard. Bezeq International is acting to curtail the problem, while apprising its customers of the matter in accordance with the letters.

As part of the preparations by Bezeq International to inform and deal with customers that have been paying it under an agreement for ISP services but have not used those services for an extended period of time, and further to the above recommendation of the Ministry of Communications, an updated valuation was conducted for Bezeq International. Regarding the valuation, see Notes 4.3 and 5.3 to the financial statements for the period ended September 30, 2020. See also in this regard the Company's two Immediate Reports from October 30, 2020 (including in the matter of a motion to certify a class action in this connection), as well as another Immediate Report of the Company dated November 8, 2020. The above immediate reports are included herein by way of reference.

Regarding motions to certify class actions in this matter that were filed against Bezeq International, see update of Section 4.12.

Section 4.6.1 - ISP services

Regarding the Minister of Communications' decision from July 20, 2020 to adopt (with changes) the recommendation of the Inter-Ministerial Team to Examine the Policy for Deployment of Fixed-Line Ultra-Broadband Infrastructures in Israel (see update of Section 2.7.2) - the deployment of fiber optics by the Company is expected to improve the competitiveness of Bezeq International and enable an increase in revenues from its customers.

Section 4.8 – Human Capital

On October 11, 2020, Bezeq International received from the New Histadrut - General Federation of Labor in Israel – the Cellular, Internet and High-Tech Workers Union a notice of declaration of a labor dispute under the Settlement of Labor Disputes Law, 5757-1957 and a strike beginning on October 26, 2020 ("**Notice**"). According to the Notice, the disputed issues revolve around the unilateral intention to make changes in the telecommunications market that would enable the Company to enter the ISP sector and operate as an Internet provider. This could adversely affect Bezeq International, to the extent of raising a real concern over the possible closure of the company, layoff of workers and changes in employment conditions, rights, status, employment security and organizational power. The employees' representatives are demanding that no unilateral steps be taken that make these changes a fait accompli, and, furthermore, that consultations and negotiations be held to sign a special collective agreement regulating the rights of Bezeq International's employees in light of these changes and their implications, including the establishment of a safety net guaranteeing the employees' rights.

Section 4.11.2 - Licenses

In April 2020, the Ministry of Communications approved a reduction of the bank guarantee to NIS 2 million.

Subsection 4.11.5 - Regarding the Ministry of Communications' decision to cancel the requirement to split the "reverse bundle," see update of Section 1.7.2.2.

Additionally, regarding the publication of a hearing to examine the separation between broadband infrastructure services and Internet access (ISP) services, see update of Section 1.7.2.2. Bezeq International is studying the details of the hearing and considering the potential implications for its business and operating methods. If said hearing is approved in its proposed format, this could have a significant adverse effect on Bezeq International's results and impair the value of its assets.

Section 4.12 – Legal proceedings

Subsection B – Regarding a motion for certification of a class action filed against Bezeq International in June 2015 on the grounds of collection of excessive amounts from Internet service customers, and certified as a class action on July 25, 2019 – On August 11, 2020, the Supreme Court held a hearing on an application for leave to appeal that was filed by Bezeq International against the decision to certify a class action. In the hearing the Supreme Court recommended to the plaintiff to agree to the acceptance of the application for leave to appeal and to the dismissal of the certification motion. On August 25, 2020, a judgment was issued accepting the application for leave to appeal and dismissing the certification motion, further to the recommendation of the Supreme Court and with the plaintiff's consent.

On October 29, 2020, Bezeq International was served with a class certification motion that was filed against it in the Central District Court. The motion alleges, *inter alia*, that Bezeq International charges its customers for services it does not actually provide to them, supposedly in the knowledge that the customer has switched to another Internet provider and disconnected from Bezeq International. According to the motion, the individual claim of the petitioner is put at no less than NIS 393.40, while the aggregate amount for all the Class members cannot as yet be determined but is estimated by the petitioner in the tens of millions of shekels at a minimum. On November 5, 2020, Bezeq International was served with an additional class certification motion in the same matter.

On November 11, 2020, Bezeq International was served with a class certification motion that was filed against it in the Central District Court. The motion alleges, inter alia, that Bezeq International charges for the provision of an Anti-Virus service and Backup service, before these services are actually provided. It is further alleged that Bezeq International does not inform the customers at the time of concluding the contract that using the services requires that they first carry out preparatory actions on their own, such as installing special software programs; nor does it apprise them that they are billed for such services as of the contract conclusion date, and not from the actual date of service provision. The individual claim of each petitioner in the motion is put at between NIS 130 and NIS 1,740. While aggregate damages to the class cannot as yet be determined, the petitioners estimate the amount to be in the tens of millions of shekels at a minimum.

Regarding two motions for the discovery and inspection of documents prior to the filing of derivative actions under Section 198A of the Companies Law against the Company and against Bezeq International, from October 2020 in the matter of "dormant subscribers," and from November 2020 in the matter of asset balances in Bezeq International's books – see update of Section 2.18.1.

Section 4.14 - Discussion of risk factors

Subsections 4.14.3 and 4.14.8 - Regulatory changes in the Internet services market (see update of Section 1.7.2.2) could adversely affect the results of Bezeq International and/or impair its assets. Regarding the effect of dealing with Bezeq International customers that do not use ISP services on the value of its assets, see update of Section 4.4.

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

Subsection 5.2.2.1 - yes+ services

In May 2020, the service began to be provided also via streamers with a TV android operating system.

Section 5.13 - Financing

In November 2020, the Company approved a credit facility or capital investment for DBS in a total amount of up to NIS 150 million, for 15 months beginning October 1, 2020. This approval replaces the approval for a facility for a total of NIS 250 million given in August 2020 (and is not in addition thereto).

Subsection 5.15.9 – Offering of Service Bundles

Regarding an amendment that is being considered to the terms of the merger with the Company in respect of the marketing of the service bundle, as published by the Competition Authority, see update of Section 2.16.8.3.

Subsection 5.15.10 - Regulation of OTT services

In September 2020, the Minister of Communications appointed a Committee to Examine Meta-Regulation of the Broadcasting Sector, headed by former MK Roy Folkman, so that it should formulate recommendations with respect to the regulatory principles applicable to the broadcasting sector, given the prevailing trends in Israel and around the world in this sector and propose amendments to the relevant laws. According to the committee's terms of reference, it must act to reduce regulation and focus it on issues requiring regulation at the present time, with emphasis on promoting market competition. The committee must formulate its recommendations taking into consideration reports of previous committees that examine the sector, and having regard to the law memorandum from 2018 (see Section 5.1.2.1 of the Periodic Report for 2019) by December 2020. The Committee has invited public comment on the key issues on its agenda.

Subsection 5.17.1 – Pending legal proceedings

Subsection A – Motion to certify a class action on the grounds of digital advertisements sent by DBS to its customers – in June 2020, the Supreme Court handed down its judgment, whereby instead of a decision for certification, the petitioners would withdraw the motion and would be remunerated in an amount of NIS 100,000.

Subsection C – For an update on the investigation by the Israel Police and the Israel Securities Authority, see update of Section 1.1.5.

Subsections E and F – Legal proceedings that have been stayed due to the investigation by the Israel Securities Authority and the Israel Police – see update of Section 2.18.1, Subsections H and J.

Subsection 5.18.3 – Gradual migration of DBS from satellite broadcasting to OTT broadcasting

As of the date of approval of the reports, the percentage of DBS subscribers using yes+ and Sting TV services transmitted over the Internet (as noted in Sections 5.2.2.1 and 5.2.2.2 of the Periodic Report for 2019) is approximately 20%[4] of all DBS subscribers.

November 30, 2020	
Date	Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Gil Sharon, Chairman of the Board
Dudu Mizrahi, CEO

[4] This percentage also includes subscribers using satellite services in parallel.

Chapter B -

Board of Directors' Report on the State of the Company's Affairs for the Period Ended September 30, 2020

The information contained in this report constitutes a translation of the 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.

Board of Directors' Report on the State of the Company's Affairs for the Period Ended September 30, 2020

1. General

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, 2020 ("Period") and the three months then ended ("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, 2019 is also available to the reader.

For information concerning the Israel Securities Authority and the Israel Police's investigation, see Note 1.3 to the financial statements. The auditors have drawn attention to the matter in their opinion of the financial statements.

For information on a **restatement**, see Chapter 2 below. The auditors have drawn attention to the matter in their opinion of the financial statements.

For information on the **effects of the COVID-19 pandemic**, see Chapter 3 below.

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

1. **Domestic Fixed-Line Communications**
2. **Cellular Communications**
3. **Internet, International Communications 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 services (through "Walla") and call center services (through “Bezeq Online”). The “Others” segment is immaterial at the Group level.

Group's Results

The Group's results for the reported period were as follows:

	1-9/2020	1-9/2019	Change		7-9/2020	7-9/2019	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Profit (loss)	622	*(1,107)	1,729	-	26	*177	(151)	(85.3)
EBITDA	2,533	*2,267	266	11.7	653	*921	(268)	(29.1)

The increase in the above results in the reported period was mainly due to the records presented below <u>from the same period last year</u> which affected the operating profit – NIS 951 million in impairment losses on goodwill in the Cellular Communications segment, partially offset by NIS 403 million in capital gains on the sale of a land asset in the Sakia property.
The change in profit was also due to the write-off of a NIS 1,166 million tax asset for DBS's losses, in the same period last year.
By contrast, there was a decrease in the operating profit in the present quarter compared to the same quarter last year due to an impairment loss of NIS 282 million in the Internet, International Communications and NEP Services segment (see Note 5.3 to the financial statements). This decrease was moderated primarily by a decrease in the finance expenses in the Domestic Fixed-Line Communications segment, as described below.

EBITDA was calculated as follows:

Item	1-9/2020	1-9/2019	7-9/2020	7-9/2019
	NIS millions		NIS millions	
Operating profit	1,159	*842	189	*440
Net of depreciation, amortization and impairment	1,374	1,425	464	481
EBITDA	2,533	2,267	653	921

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is a generally accepted index in the Group's area of operations, which offsets effects arising from the variance in capital structure, various tax aspects and the depreciation/amortization method and period for fixed and intangible assets. The Group's EBITDA is calculated as operating profit before 'depreciation, amortization, and impairment' (continuing losses from impairment of fixed and intangible assets). Since January 1, 2019, for purposes of fair presentation of its economic activity, the Group presents continuing losses from impairment of fixed and intangible assets in DBS and Walla under the 'depreciation and amortization' item, and continuing losses from impairment of broadcasting rights under the 'general and operating expenses' item (in the income statement). See Note 5 to the financial statements.

* Restated. See Note 2.5 to the financial statements.

2. Restatement

At the beginning of November 2020, in the framework of preparing the quarterly report and as part of the controls performed over the process of preparing and closing the financial statements for the period ended September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded on its books and the actual assets and liabilities, stemming, inter alia, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses.

Following discovery of the discrepancies, Bezeq International's management began an immediate examination of the matter, and carried out actions, checks and compensating procedures, investing substantial efforts and resources, to prepare the financial statements in accordance with International Financing Reporting Standards and in compliance with the provisions for disclosure in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, in all material respects.

In this connection, the following actions were taken:

1. Bezeq International recalculated certain balances in its Statements of Financial Position for the years 2016 – 2019 and for the interim periods in the years 2019 and 2020, without relying on past records and on existing accounting processes, in relation to balance-sheet items in which errors were discovered.
2. In light of the change in forecasts due to the discrepancies described above, Bezeq International reviewed its valuation as at December 31, 2019, using an external appraiser.
3. Bezeq International performed audits and checks on the recalculation of the balances, with the help of an independent external expert for control purposes. Additionally, the existing staff was expanded by the addition of personnel from other accounting departments in the Company's subsidiaries, for the purpose of carrying out the work of correcting the financial statements.
4. The internal auditor of Bezeq International conducted an examination of the matter in conjunction with the Security Division of Bezeq International. Some of the checks were carried out by the internal auditor with the help of an independent external expert as mentioned in subsection 3 above.
5. The Company's Board of Directors appointed an independent external investigator to conduct an in-depth investigation of the events and circumstances. The investigation is underway as of the date of approval of the financial statements.

In view of the fact that the accounting system in Bezeq International included numerous manually entered transactions and deficient documentation in a manner not allowing a full and thorough investigation of the effect of the transactions on its financial results, Bezeq International reconstructed the balance-sheet balances, which were found to be in error, without relying on the manually entered transactions that led to the errors, and with the aid of an external expert, reasonability examinations and additional reports constructed during the process. The complexity involved, the method of preparing the financial statements, and the short time frames, did not permit a complete investigation into the discrepancies. Bezeq International is still examining the source of the discrepancies, with the possibility that further discrepancies might be uncovered by the work of the external investigator. The Company expects that given the way the reports are being constructed, such discrepancies, if any, will not have any material impact on the consolidated financial statements.

As of the date of approval of these condensed interim financial statements, the total impact of the corrections to the discrepancies found in Bezeq International in the framework of inspections as at June 30, 2020, was a decrease in the Group's equity as detailed below:

1. A decrease in the Group's equity as at January 1, 2018, totaling NIS 114 million in respect of past balances from the years 2002 – 2017, with the bulk of this amount (some NIS 80 million) originating in the years 2002 – 2003.
2. A decrease in the Group's profits (net of tax) in a cumulative amount of NIS 72 million for the period from January 1, 2018 until June 30, 2020.
3. In light of the examination's findings, Bezeq International revised its forecasts for the coming years and performed a valuation current as of December 31, 2019, following which a further impairment loss of NIS 94 million (NIS 72 million, net of tax) was recognized, as a result of the revision of the value of operations and book value of Bezeq International as at December 31, 2019 (see Note 5 to the financial statements for an elaboration on the revised valuation).

It should be noted that as at the time of the examination, no effect was observed on the cash balance of Bezeq International and the Group.

In light of the aforesaid examinations, the Group carried out an adjustment by way of a restatement of its financial statements as at December 31, 2019 and for the year then ended, as well as of its financial statements as at September 30, 2019 and for the nine and three months then ended, which are presented as comparative figures in these condensed interim financial statements as at September 30, 2020, and for the nine and three months then ended, so that they should reflect retroactively the impact of the foregoing.

Following is a summary of the discrepancies and their effect on the surpluses balance of Bezeq International between the reported reports and the corrected reports, expressed in NIS millions:

Period	Effect of correction before valuation effects and tax effects	Effect of valuation	Tax effect in respect of the error correction and valuation revision	Effect on retained earnings
Until Dec. 31, 2016	(102)	-	-	(102)
Year 2017	(12)	-	-	(12)
Year 2018	(34)	-	8	(26)
Year 2019	(45)	(94)	32	(107)
January-June 2020	(15)	7	2	(6)
Total	**(208)**	**(87)**	**42**	**(253)**

Regarding the effectiveness of the internal control, see Chapter E – Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2020.

In addition, the Company is studying the effects of the restated items on the components of the officers' compensation for the relevant periods.

For further information, see Note 2.5 of the financial statements.

3. COVID-19 pandemic and its effect on the Group's operations

Further to Section 3.3.1 of the annual Board of Directors' Report, concerning the COVID-19 pandemic, and further to the Israel Securities Authority's SAB 99-7 of May 11, 2020, concerning the COVID-19 pandemic's effect on financial reporting and disclosure - in the period between publication of the annual periodic report and publication of the present report, the pandemic and its effects continued to spread. This was reflected, among other things, in the imposition of restrictions on people's movement in public spaces and on public gatherings, restrictions on businesses and transportation, and a significant contraction in economic activity.

Since the outbreak of the pandemic, the Group's companies have been working to maintain overall operational continuity in order to continue to provide full services to all its business and private customers and enable them to carry on operations, subject to all government restrictions and guidelines. In addition, the Group companies have taken steps to deal with the risks and exposures arising from the pandemic, including lowering expenses and adjusting their operations to the situation.

In this regard, it should be noted that telecommunications companies as a whole belong to the infrastructure sector, which is an essential sector requiring and enabling almost complete operational activity, and that the public's need to consume the companies' services is inbuilt in such events, so that the Company's exposure to risks arising from the crisis is relatively limited and low compared to other sectors, while in some of the services provided by the Company activity has even grown as a result of the regulatory measures imposed due to the pandemic. In addition, although the COVID-19 pandemic has global and cross-sector implications, the telecommunications sector to which the Bezeq Group belongs is essentially local, being based on local infrastructure and on the provision of services mainly to the Israeli consumer market.

All the foregoing regarding the telecommunications sector as a whole holds even more true for the majority of the Group's operations, with analyses performed by the Company indicating that most of the activities of the Group's companies will not be materially affected, excluding primarily Pelephone's roaming services as elaborated below.

As of September 30, 2020, and as of the date of approval of the report, a decrease was mainly seen in revenues from Pelephone's roaming services, and to a certain extent also in revenues from the business sector across all the Group's companies. The overall impact of the COVID-19 pandemic on the financial and business position of the Group companies was mixed, with the growth in Company operations along with the measures taken by the Group companies to counteract the effects of the pandemic largely offsetting the decrease in revenues from Pelephone's roaming services.

As of the report date, the Bezeq Group's working assumption regarding the continued spread of the COVID-19 pandemic is that measures aimed at containing the virus will continue at varying degrees of intensity also throughout 2021, alongside gradual recovery of the aviation and international tourism sectors. Accordingly, and subject to the above assumptions, the Group expects that the main effect of the COVID-19 pandemic on its operations will be a decline in Pelephone revenues from roaming services, due to the pandemic's effects on the aviation and international tourism sectors. In addition, a certain decline is foreseen in the Group's revenues from the business sector. For the Group's forecast, see the update to Section 1.6 in the Update to Chapter A (Description of Company Operations) of the Periodic Report for 2019.

The possible continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Group's results. These effects may be reflected, among others, in a greater-than-projected decrease in revenues from roaming services and equipment sales to business customers, and in revenues from the business sector. The prolongation or escalation of the pandemic may also affect revenues from sales of cellular terminal equipment, employee availability, customer service and technician service systems, supply chain operations, as well as the amounts and times of payments collected from the Group's customers.

The Company estimates that its financial robustness, cash-generating capacity, high cash balances, strong debt structure and its ready access to the capital markets and credit providers will enable it to adequately deal with the effects of the pandemic and its possible continuation or worsening beyond the Group's assumptions. Furthermore, it is emphasized that there are no financial covenants in any of the Company's various financing agreements or public debentures.

The Company's above assessments constitute forward-looking information and may change according to various developments in the COVID-19 pandemic and its effects, particularly the duration and scope of this event, the nature and scope of economic and other pandemic-related restrictions, and the severity and scope of the ensuing economic downturn.

For more information, see Notes 1.2 and 5.4 to the financial statements.

4. The Board of Directors' explanations on the state of the Company's business, the results of its operations, equity, cash flows and other matters

4.1 Financial position

Item	Sept. 30, 2020	Sept. 30, 2019	Increase (Decrease)		Explanation
	NIS millions		NIS millions	%	
Cash and current investments	2,203	2,389	(186)	(7.8)	For further information see Section 4.3 below.
Current and non-current trade and other receivables	2,549	*2,510	39	1.6	
Inventory	96	94	2	2.1	
Held-for-sale assets	46	-	46	-	
Broadcasting rights	67	63	4	6.3	
Right-of-use assets	1,276	1,361	(85)	(6.2)	The decrease stemmed largely from ongoing amortization in the Internet, International Communications and NEP Services segment, in the Cellular Communications segment, and in the Multi-Channel Television segment.
Fixed assets	6,069	6,217	(148)	(2.4)	The decrease stemmed from the Internet, International Communications and NEP Services segment, due to recognition of impairment losses as at December 31, 2019, and as at September 30, 2020 (see Note 5.3 to the financial statements).
Intangible assets	952	968	(16)	(1.7)	The decrease stemmed from the Internet, International Communications and NEP Services segment, due to recognition of impairment losses as at December 31, 2019, and as at September 30, 2020 (see Note 5.3 to the financial statements). The decrease was largely offset by the cost of 5G frequencies recorded in the Cellular Communications segment (see Note 15.1 to the financial statements).
Deferred tax assets	53	18	35	-	The increase was due primarily to recognition of a NIS 28 million deferred tax asset in respect of an expected tax loss from the sale of Walla! (See Note 15.2 to the financial statements)
Deferred costs and non-current investments	233	*477	(244)	(51.2)	The decrease was mainly attributable to recognition of losses from impairment of prepaid long-term expenses on bandwidth capacities in the Internet, International Communications and NEP Services segment as at December 31, 2019, and as at September 30, 2020, totaling NIS 190 million (see Note 5.3 to the financial statements). In addition, the decrease was due to redemption of a deposit in respect of hedging transactions in the Domestic Fixed-Line Communications segment.
Total assets	13,544	14,097	(553)	(3.9)	
Debt to financial institutions and debenture holders	9,464	10,519	(1,055)	(10.0)	The decrease in debt was due to repayment (including early repayment) of loans, and repayment of debentures, including early repayments, offset mainly by the issue and expansion of Debentures Series 11 and 12 in the Domestic Fixed-Line Communications segment (for further information, see Note 6 to the financial statements).
Liabilities for leases	1,358	1,416	(58)	(4.1)	

Item	Sept. 30, 2020	Sept. 30, 2019	Increase (Decrease)		Explanation
	NIS millions		NIS millions	%	
Trade and other payables	1,669	*1,681	(12)	(0.7)	
Employee benefits	775	904	(129)	(14.3)	The decrease was due to retirement payments, offset by provisions recognized in the fourth quarter of 2019 for the Group's streamlining plans.
Current and deferred tax liabilities	94	65	29	44.6	
Other liabilities	509	360	149	41.4	The increase stemmed mainly from a long-term liability in the Cellular Communications segment in respect of an award in a frequencies tender in the current quarter. See Note 15.1 to the financial statements.
Total liabilities	13,869	14,945	(1,076)	(7.2)	
Total (equity deficit)	(325)	*(848)	523	(61.7)	The equity deficit comprises 2.4% of the balance sheet total, compared to the equity deficit comprising 6.0% of the balance sheet total on September 30, 2019.
Total liabilities and equity	13,544	14,097	(553)	(3.9)	

*** Restated. See Note 2.5 to the financial statements**

4.2 Results of operations

4.2.1 Highlights

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenues	6,520	6,727	(207)	(3.1)	2,178	2,247	(69)	(3.1)	The decrease was due to lower revenues across all of the Group's primary operating segments, except the Domestic Fixed-Line Communications segment.
General and operating expenses	2,351	*2,454	(103)	(4.2)	790	*813	(23)	(2.8)	The decrease was attributable to the Internet, International Communications, and NEP Services segment and the Multi-Channel Television segment, stemming also from a reduction in loss from the impairment of broadcasting rights in DBS compared to the corresponding period and quarter a year ago (see Note 5.2 to the financial statements).
Salaries	1,397	1,455	(58)	(4.0)	474	474	-	-	The decrease during the Period was seen across all the Group's primary operating segments, and was mainly attributable to a decrease in the number of employee positions.
Depreciation, amortization and impairment	1,374	1,425	(51)	(3.6)	464	481	(17)	(3.5)	The decrease was due to a reduction in loss from the impairment of DBS's fixed assets and intangible assets compared to the corresponding period and quarter a year ago (see Note 5.2 to the financial statements). Likewise, a decline was recorded in the Cellular Communications segment and Internet, International Communications, and NEP Services segment, offset by increased expenses in the reported period in the Domestic Fixed-Line Communications segment.
Other operating (income) expenses, net	(29)	(400)	371	(92.8)	(7)	39	(46)	-	The decrease during the period was attributable to the Domestic Fixed-Line Communications segment, primarily due to a capital gain of NIS 403 million from the sale of a land asset in the "Sakia" property recognized in the same period last year. The decrease was moderated by expenses in respect of an employee retirement arrangement in the Multi-Channel Television segment in the corresponding period last year, and expenses in respect of a collective agreement in the Internet, International Communications and NEP Services segment in the corresponding quarter a year ago. (See Note 10 to the financial statements)

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Impairment loss, net	268	951	(683)	(71.8)	268	-	268	-	An impairment loss of NIS 282 million attributable to the Internet, International Communications and NEP Services segment was recognized in the current quarter (see Note 5 to the financial statements). Additionally, after signing an agreement for the sale of all its holdings in Walla! in the current quarter, the Company recognized a gain from the reversal of a previously recognized impairment loss of NIS 14 million (see Note 15.2 to the financial statements). A goodwill impairment loss of NIS 951 million attributable to the Cellular Communications segment was recognized in the corresponding period last year.
Operating profit	1,159	*842	317	37.7	189	*440	(251)	(57.0)	
Finance expenses, net	273	440	(167)	(38.0)	80	205	(125)	(61)	The decrease in net finance expenses was mainly attributable to the Domestic Fixed-Line Communications segment (see Note 11 to the financial statements).
Share of investees' losses	-	(2)	2	(100)	-	(1)	1	(100)	
Income tax	264	*1,507	(1,243)	(82.5)	83	*57	26	45.6	A NIS 28 million tax-asset write-off attributable to the Internet, International Communications and NEP Services segment was recorded in the current quarter (see Note 5.3 to the financial statements). On the other hand, a NIS 28 million deferred tax asset attributable to the Domestic Fixed-Line Communications segment was recognized in respect of an expected tax loss from the sale of Walla! (see Note 15.2 to the financial statements). In the corresponding period last year, the Company wrote off a tax asset in respect of DBS's losses, and accordingly recognized NIS 1,166 million in tax expenses.
Profit (loss) for the period	622	*(1,107)	1,729	-	26	*177	(151)	(85.3)	

*** Restated. See Note 2.5 to the financial statements.**

4.2.2 Operating segments

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

Revenues by operating segment	1-9/2020 NIS millions	1-9/2020 % of total revenues	1-9/2019 NIS millions	1-9/2019 % of total revenues	7-9/2020 NIS millions	7-9/2020 % of total revenues	7-9/2019 NIS millions	7-9/2019 % of total revenues
Domestic Fixed-Line Communications	3,104	47.6	3,088	45.9	1,042	47.8	1,025	45.6
Cellular Communications	1,653	25.4	1,760	26.1	545	25.0	612	27.2
Internet, International Communications and NEP Services	946	14.5	1,009	15.0	315	14.5	329	14.6
Multi-Channel Television	970	14.9	1,014	15.1	313	14.4	334	14.9
Others and adjustments	(153)	(2.4)	(144)	(2.1)	(37)	(1.7)	(53)	(2.3)
Total	6,520	100	6,727	100	2,178	100	2,247	100

Operating profit by segment	1-9/2020 NIS millions	1-9/2020 % of segment revenues	1-9/2019 NIS millions	1-9/2019 % of segment revenues	7-9/2020 NIS millions	7-9/2020 % of segment revenues	7-9/2019 NIS millions	7-9/2019 % of segment revenues
Domestic Fixed-Line Communications	1,349	43.5	1,846	59.8	446	42.8	440	42.9
Cellular Communications	(48)	(2.9)	(2)	(0.1)	(27)	(5)	16	2.6
Internet, International Communications and NEP Services	(219)	(23.2)	**(6)	(0.6)	(275)	(87.0)	**(40)	(12.2)
Multi-Channel Television*	(33)	(3.4)	(96)	(9.5)	(16)	(5.1)	(29)	(8.7)
Others and adjustments	110	-	***(900)	-	61	-	53	-
Consolidated operating profit/ percentage of Group revenues	1,159	17.8	**842	12.5	189	8.7	**440	19.6

* The results of Multi-Channel Television operations are presented net of the overall effect of impairment recognized since the fourth quarter of 2018. For more information, see Notes 5 and 13 to the financial statements. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment.

Also, see Note 14.3 for highlights from DBS's financial statements.

