March 18, 2020

Bezeq - The Israel Telecommunication Corp. Ltd.

Periodic Report for 2019

Chapter A - Description of Company Operations

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

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

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Chapter A - Description of Company Operations

"Bezeq" The Israel Telecommunication Corp. Ltd. (“the Company” or “Bezeq”) together with its wholly owned subsidiaries, whose financial statements are consolidated with those of the Company, will henceforth be called together in this Periodic Report “the Group” or “Bezeq Group”.

For the reader’s convenience, Appendix A to this chapter contains a list and explanation of the key defined terms in the report.

1. General development of the Group's business

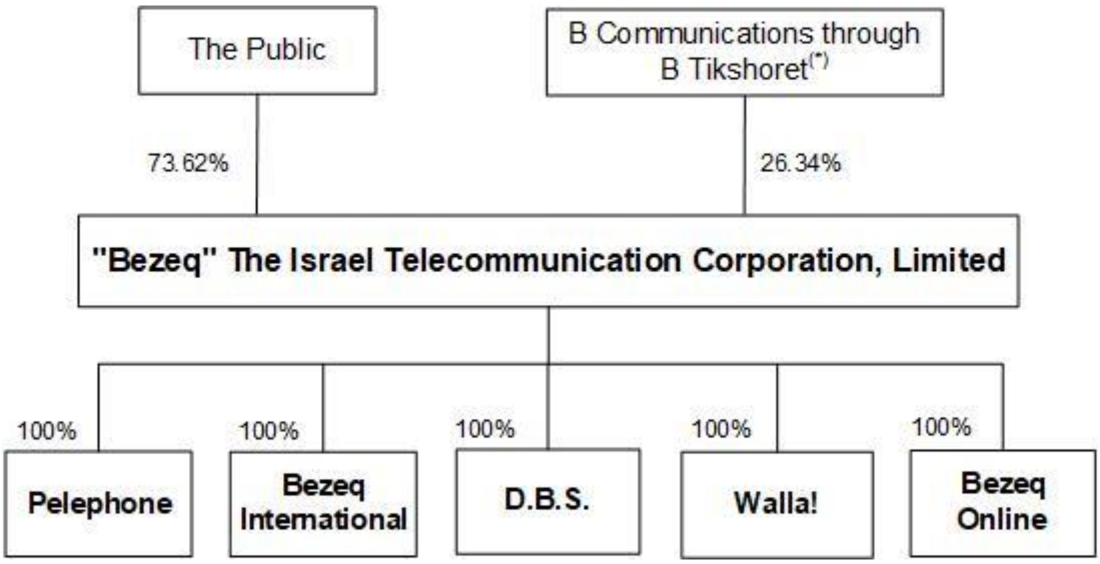
1.1 Group activities and business development

1.1.1 General

At the publication date of this periodic report, Bezeq Group is a main provider of communications services in Israel. Bezeq Group implements and provides a broad range of telecommunications operations and services, including domestic fixed-line, cellular and international communication services, multi-channel satellite television broadcasts and television broadcasts over the Internet, internet infrastructure and access services, call center services, maintenance and development of communications infrastructures, provision of communications services to other communications providers, including wholesale market services, television and radio broadcasts, and supply and maintenance of equipment and services on customer premises (network end point – NEP – services).

The Company was established in 1980 as a government company to which the activities carried out until then at the Ministry of Communications were transferred, and it was privatized over a period of years. The Company became a public company in 1990 and its shares are traded on the TASE.

Diagram of the Company’s holding structure, and the Company's holdings in the main subsidiaries, at the date of approval of the report (March 18, 2020):



(*) On B Communications and its control of the Company - see Section 1.1.2, and also Section 8 in Chapter D of this Periodic Report.