** Restated. See Note 2.5 to the financial statements.

*** An impairment loss in the Cellular Communications segment is stated in the adjustments.

4.2.2 Operating segments (cont.)

B. Domestic Fixed-Line Communications Segment

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Internet - infrastructure	1,205	1,186	19	1.6	408	393	15	3.8	The increase was mainly due to higher retail ARPU, updates to the wholesale Internet service rates, and a rise in the number of retail lines in the present quarter compared to the same quarter last year. The increase was offset by a reduction in the number of wholesale Internet lines.
Fixed-line telephony	760	792	(32)	(4.0)	254	259	(5)	(1.9)	Revenues were down due to a decrease in the number of lines, offset by higher average revenue per line (ARPL) owing to an increase in call revenues amid the COVID-19 pandemic.
Transmission, data communications and others	926	902	24	2.7	309	304	5	1.6	The increase was due, inter alia, to growth in revenues from transmission services for ISPs and from sales of cellular terminal equipment.
Digital and cloud services	213	208	5	2.4	71	69	2	2.9	
Total revenues	3,104	3,088	16	0.5	1,042	1,025	17	1.7	
General and operating expenses	436	418	18	4.3	154	144	10	6.9	Growth was posted mainly in connectivity services for telecom operators due to higher consumption, and in expenses for doubtful debt provisions, terminal equipment costs and subcontractor services, offset by a decrease in building maintenance costs primarily due to municipal tax payment credits granted owing to the COVID-19 pandemic during the reported period, and lower vehicle maintenance costs.
Salaries	678	688	(10)	(1.5)	225	224	1	0.4	The decrease was mainly attributable to the retirement of employees and an increase in salaries attributable to investment, offset by salary increases.
Depreciation and amortization	652	636	16	2.5	222	225	(3)	(1.3)	
Other operating (income), net	(11)	(500)	489	(97.8)	(5)	(8)	3	(37.5)	The decrease during the Period was largely due to lower capital gains on real estate sales, mainly attributable to a capital gain of NIS 403 million from the sale of a land asset in the "Sakia" property," which was recognized in the corresponding period last year.
Operating profit	1,349	1,846	(497)	(26.9)	446	440	6	1.4	

4.2.2 Operating segments (cont.)

B. Domestic Fixed-Line Communications Segment (cont.)

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Finance expenses, net	303	454	(151)	(33.3)	91	207	(116)	(56.0)	The decrease was primarily the result of lower finance expenses in respect of employee benefits, reduced interest expenses due to early repayment of loans in the second half of 2019, and costs for early repayment of a loan (see Note 6 to the financial statements) that were lower in the reported period than the costs for early repayment of loans and debentures recognized in the corresponding quarter a year ago (see Note 11 to the financial statements).
Income tax	222	334	(112)	(33.5)	55	58	(3)	(5.2)	In the present quarter, a NIS 28 million deferred tax asset was recognized in respect of an expected tax loss from the sale of Walla! (see Note 15.2 to the financial statements).
Segment profit	824	1,058	(234)	(22.1)	300	175	125	71.4	

4.2.2 Operating segments (cont.)

C. Cellular Communications segment

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Services	1,195	1,292	(97)	(7.5)	396	446	(50)	(11.2)	The decrease was mainly attributable to the impact of the COVID-19 pandemic, which led to reduced revenues from roaming services, partially offset, however, by higher airtime revenues from incoming calls. Additionally, there has been a continuing transition of existing customers to cheaper plans offering higher data volumes at current market prices. The resulting decrease has been partially offset by growth in the post-paid subscriber base.
Terminal equipment sales	458	468	(10)	(2.1)	149	166	(17)	(10.2)	The decrease was primarily due to lower retail sales resulting from the closure of points of sale caused by the COVID-19 pandemic. The decrease during the Period was partially offset by higher wholesale sales.
Total revenues	1,653	1,760	(107)	(6.1)	545	612	(67)	(10.9)	
General and operating expenses	1,017	1,009	8	0.8	346	348	(2)	(0.6)	The change stemmed mainly from an increase in call completion fees, following an increase in the number of subscribers and increased usage due to the COVID-19 pandemic. Higher expenses were offset by continued operational streamlining and cost-cutting.
Salaries	239	279	(40)	(14.3)	79	89	(10)	(11.2)	The decrease was mainly attributable to a continuing reduction in the number of employee positions, as part of the streamlining program, as well as to the placement of employees on unpaid leave in light of the COVID-19 pandemic.
Depreciation and amortization	448	469	(21)	(4.5)	147	157	(10)	(6.4)	
Other operating income (expenses), net	3	(5)	8	-	-	(2)	2	(100)	
Operating loss	(48)	(2)	(46)	-	(27)	16	(43)	-	
Finance income, net	33	31	2	6.5	12	8	4	50.0	
Income tax	(2)	7	(9)	-	(3)	6	(9)	-	
Segment profit (loss)	(13)	22	(35)	-	(12)	18	(30)	-	

4.2.2 Operating segments (cont.)

D. Internet, International Communications and NEP Services

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenues	946	1,009	(63)	(6.2)	315	329	(14)	(4.3)	The decrease was due to declining sales of equipment and licensing to businesses, Internet revenues, and international call (hubbing) revenues.
General and operating expenses	571	*617	(46)	(7.5)	203	*213	(10)	(4.7)	The decrease was due to a decline in costs on equipment and licensing for businesses, as well as in international call costs, in line with shrinking revenues, and also stemmed from the streamlining of other operating costs. The decrease was offset by higher domestic bandwidth capacity costs resulting from growing customer demand for Internet volume. Additionally, in the reported period there were lower domestic bandwidth capacity costs following a retroactive update to the Communications Regulations (Telecommunications and Broadcasting) regarding wholesale Internet rates.
Salaries	189	199	(10)	(5.0)	63	64	(1)	(1.6)	The decrease was attributable to continued reduction in the number of employee positions, as part of the streamlining plan.
Depreciation and amortization	123	139	(16)	(11.5)	42	47	(5)	(10.6)	The decrease was chiefly due to recognition of impairment of assets as at December 31, 2019.
Other operating expenses, net	282	60	222	-	282	45	237	-	An impairment loss of NIS 282 million was recognized in the current quarter (see Note 5 to the financial statements). It should be noted that costs in respect of a collective agreement containing streamlining and synergy processes, were recognized in the corresponding quarter last year.
Operating (loss)	(219)	*(6)	(213)	-	(275)	*(40)	(235)	-	
Finance expenses, net	1	6	(5)	(83.3)	1	2	(1)	(50.0)	
Income tax	42	*(4)	46	-	29	*(10)	39	-	The increase resulted primarily from a NIS 28 million tax asset write-off, as the Company has no expectations of future profits.
Segment loss	(262)	*(8)	(254)	-	(305)	*(32)	(273)	-	

* Restated. See Note 2.5 to the financial statements.

4.2.2 Operating segments (cont.)

E. Multi-Channel Television *

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenues	970	1,014	(44)	(4.3)	313	334	(21)	(6.3)	The decrease was mainly due to a decrease in the ARPU, offset by revenue from content sales in the reported period.
General and operating expenses	638	667	(29)	(4.3)	204	219	(15)	(6.8)	The decrease was mainly attributable to the streamlining of operating costs and reduced content costs.
Salaries	146	156	(10)	(6.4)	48	50	(2)	(4.0)	The decrease during the Period was due to continued reduction in the number of employee positions as part of the streamlining program, and to the placement of employees on unpaid leave, in light of the COVID-19 pandemic.
Depreciation and amortization	230	252	(22)	(8.7)	76	93	(17)	(18.3)	The decrease stemmed primarily from a decline in fixed asset investments.
Other operating expenses (income), net	(11)	35	(46)	-	1	1	-	-	The change in the Period stemmed mainly from expenses recorded in respect of an employee retirement arrangement in the corresponding period last year.
Operating loss	(33)	(96)	63	(65.6)	(16)	(29)	13	(44.8)	
Finance expenses, net	-	11	(11)	(100)	1	4	(3)	(75.0)	The decrease was mainly attributable to changes in the fair value of financial assets.
Income tax	2	2	-	-	1	1	-	-	
Segment loss	(35)	(109)	74	(67.9)	(18)	(34)	16	(47.1)	

* The results of Multi-Channel Television operations are presented net of the overall effect of impairment recognized since the fourth quarter of 2018. For more information, see Notes 5 and 13 to the financial statements. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment.

Also, see Note 14.3 for highlights from DBS's financial statements.

4.3 Cash flow

	1-9/2020	1-9/2019	Change		7-9/2020	7-9/2019	Change		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Net cash from operating activities	2,270	2,176	94	4.3	830	787	43	5.5	The increase in net cash from operating activities was due to higher cash profit, and in the reported period,also due to income tax refunds, offset by working capital changes. The increase was mainly attributable to the Domestic Fixed-Line Communications segment, offset by a decrease in net cash in the Cellular Communications segment.
Net cash used in investing activities	(1,194)	(1,172)	(22)	1.9	(522)	(123)	(399)	-	The increase in net cash used for investing activities during the Quarter was mainly attributable to net investment in bank deposits and securities as compared to net proceeds in the same quarter last year, in the Domestic Fixed-Line Communications segment. Additionally, last year's same quarter included a refund of a betterment levy. Net investment in bank deposits and securities for the Period recorded a decrease, which was moderated by net inflows from the sale of the Sakia property, included in the corresponding period last year.
Net cash used in financing activities	(579)	(1,255)	676	(53.9)	(119)	(996)	877	(88.1)	The decrease in net cash used in financing activities stemmed mainly from a decrease in loan and debenture repayments and in interest paid, primarily due to early repayment of loans and debentures in the same quarter last year, in the Domestic Fixed-Line Communications segment. Likewise, there was a decrease in early repayment costs, offset by a decrease in new loans and debenture issuances (see Note 6 to the financial statements).
Net increase (decrease) in cash	497	(251)	748	-	189	(332)	521	-	

<u>Average volume in the reported Period</u>
Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 9,507 million.
Supplier credit: NIS 957 million. Short-term credit to customers: NIS 1,685 million. Long-term credit to customers: NIS 301 million.

<u>Working capital</u>
As of September 30, 2020, the Group had a working capital surplus of NIS 756 million, as compared to a working capital surplus of NIS 794 million on September 30, 2019.
According to its separate financial statements, the Company had a working capital surplus of NIS 706 million as of September 30, 2020, as compared to a working capital surplus of NIS 656 million on September 30, 2019.
A decrease in the working capital surplus in the Cellular Communications segment was offset by an increase in the working capital surplus in the Group's other primary operating segments.

4.4 Disclosure on the Company's projected cash flow

According to Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 1970, and given the warning sign of equity deficit in the Company's separate statements and in the consolidated statements, the Company hereby presents its projected cash flow statement, disclosing the sources and uses of cash for the period starting October 1, 2020 and ending December 31, 2022.

	From Oct. 1, 2020 through Dec. 31, 2020	From Jan. 1, 2021 through Dec. 31, 2021	From Jan. 1, 2022 through Dec. 31, 2022
	NIS millions		
Cash and cash equivalents at start of period	***606**	**846**	**1,260**
Sources - Company			
Net cash from operating activities	**516**	**1,970**	**2,101**
Proceeds from the sale of fixed assets	173	150	7
Proceeds from redemption of bank and other deposits	636	636	-
Miscellaneous	55	4	3
Total cash from investing activities	**864**	**790**	**10**
Debenture issuance and new loans	-	700	850
Total cash from financing activities	**-**	**700**	**850**
Total sources - Company	**1,380**	**3,460**	**2,961**
Sources from investees			
Loans from investees	15	85	130
Repayment of loans to investees	16	-	-
Miscellaneous	9	22	-
Total cash from investees	**40**	**107**	**130**
Total sources	**1,420**	**3,567**	**3,091**
Projected liabilities (expected uses) - Company			
Acquisition of fixed assets and investment in intangible assets	(244)	(1,131)	(1,089)
Investment in bank deposits and securities	(29)	-	-
Total cash used in investing activities	**(273)**	**(1,131)**	**(1,089)**
Repayment of bank loans	(118)	**(762)	**(306)
Repayment of debentures (public)	(555)	(552)	(871)
Repayment of private debentures and non-bank credit	(21)	(98)	(77)
Principal and interest payments on leases	(22)	(115)	(115)
Interest payments and other finance expenses	(149)	(289)	(278)
Miscellaneous	(14)	(40)	(48)
Total cash used in financing activities	**(879)**	**(1,856)**	**(1,695)**
Total uses - Company	**(1,152)**	**(2,987)**	**(2,784)**
Uses for investees			
Investment in a subsidiary	-	(130)	(130)
Repayment of loans from subsidiaries	-	-	(130)
Interest payment	(28)	(36)	(39)
Total cash used in investees	**(28)**	**(166)**	**(299)**
Total uses	**(1,180)**	**(3,153)**	**(3,083)**
Cash and cash equivalents at end of period	**846**	**1,260**	**1,268**

* In addition to its cash and cash equivalent balances, the Company has NIS 1,243 million invested in deposits, which can be realized in the short term.

** In light of the Company's current assessments, forecasts for debenture issuances and new loans, and forecasts for (early) repayment of bank loans assume continuation of the plan to extend debt duration in 2021-2022. The timing of early repayments is estimated and could change between the years.

4.5 Assumptions underlying the projected cash flows:

4.5.1 **<u>Company projections concerning cash flows from operating activities and cash flows for investing activities:</u>**

A. The projection for the Company and its investees for the period from October 1, 2020 until December 31, 2020 is based on granular forecasts of the Company's performance that are predicated on the actual business results in 2020 (January 1, 2020 until October 31, 2020). A deviation, however, is possible in light of unforeseen changes in the competitive and regulatory environment, and the national morbidity rate, but the Company does not expect it to be material to the actual results that will be measured at the end of this period.

B. The cash flow projections for the Company and its investees for the years 2021 and 2022 are based on as current as possible assessments for said years. The Company and its investees are currently working on drawing up a budget and detailed work plans for 2021. The Company has not yet finalized its budget; therefore, changes in the goals, targets and focuses of activity of the Group's companies, to the extent changes occur, could affect our assessments.

C. The projected cash flows for the Company and its investees are based, among other things, on the performance of the Company and its investees in recent years and on assessments of telecom market trends in the next two years, covering such aspects as market competition, prices, consumer preferences, regulatory arrangements, technological developments, and the state of the national economy. Operating, sales and marketing expenses have been adjusted to match the projected scope of operations, in which regard the projection includes assumptions concerning the streamlining of the Company's and its investees' workforce and the associated retirement and salary costs.

D. Effects of the COVID-19 pandemic - As of the reporting date, the Bezeq Group's working assumption concerning the continued spread of the COVID-19 pandemic is that the measures taken to contain the spread of the virus will continue at varying degrees of intensity also throughout 2021, alongside gradual recovery of the aviation and international tourism sectors.

Accordingly, and subject to the aforementioned assumptions, the Group expects that the effects of the COVID-19 pandemic on its operations will be reflected mainly in a decrease in Pelephone's revenues from roaming services, as a result of the effects of the pandemic's spread on the aviation and international tourism sectors. Likewise, a certain decline is expected in the revenues of the Group's companies from the business sector.

The COVID-19 pandemic has had broad-reaching macro-economic impact, including on financial markets. The Company has easy access to credit and capital markets, but should these markets continue to see high volatility, the Company's assessments concerning its early repayments and securing of sources for such repayments may fail to materialize, in part or in full.

E. These projections do not include the effects of the removal of the Group's structural separation and the merger with the subsidiaries, should these occur in the projected period.

4.5.2 **<u>Material liabilities due to mature in the first six months of the projected cash flow period:</u>**

Material debt (principal and interest) repayments in the period between October 1, 2020 and March 31, 2021 according to the Company's repayment schedules:

October 2020 - a NIS 61 million repayment of bank loans.

November 2020 - a NIS 83 million repayment of bank loans and repayment of a private loan.

December 2020 - a NIS 698 million repayment of public debentures and loans from institutional bodies.

<u>Sources for settling liabilities:</u>

The Company has sufficient sources to settle its liabilities, through cash generated from operating activities, cash balances and short-term investment deposits, and by raising debt from bank and non-bank sources.

4.5.3 The Board of Directors has reviewed and approved the sources included in the disclosure concerning the projected cash flow, having found them reasonable in the scope presented for each source, and its expected timing. The Board of Directors has also examined whether there are restrictions on receiving loans and loan repayments from investees, and is satisfied that these are expected to be received on time, as planned.

4.5.4 The aforesaid disclosure concerning projected cash flows constitutes forward-looking information. The Company's assumptions and estimates concerning the projected cash flows, the sources for repaying the Company's existing and expected liabilities, and concerning the assumptions underlying the projected cash flows are based on data available to the Company as of the reporting date, and assuming it continues operating in the ordinary course of business. There is no certainty that these assumptions and estimates will materialize, in part or in full, as they also depend on external factors outside the Company's control or over which the Company has only limited control, and also in light of current uncertainty in the Israeli telecom market. Actual data may differ materially from these assessments if there is a change in any of the factors taken into account in making them.

5. Disclosure Concerning the Company’s Financial Reporting

5.1. Disclosure of highly material valuations

The following table discloses highly material valuations pursuant to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 1970: The valuations are attached to the financial statements.

A.

	Bezeq International Ltd. – December 31, 2019 (Restatement – See Note 2.5 to the Financial Statements)
Subject of valuation	Value in use of Bezeq International Ltd. in order to test for impairment, following a restatement from November 2020.
Date of valuation	December 31, 2019; the valuation was signed on November 30, 2020.
Value prior to the valuation	NIS 570 million carrying amount of the net operating assets of Bezeq International Ltd.
Value set in the valuation	NIS 374 million. The Company recognized an asset impairment loss of NIS 196 million.
Assessor’s identity and profile	Prometheus Financial Advisory Ltd. The work was done by a team headed by Mr. Gideon Peltz, CPA, who holds a BA in Accounting and Economics from Tel Aviv University. Mr. Peltz has extensive experience performing valuations, financial statement analyses, preparing expert opinions, and providing various financial advisory services to businesses. The assessor is not dependent on the Company. The Company has undertaken to indemnify the assessor for damages exceeding three times their fee, unless they acted maliciously or in gross negligence.
Valuation model	Discounted Cash Flow (DCF) method
Assumptions used in the valuation	Discount rate 9.7% (after tax) Permanent growth rate 0.7% Residual value percentage of the value determined by the valuation – 63%

B.

	Bezeq International Ltd. – September 30, 2020
Subject of valuation	Value in use of Bezeq International Ltd. in order to test for impairment
Date of valuation	September 30, 2020; the valuation was signed on November 30, 2020.
Value prior to the valuation	NIS 405 million carrying amount of the net operating assets of Bezeq International Ltd.
Value set in the valuation	NIS 123 million. The Company recognized an asset impairment loss of NIS 282 million.
Assessor's identity and profile	Prometheus Financial Advisory Ltd. The work was done by a team headed by Mr. Gideon Peltz, CPA, who holds a BA in Accounting and Economics from Tel Aviv University. Mr. Peltz has extensive experience performing valuations, financial statement analyses, preparing expert opinions, and providing various financial advisory services to businesses. The assessor is not dependent on the Company. The Company has undertaken to indemnify the assessor for damages exceeding three times their fee, unless they acted maliciously or in gross negligence.
Valuation model	Discounted Cash Flow (DCF) method
Assumptions used in the valuation	Discount rate 9.7% (after tax) Permanent growth rate 0.8% Residual value percentage of the value determined by the valuation – 76%

C.

	DBS (*)
Subject of valuation	Value in use of DBS Satellite Services (1998) Ltd. in order to test for impairment of non-current assets.
Date of valuation	September 30, 2020; the valuation was signed on November 4, 2020.
Value prior to the valuation	Negative amount of NIS (51) million.
Value set in the valuation	Negative amount of NIS (118) million.
Assessor's identity and profile	Prometheus Financial Advisory Ltd. The work was done by a team headed by Mr. Gideon Peltz, CPA, who holds a BA in Accounting and Economics from Tel Aviv University. Mr. Peltz has extensive experience performing valuations, financial statement analyses, preparing expert opinions, and providing various financial advisory services to businesses. The assessor is not dependent on the Company. The Company has undertaken to indemnify the assessor for damages exceeding three times their fee, unless they acted maliciously or in gross negligence.
Valuation model	Net realizable value (NRV)
Assumptions used in the valuation	Assumptions concerning the NRV of DBS's assets

(*) Despite the negative value of DBS's operations, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 4 to the financial statements). The Company's support of DBS as aforesaid is due, among other things, to the Multi-Channel Television segment's current and expected contribution to the Bezeq Group's overall operations.

For more information, see Note 5 to the financial statements.

5.2. Due to claims filed against the Group, which cannot yet be assessed and for which exposure cannot be estimated at this time, the auditors have drawn attention to the matter in their opinion of the financial statements.

5.3. For information on **material events subsequent to the financial statements' date**, see Note 15 to the financial statements and Chapter 3 above.

6. Details of debt certificate series

6.1. On April 7, 2020, the Company issued a prospectus for listing and release of restrictions and a shelf prospectus of the Company dated April 8, 2020. Further to publication of the prospectus, on April 26, 2020, Debentures Series 11 and 12 were delisted from the TASE's TACT Institutional System and on the same date, trading on the TASE main board commenced.

On May 27, 2020, the Company completed an issue under a shelf offering report from May 26, 2020, published under the prospectus, of the Company's Debentures (Series 11 and 12) by way of expansion of the series listed on the TASE main board. In this framework, 231,906,000 Debentures (Series 11) were issued for a consideration of NIS 243,919,000, and 470,000,000 Debentures (Series 12) were issued for a consideration of NIS 480,481,000 (see Note 6 to the financial statements).

Data on the Company's Series 11 and 12 Debentures in circulation, as of September 30, 2020:

		Debentures (Series 11)	Debentures (Series 12)
a	Issue date (excluding expansions) Date of listing for trading on the TASE main board	July 10, 2019 April 26, 2020	July 10, 2019 April 26, 2020
b	Total par value upon issue (including expansions)	NIS 834,766,000	NIS 1,269,240,000
c	Par value	NIS 834,766,000	NIS 1,269,240,000
d	Par value revalued to the reporting date (CPI-linked)	NIS 834,766,000	NIS 1,269,240,000
e	Accrued interest, revalued to the reporting date	NIS 8,904,171	NIS 7,192,360
f	Fair value as included in the financial statements	NIS 928,176,315	NIS 1,340,698,212
g	Stock exchange value	NIS 928,176,315	NIS 1,340,698,212
h	Type of interest	Fixed, 3.2%	Fixed, 1.7%
i	Principal repayment dates	June 1 every year from 2026 through 2030	June 1 every year from 2026 through 2030
j	Interest repayment dates	June 1 and December 1 every year, from Dec. 1, 2019 through June 1, 2030	June 1 and December 1 every year, from Dec. 1, 2019 through June 1, 2030
k	Linkage	Unlinked	Principal and interest linked to increase in the CPI (Base index – May 2019)
l	Liability in relation to Company's total liabilities	Material	Material
m	Trustee	Reznik Paz Nevo Trusts Ltd. Contact – Yossi Reznik, CPA Email – yossi@rpn.co.il, Tel: 03-6389200, Fax: 03-6389222 Address – 14 Yad Harutzim St., Tel Aviv	
n	Compliance with the deeds of trust	On December 31, 2019, the Company issued to the trustees of the debentures, confirmations of its compliance with the deeds of trust for 2019.	
o	Pledges	As concerns the debentures, the Company has undertaken not to create additional pledges on its assets unless it simultaneously creates pledges toward all the lenders (negative pledge). Exceptions to the pledge include, inter alia, a pledge on assets to be acquired or expanded by the Company, if the commitments for which the pledge was given as security were created for acquiring or expanding said assets, and a symbolic pledge.	

6.2. Credit rating

On April 22, 2020, Midroog Ltd. ("Midroog") downgraded its rating for the Company's Debentures (Series 6, 7, 9, 10, 11 and 12) to Aa3.il/stable (see immediate report 2020-01-036094). Likewise, on May, 4, 2020, S&P Global Ratings Maalot Ltd. ("Maalot") affirmed its ilAA- rating for the Company and its debentures, and updated the rating outlook to stable (see immediate report 2020-01-039514). Additionally, further to the foregoing regarding the issue of the Company's Debentures (Series 11 and 12) – on May 26, 2020, Midroog and Maalot announced (see immediate reports 2020-01-946375 and 2020-01-046354, respectively) the assignment of a rating as aforesaid (Aa3.il/stable and ilAA-, respectively) to the issue of the debentures by expansion of the series up to a par value of NIS 710 million.

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

7. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and the companies consolidated in its financial statements as of September 30, 2020, see the reporting form to be posted by the Company on the MAGNA system on November 30, 2020.

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

Gil Sharon	Dudu Mizrahi
Chairman of the Board	CEO

Signed: November 30, 2020

Part C:
Condensed Consolidated Interim Financial Statements as at September 30, 2020 (Unaudited)

Condensed Consolidated Interim Financial Statements as at September 30, 2020 (Unaudited)

Contents	Page

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Auditors' 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 – "**Group**") comprising the condensed consolidated interim statement of financial position as of September 30, 2020 and the 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 the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting," and are also responsible for the preparation of the financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose consolidated assets constitute 1% of the total consolidated assets as of September 30, 2020, and whose consolidated 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 was furnished to us, and our conclusion, insofar as it relates to amounts included in respect of that company, is based on said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements (Israel) 2410, "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 Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 1.3 which refers to that stated in Note 1.3 to the annual consolidated financial statements regarding the Israel Securities Authority's (ISA) investigation of the suspicion of offenses committed under the Securities' Law and Penal Code, involving, inter alia, transactions related to the former controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and regarding the indictment filed against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report. As stated in that note, at this stage the Company is unable to assess the effects of the investigations, their findings and their results on the Company, as well as on the financial statements and on the estimates used in the preparation of these financial statements, if any.

Furthermore, without limiting our above conclusion, we draw attention to the aforesaid in Note 2.5 to the abovementioned financial information, regarding adjustment by way of a restatement of the condensed consolidated interim financial statements as of September 30, 2019 and for the nine- and three-month periods then ended, and of the consolidated financial statements as of December 31, 2019 and for the year then ended, in order to retroactively reflect in them the effect of correcting the error in the calculation of assets and liabilities balances, and to the fact that the Company is still examining the source of the discrepancies discovered, and it is possible that additional discrepancies will be found by the external auditor who is assisting in the examination. The Company anticipates that such discrepancies, insofar as they exist, will not have a material effect on the consolidated financial statements. We also reviewed the adjustments described above, which were implemented in order to restate the condensed consolidated interim financial statements as of September 30, 2019 and for the nine- and three-month periods then ended. These adjustments are the responsibility of the Board of Directors and Management of the Company. Our responsibility is to express a conclusion on these adjustments based on our review. Accordingly, nothing has come to our attention that would cause us to believe that these adjustments are inadequate.

In addition, without qualifying our abovementioned conclusion, we draw attention to that stated in Note 7 regarding lawsuits filed against the Group, in respect of which the amount cannot yet be assessed or the exposure estimated.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 30, 2020

Condensed Consolidated Interim Financial Statements as at September 30, 2020 (Unaudited)

Condensed Consolidated Interim Statements of Financial Position

	Sept. 30, 2020	Sept. 30, 2019	Dec. 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	**897**	639	400
Investments	**1,306**	1,750	1,195
Trade receivables	**1,692**	*1,727	*1,677
Other receivables	**332**	*341	*342
Inventory	**96**	94	*96
Assets held for sale	**46**	-	43
Total current assets	**4,369**	4,551	3,753
Trade and other receivables	**525**	442	477
Broadcasting rights, net of rights exercised	**67**	63	59
Right-of-use assets	**1,276**	1,361	*1,308
Fixed assets	**6,069**	6,217	*6,039
Intangible assets	**952**	968	*916
Deferred expenses and non-current investments	**233**	*477	*358
Deferred tax assets	**53**	18	*81
Total non-current assets	**9,175**	9,546	9,238
Total assets	**13,544**	14,097	12,991

* Restated, see Note 2.5.

Condensed Consolidated Interim Statements of Financial Position (Cont.)

		Sept. 30, 2020	Sept. 30, 2019	Dec. 31, 2019
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**Notes**	**NIS million**	**NIS million**	**NIS million**
Debentures, loans, and borrowings	6	**957**	1,126	1,007
Current maturities of lease liabilities		**387**	427	416
Trade and other payables		**1,669**	*1,681	*1,614
Employee benefits		**441**	365	654
Provisions	7	**113**	143	125
Current tax liabilities		**46**	15	-
Total current liabilities		**3,613**	3,757	3,816
Debentures and loans	6	**8,507**	9,393	8,551
Lease liabilities		**971**	989	969
Employee benefits		**334**	539	356
Derivatives and other liabilities		**342**	178	139
Deferred tax liabilities		**48**	50	43
Provisions		**54**	39	49
Total non-current liabilities		**10,256**	11,188	10,107
Total liabilities		**13,869**	14,945	13,923
Total equity deficit		**(325)**	*(848)	*(932)
Total liabilities and equity deficit		**13,544**	14,097	12,991

Gil Sharon	**Dudu Mizrahi**	**Yali Rothenberg**
Chairman of the Board	CEO	Bezeq Group CFO

Date of approval of the financial statements: November 30, 2020

* Restated, see Note 2.5.

The accompanying notes are an integral part of the condensed consolidated interim financial statements

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 8)	**6,520**	6,727	**2,178**	2,247	8,929
Operating expenses					
General and operating expenses (Note 9)	**2,351**	*2,454	**790**	*813	*3,308
Salaries	**1,397**	1,455	**474**	474	1,933
Depreciation, amortization, and impairment**	**1,374**	1,425	**464**	481	1,912
Other operating expenses (income), net (Note 10)	**(29)**	(400)	**(7)**	39	(221)
Impairment loss, net (Note 5.1)	**268**	951	**268**	-	*1,147
Total operating expenses	**5,361**	*5,885	**1,989**	*1,807	*8,079
Operating profit	**1,159**	*842	**189**	*440	*850
Finance expenses (income) (Note 11)					
Finance expenses	**314**	481	**94**	224	624
Finance income	**(41)**	(41)	**(14)**	(19)	(75)
Finance expenses, net	**273**	440	**80**	205	549
Profit after finance expenses, net	**886**	*402	**109**	*235	*301
Share in losses of equity-accounted investees	**-**	(2)	**-**	(1)	(2)
Profit before income tax	**886**	*400	**109**	*234	*299
Income tax	**264**	*1,507	**83**	*57	*1,493
Net profit (loss) for the period	**622**	*(1,107)	**26**	*177	*(1,194)
Basic earnings (loss) per share (NIS)	**0.23**	*(0.40)	**0.01**	*0.06	*(0.43)

* Restated, see Note 2.5.

** See Note 5.2 for information about the impairment loss recognized by DBS in the reporting period.

The accompanying notes are an integral part of the condensed consolidated interim financial statements

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit (loss) for the period	**622**	*(1,107)	**26**	*177	*(1,194)
Remeasurement of a defined benefit plan, net of tax (items not reclassified to profit or loss)	**-**	(35)	****(11)**	(33)	(33)
Other comprehensive income (loss) (net of tax)	**(15)**	-	**(2)**	(5)	1
Total comprehensive income (loss) for the period	**607**	*(1,142)	**13**	*139	*(1,226)

* Restated, see Note 2.5.

** Comprehensive loss was recognized due to adjustment of the discount rate according to which the net liability for a defined benefit is calculated as at September 30, 2020.

The accompanying notes are an integral part of the condensed consolidated interim financial statements

Condensed Consolidated Interim Financial Statements as at September 30, 2020 (Unaudited)

Condensed Consolidated Interim Statements of Changes in Equity (Deficit)

	Share capital	Share premium	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
	Attributable to shareholders of the Company					
Nine months ended September 30, 2020 (unaudited)						
Balance as at January 1, 2020	3,878	384	390	(58)	*(5,526)	*(932)
Profit for the period	**-**	**-**	**-**	**-**	**622**	**622**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**(15)**	**-**	**(15)**
Total comprehensive income for the period	**-**	**-**	**-**	**(15)**	**622**	**607**
Balance as at September 30, 2020	**3,878**	**384**	**390**	**(73)**	**(4,904)**	**(325)**
Nine months ended September 30, 2019 (unaudited)						
Balance as at January 1, 2019	3,878	384	390	(59)	*(4,299)	*294
Loss for the period	-	-	-	-	*(1,107)	*(1,107)
Other comprehensive loss for the period, net of tax	-	-	-	-	(35)	(35)
Total comprehensive loss for the period	-	-	-	-	(1,142)	*(1,142)
Balance as at September 20, 2019	3,878	384	390	(59)	*(5,441)	*(848)
Three months ended September 30, 2020 (unaudited)						
Balance as at July 1, 2020	3,878	384	390	(71)	*(4,919)	*(338)
Profit for the period	**-**	**-**	**-**	**-**	**26**	**26**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**(2)**	**(11)**	**(13)**
Total comprehensive loss for the period	**-**	**-**	**-**	**(2)**	**15**	**13**
Balance as at September 30, 2020	**3,878**	**384**	**390**	**(73)**	**(4,904)**	**(325)**
Three months ended September 30, 2019 (unaudited)						
Balance as at July 1, 2019	3,878	384	390	(54)	*(5,585)	*(987)
Profit for the period	-	-	-	-	*177	*177
Other comprehensive loss for the period, net of tax	-	-	-	(5)	(33)	(38)
Total comprehensive income for the period	-	-	-	(5)	*144	*139
Balance as at September 30, 2019	3,878	384	390	(59)	*(5,441)	*(848)
Year ended December 31, 2019 (audited)						
Balance as at January 1, 2019	3,878	384	390	(59)	*(4,299)	*294
Loss for 2019	-	-	-	-	*(1,194)	*(1,194)
Other comprehensive income (loss) for the year, net of tax	-	-	-	1	(33)	(32)
Total comprehensive loss for 2019	-	-	-	1	*(1,227)	*(1,226)
Balance as at December 31, 2019	3,878	384	390	(58)	*(5,526)	*(932)

* Restated, see Note 2.5.

The accompanying notes are an integral part of the 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
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow from operating activities					
Profit (loss) for the period	**622**	*(1,107)	**26**	*177	*(1,194)
Adjustments:					
Depreciation, amortization, and impairment losses	**1,374**	1,425	**464**	481	1,912
Impairment loss of assets, net	**268**	951	**268**	-	*1,147
Share in losses of equity-accounted investees	**-**	2	**-**	1	2
Finance expenses, net	**291**	395	**82**	171	497
Capital gain, net	**(11)**	(472)	**(6)**	(11)	(508)
Income tax expenses	**264**	*1,507	**83**	*57	*1,493
Change in trade and other receivables	**(18)**	*47	**26**	*20	*103
Change in inventory	**(10)**	(5)	**10**	4	*(19)
Change in trade and other payables	**(91)**	*(120)	**34**	*50	*(77)
Change in provisions	**(11)**	(32)	**(8)**	(5)	(49)
Change in employee benefits	**(232)**	(156)	**(66)**	(58)	(50)
Change in other liabilities	**(12)**	(17)	**(5)**	(11)	(8)
Net income tax paid	**(164)**	(242)	**(78)**	(89)	(325)
Net cash provided by operating activities	**2,270**	2,176	**830**	787	2,924
Cash flow from investing activities					
Purchase of fixed assets	**(824)**	(851)	**(342)**	(300)	(1,095)
Investment in intangible assets and deferred expenses	**(307)**	(302)	**(100)**	(104)	(382)
Investment in bank deposits and securities	**(1,215)**	(1,965)	**(243)**	(185)	(2,067)
Proceeds from the withdrawal of bank deposits and the sale of securities	**1,112**	1,616	**161**	379	2,297
Proceeds from the sale of fixed assets	**31**	64	**3**	15	76
Receipts from the sale of the Sakia property	**-**	328	**-**	-	328
Receipt (payment) of permit fees, betterment levy and purchase tax**	**-**	(74)	**-**	75	(74)
Refund of appreciation tax**	**-**	5	**-**	-	5
Miscellaneous	**9**	7	**(1)**	(3)	29
Net cash used for investing activities	**(1,194)**	(1,172)	**(522)**	(123)	(883)

* Restated, see Note 2.5.
** In respect of the Sakia complex

Condensed Consolidated Interim Statements of Cash Flows (Cont.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow from financing activities					
Issue of debentures and receipt of loans	**718**	1,688	**-**	1,188	1,865
Repayment of debentures and loans	**(772)**	(2,333)	**(3)**	(1,971)	(3,447)
Payments of principal and interest for leases	**(305)**	(322)	**(106)**	(115)	(414)
Interest paid	**(164)**	(211)	**(5)**	(21)	(392)
Costs for early repayment of loans and debentures	**(51)**	(73)	**-**	(73)	(93)
Miscellaneous	**(5)**	(4)	**(5)**	(4)	(50)
Net cash used for financing activities	**(579)**	(1,255)	**(119)**	(996)	(2,531)
Increase (decrease) in cash and cash equivalents, net	**497**	(251)	**189**	(332)	(490)
Cash and cash equivalents at beginning of period	**400**	890	**708**	971	890
Cash and cash equivalents at end of period	**897**	639	**897**	639	400

The accompanying notes are an integral part of the condensed consolidated interim financial statements

1. General

1.1. Reporting Entity

Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The condensed consolidated financial statements of the Company as at September 30, 2020 include those of the Company and its subsidiaries (jointly: "the Group"). The Group is a major provider of communications services in Israel (see also Note 13 – Segment Reporting).

1.2. Material Events in the Reporting Period - Effects of COVID-19 pandemic

Further to Note 33.1 to the annual financial statements regarding the COVID-19 pandemic, in the period from the publication of the annual financial statements until the publication of this report, the virus continued to spread and its effects widened. This was reflected, among other things, in the imposition of various restrictions, including restrictions on movement in public spaces and on public gatherings, restrictions on employment and on transportation, and a significant contraction in economic activity.

As at September 30, 2020, and as at the date of approval of the financial statements, a decrease was mainly seen in revenues from Pelephone's roaming services, and to a certain extent also in revenues from the business sector across all the Group companies. The overall impact of the COVID-19 pandemic on the financial and business position of the Group companies was mixed, with the growth in Company operations along with the measures taken by the Group companies to counteract the effects of the pandemic largely offsetting the decrease in revenues from Pelephone's roaming services.

In addition, analyses performed by the Company indicate that at this stage, the COVID-19 pandemic has not a material effect on the Company's ability to meet its obligations or on the measurement of assets and liabilities, impairment of assets and recognition of expected credit losses (in this regard, see also Note 5.4 regarding the assessment of indications of impairment in the cellular communications segment (Pelephone)). Likewise, there has been no material effect on the critical estimates and judgments.

As at the reporting date, the Bezeq Group's working assumption regarding the continued spread of the COVID-19 pandemic is that measures aimed at containing the virus will continue at varying degrees of intensity also throughout 2021, alongside gradual recovery of the aviation and international tourism sectors. Accordingly, and subject to the above assumptions, the Group expects that the main effect of the COVID-19 pandemic on its operations will be a decline in Pelephone revenues from roaming services, due to the pandemic's effects on the aviation and international tourism sectors. In addition, a certain decline is foreseen in the Group's revenues from the business sector.

The possible continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Group's results. These effects may be reflected, among other things, in a greater-than-expected decrease in revenues from roaming services and equipment sales to business customers, and in revenues from the business sector. The prolongation or escalation of the pandemic may also affect revenues from sales of cellular terminal equipment, employee availability, customer service and technician service systems, supply chain operations and the amounts and times of payments collected from customers of the Group companies.

The Company's assessments as set out above may change according to various developments in the COVID-19 pandemic and its effects, particularly the duration and scope of this event, the nature and extent of economic and other pandemic-related restrictions, and the severity and intensity of the ensuing economic downturn.

1.3. Investigations by the Securities Authority and the Israel Police

Regarding investigations by the Securities Authority and the Israel Police, see Note 1.3 to the annual financial statements.

As mentioned in Note 1.3.3 to the annual financial statements, the Company does not have full information about the investigations, their content or the material and evidence in the possession of the law authorities on this matter. Accordingly, the Company is unable to assess the effects, if any, of the investigations, their findings and their results on the Company and on its financial statements and the estimates used in the preparation of those financial statements. Once the constraints on carrying out reviews and controls in connection with the issues that arose in the investigations are lifted, the review of all matters relating to those issues will be completed as required.

2. Basis of Preparation

2.1. The condensed consolidated interim 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, 2019 and the year then ended, and their accompanying notes ("the Annual Financial Statements"). The notes to the condensed 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 30, 2020.

2.4. Use of estimates and judgments

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, revenues, 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, except as stated in Note 2.5 below. In addition, see Note 1.2 above for information about the effects of the COVID-19 pandemic on the Group companies, as well as Note 5 about impairment.

2.5. Restatement

At the beginning of November 2020, in the framework of preparing the quarterly report and as part of the controls performed over the process of preparing and closing the financial statements for the period ended September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses.

Following the discovery of the discrepancies, the management of Bezeq International began an immediate examination of the matter and Bezeq International carried out actions, checks and compensatory procedures, investing substantial efforts and resources, for the purpose of preparing the financial statements in conformity with IFRS standards and in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, in all material respects.

In this connection, the following actions were taken, among others:

1. Bezeq International recalculated certain balances in its Statements of Financial Position for the years 2016-2019 and for the interims periods in the years 2019 and 2020, without relying on past records and on existing accounting processes, in relation to balance sheet items in which errors were discovered.
2. In light of the change in forecasts due to the discrepancies described above, Bezeq International reviewed its valuation as of December 31, 2019, using an external appraiser.
3. Bezeq International performed audits and checks on the recalculation of the balances, with the help of an independent external expert for control purposes. Additionally, the existing staff was expanded by the addition of personnel from other accounting departments in the Company's subsidiaries, for the purpose of carrying out the work of correcting the financial statements.
4. The internal auditor of Bezeq International conducted an examination of the matter in conjunction with Security Division of Bezeq International. Some of the checks were carried out by the internal auditor with the help of an the independent external expert as mentioned in subsection 3 above.
5. The Company's Board of Directors appointed an independent external investigator to conduct an in-depth investigation of the events and circumstances of this matter. The investigation is underway as of the day of publication of the financial statements.

In view of the fact that the accounting system in Bezeq International included numerous manually entered transactions and deficient documentation in a manner not allowing a full and thorough investigation of the effect of the transactions on its financial results, Bezeq International reconstructed the balance-sheet balances which were found to be in error, without relying on the manually entered transactions that led to the errors, and with the aid of an external expert, reasonability examinations and additional reports constructed during the process. The complexity involved, the method of preparing the financial statements, and the short time frames, did not permit a complete investigation into the discrepancies. Bezeq International is still examining the source of the discrepancies, with the possibility that further discrepancies might be uncovered by the work of the external investigator. The Company expects that given the way the reports are being constructed, such discrepancies, if any, will not have any material impact on the consolidated financial statements.

As of the date of approval of these interim condensed financial statements, the total impact of the corrections to the discrepancies found in Bezeq International in the framework of inspections as at June 30, 2020, was a decrease in the Group's equity as detailed below:

1. A decrease in the Group's equity as at January 1, 2018, totaling NIS 114 million in respect of past balances from the years 2002-2017, with the bulk of this amount (NIS 80 million) originating in the years 2002-2003.

2, A decrease in the Group's profits (net of tax) in a cumulative amount of NIS 72 million for the period from January 1, 2018 until June 30, 2020.

3. Following the examination's findings, Bezeq International revised its forecasts for the coming years and prepared an updated valuation as of December 31, 2019, following which a further impairment loss of NIS 94 million (NIS 72 million, net of tax) was recognized, as a result of the revision of the value of operations and book value of Bezeq International as at December 31, 2019 (see Note 5 to the financial statements for an elaboration on the revised valuation).

It should be noted that as at the time of the examination, no effect was observed on the cash balances of Bezeq International and the Group.

In light of the above findings, the Group carried out an adjustment by a restatement of its financial statements as of December 31, 2019 and for the year then ended, as well as of its financial statements as of September 30, 2019 and for the nine and three months then ended, which are presented as comparative figures in the condensed interim financial statements as of September 30, 2020 and for the nine and three months then ended, so that they should reflect retroactively the impact of the foregoing,

Following are details of the effect of the restatement:

Effect on the financial statements as of September 30, 2019 and for the nine- and three-month periods then ended:

	Effect on statement of financial position as of September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Trade receivables	1,746	(19)	**1,727**
Other receivables	317	24	**341**
Deferred expenses and non-current investments	469	8	**477**
Trade and other payables	1,503	178	**1,681**
Accumulated deficit	(5,276)	(165)	**(5,441)**
Total equity deficit	(683)	(165)	**(848)**

	Effect on statement of income for the nine-month period ended September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	2,420	34	**2,454**
Operating profit	876	(34)	**842**
Income tax	1,516	(9)	**1,507**
Net loss for the period	(1,082)	(25)	**(1,107)**
Loss per share (NIS)	(0.39)	(0.01)	**(0.40)**

	Effect on statement of income for the three-month period ended September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	794	19	**813**
Operating profit	459	(19)	**440**
Income tax	62	(5)	**57**
Net profit for the period	191	(14)	**177**
Earnings per share (NIS)	0.07	(0.01)	**0.06**

	Effect on statement of comprehensive income for the nine-month period ended September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Loss for the period	(1,082)	(25)	**(1,107)**
Other comprehensive loss for the period, net of tax	(35)	-	**(35)**
Total comprehensive loss for the period	(1,117)	(25)	**(1,142)**

	Effect on statement of comprehensive income for the three-month period ended September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Profit for the period	191	(14)	**177**
Other comprehensive loss for the period, net of tax	(38)	-	**(38)**
Total comprehensive profit (loss) for the period	153	(14)	**139**

Effect on the financial statements as of December 31, 2019 and for the year then ended:

	Effect on statement of financial position as of December 31, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
Trade receivables	1,689	(12)	**1,677**
Other receivables	313	29	**342**
Inventory	93	3	**96**
Right-of-use assets	1,292	16	**1,308**
Fixed assets	6,096	(57)	**6,039**
Intangible assets	935	(19)	**916**
Deferred expenses and non-current investments	386	(28)	**358**
Deferred tax assets	59	22	**81**
Trade and other payables	1,413	201	**1,614**
Accumulated deficit	(5,279)	(247)	**(5,526)**
Total equity deficit	(685)	(247)	**(932)**

	Effect on statement of income for the year ended December 31, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
General and operating expenses	3,263	45	**3,308**
Impairment loss	1,053	94	**1,147**
Operating profit	989	(139)	**850**
Income tax	1,525	(32)	**1,493**
Net loss for the period	(1,087)	(107)	**(1,194)**
Loss per share (NIS)	(0.39)	(0.04)	**(0.43)**

	Effect on statement of comprehensive income for the year ended December 31, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Loss for the period	(1,087)	(107)	**(1,194)**
Other comprehensive loss for the period, net of tax	(32)	-	**(32)**
Total comprehensive loss for the period	(1,119)	(107)	**(1,226)**

Effect on the Statement of Changes in Equity:

	January 1, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
Accumulated deficit	(4,159)	(140)	**(4,299)**
Total equity	434	(140)	**294**

	July 1, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Accumulated deficit	(5,434)	(151)	**(5,585)**
Total equity deficit	(836)	(151)	**(987)**

	June 30, 2020		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Accumulated deficit	(4,666)	(253)	**(4,919)**
Total equity deficit	(85)	(253)	**(338)**

3. Reporting Principles and Accounting Policy

3.1. The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements, except for that stated in Section 3.2 below.

3.2. Accounting policy applied following new events

Government grants

Government grants are initially recognized at fair value when there is reasonable assurance that they will be received and that the Group will meet the grant-qualifying conditions. Government grants that are received for acquiring an asset are stated as deferred income in the statement of financial position and systematically recognized in the income statement, over the useful life of the asset. See Note 15.1.

3.3. New standards and interpretations not yet adopted

On May 14, 2020, an amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets (IAS 37) was published regarding onerous contracts (“the Amendment”). According to the Amendment, when assessing the cost of fulfilling a contract, indirect costs should also be considered, as well as incremental costs (see Note 3.13.3 to the Annual Financial Statements).
The initial date of application of the Amendment was set for January 1, 2022, and it will be implemented by adjusting the balance of retained earnings for the cumulative effect as at that date. The Amendment may affect the identification and measurement of onerous contracts in the Group, which may also be reflected in the creation of material provisions, and which the Company is unable to assess at this stage. The Company is reviewing the Amendment and is making preparations for its timely application.

4. Group Entities

4.1. A detailed description of the Group entities appears in Note 14 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. As at September 30, 2020, DBS has an equity deficit of NIS 57 million and a working capital deficit of NIS 239 million. According to the forecasts of DBS, it expects to continue to accumulate operational losses in the coming years and it therefore will be unable to meet its obligations and continue operating as a going concern without the Company's support.

In 2019, the Company invested NIS 145 million in the capital of DBS, in accordance with letters of undertaking provided by the Company to DBS.

In the course of 2020, the Company's Board of Directors approved on a quarterly basis an irrevocable undertaking of the Company to DBS to provide a credit facility or a capital investment of NIS 250 million, for 15 months, with the last approval given in August 2020, valid until September 30, 2021. It should be noted that during the nine-month period ended September 30, 2020, DBS did not make any use of this facility.

In November 2020, the Company's Board of Directors approved an irrevocable undertaking of the Company to DBS to provide a credit facility or capital investment of NIS 150 million, for 15 months, from October 1, 2020 to December 31, 2021, instead of the undertaking from August 2020.

The management of DBS believes that the financial resources at its disposal, which include, among other things, the working capital deficit and the Company's credit facility and capital investments, will be adequate to meet the operational needs of DBS for the coming year.

4.2.2. See Note 5.2 below for information about the impairment of assets recognized by DBS in the financial statements as at September 30, 2020.

4.3. Bezeq International Ltd. ("Bezeq International")

On September 10, 2020, the Ministry of Communications issued a letter to Bezeq International (and other telecommunications operators) expressing the concern that some of the subscribers for Internet services or other services such as an electronic mail box do not use these services and are not even aware of their existence. The Ministry recommends in its letter to inform the subscribers that do not use these services and to stop charging them, and requests to receive periodic reports on the matter during the next six months. On November 8, 2020, an additional letter was received in the matter from the Ministry of Communications, asking that by the next reporting deadline (set for December 17, 2020) the data reported to the Ministry by the telecommunications operators reflect a substantial minimization of the problem, and be accompanied by an explanation on how the license holder is acting to prevent a recurrence of the problem. It was further written that in the event the problem would not be substantially minimized, the Ministry would consider in the future whether to issue binding directives in this regard. See also in this regard Note 5.3 on an impairment of Bezeq International.

5. Impairment

5.1. Below is the composition of the impairment loss recognized by the Group:

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Impairment loss in the Internet and international communications segment (see Note 5.3 below)	**282**	-	**282**	-	*196
Reversal of impairment loss in respect of Walla (see Note 15.2)	**(14)**	-	**(14)**	-	
Impairment loss in the cellular communications segment	**-**	951	**-**	-	951
	268	951	**268**	-	*1,147

* Restated, see Note 2.5.

In addition, the Group recognized continuing impairment losses on DBS assets, as set out in Section 5.2 below.

5.2. Impairment in the multi-channel television segment (DBS)

Further to Note 11.4 to the Annual Financial Statements regarding impairment recognized in 2018 and 2019 for the multi-channel television cash-generating unit, the valuation as at December 31, 2019 presented a value-in-use that is significantly lower than the carrying amount of DBS. Based on the review performed by an outside appraiser as at September 30, 2020, and according to the assessment of the management of DBS, it was found that there were no changes in the projected financial results of DBS, there were no material changes in market expectations, and no regulatory changes were made that may have a material effect on the results. Accordingly, in view of the negative value of the operations as determined in the valuation as at December 31, 2019, DBS amortized the non-current assets as at September 30, 2020, up to the net disposal value of these assets.

Based on the assessment of the fair value of the non-current assets of DBS performed by an outside appraiser as at September 30, 2020, the carrying amount of the depreciable assets is NIS 217 million higher than their fair value less disposal costs. Accordingly, in the nine and three-month periods ended September 30, 2020, the Group recognized an impairment loss of NIS 217 million and NIS 67 million, respectively. The impairment loss was attributed to fixed assets, broadcasting rights and intangible assets, as set out below.

Attribution of impairment loss to Group assets:

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Broadcasting rights, net of rights exercised *	**122**	154	**35**	41	202
Fixed assets **	**64**	98	**26**	30	117
Intangible assets **	**31**	36	**6**	10	44
Rights of use for leased assets **	**-**	(1)	**-**	(1)	(1)
Total impairment recognized	**217**	287	**67**	80	362

* The expense was presented under operating and general expenses

** The expense was presented under depreciation, amortization, and impairment expenses

For information about the method used by DBS to measure the fair value (Level 3) of the assets, less disposal costs, see Note 11.4 to the Annual Financial Statements.

5.3. Impairment in the international communications and Internet services segment (Bezeq International)

A. Valuation of operations as of September 30, 2020

As of the date of the financial statements for the third quarter of 2020, Bezeq International has identified indications of a possible impairment, in the absence of a difference between the value of its operations and the carrying amount of its net operating assets measured as of December 31, 2019 (after restatement, as described in Note 2.5 above), and in the wake of its preparations, also further to the Ministry of Communications' recommendation in its letters dated September 10, 2020 and November 8, 2020 to the operators in the market (as described in Note 4.3 above), to inform and deal with customers that have been paying it under an agreement for ISP services but have not used those services for an extended period of time. Due to the foregoing, the Group measured the recoverable amount of the ISP, international communications and NEP services cash-generating unit as of September 30, 2020. The value in use was calculated using the discounted cash flow (DCF) method based on the forecast of cash flows from operations for four years from the end of 2020.

The cash flow forecast was based, *inter alia*, on Bezeq International's performance in recent years and assessments regarding future trends in the markets in which it operates (competition, price levels, regulation and technological developments). The cash flow forecast does not include the potential effects of the hearing held by the Ministry of Communications on October 4, 2020 to examine the existing separation between broadband infrastructure services and Internet access (ISP) services, as described in Note 15.3, since, in the opinion of Bezeq International and the Company, this event does not involve circumstances that existed on the reporting date.

The revenue forecast is based on assumptions regarding Bezeq International's Internet subscriber base and the average income per subscriber (including assumptions regarding the notification and termination of billing of customers that have not been using ISP services), assumptions regarding Bezeq International's activity in the international communications market, and assessments regarding the development of its activity in the business communications services market. The expense forecast is based, *inter alia*, on assumptions regarding the decrease in the number of employees of Bezeq International and the associated salary expenses, as well as assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet television, in general, and the expected migration of DBS from satellite television broadcasting to Internet television broadcasting, in particular). The expense forecast also includes assumptions regarding the effect of the decrease in profit (resulting from the error correction and restatement of operating expenses, as explained in Note 2.5 above) in the forecast years, including the permanent year. All other expenses and the level of investments were adjusted for the forecast scope of operations of Bezeq International.

The nominal capital cost used in the valuation is 9.7% (after tax) (2019 – 9.7%). Additionally, a permanent growth rate of 0.8% (2019 – 0.7%) was assumed.