1.1.2 Control of the Company

On December 2, 2019, B-Communications Ltd. (BCOM) informed the Company of completion of the transaction with Searchlight II BZQ L.P. and a company controlled by the Fuhrer family (T.N.R. Investments Ltd.), whereby control of BCOM and the Company was transferred to these entities. This follows the liquidation of Eurocom Communications Ltd., and the sale of the holdings of its subsidiary, Internet Gold, in BCOM. BCOM holds the

Company through a company that it fully owns (indirectly), B Tikshoret (SP2) Ltd.[1] On this matter, see also an Immediate Report of the Company dated December 2, 2019 concerning an announcement by B Communications about completion of the aforesaid transaction, as well as immediate reports of the Company dated January 2, 2020 concerning the holdings of interested parties and one who became an interested party in the corporation. For additional information about the permit for control of the Company, see Section 8 in Chapter D of the Periodic Report.

On demands to negotiate a collective agreement with union representatives in the Group companies in view of completion of the transaction to acquire control of the Company, see Sections 2.9.6, 3.9.4, 4.8 and 5.11.3.

1.1.3 In accordance with a resolution of the Company's Board of Directors from September 4, 2007, under Section 50(A) of the Companies Law and Articles 119 and 121.1 of the Company's articles, the powers of the CEO with respect to corporations held directly or indirectly by the Company (including Pelephone, Bezeq International, DBS, Walla and Bezeq Online) were transferred to the Board of Directors.

1.1.4 Mergers, acquisitions and structural changes

<u>Merger of the Company and DBS</u>

Until March 25, 2015, the Company held 49.78% of the shares of DBS and it also owned stock options which entitled it to 8.6% of the shares of DBS and which the Company has not yet exercised. The balance of DBS shares are held by Eurocom D.B.S.[2]

On March 25, 2015, the Company exercised the stock options, for no payment, and on June 24, 2015, the Company completed a transaction in which it acquired all the holdings of Eurocom DBS in DBS, as well as all the shareholders' loans that Eurocom DBS had provided to DBS (NIS 1,538 million as at December 31, 2014) ("the Purchase Transaction").

Upon completion of the transaction, the Company transferred to Eurocom DBS the cash payment for the Purchase Transaction of NIS 680 million. Upon completion of the Purchase Transaction, DBS became a wholly owned subsidiary (100%) of the Company.

Notably, under the terms of the Purchase Transaction, in addition to the cash payment of NIS 680 million, the consideration also included two additional contingent payments, as follows:

A. One additional payment of up to NIS 200 million based on the tax synergy in accordance with the conditions defined in the purchase agreement. ("First Contingent Payment"). Most of the First Contingent Payment was paid after the Company entered into a tax assessment agreement and tax decision with the Tax Authority concerning financing income, shareholders' loans, the losses and merger of DBS (see also Notes 7 and 14.2 to the 2019 Financial Statements).

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[1] To the best of the Company's knowledge, 714,169,560 of the Company's shares are owned by B Tikshoret (SP2) Ltd., a private company registered in Israel, which is wholly owned and controlled by B Tikshoret (SP1) Ltd., a private company registered in Israel. B Tikshoret (SP1) Ltd. is wholly owned and controlled by B Communications (BCOM), an Israeli public company whose shares are traded by way of double listing on the TASE and on the Nasdaq. In addition to the foregoing, 14,204,153 Company shares are owned directly by BCOM. To the best of the Company's knowledge, the controlling shareholders of BCOM are, from December 2, 2019, Searchlight II BZQ L.P., a limited partnership incorporated in the Cayman Islands ("Searchlight") and TNR Investments Ltd. ("TNR"), a private company incorporated in Israel. The final general partner of Searchlight is Searchlight Capital Partners II GP, LLC, a limited liability company incorporated in the State of Delaware, held by several individuals, including Messrs. Erol Uzumeri, Eric Zinterhofer, and Oliver Haarmenn, the latter being among the individuals who obtained the permit for control of the Company from the Ministry of Communications. TNR is fully owned and controlled by Mr. David Fuhrer (50%) and Ms. Michal Fuhrer (50%). As the Company was informed by BCOM, in accordance with the meaning of the term "controlling shareholder" in Section 268 of the Companies Law, Searchlight and TNR are considered the controlling shareholders in BCOM by virtue of a control permit dated November 11, 2019 and by virtue of the a voting agreement between them that grants them cumulative ownership, at the date of publication of this report, of 72% of the voting rights in BCOM. Moreover, TNR Real Estate Properties Ltd., which to the best of the Company's knowledge is controlled by by Mr. David Fuhrer (50%) and Ms. Michal Fuhrer (50%), holds 2,546,320 of the shares of Bezeq.