The valuation is sensitive to changes in the permanent growth rate and in the discount rate. The valuation is also sensitive to the net cash flow in the representative year, in general, and to changes in the Internet operating segment, in particular (subscribers, ARPU and traffic costs). A 1% increase (decrease) in the discount rate results in a decrease (increase) in Bezeq International's value of operations within a range of NIS 15 million to NIS 19 million. A 0.5% increase (decrease) in the permanent growth results in an increase (decrease) in the value of operations within a range of NIS 11 million to NIS 12 million.

The valuation is sensitive to assessments regarding operating expenses in the forecast period. An increase (decrease) of NIS 5 million in operating expenses results in a decrease (increase) of NIS 47 million in the value of operations. The valuation is sensitive to a decrease in revenues from inactive subscribers (see Note 4.3), with each decrease of 5% in revenues from these subscribers compared with the forecast assumed in the valuation resulting in a decrease of NIS 18 million in the value of operations.

The valuation was prepared by an external appraiser based on the valuation as explained above. The recoverable amount of Bezeq International was set at NIS 123 million, compared with carrying amount of NIS 405 million in the Group's books. Therefore, the Group recognized an impairment loss attributable to the ISP, international communications and NEP services segment of NIS 282 million. Since Bezeq International has no expectation of future profits, no tax asset was recognized. Additionally, the Group wrote off the balance of deferred tax that existed in its books, amounting to NIS 28 million.

Attribution of revised impairment loss to Group assets as of September 30, 2020:

	September 30, 2020
	(Unaudited)
	NIS million
Fixed assets	**81**
Intangible assets	**78**
Long-term prepaid expenses for capacities	**123**
Total recognized impairment	**282**

B. Revised valuation of operations as of December 31, 2019

As a result of Bezeq International's findings concerning discrepancies between the assets and liabilities in its books and the actual assets and liabilities and the correction of the profit figures due to the findings for 2018-2019, as described in Note 2.5 above, Bezeq International revised the valuation made as of December 31, 2019, adjusting the profit forecast for the coming years including the permanent year.

As described in Note 2.5 above, Bezeq International recalculated certain balances in its statements of financial position, without relying on past records and on the existing accounting processes with respect to the balance sheet items in which the errors were discovered, with the aid of an independent external expert, reasonability examinations and other reports developed in the course of the process. The described complexity and the method of preparation of the statements, within a short timeframe, did not allow a complete investigation of the discrepancies and the extent of their effect on the forecasts used for the valuations. Bezeq International estimates that the effect of the correction on the decrease in the operating profit in the nine months ended September 30, 2020 and the estimate of its expected effect for all of 2020 will accompany it also in the years of the forecast, including the permanent year.

As a result of the above revision, the value of operations of Bezeq International decreased in 2019 to NIS 374 million compared with NIS 652 million in the original valuation, a difference of NIS 278 million. Concurrently, the book value of Bezeq International in the Group's books decreased from NIS 754 million to NIS 570 million.

As a result of the adjustment in the value of operations and the book value as of December 31, 2019, as discussed above, the Group recognized an impairment loss of NIS 196 million (NIS 152 million net of tax), compared with NIS 102 million in the original valuation (NIS 80 million net of tax). Accordingly, in the income statement for 2019 (which was restated) the impairment loss rose by NIS 94 million, and the tax income from recognition of a tax asset for the impairment increased by NIS 22 million.

The adjusted value in use was calculated using the discounted cash flow (DCF) method based on the forecast of cash flows from operations for five years from December 31, 2019.

The adjusted cash flow forecast was based, *inter alia*, on Bezeq International's revised performance in recent years and assessments regarding future trends in the markets in which it operates (competition, price levels, regulation and technological developments). The revenue forecast is based on assumptions regarding Bezeq International's Internet subscriber base and the average income per subscriber, Bezeq International's activity in the international communications market and the development of its activity in the business communications services market. The adjusted expense forecast is based, *inter alia*, on assumptions regarding the decrease in the number of employees of Bezeq International and the associated salary expenses, as well as assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet television, in general, and the expected migration of DBS from satellite television broadcasting to Internet television broadcasting, in particular). All other expenses and the level of investments were adjusted for the forecast scope of operations of Bezeq International.

The nominal capital cost used in the valuation is 9.7% (after tax) (2018 – 9.7%). Additionally, a permanent growth rate of 0.7% (2018 – 0.4%) was assumed. There is no change in these figures compared with the original valuation.

The valuation is sensitive to changes in the discount rate and the permanent growth rate. The valuation is also sensitive to the net cash flow in the representative year, in general, and to changes in the Internet operating segment, in particular (subscribers, ARPU and traffic costs). A 1% increase (decrease) in the discount rate results in a decrease (increase) in Bezeq International's value of operations within a range of NIS 36 million to NIS 57 million. A 0.5% increase (decrease) in the permanent growth results in an increase (decrease) in the value of operations within a range of NIS 22 million to NIS 27 million.

The valuation is sensitive to assessments regarding operating expenses in the forecast period. An increase (decrease) of NIS 5 million in operating expenses results in a decrease (increase) of NIS 43 million in the value of operations.

Attribution of revised impairment loss to Group assets as of December 31, 2019:

	December 31, 2019
	(Audited)
	NIS million
Fixed assets	**85**
Intangible assets	**43**
Long-term prepaid expenses for capacities	**67**
Rights of use for leased assets	**1**
Total recognized impairment	**196**

5.4. Assessment of indications of impairment in the cellular communications segment (Pelephone)

Further to that stated in Note 11.2 to the Annual Financial Statements regarding the impairment of goodwill in the cellular communications cash-generating unit (Pelephone), Pelephone performed a routine assessment of indications of impairment as at September 30, 2020, in accordance with the provisions of IAS 36, taking into consideration, among other things, the difference between the value of Pelephone's operations and the carrying amount of its net operating assets as at December 31, 2019, and the adjustment of Pelephone's forecasts due to the COVID-19 pandemic (as described in Note 1.2).

Pelephone estimates that the measures imposed due to the COVID-19 pandemic will have a material adverse effect on its revenues from roaming services in 2020, as well as in 2021, and possibly to a certain extent even in subsequent years. However, in view of the difference between the value of Pelephone's operations and the carrying amount of its net operating assets as at December 31, 2019, this does not indicate a possible impairment. Pelephone does not expect the pandemic to have a significant impact on its performance forecast for the coming years, except for its revenues from roaming services in 2021, based on its working assumption regarding the spread of the COVID-19 pandemic as at the date of approval of these financial statements, whereby measures to contain the spread of the virus will continue at varying degrees of intensity also throughout 2021, alongside a gradual recovery in the aviation and international tourism sectors.

Based on the above assumptions, Pelephone concluded that there are no indications of impairment in the cellular communications cash-generating unit as at September 30, 2020.

If the crisis is prolonged beyond Pelephone's aforesaid assumptions, this could result in an impairment of its assets.

6. Debentures, Loans and Borrowings

6.1. Further to that stated in Note 33.2 to the Annual Financial Statements regarding the approval by the Company's Board of Directors of the submission of an application for permission to publish a listing prospectus for Debentures (Series 11 and 12) that were listed on the TASE's TACT Continuous Institutional Trading System, as well as a shelf prospectus, on April 7, 2020, the Company published a listing and unlocking prospectus and a shelf prospectus (bearing the date April 8, 2020. Further to the publication of the prospectus, on April 26, 2020, Debentures (Series 11 and 12) were delisted from the TACT system and as of that date are traded on the TASE's Main Board. The interest rate payable on the remaining principal of the Debentures as of the date of their listing on the Main Board was reduced by 0.4%, in accordance with the terms of the Debentures.

6.2. On May 27, 2020, the Company completed an offering of Debentures (Series 11 and 12) under a shelf offering report dated May 26, 2020 published pursuant to the aforementioned prospectus, by way of expansion of the series which are listed on the TASE's Main Board. Total gross proceeds received in the offering amounted to NIS 724.4 million.

6.3. In June 2020, the Company made early repayment of a private loan from a financial institution totaling NIS 500 million. The Company recognized finance expenses in respect of an early repayment fee of NIS 51 million.

7. Contingent Liabilities

During the normal course of business, legal claims were filed against the Group companies. In addition, there are pending legal procedures 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 adequate provisions of NIS 108 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, 2020 for Legal Claims filed against the Group companies on various matters amounted to NIS 8.9 billion (of which NIS 5 billion is exposure to an action filed in July 2020, along with a motion to certify it as a class action against Walla!, as set out in Section 7.1 (1) below). There is also additional exposure of NIS 4 billion for claims the chances of which cannot yet be assessed.

In addition, motions to certify class actions have been filed against the Group companies which do not specify the exact amount of the claim and for which the Group has additional exposure beyond the aforesaid.

The amounts of the additional exposure in this Note are in nominal shekels.

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

7.1. Following is a detailed description of the Group's contingent liabilities as at September 30, 2020, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provisions	Additional exposure	Exposure for claims that cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions (and actions pursuant thereto) on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**107**	**(1)8,217**	**(2)2,147**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments made in various projects.	**-**	**(3)687**	**(4)1,808**
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	**-**	**1**	**-**
Claims by the State and authorities	Various legal proceedings by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly proceedings related to the regulation applicable to the Group companies and financial disputes concerning amounts payable by the Group companies to the Authorities (including municipal property taxes). See also Note 13 to the Annual Financial Statements.	**1**	**4**	**-**
Claims by suppliers and communication providers	Claims for compensation for alleged damage as a result of the supply of a service and/or product.	**-**	**4**	**14**
Tort, real estate, and infrastructure claims	Lawsuits for alleged physical damage or damage to property caused by the Group companies and in relation to real estate and infrastructure. The additional amount of exposure for damages in tort does not include claims for which the insurance coverage is not disputed.	**-**	**12**	**-**
Total legal claims against the Company and subsidiaries		**108**	**8,925**	**3,969**

(1) Including exposure to an action filed in July 2020 along with a motion to certify it as a class action against Walla!, alleging that users of the Walla! Website were misled regarding the number and/or duration of the commercial advertisements to which they must be exposed as a condition for viewing the desired content and/or regarding the waiting time until the desired content can be viewed. The motion states that the amount of the class action cannot be accurately assessed at this stage, but a solely preliminary assessment estimates it at over NIS 5 billion. Insofar as the deal for the sale of Walla! is completed, as described in Note 15.2, the claim will be deducted from the total additional exposure of Bezeq Group.

(2) Including exposure of NIS 0.9 billion for a motion to certify a class action that was filed against the Company in May 2020 regarding Internet advertising packages using the B144 website (the amount of exposure was noted in handwriting without any accompanying explanation or calculation).

(3) Exposure for a motion for certification of a class action filed by a shareholder against the Company and Company officers, alleging reporting omissions by the Company regarding the wholesale market.

(4) Two motions for certification of a class action for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies in the group of the Company's then controlling shareholder, regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the Court's decision, a consolidated motion is to be filed instead of these two motions. The proceeding has been stayed, in view of the investigation (as described in Note 1.3) and at the request of the Attorney General, until the second half of September 2020. At the request of the State, an extension has been granted for submitting update notices regarding a continued stay of the proceedings in these cases until December 1, 2020.

7.2. Subsequent to the date of the financial statements, six motions to certify a class action were filed against the Group's companies, five of them without specifying an exact amount and one for NIS 65 million (it should be noted that two of the motions were also filed against the holder of the permit to control the Company and officers of the Group). As at the date of approval of the financial statements, it is not possible to assess the chances of success of these motions. Additionally, claims were concluded for which the exposure amounted to NIS 100 million.

8. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	{Unaudited)	{Unaudited)	{Unaudited)	{Unaudited)	{Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Domestic fixed-line communication (Bezeq Fixed-Line)					
Internet – infrastructure	**1,141**	1,126	**387**	372	1,497
Fixed-line telephony	**740**	775	**246**	253	1,017
Transmission and data	**579**	571	**194**	191	745
Cloud and digital services	**213**	208	**71**	69	273
Other services	**174**	167	**57**	58	225
	2,847	2,847	**955**	943	3,757
Cellular telephony - Pelephone					
Cellular services and terminal equipment	**1,165**	1,265	**386**	438	1,674
Sale of terminal equipment	**441**	459	**146**	157	642
	1,606	1,724	**532**	595	2,316
Multichannel television - DBS	**969**	1,013	**313**	333	1,344
ISP, international communications and NEP services - Bezeq International	**904**	969	**301**	316	1,283
Other	**194**	174	**77**	60	229
Total revenues	**6,520**	6,727	**2,178**	2,247	8,929

9. General and Operating Expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	{Unaudited)	{Unaudited)	{Unaudited)	{Unaudited)	{Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Terminal equipment and materials	**553**	*574	**189**	*202	*806
Interconnectivity and payments to domestic and international operators	**585**	576	**199**	193	757
Content costs (including content impairment)	**442**	485	**135**	149	644
Marketing and general	**348**	361	**117**	120	489
Maintenance of buildings and sites	**179**	203	**68**	70	271
Services and maintenance by subcontractors	**207**	201	**68**	63	270
Vehicle maintenance	**37**	54	**14**	16	71
Total general and operating expenses	**2,351**	*2,454	**790**	*813	*3,308

* Restated, see Note 2.5.

10. Other Operating Income (Expenses), Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	{Unaudited)	{Unaudited)	{Unaudited)	{Unaudited)	{Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital gains (mainly disposal of real estate)	**11**	472	**6**	11	508
Receipts from settlement agreements	**9**	-	**-**	-	-
Reversal (recognition) of provision for streamlining agreement in Pelephone, Bezeq International, and DBS.	**5**	(90)	**-**	(45)	(167)
Reversal (recognition) of provision for employee termination benefits under the Company's voluntary redundancy program	**-**	21	**-**	(3)	(109)
Reversal (recognition) of provision for legal claims	**3**	(3)	**1**	(2)	(10)
Other expenses	**1**	-	**-**	-	(1)
Total other operating income (expenses), net	**29**	400	**7**	(39)	221

11. Finance Expenses, Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	{Unaudited)	{Unaudited)	{Unaudited)	{Unaudited)	{Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**211**	268	**66**	94	349
Costs for early repayment of loans and debentures (Note 6)	**51**	73	**-**	73	93
Linkage and exchange rate differences	**16**	31	**10**	-	43
Finance expenses for lease liabilities	**21**	22	**7**	9	29
Other finance expenses	**7**	6	**3**	3	12
Finance expenses for employee benefits	**8**	72	**8**	42	89
Change in fair value of financial assets at fair value through profit or loss	**-**	9	**-**	3	9
Total finance expenses	**314**	481	**94**	224	624
Income for credit in sales	**23**	23	**8**	8	29
Linkage and exchange rate differences	**-**	-	**-**	5	-
Change in fair value of financial assets at fair value through profit or loss	**3**	-	**-**	-	-
Other finance income	**15**	18	**6**	6	32
Revenue for debenture exchange	**-**	-	**-**	-	14
Total finance income	**41**	41	**14**	19	75
Finance expenses, net	**273**	440	**80**	205	549

12. Financial Instruments

Fair value

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 value of financial instruments are described in Note 31.8 to the Annual Financial Statements.

	September 30, 2020		September 30, 2019		December 31, 2019	
	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)	**2,646**	**2,814**	3,882	4,037	3,401	3,561
Debentures issued to the public (CPI-linked)	**3,747**	**3,919**	3,490	3,655	2,508	2,647
Debentures issued to the public (unlinked)	**3,065**	**3,303**	2,226	2,327	2,204	2,335
Debentures issued to financial institutions (CPI-linked)	***-**	***-**	471	498	762	855
Debentures issued to financial institutions (unlinked)	***-**	***-**	430	454	607	646
	9,458	**10,036**	10,499	10,971	9,482	10,044

* See Note 6 regarding the listing of Debentures (Series 11 and 12).

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 31.7 to the Annual Financial Statements.

	Sept. 30, 2020	Sept. 30, 2019	Dec. 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: investment in marketable securities at fair value through profit or loss	**13**	313	312
Level 2: forward contracts	**(167)**	(160)	(122)

13. Segment Reporting

13.1. Operating segments

	Nine months ended September 30, 2020 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from external sources	2,847	1,605	903	970	195	-	6,520
Inter-segment revenues	257	48	43	-	4	(352)	-
Total revenues	3,104	1,653	946	970	199	(352)	6,520
Depreciation and amortization	652	448	123	230	10	(89)	1,374
Segment results – operating profit (loss)	1,349	(48)	(219)	(33)	35	75	1,159
Finance expenses	317	17	4	4	1	(29)	314
Finance income	(14)	(50)	(3)	(4)	-	30	(41)
Total finance expenses (income), net	303	(33)	1	-	1	1	273
Segment profit (loss) after finance expenses, net	1,046	(15)	(220)	(33)	34	74	886
Income tax	222	(2)	42	2	2	(2)	264
Segment results – net profit (loss)	824	(13)	(262)	(35)	32	76	622

	Three months ended September 30, 2020 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from external sources	955	531	301	313	78	-	2,178
Inter-segment revenues	87	14	14	-	6	(121)	-
Total revenues	1,042	545	315	313	84	(121)	2,178
Depreciation and amortization	222	147	42	76	2	(25)	464
Segment results – operating profit (loss)	446	(27)	(275)	(16)	27	34	189
Finance expenses	95	5	1	2	-	(9)	94
Finance income	(4)	(17)	-	(1)	-	8	(14)
Total finance expenses (income), net	91	(12)	1	1	-	(1)	80
Segment profit (loss) after finance expenses	355	(15)	(276)	(17)	27	35	109
Income tax	55	(3)	29	1	-	1	83
Segment results – net profit (loss)	300	(12)	(305)	(18)	27	34	26

* Results of the multichannel television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.3 for condensed selected information from the financial statements of DBS.

13.1 Operating segments (cont.)

	Nine months ended September 30, 2019 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from external sources	2,847	1,724	969	1,013	174	-	6,727
Inter-segment revenues	241	36	40	1	7	(325)	-
Total revenues	3,088	1,760	1,009	1,014	181	(325)	6,727
Depreciation and amortization	636	469	139	252	11	(82)	1,425
Segment results – operating profit (loss)	1,846	(2)	***(6)	(96)	4	(904)	***842
Finance expenses	473	15	8	16	1	(32)	481
Finance income	(19)	(46)	(2)	(5)	-	31	(41)
Total finance expenses (income), net	454	(31)	6	11	1	(1)	440
Segment profit (loss) after finance expenses, net	1,392	29	***(12)	(107)	3	(903)	***402
Share in losses of associates	-	-	-	-	(2)	-	(2)
Segment profit (loss) before income tax	1,392	29	***(12)	(107)	1	(903)	***400
Income tax	334	7	***(4)	2	2	1,166	***1,507
Segment results – net profit (loss)	1,058	22	***(8)	(109)	(1)	(2,069)	***(1,107)

	Three months ended September 30, 2019 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from external sources	944	595	316	333	59	-	2,247
Inter-segment revenues	81	17	13	1	3	(115)	-
Total revenues	1,025	612	329	334	62	(115)	2,247
Depreciation and amortization	225	157	47	93	4	(45)	481
Segment results – operating profit (loss)	440	16	***(40)	(29)	6	47	***440
Finance expenses	214	7	3	7	1	(8)	224
Finance income	(7)	(15)	(1)	(3)	-	7	(19)
Total finance expenses (income), net	207	(8)	2	4	1	(1)	205
Segment profit (loss) after finance expenses	233	24	***(42)	(33)	5	48	***235
Share in losses of associates	-	-	-	-	(1)	-	(1)
Segment profit (loss) before income tax	233	24	***(42)	(33)	4	48	***234
Income tax	58	6	***(10)	1	2	-	***57
Segment results – net profit (loss)	175	18	***(32)	(34)	2	48	***177

* The impairment loss in the cellular communications segment is presented under adjustments.

** Results of the multichannel television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.3 for condensed selected information from the financial statements of DBS.

*** Restated, see Notice 2.5.

13.1 Operating segments (cont.)

	Year ended December 31, 2019 (Audited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from external sources	3,757	2,316	1,283	1,344	229	-	8,929
Inter-segment revenues	316	46	56	1	9	(428)	-
Total revenues	4,073	2,362	1,339	1,345	238	(428)	8,929
Depreciation, amortization and impairment	861	633	190	334	14	(120)	1,912
Segment results – operating profit (loss)	2,142	(99)	***(196)	(135)	1	(863)	***850
Finance expenses	608	23	8	17	1	(33)	624
Finance income	(39)	(62)	(2)	(5)	-	33	(75)
Total finance expenses (income), net	569	(39)	6	12	1	-	549
Segment profit (loss) after finance expenses	1,573	(60)	***(202)	(147)	-	(863)	***301
Share in profit (loss) of associates	-	-	-	-	(2)	-	(2)
Segment profit (loss) before income tax	1,573	(60)	***(202)	(147)	(2)	(863)	***299
Income tax	381	(13)	***(45)	2	-	1,168	***1,493
Segment results – net profit (loss)	1,192	(47)	***(157)	(149)	(2)	(2,031)	***(1,194)

* The impairment loss in the cellular communications segment is presented under adjustments.

** Results of the multichannel television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.3 for condensed selected information from the financial statements of DBS.

*** Restated, see Note 2.5.

13.2. Adjustments for segment reporting of profit or loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	{Unaudited)	{Unaudited)	{Unaudited)	{Unaudited)	{Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Operating profit for reporting segments	**1,049**	*1,742	**128**	*387	*1,712
Finance expenses, net	**(273)**	(440)	**(80)**	(205)	(549)
Adjustments for the multi-channel television segment	**83**	47	**34**	49	80
Profit (loss) for operations classified in other categories and other adjustments	**27**	*4	**27**	*4	9
Shares in losses of associates	**-**	(2)	**-**	(1)	(2)
Impairment loss of assets	**-**	(951)	**-**	-	(951)
Profit (loss) before income taxes	**886**	*400	**109**	*234	*299

* Restated, see Note 2.5.

14. Condensed Financial Statements of Pelephone Ltd., Bezeq International Ltd., and DBS Satellite Services (1998) Ltd.

14.1. Pelephone Communications Ltd.

Selected data from the statement of financial position

	Sept. 30, 2020	Sept. 30, 2019	Dec 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**839**	1,019	843
Non-current assets	**3,395**	3,106	3,245
Total assets	**4,234**	4,125	4,088
Current liabilities	**668**	642	667
Long-term liabilities	**925**	762	767
Total liabilities	**1,593**	1,404	1,434
Equity	**2,641**	2,721	2,654
Total liabilities and equity	**4,234**	4,125	4,088

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	{Unaudited)	{Unaudited)	{Unaudited)	{Unaudited)	{Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,195**	1,292	**396**	446	1,709
Revenues from sales of terminal equipment	**458**	468	**149**	166	653
Total revenues from services and sales	**1,653**	1,760	**545**	612	2,362
Operating expenses					
General and operating expenses	**1,017**	1,009	**346**	348	1,373
Salaries	**239**	279	**79**	89	373
Depreciation and amortization	**448**	469	**147**	157	633
Total operating expenses	**1,704**	1,757	**572**	594	2,379
Other operating expenses (income), net	**(3)**	5	**-**	2	82
Operating profit (loss)	**(48)**	(2)	**(27)**	16	(99)
Finance expenses (income)					
Finance expenses	**17**	15	**5**	7	23
Finance income	**(50)**	(46)	**(17)**	(15)	(62)
Finance income, net	**(33)**	(31)	**(12)**	(8)	(39)
Profit (loss) before income tax	**(15)**	29	**(15)**	24	(60)
Income tax expenses (income)	**(2)**	7	**(3)**	6	(13)
Profit (loss) for the period	**(13)**	22	**(12)**	18	(47)

14.2. Bezeq International Ltd.

Selected data from the statement of financial position

	Sept. 30, 2020	Sept. 30, 2019	Dec 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**472**	*482	*482
Non-current assets	**267**	*796	*602
Total assets	**739**	1,278	1,084
Current liabilities	**426**	*482	*461
Long-term liabilities	**95**	*170	143
Total liabilities	**521**	652	604
Equity	**218**	*626	*480
Total liabilities and equity	**739**	1,278	1,084

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	{Unaudited)	{Unaudited)	{Unaudited)	{Unaudited)	{Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**946**	1,009	**315**	329	1,339
Operating expenses					
General and operating expenses	**571**	*617	**203**	*213	*827
Salaries	**189**	199	**63**	64	261
Depreciation and amortization	**123**	139	**42**	47	190
Other expenses, net	**282**	60	**282**	45	*257
Total operating expenses	**1,165**	1,015	**590**	369	1,535
Operating loss	**(219)**	*(6)	**(275)**	*(40)	*(196)
Finance expenses (income)					
Finance expenses	**4**	8	**1**	3	8
Finance income	**(3)**	(2)	**-**	(1)	(2)
Finance expenses (income), net	**1**	6	**1**	2	6
Loss before income tax	**(220)**	*(12)	**(276)**	*(42)	*(202)
Income tax expenses (income)	**42**	*(4)	**29**	*(10)	*(45)
Loss for the period	**(262)**	*(8)	**(305)**	*(32)	*(157)

* Restated, see Note 2.5.

14.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	Sept. 30, 2020	Sept. 30, 2019	Dec 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**196**	198	203
Non-current assets	**256**	283	268
Total assets	**452**	481	471
Current liabilities	**435**	500	485
Long-term liabilities	**74**	104	91
Total liabilities	**509**	604	576
Equity deficit	**(57)**	(123)	(105)
Total liabilities and equity deficit	**452**	481	471

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	{Unaudited)	{Unaudited)	{Unaudited)	{Unaudited)	{Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**970**	1,014	**313**	334	1,345
Operating expenses					
Operating, general, and impairment expenses	**636**	693	**195**	211	923
Depreciation, amortization, and impairment	**144**	173	**50**	50	219
Salaries	**152**	162	**50**	52	216
Other operating expenses (income), net	**(12)**	35	**-**	1	42
Total operating expenses	**920**	1,063	**295**	314	1,400
Operating profit (loss)	**50**	(49)	**18**	20	(55)
Finance expenses (income)					
Finance expenses	**4**	16	**2**	7	17
Finance income	**(4)**	(5)	**(1)**	(3)	(5)
Finance expenses, net	**-**	11	**1**	4	12
Profit (loss) before income tax	**50**	(60)	**17**	16	(67)
Income tax expenses	**2**	2	**1**	1	2
Profit (loss) for the period	**48**	(62)	**16**	15	(69)

15. Additional Material Events in and Subsequent to the Reporting Period

15.1. In August 2020, Pelephone was awarded a range of frequencies, further to its participation in the tender for mobile radio-telephone service over advanced bandwidths. Pelephone has been allocated frequencies at a total cost of NIS 88.2 million, with the payment date set for September 2022.

According to the tender terms and conditions, in order to advance and accelerate the development of mobile radio-telephone networks, *inter alia*, for the purpose of expediting 5G technology deployment, the companies awarded the tender will be entitled to a grant, provided they have met the engineering requirements of deploying and operating 250 cellular radio centers in a 5G system, and operating a minimum bandwidth as detailed in the tender. The aggregate amount of the grant for all those entitled to receive it could total NIS 200 million.

The grants will be divided among the eligible winners as follows:

The first-place winner will be entitled to 41% of the grant (NIS 82 million), the second-place winner will be entitled to 33% of the grant (NIS 66 million), and the third-place winner will be entitled to 26% of the grant (NIS 52 million). If there are two first-place winners, both will receive half of the total grant amount allocated for the top two winners (NIS 74 million). If there are three first-place winners, the grant will be divided equally among them.

As of the date of the financial reports, Pelephone assesses that it meets the eligibility conditions for the grant and expects that it will be entitled to a grant of NIS 74 million, which was recognized in the statement of financial position under the item "Trade and other receivables" under "Non-current assets."

On September 29, 2020, after receiving the frequencies, Pelephone began operating 5G frequencies at broadcasting sites that it upgraded.

15.2. On September 15, 2020, the Company entered into an agreement with the Jerusalem Post Ltd. ("the Purchaser") for the sale of all its holdings in Walla! for a total of NIS 65 million, of which NIS 55 million is to be paid in cash, and the remaining NIS 10 million through the Company's entitlement to receive from the Purchaser and Walla! (as well as their affiliated bodies) advertising spaces for a period of up to 7 years after the completion date of the transaction. The sale agreement includes a commitment by the Company to indemnify the Purchaser under certain circumstances. Completion of the transaction is subject to receiving the approval of the Anti-Trust Commissioner (which was given on October 21, 2020) and the approval of the Ministers (the Prime Minister and Communications Minister), as well as to other terms and conditions contained in the sale agreement.

Following the signing of the sale agreement, Walla! recognized a gain of NIS 14 million from the reversal of a previously recognized impairment. To the extent the transaction is completed, the company is expected to record after completion of the transaction an additional capital gain before tax of NIS 24 million. This amount may change depending on the business results of Walla! up to completion of the transaction. In addition, the Company recognized a deferred tax asset of NIS 28 million on an expected tax loss from the sale of Walla!.

15.3. On October 4, 2020, the Ministry of Communications released a document titled "Hearing to examine the separation of the broadband infrastructure service from an Internet Service Provider (ISP),"according to which the Ministry plans to take the following policy steps:

A. Revoking the policy document titled "Internet Services Licensing Policy" dated December 17, 2000.

B. Amending the licenses of the infrastructure owners – the Company and Hot Telecom, such that as of January 1, 2022 they will be allowed to provide end customers with an integrated Internet service (infrastructure and ISP service), but will not be able to offer infrastructure service to new retail customers. This applies to Internet services directed at the private sector.

C. Prohibiting the infrastructure owners from making various marketing offers to certain customers before and after January 1, 2022 ("the Determining Date"), as specified in the aforesaid document of the Ministry of Communications.

D. Deferring the Determining Date if the percentage of an infrastructure owner's customers consuming a non-wholesale combined service increases significantly by a specific date to be prescribed before the Determining Date, and also in cases where anti-competitive practices are adopted.

E. Establishing arrangements for switching between operators and preventing the occurrence of duplicate charges.

Bezeq International is studying the details of the hearing and evaluating its potential implications on its business and mode of operation. Insofar as the hearing is approved in its proposed form, this could cause material harm to Bezeq International's business and impairment of its assets.

Condensed Separate Interim Financial Information
As at September 30, 2020

Contents	Page

Somekh Chaikin
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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, 2020 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 38 million as of September 30, 2020, and the gain from which amounted to NIS 19 million and NIS 18 million in the nine- and three-month periods 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 (Israel) 2410, "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.

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 6.1 of the financial information, which refers to Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities Law and Penal Code, with respect *inter alia* to transactions related to the former controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and as mentioned in that note, regarding the indictment filed against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

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Furthermore, without limiting our above conclusion, we draw attention to the aforesaid in Note 1.3 to the abovementioned financial information, regarding adjustment by way of restatement of the separate interim financial information as of September 30, 2019 and for the nine- and three-month periods then ended, and of the separate financial statements as of December 31, 2019 and for the year that ended, in order to retroactively reflect in them the effect of correcting the error in the calculation of assets and liabilities balances, and to the fact that the Company is still examining the source of the discrepancies discovered and it is possible that additional discrepancies will be found by the external auditor who is assisting in the examination. The Company anticipates that such discrepancies, insofar as they exist, will not have a material effect on its financial statements. We also reviewed the adjustments described above, which were implemented in order to restate the separate interim financial information as of September 30, 2019 and for the nine- and three-month periods then ended. These adjustments are the responsibility of the Board of Directors and Management of the Company. Our responsibility is to express a conclusion on these adjustments based on our review. Accordingly, nothing has come to our attention that would cause us to believe that these adjustments are inadequate.

In addition, 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 30, 2020

Condensed Separate Interim Information of Financial Position

	Sept. 30, 2020	Sept. 30, 2019	Dec. 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**606**	242	134
Investments	**1,292**	1,735	1,180
Trade receivables	**784**	692	671
Other receivables	**213**	232	238
Loans granted to investees	**16**	73	17
Assets classified as available for sale	**46**	-	43
Total current assets	**2,957**	2,974	2,283
Trade and other receivables	**208**	164	200
Fixed assets	**5,084**	5,034	4,962
Intangible assets	**234**	235	233
Goodwill	**265**	265	265
Investment in investees	**2,966**	*3,369	*3,178
Loans granted to investees	**-**	32	32
Right-of-use assets	**249**	242	236
Non-current investments and other	**97**	134	92
Deferred taxes	**59**	24	53
Total non-current assets	**9,162**	9,499	9,251
Total assets	**12,119**	12,473	11,534

Condensed Separate Interim Information of Financial Position (cont.)

	Sept. 30, 2020	Sept. 30,2019	Dec. 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**957**	1,104	1,000
Trade and other payables	**745**	738	603
Current tax liabilities	**42**	-	-
Employee benefits	**352**	275	532
Current maturities for lease liabilities	**77**	105	106
Provisions (Note 5)	**78**	96	86
Total current liabilities	**2,251**	2,318	2,327
Loans and debentures	**8,507**	9,393	8,551
Loan from an investee	**1,035**	835	1,020
Employee benefits	**290**	450	288
Lease liabilities	**187**	152	146
Derivatives and other liabilities	**174**	173	134
Total non-current liabilities	**10,193**	11,003	10,139
Total liabilities	**12,444**	13,321	12,466
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**317**	331	332
Deficit	**(4,904)**	*(5,441)	*(5,526)
Total equity (deficit) attributable to the Company's shareholders	**(325)**	*(848)	*(932)
Total liabilities and equity	**12,119**	12,473	11,534

Gil Sharon
Chairman of the Board

Dudu Mizrahi
CEO

Yali Rothenberg
Bezeq Group CFO

Date of approval of the financial statements: November 30, 2020

* Restated, see Note 1.3.

The accompanying notes are an integral part of the separate financial information.

Condensed Separate Interim Information of Profit or Loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 2)	**3,104**	3,088	**1,042**	1,025	4,073
Costs of activity					
Salaries	**678**	688	**225**	224	911
Depreciation and amortization	**652**	636	**222**	225	861
Operating and general expenses (Note 3)	**436**	418	**154**	144	565
Other operating income, net (Note 4)	**(11)**	(500)	**(5)**	(8)	(406)
Total operating expenses	**1,755**	1,242	**596**	585	1,931
Operating profit	**1,349**	1,846	**446**	440	2,142
Finance expenses (income)					
Finance expenses	**317**	473	**95**	214	608
Finance income	**(14)**	(19)	**(4)**	(7)	(39)
Finance expenses, net	**303**	454	**91**	207	569
Profit after finance expenses, net	**1,046**	1,392	**355**	233	1,573
Share in profits (losses) of investees, net	**(202)**	*(2,165)	**(274)**	*2	*(2,386)
Profit (loss) before income tax	**844**	*(773)	**81**	*235	*(813)
Income tax	**222**	334	**55**	58	381
Profit (loss) for the period attributable to the Company's shareholders	**622**	*(1,107)	**26**	*177	*(1,194)

Condensed Separate Interim Information of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit (loss) for the period	**622**	*(1,107)	**26**	*177	*(1,194)
Other comprehensive income (loss), net of tax	**(15)**	(35)	**(13)**	(38)	(32)
Total comprehensive income (loss) for the period attributable to the Company's shareholders	**607**	*(1,142)	**13**	*139	*(1,226)

* Restated, see Note 1.3.

The accompanying notes are an integral part of the separate financial information.

Condensed Separate Interim Information of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow from operating activities					
Profit (loss) for the period	**622**	*(1,107)	**26**	*177	*(1,194)
Adjustments:					
Depreciation and amortization	**652**	636	**222**	225	861
Share in losses (income) of investees, net	**202**	*2,165	**274**	*(2)	*2,386
Finance expenses, net	**276**	370	**76**	161	462
Capital gain, net	**(8)**	(470)	**(3)**	(10)	(513)
Income tax expenses	**222**	334	**55**	58	381
Change in trade and other receivables	**(114)**	3	**(21)**	(10)	20
Change in trade and other payables	**(3)**	(41)	**65**	48	(44)
Change in provisions	**(9)**	(36)	**(8)**	-	(45)
Change in employee benefits	**(174)**	(234)	**(55)**	(87)	(144)
Miscellaneous	**(3)**	(11)	**-**	(4)	(9)
Net cash provided by operating activities due to transactions with subsidiaries	**14**	-	**3**	9	4
Net income tax paid	**(171)**	(238)	**(73)**	(81)	(318)
Net cash provided by operating activities	**1,506**	1,371	**561**	484	1,847
Cash flow from investing activities					
Investment in intangible assets and other investments	**(102)**	(95)	**(34)**	(30)	(123)
Proceeds from the sale of fixed assets	**27**	60	**1**	14	74
Proceeds from sale of the Sakia complex	**-**	328	**-**	-	328
Investment in bank deposits and securities	**(1,215)**	(1,965)	**(244)**	(185)	(2,067)
Proceeds from repayment of bank deposits and other	**1,110**	1,614	**162**	379	2,295
Purchase of fixed assets	**(571)**	(519)	**(238)**	(190)	(684)
Receipt (payment) of betterment levy, permit fees and purchase tax for the Sakia complex	**-**	(74)	**-**	75	(74)
Receipt (payment) of appreciation tax for the sale of the Sakia complex	**-**	5	**-**	-	5
Investment in a subsidiary	**-**	(120)	**-**	(50)	(145)
Miscellaneous	**9**	7	**(1)**	(2)	29
Net cash provided by investing activities due to transactions with subsidiaries	**44**	90	**-**	-	149
Net cash provided by (used for) investing activities	**(698)**	(669)	**(354)**	11	(213)
Cash flow from financing activities					
Issue of debentures and receipt of loans	**718**	1,688	**-**	1,188	1,865
Repayment of debentures and loans	**(766)**	(2,326)	**(3)**	(1,971)	(3,425)
Payment of early repayment fees	**(51)**	(73)	**-**	(73)	(93)
Interest paid	**(168)**	(210)	**(5)**	(20)	(419)
Payment of principal and interest for a lease	**(84)**	(86)	**(26)**	(25)	(114)
Miscellaneous	**-**	-	**-**	-	(46)
Net cash provided by financing activities due to transactions with subsidiaries	**15**	20	**-**	-	205
Net cash (used for) financing activities	**(336)**	(987)	**(34)**	(901)	(2,027)
Increase (decrease) in cash and cash equivalents, net	**472**	(285)	**173**	(406)	(393)
Cash and cash equivalents at beginning of period	**134**	527	**433**	648	527
Cash and cash equivalents at the end of the period	**606**	242	**606**	242	134

The accompanying notes are an integral part of the separate 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 Ltd.

"Associate", the "Group", "Investee"- as these terms are defined in the Company's consolidated financial statements for 2019.

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 Schedule to the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Tenth Schedule") with respect to the condensed separate interim financial information of the corporation. It should be read in conjunction with the separate financial information as of and for the year ended December 31, 2019 and in conjunction with the condensed interim consolidated financial statements as at September 30, 2020, ("the Consolidated Financial Statements").

The accounting policies used in preparing the 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, 2019.

1.3 Restatement

At the beginning of November 2020, in the framework of preparing the quarterly report and as part of the controls performed over the process of preparing the financial statements for the period ended September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming , *inter alia*, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses. Following the discovery of the discrepancies, the management of Bezeq International began an immediate examination of the matter and Bezeq International carried out actions, checks and compensatory procedures, investing substantial efforts and resources, for the purpose of preparing the financial statements in accordance with the law.

In light of the findings of said examinations and the restatement of the consolidated financial statements as set out in Note 2.5 to the consolidated financial statements, the Company adjusted by way of a restatement the separate financial information as of December 31, 2019 and for the year then ended, as well as the separate financial information as of September 30, 2019 and for the nine- and three-month periods then ended, which are presented as comparative figures in the condensed interim separate financial information as of September 30, 2020 and for the nine and three-month periods then ended, so that they should reflect retroactively the impact of the foregoing,

For details on the effect of the corrections to the discrepancies on the Company's equity and on the recognition of an additional impairment loss due to an adjustment in the value of operations and in the book value of Bezeq International, as well as the adjustment by way of a restatement of the Group's financial statements in light of the findings of said examinations, see Notes 2.5 and 5 to the Company's consolidated financial statements.

Below are details of the effect of the restatement of the separate financial information:

1.3 Restatement (cont.)

Effect on Statement of Financial Position:

	September 30, 2019			December 31, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Investment in investees	3,534	(165)	**3,369**	3,425	(247)	**3,178**
Accumulated deficit	(5,276)	(165)	**(5,441)**	(5,279)	(247)	**(5,526)**
Total equity (equity deficit)	(683)	(165)	**(848)**	(685)	(247)	**(932)**

Effect on Statement of Income:

	For the nine-month period ended September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Share in losses of investees, net	(2140)	(25)	**(2,165)**
Loss before income tax	(748)	(25)	**(773)**
Net loss for the period	(1,082)	(25)	**(1,107)**

	For the three-month period ended September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Share in profits of investees, net	16	(14)	**2**
Profit before income tax	249	(14)	**235**
Net profit for the period	191	(14)	**177**

	For the year ended December 31, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
Share in losses of investees, net	(2,279)	(107)	**(2,386)**
Loss before income tax	(706)	(107)	**(813)**
Net loss for the period	(1,087)	(107)	**(1,194)**

1.3 Restatement (cont.)

Effect on Statement of Comprehensive Income (Loss):

	For the nine-month period ended September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Loss for the period	(1,082)	(25)	**(1,107)**
Other comprehensive loss for the period, net of tax	(35)	-	**(35)**
Total comprehensive loss for the period	(1,117)	(25)	**(1,142)**

	For the three-month period ended September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Profit for the period	191	(14)	**177**
Other comprehensive loss for the period, net of tax	(38)	-	**(38)**
Total comprehensive income for the period	153	(14)	**139**

	For the year ended December 31, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
Loss for the period	(1,087)	(107)	**(1,194)**
Other comprehensive loss for the period, net of tax	(32)	-	**(32)**
Total comprehensive loss for the period	(1,119)	(107)	**(1,226)**

2. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Internet - infrastructure	**1,205**	1,186	**408**	393	1,578
Fixed-line telephony	**760**	792	**254**	259	1,039
Transmission and data communication	**747**	729	**250**	245	948
Cloud and digital services	**213**	208	**71**	69	274
Other services	**179**	173	**59**	59	234
	3,104	3,088	**1,042**	1,025	4,073

3. General and Operating Expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**83**	98	**32**	35	132
Marketing and general	**121**	110	**41**	37	146
Interconnectivity and payments to communications operators	**85**	74	**30**	25	97
Services and maintenance by subcontractors	**67**	58	**24**	21	82
Vehicle maintenance	**21**	26	**8**	9	35
Terminal equipment and materials	**59**	52	**19**	17	73
	436	418	**154**	144	565

4. Other operating income, net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital gains from the sale of fixed assets (mainly properties)	**(8)**	(470)	**(3)**	(10)	(513)
Expenses (income) for early retirement of employees	**-**	(22)	**-**	3	109
Other	**(3)**	(8)	**(2)**	(1)	(2)
Total operating income, net	**(11)**	(500)	**(5)**	(8)	(406)

5. Contingent liabilities

During the normal course of business, legal claims were filed against the Company or there are various legal proceedings pending against it (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 the Legal Claims, the financial statements include appropriate provisions in the amount of NIS 78 million, where provisions are required to cover the exposure arising from those Legal Claims.

Furthermore, motions to certify class actions have been filed against the Company, in respect of which the Company has additional exposure beyond the aforesaid amounts that cannot be quantified as the claims do not specify exact amounts.

Breakdown of the Company's contingent liabilities as at September 30, 2020:

Balance of provisions	Amount of additional exposure	Exposure for claims the success of which cannot yet be assessed
NIS million		
78	**(1)1,368**	**(2)3,375**

* Nominal

(1) Includes exposure of NIS 687 million in respect of a motion to certify a class action that was filed by a shareholder against the Company and officers thereof for alleged reporting omissions by the Company with respect to the wholesale market reform.

(2) The exposure includes:

a. Two motions to certify a class action, for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's former controlling shareholder, concerning a transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. The proceeding was stayed due to the investigation described in Note 1.3 to the Consolidated Financial Statements and at the request of the Attorney General, until the second half of September 2020. At the request of the State, an extension has been granted for submitting update notices regarding a continued stay of the proceedings until December 1, 2020.

b. Exposure of NIS 0.9 billion in respect of a motion to certify a class action, filed against the Company in May 2020, concerning Internet advertising bundles offered through the B144 site (the amount of the exposure was written by hand and no explanation or calculation was provided in regard thereto).

After the date of the financial statements, two class action certification motions were filed against the Company, the holder of the permit to control the Company and officers, one without specifying an exact amount and the other for NIS 65 million. As of the date of approval of the financial statements, the chances of the motions cannot be assessed.

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

6. Events in and subsequent to the reporting period

6.1 For further information concerning the investigation by the Israel Securities Authority and the Israel Police, see Note 1.3 to the Consolidated Financial Statements.

6.2 For further information concerning the effects of the spread of the Covid-19 pandemic, see Note 1.2 to the Consolidated Financial Statements.

6.3 For further information concerning the Company's debentures and loans, see Note 6 to the Consolidated Financial Statements.

6.4 Regarding an impairment loss in respect of Bezeq International and DBS and examination of indications of impairment at Pelephone, see Note 5 to the Consolidated Financial Statements.

6.5 In 2019 the Company made capital investments in DBS for a total of NIS 145 million based on undertakings that were provided by the Company to DBS.
In the course of 2020, the Company's Board of Directors approved on a quarterly basis an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment of NIS 250 million for 15 months, with the last approval given in August 2020 and valid until September 30, 2021.
In November 2020, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment of NIS 150 million for 15 months, from October 1, 2020 to December 31, 2021, instead of the undertaking from August 2020.

6.6 For information on the sale of the subsidiary Walla, see Note 15.2 to the Consolidated Financial Statements.

Chapter E:
Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2020

1. Report of internal control over financial reporting and disclosure:

Quarterly report on the effectiveness of internal control over financial reporting and disclosure, in accordance with Regulation 38C(a) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970:

Management, under the supervision of the Board of Directors of Bezeq - The Israel Telecommunication Corp. Ltd. ("the Company"), is responsible for establishing and maintaining appropriate internal control over financial reporting and disclosure in the Company.

For this matter, the members of Management are:

1. Dudu Mizrahi, CEO
2. Ehud Mezuman, VP Human Resources Division
3. Udi Atar, VP Consumer Division
4. Eyal Kamil, VP Operations and Logistics Division
5. Itzik Ben Eliezer, VP Technologies and Network Division
6. Amir Nachlieli, Legal Counsel
7. Erez Hasdai, VP Regulation and Economics
8. Guy Hadass, VP Corporate Communications
9. Yali Rothenberg, CFO Bezeq Group
10. Nir David, VP Business Division
11. Keren Laizerovitz, VP Marketing and Innovation Division

In addition to the said members of Management, the following serve in the Company:

1. Lior Segal, Internal Auditor
2. Shelly Bainhoren, Group Corporate Secretary and Internal Compliance Officer

Internal control over financial reporting and disclosure includes controls and procedures in the Company, which were planned by the CEO[1] and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format set by law.

Internal control includes controls and procedures planned to ensure that the information that the Company is required to disclose as aforesaid, is accumulated and forwarded to the Management of the Company, including to the CEO and the most senior financial officer or to whoever fulfills those functions in practice, in order to enable decisions to be made at the appropriate time in relation to the disclosure requirements.

Due to its structural limitations, the internal control over financial reporting and disclosure is not intended to provide absolute assurance that misstatement or omission of information from the reports will be prevented or will be detected.

In the quarterly report on the effectiveness of internal control over financial reporting and disclosure that was attached to the quarterly report for the period ended June 30, 2020 ("the Last Quarterly Report on Internal Control"), the internal control was found to be effective.[2]

[1] Regarding the transfer of the CEO's powers in matters connected with investees of the Company to the Board of Directors – see Section 1.1.3 of the Description of Company Operations in the Periodic Report for 2019.

[2] At the same time, see the discussion below on the assessment of the effectiveness of the internal control as of the date of the report, which also reflects on earlier periods.

Up to the date of the report, the Board of Directors and Management were informed of an event or matter that could change the assessment of the effectiveness of the internal control as reported in the Last Quarterly Report on Internal Control, as set out below:

At the beginning of November 2020, during the preparation of the quarterly report and as part of the controls performed over the process of preparing the financial statements for the period ended September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses.

The management of Bezeq International began an immediate examination of the matter, *inter alia* through its internal auditor.

As of the date of approval of these interim financial statements, the total impact of the corrections to the discrepancies found in Bezeq International in the framework of inspections as at June 30, 2020, was a decrease in the Group's equity as detailed below:

1. A decrease in the Group's equity as at January 1, 2018, totaling NIS 114 million in respect of past balances from the years 2002-2017, with the bulk of this amount (NIS 80 million) originating in the years 2002-2003.
2. A decrease in the Group's profits (net of tax) in a cumulative amount of NIS 72 million for the period from January 1, 2018 until June 30, 2020.
3. In light of the examination's findings, Bezeq International revised its forecasts for the coming years and performed an updated valuation current as of December 31, 2019, following which a further impairment loss of NIS 94 million (NIS 72 million net of tax) was recognized, as a result of the revision of the value of operations and book value of Bezeq International as at December 31, 2019.

For further details, see Note 2.5 and Note 5.3 to the financial statements as at September 30, 2020.

In light of the above findings, the Group carried out an adjustment by a Restatement of its financial statements as at December 31, 2019 and for the year then ended, as well as of its financial statements as at September 30, 2019 and for the nine and three months then ended, which are presented as comparative figures in the condensed interim financial statements as of September 30, 2020 and for the nine and three months then ended, in order to retroactively reflect the impact of the foregoing.

Additionally, the Company's Board of Directors was informed of the preliminary interim findings of Bezeq International's internal auditor, who worked in conjunction with the Security Department of Bezeq International and with the support of an independent external expert. The interim findings indicate, *inter alia*, the existence of many years of professional errors (erroneous accounting and recording as well as deficiencies in operating controls), as well as faulty conduct, perhaps even knowingly, by employees of Bezeq International, that will be examined by an external investigator (as noted hereinafter).

It is likewise noted that given the proximity in time between the discovery of the findings and the date of publication of the current statements, and the need to recalculate certain balances in its Statements of Financial Position, significant work was required within short timeframes in order to file the current statements on time. As a result, the performance of the controls in the Company and in Bezeq International was not completed as of the date of approval of the financial statements.

Disclosure of the material discrepancies was first made by the Company in an immediate report dated November 9, 2020, and thereafter on November 18, 2020 and November 19, 2020.

As of the reporting date, based on that stated in the Last Quarterly Report on Internal Control, and based on information that was brought to the attention of the Management and the Board of Directors as set out above, there are material weaknesses in the internal control, which therefore is ineffective.

The Company's Board of Directors appointed an independent external investigator to conduct an in-depth investigation of the matter, including the circumstances leading to the creation of the discrepancies and the processes and controls that should have prevented their occurrence. Upon the completion of his investigation, the investigator will submit his findings, conclusions and recommendations for actions, processes, measures and procedures, regarding the manner of dealing with the errors and ways of preventing the recurrence of similar errors in the future (including personal conclusions, if necessary). The Company will act accordingly to improve and strengthen the internal control system as necessary.

Bezeq International has begun examining the work methods and procedures of the company's accounting system, and it will also evaluate the professionalism of the personnel employed in the finance department. Changes will be made in accordance with the examination findings. It should be noted that the work of preparing the financial statements and examinations of the recalculation of the balances was done with the help of an independent external expert as well as accounting personnel from subsidiaries in the Bezeq Group, but it was performed mainly by Bezeq International's existing staff.

The Company's Financial Statements Examination Committee and Board of Directors will continue to supervise the examination processes and the actions required to correct the material weaknesses. The Company's Board of Directors has instructed Bezeq International's management to continue acting to correct the material weaknesses as soon as possible, and in any case by no later than the date of the financial statements for the first quarter of 2021.

Bezeq International's management and Board of Directors and the Company's Board of Directors carried out actions, checks and compensating procedures, investing substantial efforts and resources, as set out above, to ensure that in spite of the existence of material weaknesses in the internal control, the statements were prepared in accordance with the provisions of the law:

1. Bezeq International recalculated certain balances in its Statements of Financial Position for the years 2016-2019 and for the interim periods in the years 2019 and 2020, without relying on past records and on existing accounting processes, in relation to balance sheet items in which errors were discovered.

2. Bezeq International performed controls and examinations on the recalculation of the balances, with the help of the external expert for control purposes. Additionally, the existing staff was expanded by the addition of personnel from other accounting departments in the Company's subsidiaries, for the purpose of carrying out the work of correcting the financial statements.

In view of the fact that the accounting system in Bezeq International included numerous manually entered transactions and deficient documentation in a manner not allowing a full and through investigation of the effect of the transactions on its financial results, Bezeq International reconstructed the balance sheet balances which were found to be in error, without relying on the manually entered transactions that led to the errors, and with the aid of the external expert, reasonability examinations and additional reports constructed during the process. The complexity involved, the method of preparing the financial statements, and the short timeframes, did not permit a complete investigation into the discrepancies. Bezeq International is still examining the source of the discrepancies, with the possibility that further discrepancies might be found by the work of the external investigator. The Company expects that given the way the reports are being constructed, such discrepancies, if any, will not have any material impact on the consolidated financial statements.

The Board of Directors and Management also examined the effects of the COVID-19 pandemic on the internal control, including an assessment of the existence of new risks and an assessment of the quality and strength of the Company’s internal control related to financial reporting and disclosure. The conclusion of the assessment is that the pandemic has no influence on the assessment of effectiveness of the internal control.

Concerning the investigations of the Israel Securities Authority and the Israel Police as detailed in section 1.1.5 of the Description of Company Operations in the 2019 Periodic Report, the Company does not have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter. Accordingly, the Company is unable to assess the effects of the investigations, their findings and their outcome on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any. Once the constraints on carrying out reviews and controls related to issues that arose in the investigations are lifted, the review of all matters related to subjects that arose during those investigations will be completed as necessary.

2. Declaration of Executives:

A. Declaration of CEO in accordance with Regulation 38C(d)(1) of the Israel Securities Regulations (Periodic and Immediate Reports),1970:

I, Dudu Mizrahi, declare that:

1. I have reviewed the quarterly report of Bezeq – The Israel Telecommunication Corp. Ltd. ("the Company") for the third quarter of 2020 ("the Reports").
2. To the best of my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.
3. To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
4. I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Examination Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:
   - A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;
   - B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure
5. I, alone or together with others in the Company:
   - A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;
   - B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
   - C. Presented in this report any event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date that would change the conclusions of the Board of Directors and Management concerning the effectiveness of internal controls over the Company's financial reporting and disclosure.

Nothing in the foregoing shall derogate from my responsibility or that of anyone else in law.

Date: November 30, 2020

Dudu Mizrahi, CEO

B. Declaration of CFO Bezeq Group in accordance with Regulation 38C(d)(2) of the Israel Securities Regulations (Periodic and Immediate Reports),1970:

I, Yali Rothenberg, declare that:

1. I have reviewed the interim financial statements and other financial information included in the reports for the interim period of Bezeq – The Israel Telecommunication Corp. Ltd, ("the Company") for the third quarter of 2020 ("the Reports" or "the Reports for the Interim Period").
2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.
3. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for periods presented in the Reports:
4. I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Examination Committees of the Board of Directors of the Company, based on my most recent evaluation of the internal control over financial reporting and disclosure:
   A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as they refer to the interim financial statements and other financial information included in the Reports for the Interim Period, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;
   B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure.
5. I, alone or together with others in the Company:
   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under our supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;
   B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
   C. Any event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date that change my conclusions concerning the effectiveness of the internal control over the Company's financial reporting and disclosure, with respect to the financial statements and any other financial information included the Reports, was reported to Management and the Board of Directors and is included in this report.

Nothing in the foregoing shall derogate from my responsibility or that of anyone else in law.

Date: November 30, 2020

Yali Rothenberg,
CFO Bezeq Group

Bezeq – The Israel Telecommunication Corp. Ltd.

Value-in-Use Valuation of Bezeq International to test for impairment, as of September 30, 2020

November 2020

14 Kremenetski St., Tel Aviv, 6789912 | Phone: **03-5617801 | Fax: 077-3181607**

פרומתאוס
ייעוץ כלכלי

Foreword and Limitation of Liability

Pursuant to the engagement letter of December 15, 2019, signed December 22, 2019, Prometheus Financial Advisory Ltd. (“**Prometheus**” or “**the Firm**”) was retained by Mr. Amit Kurland, CPA, Head of Accounting for Bezeq – The Israel Telecommunication Company Ltd. (“**Bezeq**” or “**the Client**”) to perform a valuation of Bezeq International Ltd. (“**Bezeq International**” or “**the Company**”) to prepare an impairment test report as of September 30, 2020, in accordance with IAS 36 (“**the Report**”). The Report is intended solely for the use of the Client and meant to be attached and presented in the financial report. This report may not be used for any other purpose, without the Firm’s prior written permission.

Financial studies are designed to reasonably and fairly reflect a given state of affairs at a given time, based on known data and according to underlying assumptions, estimates and forecasts, including forward-looking information (as defined in the Securities Law, 1968) whose materialization is uncertain. As a result, this Report is only valid as of its signature date, and is based on information from the Company and/or persons acting on its behalf and additional sources such as financial statements, assessments, forecasts, and appraisals ("**the Information**"). The Report describes the Information, analyses and review procedures used in its preparation, but this description is not necessarily full or detailed. It is emphasized that the Firm does not independently review the Information, and assumes the information is reliable. Thus, the Report does not verify the Information's accuracy or integrity and does not include an audit of its compliance with accounting principles. The Firm is not responsible for any implications of the Information's presentation methods (accounting or otherwise). The Information is partly based on existing knowledge as of the Report date, and on various assumptions and expectations concerning the Company and numerous external factors, including market conditions, existing and potential competitors, and general economic conditions. If the Information is found to be incomplete, inaccurate or unreliable, the results of the Report are liable to change, and so the Firm reserves the right to update the Report should any new Information arise. However, it is noted that the Firm is not aware of any matter which indicates that the Information is unreasonable.

It is clarified that the Firm has no dependence or vested interest in the Report, the Company and the Company's controlling shareholders, other than the fact that the Firm received fees for this Report, and such fees were not contingent on the results of the Report.

The Report does not constitute a due diligence process and cannot serve in its place. Furthermore, the Report is not intended to set a value for any specific investor and does not constitute legal advice or opinion. For the avoidance of doubt, it is clarified that the Report does not constitute an offer or recommendation or opinion for the buying/selling of securities or any transaction whatsoever.

The Firm, any company under its control, and any of their controlling shareholders and officers are not liable (except through malicious action) for any damage, loss of reputation, loss, loss of profits, and expenses of any kind, whether direct or indirect ("**the Damage**”) incurred by persons relying on this Report or any part thereof, whether such Damage was foreseeable or not. The Client will not be entitled to any amount from us for such Damage, whether contractually or in tort, by law or otherwise, or as punitive or special damages, or in connection with claims arising from or otherwise related to this Report .Furthermore and without prejudice to the above, should we be required (through legal proceedings or otherwise) to pay any amount to a third party in connection with the performance of this Report ,the Client commits to indemnifying us immediately upon our first demand for any such amount exceeding three times our fee, unless we acted maliciously.

It is noted that rounding of numbers may constitute an immaterial deviation when summing/multiplying the numbers presented in this Report.

Previous Financial Studies

Previous financial studies conducted:

The Firm performed an impairment test of the Internet, International Communications and NEP services segment as of September 30, 2020 (hereinafter: "the **Impairment Test Date**"). Below is a comparison of the segment's impairment test and its key metrics (this Report) with previously performed tests:

Impairment test	EV (NIS millions)	ISP subscribers in the terminal year (retail and wholesale)	Terminal year ARPU (retail and wholesale)	Discount rate (post-tax)	Terminal growth rate
Impairment test of the Internet, International Communications and NEP Services segment as of Dec. 31, 2018[1]	1,061	885	47.5	9.7%	0.4%
Impairment test of the Internet, International Communications and NEP Services segment as of Dec. 31, 2019 – pre-restatement	652	830	48.4	9.7%	0.7%
Impairment test of the Internet, International Communications and NEP Services segment as of Dec. 31, 2019 – post-restatement[2]	374	830	48.4	9.7%	0.7%
Impairment test of the Internet, International Communications and NEP Services segment as of Sep. 30, 2020[3]	123	844	45.0	9.7%	0.8%

1. *It should be noted that a current valuation was not made following the discovery of the error in the Company's financial statements, in view of the Company's estimation that said correction showed no indication of an impairment of its assets at the time. Regarding the error and the restatement, see page 10.*
2. *The decrease in the value of operations was mainly due to the correction of the error and the restatement of the Company's financial statements. Regarding the error and the restatement, see page 10.*
3. *The decrease in value was primarily due to the letter from the Supervision Division of the Ministry of Communications dated September 10, 2020 concerning the issue of inactive subscribers.*

Information Sources

Key sources of information used to prepare the Report:

- Unaudited financial statements for Bezeq and its operating segments for 2017-2019, restated
- Multiyear forecast for 2020-2024 prepared by the Company's management, restated
- Draft profit and loss statement for the first three quarters of 2020 and draft balance sheet as of September 30, 2020, both restated
- Draft budget for FY 2021, submitted to us by the Company's management
- Company's estimate of the impact of re-engaging inactive ISP subscribers, including a pilot project conducted by the Company to evaluate the impact
- Other financial data and various verbal clarifications provided at our request
- Background material and market data, from websites, news print, or other public sources
- Data from the Israel Central Bureau of Statistics and from the Bank of Israel
- The Capital IQ system
- Discussions and meetings with the Company's management
- UK fixed-line market report titled Telecom Data Update Q1 2020, OFCOM

The Appraisal Company

Prometheus Financial Advisory Ltd.

Prometheus Financial Advisory is an independent economic and financial advisory firm headed by Yuval Zilberstein (CPA), Eyal Szewach (B.Sc, MBA), Eli Malka (CPA), and Gideon Peltz (CPA). The Firm advises clients on M&A transactions, and on significant financial projects across a diverse range of industries.

The Report was prepared by a team headed by Gideon Peltz, who holds a BA in Accounting and Economics from Tel Aviv University. Mr. Peltz has extensive experience in valuations, financial statement analysis, preparing expert opinions, and performing various financial advisory studies for companies and businesses.

Sincerely,

Prometheus Financial Advisory Ltd.

Signed: November 30, 2020

Gideon Peltz

Table of Contents

פרומתאוס
ייעוץ כלכלי

Executive Summary

Bezeq - Overview

General

Bezeq – The Israel Telecommunication Corporation Ltd. ("**Bezeq**") is a public company listed on the TASE. Bezeq is a key provider of telecommunications services, including domestic fixed-line communications services, mobile radio-telephone (cellular) services, international communications services, multichannel satellite television services, internet access and infrastructure services, maintenance and development of communication infrastructures, communication services to other communications providers, and other services related to its areas of operation. The Company holds a substantial market share in all its operating segments and has been declared a monopoly in the fixed-line communications segment.

Bezeq holds the full issued capital of the companies: Pelephone Communications Ltd. ("**Pelephone**"), D.B.S. Satellite Services (1998) Ltd. ("**D.B.S.**" and/or "**yes**"), Bezeq International Ltd. ("**Bezeq International**" and/or "**the Company**"), Walla Communications Ltd.[1] ("**Walla**"), and Bezeq Online Ltd. ("**Bezeq Online**").

Bezeq's operations are divided into four segments:

Domestic Fixed-Line Communications – This segment consists primarily of Bezeq's operations as a domestic carrier, including telephony services, Internet infrastructure and access services (wholesale BSA services included), transmission and data communications services, and wholesale services granting access to Bezeq's physical infrastructure.

Pelephone – Cellular Communications – Mobile phone services (cellular communications), marketing of handsets, installation, operations and maintenance of cellular communication equipment and systems.

Bezeq International – Internet, International Communications, and NEP services

DBS Multi-Channel Television (yes) – Digital multi-channel television broadcasting services to subscribers via satellite and IP.

1. *On September 15, 2020, an agreement was signed for the sale of Walla; see Bezeq's Immediate Report from this date.*

Valuation Method and Key Assumptions

Valuation Method

The valuation of Bezeq International was prepared using the Discounted Cash Flow (DCF) method.

The cash flow projection for the Company was based, among other things, on the results of operations for the years 2017-2019, on the draft financial statements for the third quarter of 2020, and on the Company management's projections for the years 2020-2024 (drawn up in January 2020) after adjustments for actual performance results in 2020 and for changes arising from the Company's preparations for the budget of 2021, and the draft budget deriving from it.

Prometheus assessed, to the best of its ability, the likelihood of the different parameters materializing, based on existing information that was presented to it, and on independent analysis, of a limited scope that focused on evaluating the question of general likelihood, but did not include forensic audit procedures. We were informed that the Company had hired an accounting firm to carry out forensic audit procedures. To the extent that relevant findings are discovered in this forensic audit, we reserve the right to revise our valuation.

Restatement

We were informed by the Company's management that, in the framework of preparing the quarterly report and as part of the controls performed over the process of preparing and closing the financial statements for the period ended September 30, 2020, the Company found material discrepancies between the assets and liabilities recorded on its books and the actual assets and liabilities, stemming, inter alia, from failure to fully charge to the Statement of Income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses.

In view of the fact that the accounting system included numerous manually entered transactions and deficient documentation in a manner not allowing a full and thorough investigation of the effect of the transactions on its financial results, the Company reconstructed the balance-sheet balances, which were found to be in error, without relying on the manually entered transactions that led to the errors, and with the aid of an external expert, plausibility controls and additional reports constructed during the process. The complexity involved, the method of preparing the financial statements, and the short time frames, did not permit a complete investigation into the discrepancies. Bezeq International is still probing the source of the discrepancies, with the possibility that further discrepancies might be uncovered by the external investigator's work, which is still ongoing. The Company expects that given the way the reports are being constructed such discrepancies will not have any material impact on Bezeq Group's financial statements.

Executive Summary

Valuation Method and Key Assumptions

Total impact of the corrections made to the discrepancies discovered by internal company controls as at June 30, 2020 was a reduction of NIS 186 million in the Company's equity, as detailed below:

1. A reduction of NIS 114 million in retained earnings as at June 30, 2020, in respect of past balances from the years 2002-2017, with the bulk of the amount (some NIS 80 million) originating in the years 2002-2003.
2. A reduction in the Company's profits in the cumulative amount of NIS 72 million in respect of balances for the period from January 1, 2018 to June 30, 2020.
3. In light of the examination's results, the Company revised its forecasts for the coming years and conducted an updated valuation as of December 31, 2019, following which the impairment loss recognized by the Company in 2019 was revised.

The complexity involved, the method of preparing the financial statements, and the short time frames, did not enable the Company to fully investigate the discrepancies and the extent of their impact on the forecasts used in the valuations. The Company estimates that the correction's impact on the reduction in the operating profit for the nine month-period ended September 30, 2020 and the estimated expected impact for the entire year of 2020 will accompany it also in the forecast years, including the terminal year:

Period	Impact of correction on operating profit (NIS millions)
Year 2018	(34)
Year 2019	(45)
Estimate for 2020	(33)

As of the impairment test date, the Company's assumptions, which we have adopted, are the most current available.

פרומתאוס
ייעוץ כלכלי

Valuation Method and Key Assumptions

Inactive Subscribers

On September 10, 2020, the Ministry of Communications came out with a recommendation for communications license holders to take steps to notify and stop billing private subscribers that have not used ISP services for three months or longer ("**inactive subscribers**"). The recommendation also stated that the MOC would consider issuing binding directives in this matter to significantly curtail the phenomenon.

On November 8, 2020, in a further communication to license holders, the MOC informed that by December 17, 2020 (the date the license holders report to the Ministry) it expects the data to reflect a very significant reduction in the phenomenon. In addition, it asked that all license holders report on the measures they will take to prevent recurrence of the problem.

In light of the foregoing, and assuming that the Ministry will strive to curb the phenomenon, the work on the valuation includes a forecast we made regarding the impact of re-engaging inactive private subscribers, as explained in the chapter on the ISP assumptions.

The Company's position that the Ministry's handling of the issue of inactive subscribers is not expected to impact revenues from business subscribers, was deemed to be reasonable by us, and we adopted it.

We would note that the underlying assumptions for calculating the impact on the Company's results were based on a partial sample and not on real results, and therefore one cannot discount the possibility that the impact of addressing the matter of inactive subscribers on the Company's results will differ substantially from the forecast presented in this Report.

Prometheus estimated, to the best of its ability, the likelihood of realization of the various parameters, based on information presented to it, and on independent analyses.

Hearing for examining the separation between broadband infrastructure services and ISP services

On October 4, 2020, the Ministry of Communications publicized "Hearing on the examination of the separation between broadband infrastructure services and ISP services(1)," whereby the MOC plans to take the following policy steps:

- Revocation of the policy document "Licensing of Internet Services" dated December 17, 2000.
- Amendment of the licenses of the infrastructure owners Bezeq and HOT Telecom so that starting from January 1, 2022, they will be able to provide end-users with a single unified Internet service (infrastructure plus ISP services), but will not be able to offer infrastructure services to new retails customers. The amendment relates only to Internet services being offered to the private sector.

1. See link: *Hearing on the examination of the separation between broadband infrastructure services and ISP services*

Executive Summary

Valuation Method and Key Assumptions

- Prohibition on infrastructure owners to make various marketing offers to certain customers prior to and after January 1, 2022 ("the effective date"), as stated in said letter from the Ministry of Communications.
- Postponement of the effective date in the event of a significant increase in the percentage of the infrastructure owner's customers that consume a non-wholesale single combined service within a period of time up to a certain date to be set before the effective date, as well as in cases of implementation of anti-competitive practices.
- Establishment of arrangements for switching between carriers and preventing the occurrence of duplicate charges.

These changes in the Internet services market and preparations for these changes could lead to a material adverse effect on Bezeq International's business operations and to impairment of its assets. This is a post balance sheet date event, which in the Company's estimation does not require adjustment, and thus was not included in this valuation.

Executive Summary

Valuation Method and Key Assumptions

Key Assumptions

:

- **Internet services:** Adjustments were made to the Company's forecast based on the assumptions regarding inactive subscribers. We adopted the Company's forecast, whereby revenues from ISP services will stabilize around NIS 570 million per year, with a concomitant decline in negative subscriber signup over the forecast years, as a result of wholesale subscriber growth versus a shrinking retail subscriber base. The forecast is predicated, among other things, on the commercial launch of fiber optic Internet service by Bezeq at the beginning of 2021.

  The impact of dealing with the inactive subscribers was taken as the expected value between two scenarios:

  - A scenario put forward by the Company based on the results of a pilot it carried out with various adjustments ("**the Company's scenario**")
  - Another scenario based on the pilot and the recommendations of the Ministry of Communications ("**additional scenario**")

- **ILD services**: We adopted the Company's forecast that expects revenues from ILD services to erode over the forecast years, similar to the trend seen in previous years (owing to free alternative IP-based services).

- **Business services**: It was assumed that revenues from the Company's activity in the area of business communications services will grow gradually over the forecast years, primarily due to the Company's strategy of focusing on these services (cloud operations, data center activities, etc.). We note that these services are growing at a rapid pace in Israel and worldwide.

- **Discount rate**: The discount rate used in this valuation is 9.7% (equivalent to 11.0% before tax) according to the CAPM model (for details, see Appendix A).

- **Terminal growth**: The terminal growth rate assumed is 0.8%, calculated by weighting between the growth rates for direct profitability in the ISP and ILD operating segments, and in the enterprise services segment.

Valuation Results

Valuation results

The Company's enterprise value based on the DCF model, as of September 30, 2020, is NIS 123 million. According to information we received from Bezeq International, the carrying amount of this segment on its books is NIS 405 million; therefore, a write-down of NIS 282 million is necessary.[1]

Valuation results according to DCF model	NIS millions
Enterprise value accrued during model years	29
Enterprise value accrued from terminal year	66
Value in respect of adjustment to tax model[2]	21
Value in respect of adjustments without opening agreements in the terminal year	7
Total enterprise value	**123**

1. *In accordance with IAS 36, for purposes of asset impairment assessment, the higher of an asset's value-in-use and fair value (net of the asset's disposal costs) is taken. In light of the low cash flows by the DCF model, the net asset value (NAV) of the Company was also calculated. The NAV amounted to NIS 92 million (lower than NIS 123 million according to the DCF model). See Appendix E for the calculation of the NAV.*
2. *Adjustment in respect of accounting depreciation to tax depreciation, and also in respect of losses during the model years.*

<u>Sensitivity analysis of the results of the DCF model valuation in relation to the discount rate and terminal growth rate</u>

Sensitivity analysis of Bezeq International's enterprise value (EV) for changes in the discount and terminal growth rates:

		Discount rate				
		7.7%	**8.7%**	**9.7%**	**10.7%**	**11.7%**
Terminal growth rate	**(0.2%)**	126	112	101	92	84
	0.3%	143	126	113	102	94
	0.8%	158	138	**123**	111	101
	1.3%	173	151	134	120	109
	1.8%	190	164	144	129	116

A 1% increase (decrease) in the discount rate causes a NIS 15 million to NIS 19 million decrease (increase) in Bezeq International's enterprise value. A 0.5% increase (decrease) in the terminal growth rate causes a NIS 11 million to NIS 12 million increase (decrease) in the enterprise value.

Valuation Results

<u>Sensitivity analysis of the impact of the restatement</u>

As previously mentioned, we adopted the Company's assumption that the impact of the restatement will be an increase of NIS 33 million in the operating costs for 2020 (a decrease of NIS 33 million in the operating profit) and the following forecast years. As the Company claimed that it was not possible to fully explain the discrepancies that led to a restatement, on which basis the Company's forecast for the coming years was determined (see pp. 11-10), we performed a sensitivity analysis of the impact of the change in operating costs on the EBITDA in 2024 and on the Company's enterprise value:

NIS millions	No change	(5)	(10)	(15)	(20)	(25)	(30)	(33)	(35)	(40)	(45)
EBITDA for 2024	159	154	149	144	139	134	129	**126**	124	119	114
Enterprise value	424	380	335	289	243	196	148	**123**	99	48	(4)

An increase (decrease) of NIS 5 million in operating costs causes a decrease (increase) of NIS 45-52 million in the enterprise value. The impact of the corrections that led to a restatement, that is, a NIS 33 million increase in operating costs, amounts to a decrease of up to NIS 33 million in the EBITDA and up to NIS 301 million in the enterprise value.

Chapter 1 – Operating Segments of Bezeq International

ISP Services

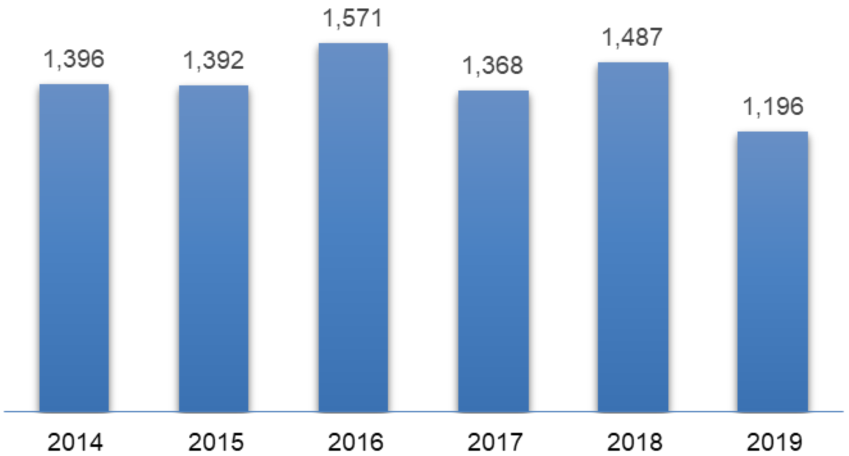
General

The ISP market comprises mainly Internet access services for private and business customers (including the wholesale market**).** Also included are services catering primarily to businesses, among them:

- **Hosting services**: Website and server hosting services in dedicated facilities.
- **Information security services**: Internet connection and LAN security services.
- **Data services**: Include international data communications solutions for enterprise clients, with a global presence.
- **Wi-Fi**: For private and public areas.

Bezeq International provides its Internet services through its wholly and exclusively-owned undersea cable connecting Israel and Italy, and through rights-of-use to third-party cables. Of all the Internet service providers operating in Israel, Bezeq International is the only one owning an undersea cable. Domestic traffic is primarily transmitted over Bezeq's network.

Exhibit 1: ISP revenues in Israel[1], NIS millions



It is apparent from the above data that the market has reached equilibrium and that market revenues have remained relatively stable since 2014. Fixed-line Internet penetration in Israel is among the highest in the OECD, and is not expected to show any material growth.

According to the Ministry of Communications, the decline in 2019 was due to changes in the revenue allocation method in some of the telecommunications groups.[2]

1. *Source: **Ministry of Communications**, "Summary of Telecom Market Revenues for 2019," September 2020*
2. *Based on the consolidation of ISP segment revenues with Internet infrastructure segment revenues (according to Ministry of Communications data), revenues for 2019 are 4% higher than for 2018.*

ISP Services

Competition

The ISP market is saturated with competitors, the major ones being Cellcom, Partner and HOT Net. Bezeq International estimates Its market share as of the third quarter of 2020 at 34%.(1)

According to the company's financial statements, bundle prices have been slipping since 2017, with a concomitant growth in sales of services plans, particularly due to the expanding use of the wholesale selling model (ISP + infrastructure) and a surge in the sale of triple-play packages by competitors. Companies active in the market are trying to contend with this erosion, among other things, by selling value added services such as home security solutions.

Changes in the wholesale market model

In February 2020, the Ministry of Communications updated the right-of-use fees charged by Bezeq under the wholesale market model, in the framework of the Communications Regulations (Telecommunications and Broadcasting) (Use of Public Telecommunications Network of a Domestic Operator) (Amendment and Temporary Order), 5780-2020.

Inactive Subscribers

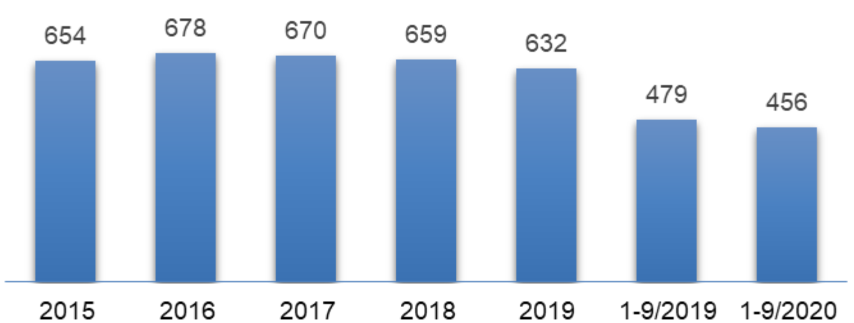
On September 10, 2020, the Ministry of Communications came out with a recommendation for communications operators to take steps to notify and stop billing inactive subscribers, also stating that it would consider issuing binding directives in this matter to significantly curtail the phenomenon.

1. *Source: Data received from the Company, based on various surveys and publications of the Ministry of Communications.*

We note that we were informed by the Company's management that it is acting to address the issue in accordance with MOC requirements. Likewise, we were provided with a forecast on the impact of handling inactive subscribers (see Chapter C).

Bezeq International's Revenues

Figure 2: Company's Revenues from the ISP Segment(2)



Since 2015, the Company's revenues from ISP services have been relatively steady, with revenues from wholesale subscribers growing over the years, while revenues from retail subscribers have been falling.

Total revenues in the ISP sector have declined in the first three quarters of 2020 by 4.9%, from NIS 479 million in the corresponding period in 2019, to NIS 456 million, due to a change in the Company's customer mix.

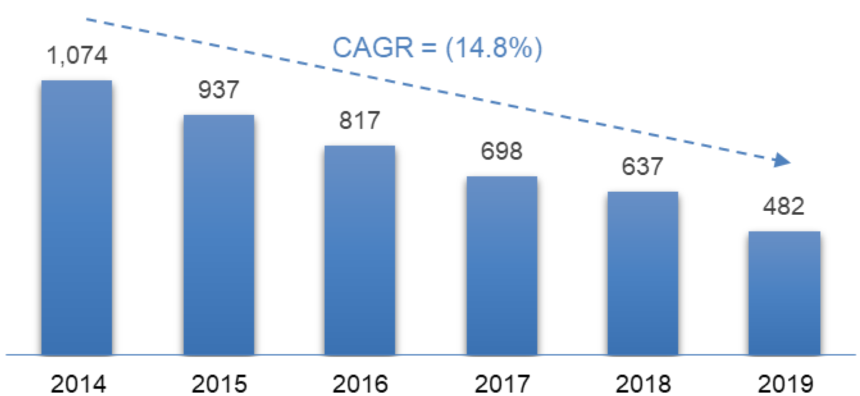
2. *Source: Data received from the Company.*

International Telephony (ILD)

General

Bezeq International's ILD services include outgoing international calls, incoming international calls, and the routing of international calls between foreign communications suppliers. Services are provided using Bezeq's and HOT's domestic networks, as well as cellular networks, to connect subscribers to the international telephone exchange.

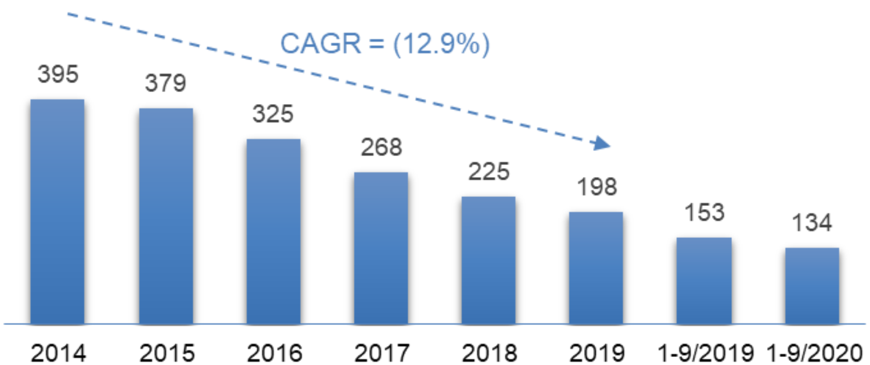
Figure 3: ILD market revenues in Israel, NIS millions[1]



It is evident that ILD market revenues have been steadily declining in recent years.

*1. Source: **Ministry of Communications**, "Summary of Telecom Market Revenues for 2019," September 2020*

Figure 4: Bezeq International's ILD Revenues, NIS millions[2]



Bezeq International's ILD revenues have been steadily declining in recent years, in line with the general trend in the ILD market, with revenues dropping an average of 12.9% a year during the years 2014 – 2019. The trend continued in the first three quarters of 2020, with revenues down 12.3% compared to the same period last year.

This erosion is due to a decrease in both incoming and outgoing call minutes, mainly driven by service packages including international call minutes offered by cellular companies, and use of free VoIP apps such as Skype and WhatsApp. Similar to the domestic fixed-line market, the erosion in the international telephony market is a worldwide trend.[3]

2. Source: Bezeq's financial statements for 2016-2019 (voice service revenues)

3. For example, in 2017-2019, international call minutes in England decreased 10.5% a year on average, with revenues from them dropping 12.9% a year on average (Telecom Data Update Q1 2020, OFCOM).

International Telephony (ILD) Segment

Competition

As of the end of the third quarter of 2020, there were more than ten companies operating in the ILD market (including Bezeq International, Cellcom, Partner, Golan Telecom, and HOT Mobile). The Company estimates its market share for the second quarter of 2020 at 22% for outgoing ILD calls, and 34% for incoming ILD calls.[1]

As call minutes are a commodity product, ILD prices and call volumes are expected to continue to decline.

1. Source: Data received from the Company, based on a release from the Ministry of Communications.

Enterprise Telecom Services

General

Bezeq International provides businesses with services in two main categories:

1. **International data services:** International data communication solutions for business customers, including customized global deployment.
2. **ICT services**: ICT services are diverse, and Bezeq International offers the following:
   - Server and website hosting
   - Maintenance and technical support
   - System and networking services
   - Cyber risk management & security
   - IP-based managed services
   - Cloud computing
   - Telecom equipment and licenses for telecom services
   - PBX services

Competition and global trends

Locally, the Company competes with Binat, Teldor, IBM's local operations, and others. In January 2020, Microsoft announced that it plans to supply its cloud services from Israel. Microsoft provides cloud services (including services such as 365, Azure, etc.) through servers operating from dedicated server farms. As part of its enterprise telecom offering, Bezeq International also provides hosting services on the Company's server farms, and these include server security, back-up and other services. Bezeq International also offers cloud-based enterprise services, but at a relatively small scope. The bulk of its operations in this segment is not exposed to competition from Microsoft.

Microsoft's entry into the Israeli market could lay the groundwork for major Israeli companies to migrate to cloud-based services, which, in turn, is expected to stimulate the Israeli cloud-service market.

Additional competitors in the enterprise telecom services market include Partner, Altice and Cellcom.

The enterprise telecom market, which was expected to see high growth rates in the coming years, has been harmed by COVID-19. IDC predicts that global expenditure on ICT services in 2021-2023 will grow in step with GDP.

1. Source: IDC – Global ICT Spending: https://www.idc.com/promo/global-ict-spending/forecast

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Chapter 2 – Analysis of Financial Reports

Balance Sheet – Bezeq International's Operations

Bezeq International's balance sheets for 2017-2019 and as of September 30, 2020 (draft financial statements after restatement):

NIS millions	Dec. 31, 2017 Unaudited	Dec. 31, 2018 Unaudited	Dec. 31, 2019 Unaudited	Sep. 30, 2020 Unaudited
Assets				
Current assets				
Cash and cash equivalents	66	124	69	72
Trade and other receivables	423	365	346	334
Inventory	37	28	24	16
Current tax assets	2	15	43	20
Total current assets	**528**	**532**	**482**	**473**
Non-current assets				
Long-term trade receivables	28	22	17	17
PP&E	303	284	171	160
Intangible assets	109	114	73	81
Right-of-use in leased assets	-	141	111	98
Bandwidth capacity and customer acquisition	266	255	180	168
Long-term prepaid expenses	18	14	13	20
Investment in associates	5	6	4	4
Deferred tax assets	2	2	33	26
Total non-current assets	**731**	**837**	**602**	**575**
Total assets	**1,259**	**1,369**	**1,084**	**1,048**

Assets – Analysis of Key Items

Current assets

Trade and other receivables: The decrease in 2019 was due to a decline in ISP and ILD revenues.

Current tax assets: In 1-9/2020 the Company received tax refunds for 2018.

Non-current assets

Property, plant and equipment: The Company's PP&E is composed mainly of switching and Internet equipment, computers, office equipment and its undersea cable. The decrease in 2019 was due to impairment.

Right-of-use in leased assets: This item mainly comprises buildings and vehicles used by the Company. These rights were first recognized in 2018, with the implementation of IFRS 16, and were amortized in 2019 due to impairment.

Bandwidth capacity and subscriber acquisition: This item includes rights-of-use in bandwidth capacities (Internet traffic). The decrease in 2019 compared to 2018, was due to impairment.

Deferred tax assets: In 2019, deferred tax assets were created due to the impairment. On September 30, 2020…..*[text missing]*

Balance Sheet – Bezeq International's Operations

NIS millions	Dec. 31, 2017 Unaudited	Dec. 31, 2018 Unaudited	Dec. 31, 2019 Unaudited	Sep. 30, 2020 Unaudited
Liabilities + equity				
Current liabilities				
Principal shareholder loans	72	104	17	16
Trade and other payables	369	351	371	342
Short-term lease liabilities	-	30	24	17
Short-term provisions	-	8	18	17
Employee benefits	17	17	31	34
Current tax liabilities	-	-	-	-
Total current liabilities	**458**	**510**	**461**	**427**
Non-current liabilities				
Principal shareholder loan	95	90	32	-
Long-term lease liabilities	-	113	90	83
Employee benefits	16	15	21	12
Provisions	1	0	0	-
Deferred tax liabilities	3	4	-	-
Other liabilities	1	-	-	-
Total non-current liabilities	**115**	**222**	**143**	**95**
Total liabilities	**573**	**732**	**605**	**522**
Equity	686	637	480	526
Total liabilities + equity	**1,259**	**1,369**	**1,084**	**1,048**

Liabilities and Equity – Analysis of Key Items

Principal shareholder loans (Bezeq): In 2019, the loan balance decreased by NIS 145 million, and in the first three quarters of 2020, it was reduced further reduced by NIS 33 million (short and long-term). Repayment was financed by the Company's cash flows and cash balances.

Trade and other payables: The change in the trade balance for 2019 and 1-9/2020 is in line with the changes in the Company's investments and operating expenses (without salaries).

Liabilities in respect of leases: The increase in 2018 stemmed from first-time implementation of IFRS 16.

Short-term provisions: The increase in 2018 and 2019 was due to provisions for legal claims.

Employee benefits: The increase in 2019 was due to a provision for the cost of a collective agreement for the 2019-2021. In 1-9/2020, the balance was reduced by NIS 9 million due to employee retirements as per the agreement.

Chapter 2 – Analysis of Financial Reports

Profit and Loss – Bezeq International's Operations

Bezeq International's operating income statements for 2017-2019 and as of September 30, 2020 (draft financial statements after restatement):

NIS millions	2017	2018	2019	1-9/2019	1-9/2020
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
ISP revenues	670	659	632	479	456
YoY change		(1.6%)	(4.0%)		(4.9%)
ILD revenues	268	225	198	153	134
YoY change		(15.9%)	(12.0%)		(12.3%)
Enterprise telecom revenues*	600	507	508	376	356
YoY change		(15.5%)	0.3%		(5.3%)
Total revenues	**1,537**	**1,391**	**1,339**	**1,008**	**946**
YoY change		(9.5%)	(3.7%)		(6.2%)
General and operating expenses (including leases)[1]	917	856	1,116	701	595
% of revenues	59.7%	61.6%	83.3%	69.5%	62.8%
Salary expenses[1]	327	300	261	199	189
% of revenues	21.3%	21.6%	19.5%	19.7%	20.0%
Depreciation and amortization	136	160	161	117	112
% of revenues	8.8%	11.5%	12.0%	11.6%	11.8%
Total operating expenses	**1,380**	**1,316**	**1,538**	**1,017**	**895**
% of revenues	**89.8%**	**94.7%**	**114.9%**	**100.8%**	**94.6%**
Adjusted operating profit	**157**	**74**	**(199)**	**(8)**	**51**
% of revenues	**10.2%**	**5.3%**	**(14.9%)**	**(0.8%)**	**5.4%**
Adjusted EBITDA	**293**	**234**	**(38)**	**108**	**163**
% of revenues	19.0%	16.8%	(2.8%)	10.8%	17.2%
CAPEX	138	126	128	107	95
% of revenues	9.0%	9.0%	9.5%	10.6%	10.1%
EBITDA net of CAPEX	**154**	**108**	**(166)**	**2**	**67**
% of revenues	**10.0%**	**7.8%**	**(12.4%)**	**0.2%**	**7.1%**

* Including equipment and license sales to businesses.

1. *Including retroactive classification of credit fee expenses from finance expenses to operating expenses, and classification of meal costs from operating expenses to salary expenses.*

Analysis of Key Items

Revenues

Revenues from ISP operations: Revenues totaled NIS 456 million (down 4.9% from NIS 479 million in 1-9/2019). Revenues from ISP operations continued to decline due to change in the subscriber base mix (subscriber growth via reverse bundles) which resulted in a decline in ARPU.

Revenues from ILD operations: Revenues totaled NIS 134 million (down 12.3% from NIS 153 million in 1-9/2019), mainly due to a downturn in hubbing services.

Revenues from enterprise telecom services*: Revenues totaled NIS 356 million (down 5.3% from NIS 376 million in 1-9/2019). The decrease was primarily due to lower equipment sales resulting from the postponement of purchases by business customers because of COVID-19, as well as the postponement of purchases by governmental customers and other public bodies, owing to the absence of a state budget.

Segment revenues for 2017 were unusually high due to the sale of licensing and terminal equipment in a one-time transaction.

In summary, Bezeq International's operating revenues in 1-9/2020 totaled NIS 946 million, down 6.2% from NIS 1,008 million in 1-9/2019.

Profit and Loss – Bezeq International's Operations

Bezeq International's operating income statements for 2017-2019 and as of September 30, 2020 (draft financial statements after restatement):

NIS millions	2017	2018	2019	1-9/2019	1-9/2020
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
ISP revenues	670	659	632	479	456
YoY change		(1.6%)	(4.0%)		(4.9%)
ILD revenues	268	225	198	153	134
YoY change		(15.9%)	(12.0%)		(12.3%)
Enterprise telecom revenues*	600	507	508	376	356
YoY change		(15.5%)	0.3%		(5.3%)
Total revenues	**1,537**	**1,391**	**1,339**	**1,008**	**946**
YoY change		(9.5%)	(3.7%)		(6.2%)
General and operating expenses (including leases)[1]	917	856	1,116	701	595
% of revenues	59.7%	61.6%	83.3%	69.5%	62.8%
Salary expenses[1]	327	300	261	199	189
% of revenues	21.3%	21.6%	19.5%	19.7%	20.0%
Depreciation and amortization	136	160	161	117	112
% of revenues	8.8%	11.5%	12.0%	11.6%	11.8%
Total operating expenses	**1,380**	**1,316**	**1,538**	**1,017**	**895**
% of revenues	**89.8%**	**94.7%**	**114.9%**	**100.8%**	**94.6%**
Adjusted operating profit	**157**	**74**	**(199)**	**(8)**	**51**
% of revenues	**10.2%**	**5.3%**	**(14.9%)**	**(0.8%)**	**5.4%**
Adjusted EBITDA	**293**	**234**	**(38)**	**108**	**163**
% of revenues	19.0%	16.8%	(2.8%)	10.8%	17.2%
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% of revenues	9.0%	9.0%	9.5%	10.6%	10.1%
EBITDA net of CAPEX	**154**	**108**	**(166)**	**2**	**67**
% of revenues	**10.0%**	**7.8%**	**(12.4%)**	**0.2%**	**7.1%**

** Including equipment and license sales to businesses.*

1. *Including retroactive classification of credit fee expenses from finance expenses to operating expenses, and classification of meal costs from operating expenses to salary expenses.*

Analysis of Key Items

Expenses

General and operating expenses: General and operating expenses in 1-9/2020 were NIS 595 million, accounting for 63% of revenues, and similar to the percentage in 2018. In 1-9/2019, the amount of expenses and their percentage of total revenues were high due to a onetime provision for a collective agreement. At the end of 2019, a provision was made for impairment, resulting in a one-off increase of NIS 196 million in general and operating expenses.

Salary expenses: Salary expenses decreased in the first three quarters of 2020 compared to the corresponding period the year before, due to a decrease in the workforce as part of the streamlining plan coupled with COVID-19 related savings.

Overall, Bezeq International's operating expenses fell by NIS 121 million compared to 1-9/2019, with the percentage of expenses from total revenues dropping to 94.6% (from 100.8%).

Profit and Loss – Bezeq International's Operations

Bezeq International's operating income statements for 2017-2019 and as of September 30, 2020 (draft financial statements after restatement):

NIS millions	2017	2018	2019	1-9/2019	1-9/2020
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
ISP revenues	670	659	632	479	456
YoY change		(1.6%)	(4.0%)		(4.9%)
ILD revenues	268	225	198	153	134
YoY change		(15.9%)	(12.0%)		(12.3%)
Enterprise telecom revenues*	600	507	508	376	356
YoY change		(15.5%)	0.3%		(5.3%)
Total revenues	**1,537**	**1,391**	**1,339**	**1,008**	**946**
YoY change		(9.5%)	(3.7%)		(6.2%)
General and operating expenses (including leases)[1]	917	856	1,116	701	595
% of revenues	59.7%	61.6%	83.3%	69.5%	62.8%
Salary expenses[1]	327	300	261	199	189
% of revenues	21.3%	21.6%	19.5%	19.7%	20.0%
Depreciation and amortization	136	160	161	117	112
% of revenues	8.8%	11.5%	12.0%	11.6%	11.8%
Total operating expenses	**1,380**	**1,316**	**1,538**	**1,017**	**895**
% of revenues	**89.8%**	**94.7%**	**114.9%**	**100.8%**	**94.6%**
Adjusted operating profit	**157**	**74**	**(199)**	**(8)**	**51**
% of revenues	**10.2%**	**5.3%**	**(14.9%)**	**(0.8%)**	**5.4%**
Adjusted EBITDA	**293**	**234**	**(38)**	**108**	**163**
% of revenues	19.0%	16.8%	(2.8%)	10.8%	17.2%
CAPEX	138	126	128	107	95
% of revenues	9.0%	9.0%	9.5%	10.6%	10.1%
EBITDA net of CAPEX	**154**	**108**	**(166)**	**2**	**67**
% of revenues	**10.0%**	**7.8%**	**(12.4%)**	**0.2%**	**7.1%**

** Including equipment and license sales to businesses.*

1. *Including retroactive classification of credit fee expenses from finance expenses to operating expenses, and classification of meal costs from operating expenses to salary expenses.*

Analysis of Key Items

CAPEX, EBITDA, and operating cash flows

Adjusted operating profit: Profit totaled NIS 51 million (profitability of 5.4% of revenues), an increase of NIS 59 million compared to 1-9/2019, mainly due to a provision made for the retirement of workers in the third quarter of 2019. Adjusted EBITDA totaled NIS 163 million (up 50% from the same period in 2019). Adjusted operating profit and EBITDA in 2019 were unusually low due to the provision made for impairment at the end of the year.

CAPEX–The Company's investments decreased by NIS 11 million, representing a 10.5% decline compared to 1-9/2019, attributable to acquisition timing discrepancies. According to clarifications received from the Company's management, this discrepancy issue is expected to be resolved and closed by the end of 2020. The **EBITDA net of CAPEX** (operating cash flows before changes in operating working capital and tax expenses) rose from NIS 2 million in 1-9/2019 to NIS 67 million in 1-9/2020, as a result of the changes described above.

Profit and Loss – Bezeq International's Operations

Budget versus actual results for the first three quarters of 2020

NIS millions	Forecast (budget)*	Actual	Difference
ISP revenues	464	456	(8)
ILD revenues	144	134	(10)
Enterprise telecom revenues**	390	356	(34)
Total revenue	**998**	**946**	**(52)**
Total operating expenses	**(946)**	**(895)**	**51**
% of revenues	94.8%	94.6%	
Adjusted operating profit	**52**	**51**	**(1)**
% of revenues	5.2%	5.4%	
סך פחת והפחתות	116	112	(4)
Adjusted EBITDA	**168**	**163**	**(5)**
% of revenues	16.8%	17.2%	
CAPEX	(108)	(95)	13
% of revenues	10.8%	10.1%	
EBITDA-CAPEX	**60**	**67**	**7**
% of revenues	6.0%	7.1%	

* Based on the Company's forecast used in the December 31, 2019 valuation, before the restatement.

** Including equipment and license sales to businesses.

The above is the Company's budget for 1-9/2020 versus actual results for the period (based on data available at the end of the period, and the draft financial statements for this year).

Revenues: Operating revenues were NIS 52 million lower than the Company's budget for the first three quarters –

- Revenues from ISP operations were less than the budget as a result of changes in the subscriber mix.
- Revenues from ILD operations fell below the budget due to a decline in hubbing operations.
- Revenues from enterprise telecom services were down primarily due to lower-than-expected equipment and licensing sales as customers delayed equipment purchases due to COVID-19 and governmental agencies and other public bodies deferred purchases due to the absence of a government budget.

Expenses and adjusted operating profit: Operating **expenses** were NIS 51 million lower than the Company's budget, because of lower variable costs and other savings due to COVID-19, offset by costs added by the restatement. As a result, **adjusted operating profit** was down by NIS 1 million.

Adjusted EBITDA and operating cash flows: **Adjusted EBITDA** increased by NIS 5 million, and the profit margin rose from 16.8% to 17.2%. Actual **investments** were NIS 13 million lower than the budget due to timing discrepancies (an increase is projected for the fourth quarter). As a result, operating cash flows (as reflected in **EBITDA minus CAPEX** before changes in the operating working capital and tax expenses) increased by NIS 7 million compared to the Company's budget.

Chapter 3 - Valuation

Bezeq International – Key Assumptions

Value-in-Use

As part of the valuation we conducted, we surveyed the asset's primary market. We also sought to identify a potential investor. The checks and analyses we carried out did not identify a potential market partner. As part of a comprehensive telecom group (Bezeq), Bezeq International's value embodies advantages it enjoys such as joint management for Bezeq's subsidiaries, centralized administrative services, and better debt terms based on Bezeq's rating. Additionally, Bezeq International's ISP operations, and a substantial part of its business operations, rely on Bezeq infrastructure. Its operation as a separate company is required for regulatory reasons applicable to some of its operations. Thus, in preparing our valuation we applied the value-in-use approach.

Valuation Methodology

Our valuation of Bezeq International's operations was prepared using the discounted cash flow (DCF) model. The Company's cash flow projections were based, among other things, on operations results for 2017-2019, on draft financial statements for the third quarter of 2020, and on the Company management's forecast for 2020-2024 (drawn up in January 2020) following adjustments made for actual performance results in 2020 and for changes arising from the Company's preparations for the 2021 budget and the resulting draft budget.

Restatement: The Company's management expects the differences in expenses as a result of the restatement to impact the cash flow of the Company throughout the forecast years, as well as in the terminal year. As of the impairment test date, the Company's assumptions, which we have adopted, are the most current ones available.

Inactive subscribers: On September 10, 2020, the Ministry of Communications came out with a recommendation for communications operators to take steps to notify and stop billing private subscribers that have not used their services for three months or longer. The recommendation also stated that the MOC would consider issuing binding directives in this matter to significantly curtail the phenomenon. In light of the above, the Report includes a forecast regarding the impact of handling inactive private subscribers, which is explained under the section on the ISP assumptions.

Prometheus has estimated, to the best of its ability, the likelihood of realization of the various parameters, based on information presented to it, and on an independent analysis.

Revenues

ISP

The ISP forecast was determined, based on the Company's projections, with adjustments made for the impact of re-engaging inactive subscribers. We adopted the Company's forecast that wholesale subscriber numbers will grow, while the retail subscriber base will shrink. The forecast relies on the commercial launch of Bezeq's fiber-optic Internet service at the beginning of 2021.

Bezeq International – Key Assumptions

Forecast regarding the re-engagement of inactive subscribers

The Company provided us with a scenario based on the results of a pilot evaluation it conducted ("**Company scenario**").The forecast we carried out on the impact of re-engagement of inactive subscribers was calculated based on the expected value of two scenarios: the Company scenario and another scenario, based on the pilot project and on the recommendation of the Ministry of Communications' Oversight Administration ("**additional scenario**"). The additional scenario is more pessimistic than the Company scenario.

In the estimation of the Company and its legal advisers, although the Ministry of Communications did not relate to inactive business subscribers…..[*text missing*] Nevertheless, the Company drew up its assessment regarding the probability of these revenues being hurt in the future:

1. In its communication the Ministry of Communications referred to private subscribers and not to business subscribers (as part of a recommendation regarding the operational criterion for defining an inactive subscriber in the private sector).
2. A substantial portion of the inactive business subscribers enjoy lowered rates under a "dedicated pricing" track, reflecting a discount for a number of users. While a considerable number of these users do not make use of their user accounts, only a small number of subscribers do not use any of their user accounts.

Based on the above, the Company and its legal advisers estimate that the revenue from inactive user accounts in the business sector will not be hurt. This assessment may change in the event of regulatory or consumer-related changes, which are currently not expected to occur.

We adopted the Company's position that these revenues will not be materially affected, having found it reasonable.

Shown below (in line with the forecast) is the decline in revenues caused by the re-engagement of inactive subscribers in the private sector:

	2020	2021	2022	2023	2024
Revenue decline (NIS millions)	-	(28)	(36)	(38)	(38)

Summary of forecast

- *Subscribers*: Based on the trends in recent years, it was assumed that the subscriber base would shrink from 886 thousand subscribers at the end of 2019 to 844 thousand subscribers at the end of 2024 (a cumulative decrease of 5%). The decrease in subscribers is mainly due to the handling of the issue of inactive subscribers.
- *ARPU*: It was assumed that the ARPU would go down from NIS 46 in 2019, to NIS 41 in 2024 (a cumulative decrease of 11%). Based on the Company's results for 1-9/2020 and the handling of the inactive subscribers issue, we expect ARPU to decrease in 2020-2022, and thereafter to increase moderately up to 2024.

Bezeq International – Key Assumptions

Below is a summary of the revenue from ISP operations:

	2019A	1-9/20A	10-12/20A	2020	2021	2022	2023	2024
ISP subscribers at end of period (thousands)	886	898	871	871	862	849	844	844
Change from previous period	*-*	*-*	*-*	*(1.7%)*	*(1.0%)*	*(1.6%)*	*(0.6%)*	*-*
Weighted ARPU (NIS millions)	46.0	-		43.9	40.2	39.8	40.4	40.8
Change from previous period		*-*	*-*	*(4.6%)*	*(8.4%)*	*(0.9%)*	*1.5%*	*1.1%*
Total ISP revenues (NIS millions)[1]	**632**	**456**	**148**	**604**	**570**	**561**	**564**	**570**
Change from previous period				*(4.4%)*	*(5.8%)*	*(1.5%)*	*0.6%*	*1.1%*

ILD

We adopted the Company's forecast whereby ILD revenues would decline over the forecast period (similar to the trend seen in previous years), and the call market would continue to shrink (due to IP-based alternative products). Thus, ILD revenues would decrease from NIS 198 million in 2019, to NIS 139 million in 2024 (30% cumulative decrease).

1. *Total ISP revenues include revenues from large connections – such as an automated processing services unit or domestic carrier, which are not included in the subscriber count. Said revenues total NIS 150-160 million for the entire forecast period.*

Enterprise telecom services

We adopted the Company's forecast, whereby revenues from enterprise telecom services would grow from NIS 508 million in 2019 to NIS 592 million in 2024 (cumulative growth of 16%). Growth in these services is driven by the Company's strategy to focus on these services (cloud operations, data center, etc.). In recent years, these services have grown at a fast pace in Israel and worldwide.

Operating, depreciation and amortization expenses

<u>Effect of handling the inactive subscribers</u>

Shown below is the increase in costs resulting from the handling of inactive subscribers (based on the forecast we carried out on the effect of addressing the inactive subscribers issue - see previous page):

	2020	2021	2022	2023	2024
Cost increase (NIS millions)	-	(1.0)	(1.4)	(1.8)	(1.7)

A forecast detailing general and operating expenses (including the effect of handling the inactive subscribers issue), salary expenses as well as the depreciation and amortization expenses of Bezeq International, is shown on the next page.

Bezeq International – Key Assumptions

Operating, depreciation and amortization expenses

Operating, depreciation and amortization expenses in respect of Bezeq International's operations in 2019, and the expenses forecast for 2020-2024:

NIS millions	2019A	1-9/2020A	10-12/2020E	2020E	2021E	2022E	2023E	2024E
General and operating expenses (including leases)*	1,022	595	227	822	872	898	932	949
% of revenues	*76.3%*	*62.8%*	*69.3%*	*64.5%*	*69.5%*	*71.2%*	*72.6%*	*72.9%*
Salary expenses	261	189	60	249	242	226	227	227
% of revenues	*19.5%*	*20.0%*	*18.4%*	*19.6%*	*19.3%*	*17.9%*	*17.7%*	*17.5%*
Depreciation and amortization	161	112	38	150	151	149	147	145
% of revenues	*12.0%*	*11.8%*	*11.6%*	*11.8%*	*12.0%*	*11.8%*	*11.5%*	*11.1%*
Total operating, depreciation and amortization expenses	**1,443**	**895**	**325**	**1,220**	**1,266**	**1,273**	**1,305**	**1,321**
% of revenues	*107.8%*	*94.6%*	*99.4%*	*95.8%*	*100.8%*	*100.9%*	*101.8%*	*101.5%*

*Including payments for leases and an expense in respect of a universal deployment fund (starting 2022, based on Company estimates), including an increase in expenses for the retention of customers who were formerly inactive subscribers. Including other expenses of NIS 60 million in 2019 (NIS 45 million in respect of a retirement agreement and NIS 15 million for the adjustment of the provision for legal claims).

The decrease in salary expenses is mainly due to the streamlining plan for 2019-2021, as per the collective agreement signed with the Histadrut – General Federation of Labor. At this time there is uncertainty concerning the second phase of the streamlining plan; therefore, the effect of the second phase was not taken into account for 2022-2024, excepting savings from adjustments that do not require new agreements. The increase in other operating expenses (except ILD expenses) is due to OPEX growth in enterprise telecom services, equipment and licensing (matching the growth in revenues). The change was also driven by increased domestic capacity costs due to growing consumption and usage, and rate adjustments by the Ministry of Communications.[1] The decrease in ILD expenses was due to a decrease in direct expenses from ILD operations, matching the decrease in revenues.

1. *Gigabitprices in the Company forecast are based on the Ministry of Communications updated regulations as of February 23, 2020 –"Communications Regulations (Bezeq and Broadcasting) (Use of Public Bezeq Infrastructure by Domestic Carriers) (Amendment and Temporary Order), 2020."*

Bezeq International – Key Assumptions

Adjusted EBITDA

Applying the above assumptions to operating income and expenses, we assumed that EBITDA would total NIS 203 million in 2020, and NIS 125 million in 2024:

NIS millions	2019A	1-9/2020A	10-12/2020	2020E	2021E	2022E	2023E	2024E
EBITDA	**158***	**163**	**40**	**203**	**141**	**138**	**124**	**125**
% of revenues	*11.8%*	*17.2%*	*12.3%*	*15.9%*	*11.2%*	*10.9%*	*9.7%*	*9.6%*

•Less other expenses and impairment charges

Tax expenses

We assumed a 23% corporate tax rate, according to the current statutory rate in Israel.

CAPEX

Forecast capital expenses are based on Bezeq International's forecasts. In 2020-2024, investments are expected in the migration to advanced IT systems. Furthermore, completion of the undersea cable back-up project is expected to lower investments in the forecast period, compared to previous years. In the terminal year, we estimated investment at 9% of turnover, similar to the figure for 2024.

Operating working capital

Operating working capital was estimated based on the average working capital as a percentage of the revenues in 2017-2019, with the exception of trade payables which was taken as a percentage of total non-wage expenses and investments for the years 2017-2019, and the provisions item which was treated according to the Company management's forecast for cash flow expenses in respect of these provisions. Additionally, a onetime exclusion was taken for streamlining, which was not taken into account in the years 2022-2024 (adjustments not requiring the opening of agreements were taken into account).

Bezeq International – Key Assumptions

Discount rate

This valuation used a discount rate of 9.7% (equal to 11.0% before tax), calculated using the CAPM model (for details, see Appendix A)

Terminal growth rate

We assumed an 0.8% terminal growth rate, calculated by weighting the growth rates for direct profits from ISP and ILD operations, and procurement and equipment, and enterprise service operations*.

* We assumed that ISP, ILD, and equipment and licensing operations (accounting for 60% of the direct contribution[1]) would see zero growth, while enterprise service operations would grow 2%, according to the population growth rate.

1. *Profit directly attributable to the Company's operating segments, based on Company data.*

Bezeq International – Projected Cash Flows

NIS millions	2019A	1-9/2020A	10-12/2020	2020E	2021E	2022E	2023E	2024E	TY
ISP revenues	632	456	148	604	569	561	564	570	-
ILD revenues	198	134	43	177	164	155	147	139	-
Enterprise telecom services revenues	508	356	136	492	523	545	572	592	-
Total revenue	**1,339**	**946**	**327**	**1,274**	**1,256**	**1,262**	**1,283**	**1,301**	**1,312**
% change from previous period	(3.7%)			(4.9%)	(1.4%)	0.4%	1.7%	1.5%	0.8%
Salary expenses	(261)	(189)	(60)	(249)	(242)	(226)	(227)	(227)	
% of revenues	19.5%	20.0%	18.4%	19.6%	19.3%	17.9%	17.7%	17.5%	
General and operating expenses	(1,084)	(571)	(219)	(790)	(840)	(866)	(900)	(917)	
% of revenues	(81.0%)	(60.4%)	(66.8%)	(62.0%)	(66.9%)	(68.7%)	(70.2%)	(70.4%)	
Payments for leases	(32)	(23)	(8)	(32)	(32)	(32)	(32)	(32)	
% of revenues	(2.4%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	
Total operating expenses (less depreciation and amortization)	**(1,377)**	**(783)**	**(287)**	**(1,071)**	**(1,115)**	**(1,124)**	**(1,158)**	**(1,176)**	**-**
% of revenues	(102.8%)	(82.8%)	(87.7%)	(84.1%)	(88.8%)	(89.1%)	(90.3%)	(90.4%)	
Adjusted EBITDA	**158**	**163**	**40**	**203**	**141**	**138**	**124**	**125**	**126**
% of revenues	11.8%	17.2%	12.3%	15.9%	11.2%	10.9%	9.7%	9.6%	9.6%
Total depreciation and amortization	(161)	(112)	(38)	(150)	(151)	(149)	(147)	(145)	(116)
Adjusted operating profit	**(3)**	**51**	**2**	**53**	**(10)**	**(11)**	**(23)**	**(20)**	**11**
% of revenues	(0.2%)	5.4%	0.6%	4.2%	(0.8%)	(0.9%)	(1.8%)	(1.5%)	0.8%
Tax income (expenses)	(9)	(17)	-	(17)	-	-	-	-	(2)
Tax rate	(352.4%)	34.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	23.0%
CAPEX	-	-	(31)	-	(151)	(125)	(116)	(115)	(116)
% of revenues	0.0%	0.0%	9.5%	0.0%	12.0%	9.9%	9.1%	8.8%	8.8%
Positive (negative) cash flow from working capital changes	-	-	3	-	1	(2)	3	(0)	0
Cash flow			**12**		**(8)**	**11**	**11**	**11**	**8**
Discounting period	-	-	0.13	-	0.75	1.75	2.75	3.75	3.75
Discounted cash flow	**-**	**-**	**12**	**-**	**(8)**	**9**	**8**	**7**	**66**

** Less other expenses and impairment charges*

Bezeq International – Valuation Results and Sensitivity Analysis

Valuation results

The Company's enterprise value based on the DCF model, as of September 30, 2020, is NIS 123 million. According to information we received from Bezeq International, the carrying amount of this segment on its books is NIS 405 million; therefore, a write-down of NIS 282 million is necessary.[1]

Valuation results according to DCF model	NIS millions
Enterprise value accrued during model years	29
Enterprise value accrued from terminal year	66
Value in respect of adjustment to tax model[2]	21
Value in respect of adjustments without opening agreements in the terminal year	7
Total enterprise value	**123**

1. *In accordance with IAS 36, for purposes of asset impairment assessment, the higher of an asset's value-in-use and fair value (net of the asset's disposal costs) is taken. In light of the low cash flows by the DCF model, the net asset value (NAV) of the Company was also calculated. The NAV amounted to NIS 92 million (lower than NIS 123 million according to the DCF model). See Appendix E for the calculation of the NAV.*
2. *Adjustment in respect of accounting depreciation to tax depreciation, and also in respect of losses during the model years.*

Sensitivity Analyses

Sensitivity analysis of discount rate and terminal growth rate

Sensitivity analysis of Bezeq International's enterprise value (by the DCF model) for changes in the discount rate and terminal growth rate:

		Discount rate				
		7.7%	**8.7%**	**9.7%**	**10.7%**	**11.7%**
Terminal growth rate	**(0.2%)**	126	112	101	92	84
	0.3%	143	126	113	102	94
	0.8%	158	138	**123**	111	101
	1.3%	173	151	134	120	109
	1.8%	190	164	144	129	116

Summary

A 1% increase (decrease) in the discount rate causes a NIS 15 million to NIS 19 million decrease (increase) in Bezeq International's enterprise value. A 0.5% increase (decrease) in the terminal growth rate causes a NIS 11 million to NIS 12 million increase (decrease) in the enterprise value.

Bezeq International – Valuation Results and Sensitivity Analysis

Sensitivity Analyses (cont.)

Sensitivity analysis of impact of accounting for inactive subscribers

Our forecast for the impact of the accounting for inactive subscribers was calculated based on the probability of two scenarios – the Company scenario and an additional scenario. It should be noted that the additional scenario is more pessimistic than the Company scenario.

Below is an analysis of the sensitivity of Bezeq International's enterprise value to changes in the probability of the scenarios (the changes are in relation to the Company's forecast prices in each year):

Company Scenario Probability				
0%	**25%**	**50%**	**75%**	**100%**
Additional Scenario Probability				
100%	**75%**	**50%**	**25%**	**0%**
81	102	**123**	144	165

<u>Summary</u>

Fully adopting the Company scenario for inactive subscribers will lead to an increase of NIS 41 million in the enterprise value. Fully adopting the additional scenario will result in a decrease of NIS 42 million in the enterprise value of Bezeq International.

Sensitivity analysis of the impact of the restatement

As previously mentioned, we adopted the Company's assumption that the impact of the restatement will be an increase of NIS 33 million in the operating costs for 2020 (a decrease of NIS 33 million in the operating profit) and the following forecast years. As the Company claimed that it was not possible to fully explain the discrepancies that led to a restatement, on which basis the Company's forecast for the coming years was determined (see pp. 11-10), we performed a sensitivity analysis of the impact of the change in operating costs on the EBITDA in 2024 and on the Company's enterprise value:

NIS millions	No change	(5)	(10)	(15)	(20)	(25)	(30)	(33)	(35)	(40)	(45)
EBITDA for 2024	159	154	149	144	139	134	129	**126**	124	119	114
Enterprise value	424	380	335	289	243	196	148	**123**	99	48	(4)

An increase (decrease) of NIS 5 million in operating costs causes a decrease (increase) of NIS 45-52 million in the enterprise value. The impact of the corrections that led to a restatement, that is, a NIS 33 million increase in operating costs, amounts to a decrease of up to NIS 33 million in the EBITDA and up to NIS 301 million in the enterprise value.

Appendices

Appendix A

WACC – Bezeq International

Calculating the discount rate for Bezeq International's operations

Symbol	Parameter	Value	Comments
D/V	Debt to asset value ratio	32.0%	*Based on the median of comparative companies (see table)*
E/V	Equity to asset value ratio	68.0%	**(D/V) = 1 - (E/V)**
D/E	Debt to equity ratio	47.1%	**(D/E) = (D/V) / (E/V)**
βUL	**Unleveraged beta for comparative companies**	**0.62**	*In order to estimate the beta for these operations, we reviewed a group of similar companies. There were no publicly traded companies whose operations are identical to the operations under assessment, and so we chose companies that are partially similar to said operations yet differ from each other, or order to create a mix which would optimally reflect the Company's profile. Beta is calculated on a weekly basis over a 5-year period.*
Tax	Long term tax rate for the operations	23.0%	Long term tax rate for the operations under assessment.
βL	**Leveraged beta for the operations**	**0.84**	**βL= βUL*{1+(1-Tax)*(D/E)}**
Rf	Risk-free interest rate	1.2%	*Nominal yield to long-term maturity on NIS-based government bonds, for a period of 15 years, as of Sep. 30, 2020.*
MRP	Market risk premium	6.3%	*The risk premium in the Israeli market, based on Damodaran data as of 2019.*
SRP	Specific risk premium	5.0%	*Premium according to Duff and Phelps data for 2020, for mid-sized enterprises.*
Re	**Cost of equity**	11.4%	**RE = Rf + βL * MRP + SRP**
Rd	**Cost of Company debt**	3.5%	*Long-term cost of debt for the operations, based on the yield to maturity as of the valuation date of AA- rated bonds.*
WACC	**Weighted average cost of capital**	**8.6%**	**WACC = Re *(E/V) + Rd*(D/V)*(1-TAX)**

The above table presents the calculation of the 8.6% discount rate applied to the operations as of September 30, 2020.

As we believe the market risk inherent in Bezeq International's operations has not decreased from 2018 and 2019, we used a 9.7% discount rate, similar to the discount rate used in Bezeq International's previous valuations, as of December 31, 2018 and December 31, 2019 (equal to 11.0% pre-tax).

Additional information on comparison companies:

Company	Unleveraged beta	D/V
Chorus Limited	0.60	44.8%
United Internet AG	0.69	22.9%
WideOpenWest, Inc.	0.30	83.5%
Bahnhof AB (publ)	0.64	0.0%
TPG Telecom Limited	0.52	41.2%
Bredband2 i Skandinavien AB (publ)	0.63	0.0%
Median	**0.62**	**32.0%**

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Appendix A

WACC – Bezeq International

Discount rate

The discount rate according to the generally accepted method – the WACC, is significantly lower than the discount rate that we adopted.

The calculated discount rate of the WACC decreased compared to last year, mainly due to a decrease in the risk-fee yield rate of Israeli government bonds.

A review of various professional public announcements and discussions with professionals in macroeconomics showed that the decline in the yield rate on government bonds is due to macroeconomic reasons, including (summary):

- A decrease in interest rates in the U.S.
- Additional factors, such as the low inflation level in Israel, or interest rate cuts by central banks worldwide as a measure to combat uncertainty in the markets.

In other words, in this specific case, the aforesaid decline in the yield rate of government bonds and resulting decrease in the WACC rate does not necessarily reflect a decrease in the economic risk inherent in the market.

Hence, we believe that in the specific case of the Israeli tecommunications market, the decrease in WACC does not reflect a decrease in the sector risk and in the appropriate return from an investor's point of view.

Accordingly, we adopted the discount rate used in the valuation for 2018 and 2019.

Appendix B

Book Value – Bezeq International

Book Value – Bezeq International

Details on Bezeq International's book value, as of September 30, 2020, as provided by the Company:

Item	Value (NIS millions)
Assets	897.6
Liabilities	492.5
Total book value	405.1

The Dec. 31, 2019 Valuation, Results and Underlying Assumptions

Differences between the valuations of Bezeq International's enterprise value

Details	NIS millions
Enterprise value – Dec. 31, 2019	374
Enterprise value – Sep. 30, 2020	123
% difference	(67%)

In accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970, In view of a deviation of forty percent or more in the forecast value as of September 30, 2020 ("**Current Forecast**") from the forecast value as of December 31, 2019 ("**Previous Forecast**"), below are the data in respect of the **valuation as of December 31, 2019** and the assumptions on which they are based:

Revenues

ISP

We adopted the Company's forecast, whereby revenues from ISP services will stabilize around NIS 620 million per year, with a decline in negative subscriber signup (net) over the forecast years, as a result of wholesale subscriber growth versus a shrinking retail subscriber base. The forecast is predicated on the commercial launch of fiber optic Internet service by Bezeq at the beginning of 2021, on the right-of-use pricing model for wholesale usage of the copper and fiber infrastructures, as laid down in the Ministry of Communications regulations, as well as transmission costs according to projected traffic volumes across Bezeq's network (including traffic due to yes's migration plan).

ISP

- *Subscribers*: Based on the trends in recent years, it was assumed that the subscriber base would shrink from 886 thousand subscribers at the end of 2019 to 830 thousand subscribers at the end of 2024 (a cumulative decrease of 6%).
- *ARPU*: It was assumed that the ARPU would grow moderately, from NIS 46 in 2019 to NIS 48.4 in 2024, due to a change in the subscriber breakdown.

Summary of revenue forecast for ISP operations:

	2019A	2020	2021	2022	2023	2024
ISP subscribers (thousands)	886	859	844	835	830	830
Change from previous period	*(3.4%)*	*(3.0%)*	*(1.7%)*	*(1.1%)*	*(0.6%)*	*-*
Weighted ARPU (NIS millions)	46.0	46.4	47.3	47.8	48.2	48.4
Change from previous period		*0.8%*	*1.9%*	*1.1%*	*0.8%*	*0.4%*
Total ISP revenues (NIS millions)[1]	**632**	**619**	**619**	**618**	**620**	**623**
Change from previous period	*(4.0%)*	*(2.2%)*	*-*	*(0.1%)*	*0.2%*	*0.5%*

1. Source: Ministry of Communications, "Communications Regulations (Bezeq and Broadcasting) (Use of Public Bezeq Network by Domestic Carriers) (Amendment and Temporary Order), 2020; February 2020: "Recommendation for Setting a Maximum Rate for Ultra-Broadband Managed Access Services over Bezeq's Fiber Network," July 2019.

Appendix C

The Dec. 31, 2019 Valuation, Results and Underlying Assumptions

Enterprise telecom services

We adopted the Company's forecast, whereby revenues from enterprise telecom services would grow from NIS 508 million in 2019 to NIS 620 million in 2024 (cumulative growth of 22%). Growth in these services is driven by the Company's strategy to focus on these services (cloud operations, data center, etc.). In recent years, these services have grown at a fast pace in Israel and worldwide.

Appendix C

The Dec. 31, 2019 Valuation, Results and Underlying Assumptions

Operating, depreciation and amortization expenses

Operating, depreciation and amortization expenses in respect of Bezeq International's operations in 2019, and the expenses forecast for 2020-2024:

NIS millions	2019A	2020E	2021E	2022E	2023E	2024E
General and operating expenses (including leases)*	(920)	(901)	(931)	(962)	(995)	(1,012)
% of revenues	*68.7%*	*66.9%*	*68.9%*	*70.5%*	*71.9%*	*72.3%*
Salary expenses	(261)	(258)	(236)	(227)	(230)	(233)
% of revenues	*19.5%*	*19.2%*	*17.5%*	*16.6%*	*16.6%*	*16.6%*
Depreciation and amortization	(161)	(163)	(163)	(161)	(159)	(157)
% of revenues	*12.0%*	*12.1%*	*12.1%*	*11.8%*	*11.5%*	*11.2%*
Total operating, depreciation and amortization expenses	**(1,341)**	**(1,322)**	**(1,330)**	**(1,350)**	**(1,384)**	**(1,402)**
% of revenues	*100.2%*	*98.2%*	*98.5%*	*98.9%*	*100.0%*	*100.2%*

*Including payments for leases and an expense in respect of a universal deployment fund (starting 2022, based on Company estimates), including an increase in expenses for the retention of customers who were formerly inactive subscribers. Including other expenses of NIS 60 million in 2019 (NIS 45 million in respect of a retirement agreement and NIS 15 million for the adjustment of the provision for legal claims).

The decrease in salary expenses is mainly due to the streamlining plan for 2019-2021, as per the collective agreement signed with the Histadrut – General Federation of Labor. We assumed that at this time there is uncertainty concerning the second phase of the streamlining plan; therefore, the effect of the second phase was not taken into account for 2022-2024. The increase in other operating expenses (except ILD expenses) is due to OPEX growth in enterprise telecom services, equipment and licensing (matching the growth in revenues). The change was also driven by increased domestic capacity costs due to growing consumption and usage, and rate adjustments by the Ministry of Communications.[1] The decrease in ILD expenses was due to a decrease in direct expenses from ILD operations, matching the decrease in revenues.

1. *Gigabit prices in the Company forecast are based on the Ministry of Communications updated regulations as of February 23, 2020 – "Communications Regulations (Bezeq and Broadcasting) (Use of Public Bezeq Infrastructure by Domestic Carriers) (Amendment and Temporary Order), 2020."*

Appendix C

The Dec. 31, 2019 Valuation, Results and Underlying Assumptions

Adjusted EBITDA

Applying the above assumptions to operating income and expenses, we assumed that EBITDA would total NIS 203 million in 2020, and NIS 125 million in 2024:

NIS millions	2019A	2020E	2021E	2022E	2023E	2024E
EBITDA	**204**	**187**	**184**	**176**	**159**	**155**
% of revenues	*15.2%*	*13.9%*	*13.6%*	*12.9%*	*11.5%*	*11.0%*

Tax expenses

We assumed a 23% corporate tax rate, according to the current statutory rate in Israel.

CAPEX

Forecast capital expenses are based on Bezeq International's forecasts. In 2020-2024, investments are expected in the migration to advanced IT systems. Furthermore, completion of the undersea cable back-up project is expected to lower investments in the forecast period, compared to previous years. In the terminal year, we estimated investment at 9% of turnover, similar to the figure for 2024.

Operating working capital

Operating working capital was estimated based on the average working capital as a percentage of the revenues in the last three years, with the exception of trade payables which was taken based on the ratio of this balance and the balance of the Company’s expenses and investments in the years 2020-2024. Additionally, a onetime exclusion was taken for streamlining, which was not taken into account in the years 2022-2024.

Appendix C

The Dec. 31, 2019 Valuation, Results and Underlying Assumptions

Discount rate

This valuation used a discount rate of 9.7% (equal to 11.2% before tax), calculated using the CAPM model (for details, see Appendix A)

Terminal growth rate

We assumed an 0.7% terminal growth rate, calculated by weighting the growth rates for direct profits from ISP and ILD operations, and enterprise service operations*.

* We assumed that ISP and ILD (accounting for 63% of the direct contribution[1]) would see zero growth, while enterprise service operations would grow 2%, according to the population growth rate.

1. *Profit directly attributable to the Company's operating segments, based on Company data.*

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Appendix C

The Dec. 31, 2019 Valuation, Results and Underlying Assumptions

NIS millions	2019A	2020E	2021E	2022E	2023E	2024E	TY
ISP revenues	632	619	619	618	620	623	
ILD revenues	198	191	182	173	165	157	
Enterprise telecom services revenues and other revenues	508	536	550	573	600	620	
Total revenue	**1,339**	**1,346**	**1,351**	**1,365**	**1,384**	**1,400**	**1,410**
% change from previous period	*(3.7%)*	*0.5%*	*0.4%*	*1.0%*	*1.4%*	*1.1%*	*0.7%*
Salary expenses	(261)	(258)	(236)	(227)	(230)	(233)	
% of revenues	*19.5%*	*19.2%*	*17.5%*	*16.6%*	*16.6%*	*16.6%*	
General and operating expenses	(888)	(869)	(898)	(930)	(963)	(980)	
% of revenues	*66.3%*	*64.6%*	*66.4%*	*68.2%*	*69.6%*	*70.0%*	
Payments for leases	(32)	(32)	(33)	(32)	(32)	(32)	
% of revenues	*2.4%*	*2.3%*	*2.5%*	*2.3%*	*2.3%*	*2.3%*	
Total operating expenses (less depreciation and amortization)	**(1,180)**	**(1,159)**	**(1,167)**	**(1,189)**	**(1,225)**	**(1,245)**	
% of revenues	*88.2%*	*86.1%*	*86.4%*	*87.1%*	*88.5%*	*89.0%*	
Adjusted EBITDA	**158**	**187**	**184**	**176**	**159**	**155**	**156**
% of revenues	*11.8%*	*13.9%*	*13.6%*	*12.9%*	*11.5%*	*11.0%*	*11.0%*
Total depreciation and amortization	(161)	(163)	(163)	(161)	(159)	(157)	(116)
Adjusted operating profit	**(3)**	**24**	**21**	**15**	**(0)**	**(2)**	**40**
Net profit (loss)	*(0.2%)*	*1.8%*	*1.5%*	*1.1%*	*(0.0%)*	*(0.2%)*	*2.8%*
Tax income (expenses)	(9)	(5)	(5)	(3)	-	-	(9)
Tax rate	*0.0%*	*23.0%*	*23.0%*	*23.0%*	*0.0%*	*0.0%*	*23.0%*
CAPEX	(129)	(134)	(131)	(125)	(116)	(115)	(116)
ISP revenues	632	*10.0%*	*9.7%*	*9.2%*	*8.4%*	*8.2%*	*8.2%*
Positive (negative) cash flow from working capital changes		(48)	(8)	6	4	2	1
Cash flow		**(1)**	**41**	**53**	**46**	**41**	**32**
Discounting period		0.50	1.50	2.50	3.50	4.50	4.50
Discounted cash flow		**(1)**	**36**	**42**	**34**	**27**	**236**

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The Dec. 31, 2019 Valuation, Results and Underlying Assumptions

Summary of Valuation

Valuation results	NIS millions
Enterprise value accrued from the model years	138
Enterprise value accrued from the terminal year	236
Total enterprise value	**374**

To sum up, Bezeq International's enterprise value as of December 31, 2019, based on the above assumptions, was NIS 374 million. According to information provided to us by Bezeq International, the book value of this segment was NIS 570 million, thus it is necessary to write off NIS 196 million (pre-tax).

Sensitivity Analysis

Sensitivity analysis of discount rate and terminal growth rate

Sensitivity analysis of Bezeq International's enterprise value (EV) for changes in the discount and terminal growth rates:

		Discount rate				
		7.7%	**8.7%**	**9.7%**	**10.7%**	**11.7%**
Terminal growth rate	**(0.3%)**	410	367	332	304	280
	0.2%	440	391	352	320	294
	0.7%	475	418	**374**	338	308
	1.2%	515	448	397	357	324
	1.7%	562	483	425	379	342

Summary

A 1% increase (decrease) in the discount rate causes a NIS 36 million to NIS 57 million decrease (increase) in Bezeq International's enterprise value. A 0.5% increase (decrease) in the terminal growth rate causes a NIS 22 million to NIS 27 million increase (decrease) in the enterprise value.

Sensitivity Analyses (cont.)

Sensitivity analysis of gigabit price (expenses)

Gigabit prices in the valuation model as of December 31, 2019 were based on the Company's forecast, whereby the retail and wholesale gigabit prices in 2020 are NIS 8,000 and NIS 10,200, respectively, decreasing gradually until 2024[1].

Sensitivity analysis of Bezeq International's enterprise value for changes in the retail and wholesale gigabit prices (compared with the Company's forecast prices for each year)

		Change in retail gigabit prices (NIS)[2]				
		(1,000)	**(500)**	**0**	**500**	**1,000**
Change in wholesale gigabit prices (NIS)	**(1,000)**	515	470	425	380	335
	(500)	489	444	399	354	309
	0	463	418	**374**	328	284
	500	437	392	348	303	258
	1,000	411	367	322	277	232

Summary

A NIS 500 increase (decrease) in retail gigabit prices causes a NIS 45 million decrease (increase) in Bezeq International's enterprise value. A NIS 500 increase (decrease) in wholesale gigabit prices causes a NIS 26 million decrease (increase) in Bezeq International's enterprise value.

1. *Gigabit prices in the Company forecast are based on the Ministry of Communications updated regulations as of February 23, 2020 – "Communications Regulations (Bezeq and Broadcasting) (Use of Public Bezeq Infrastructure by Domestic Carriers) (Amendment and Temporary Order), 2020."*
2. *Based on Company assumptions, we assumed that changes in gigabit prices are only relevant for payments to Bezeq, while payments to HOT will remain unchanged.*

Appendix D

Summary of Main Changes in the Valuation Assumptions

Changes in Valuation of Bezeq International's Enterprise Value

Below is a summary of the main changes in the key working assumptions between the Current Forecast and the Previous Forecast.

Revenues

ISP

Accounting for inactive subscribers – Pursuant to letters in the matter received from the Supervision Division of the Ministry of Communications, the report includes a forecast of the impact of the accounting for inactive subscribers, whereby a NIS 38 million decrease in revenues and a NIS 2 million increase in operating costs is expected in 2024..

Subscribers – The subscriber base is expected to grow slightly compared to the Previous Forecast (844 thousand retail and wholesale subscribers in 2024 per the Current Forecast compared to 830 thousand subscribers in that year per the Previous Forecast). The change is due to an actual growth in the subscriber database in the months 1-9/2020 compared to the Previous Forecast, partly offset by the loss of inactive subscribers.

ARPU – ARPU throughout the forecast years is lower than in the Previous Forecast, due to the change measured in the mix of subscribers over the first three quarters of 2020 and the accounting for inactive subscribers.

Enterprise telecommunication services, equipment and licensing

In the forecast period it was assumed that revenues from enterprise telecommunications services, equipment and licensing would be lower than in the Previous Forecast, due to projected purchases of terminal equipment in lower amounts than in the Previous Forecast, inter alia due to the negative effects of the coronavirus pandemic.

Operating costs

Operating costs are lower in the Current Forecast than in the Previous Forecast, in line with the Company's operating leverage.

Overall, expenses in the Current Forecast decreased compared to the Previous Forecast by a lower rate than the decrease in revenues, thus operating profit (and EBITDA) are lower than in Previous Forecast, resulting in a lower value for Bezeq International than in the valuation performed by us as of December 31, 2019.

Appendix E

Results of valuation based on the NAV model

Valuation based on the NAV model

In accordance with this method, the net realizable value (NRV) of the Company's assets was valued based on their fair value as presented earlier.:

NIS millions/Item	Balance sheet as of Sep. 30, 2020, before Sep. 30, 2020 impairments	Write-off	NRV	NAV
Cash and cash equivalents	72	-	72	-
Trade receivables	293	-	293	293
Current maturities of trade receivables	16	-	16	-
Other receivables	30	(7)	23	23
Parent company	11	-	11	11
Inventory	20	-	20	20
Tax receivables	30	-	30	-
Long-term trade receivables	17	-	17	-
Investment in associate	4	-	4	-
Property, plant & equipment	160	(81)	79	79
Intangible assets	81	(81)	-	-
Capacity and subscriber acquisition costs, net	168	(123)	45	45
Long-term prepaid expenses	20	(4)	16	16
Real estate right of use assets	98	-	98	98
Vehicle lease right of use assets *	1	(0)	0	0
Deferred tax asset	26	(26)	-	-
Total assets	**1,048**	**(323)**	**725**	**586**
Current maturity of long-term loan	(16)	-	(16)	-
Trade payables	(242)	-	(242)	(242)
Other payables	(100)	-	(100)	(100)
Short-term employee benefits	(34)	-	(34)	(34)
Income tax liabilities	(0)	-	(0)	-
Provisions	(17)	-	(17)	(17)
Long-term employee benefits	(12)	-	(12)	-
Other liabilities	(0)	-	(0)	-
Real estate lease liabilities	(99)	-	(99)	(99)
Vehicle lease liabilities	(1)	-	(1)	(1)
Total liabilities	**(521)**	**-**	**(521)**	**(494)**
Equity	**526**	**(323)**	**204**	**92**

Thus, the equity of Bezeq International, as derived from the fair value of balance sheet items revalued under IAS 36 requirements, is NIS 92 million.

* The manner of presentation of the asset was provided by the Company.