[2] A company that was controlled (indirectly) by Messrs. Shaul and Yosef Elovitch, controlling shareholders of the Company at that time.

B. An additional payment of up to NIS 170 million in accordance with the business results of DBS in 2015-2017 ("Second Contingent Payment"). The Company paid advances on account of the Second Contingent Payment in the amount of NIS 119 million.

Based on the financial results of DBS for 2017 and given that the final amount of the Second Contingent Payment was less than the advances that the Company paid to Eurocom DBS for that consideration, Eurocom DBS must return the difference to the Company. In this context, the Company, as a creditor, joined the proceeding to liquidate Eurocom Communications. Additionally, further to the Company's demand that Eurocom DBS pay it the amount of the advance on account of the Second Contingent Payment, plus interest as defined in the Agreement, and this after Eurocom DBS failed to meet the targets entitling it to this payment, on April 22, 2018, at the Company's request, the Tel Aviv District Court issued an order of liquidation for Eurocom DBS and the Company's attorneys were appointed as liquidator for Eurocom DBS.

For information about the conditions set out in the Competition Authority's approval for the merger (according to its meaning in the Economic Competition Law) between the Company and DBS, see Section 2.16.8.3.

On December 25, 2016, the Company and DBS signed a merger agreement ("the Merger Agreement") so that subject to the conditions precedent set out therein, which included, inter alia, obtaining various regulatory approvals from the Ministry of Communications, the Minister of Communications and Head of the Civil Administration, on the date of completion of the merger, and effective retroactively from the effective date of the merger (December 31, 2016), all the activity of DBS will be merged with and into the Company, for no payment, in accordance with the provisions of Section 323 of the Companies Law and under the provisions of Sections 103B and 103C of the Income Tax Ordinance,[3] and DBS will cease to exist as a separate legal entity.

The main purpose of the merger, from the business and economic perspective, is to streamline the activity and operation of the Company and DBS and consolidate them under one legal entity so as to save operating costs over time.

At the date of this report, the merger according to the Merger Agreement has not yet been implemented, in view of the fact that the conditions precedent have not been satisfied, and first and foremost cancellation of the structural separation in the Group (see Section 1.7.2.1).

For additional information on the foregoing in this Section, see also Section 2.20.5 and Note 14.2 to the 2019 Financial Statements. See also Immediate Reports filed by the Company on December 23, 2016, December 25, 2016, December 26, 2016, December 28, 2016, December 29, 2016, and November 8, 2018, included here by way of reference.

<u>Change in the legal structure of Bezeq Group</u>

On February 13, 2019, the Board of Directors of the Company approved a request by each of the subsidiaries Pelephone, Bezeq International and DBS, to obtain approval from the Ministry of Communications for a change in the corporate structure, whereby all the operations and assets of each of the subsidiaries would be transferred to separate limited partnerships, wholly owned by the Company (Bezeq as a limited partner, and a company (separate and different in each partnership) wholly owned by Bezeq as a general partner). On January 28, 2020, the Company received a letter from the Ministry of Communications according to which at this time, it is not possible to approve the request. This, in part, given that there is no room to take interim decisions that might affect the issue of structural separation in the Group and change the present range of incentives, where the obligation of structural separation applied to Bezeq Group is currently being examined by a special team in the Ministry of Communications, and in which context a broad range of alternatives is being assessed - from cancellation of the obligations of separation to strengthening the separation. The Ministry therefore believes that this would be a material change in the Group's activity and not a technical change of the corporate structure.

The aforementioned decisions of the Ministry of Communications dated January 28, 2020, and of the Board of Directors dated February 13, 2019, do not represent a change in the

[3] In the matter of a taxation decision passed on September 15, 2016 by the Tax Authority, as part of a tax assessment agreement that the Company signed with the Tax Authority, which includes the Tax Authority's preliminary approval for tax purposes for the merger of DBS with and into the Company, in accordance with the provisions of Section 103B of the Income Tax Ordinance ("the Approval"), see an Immediate Report of the Company dated September 18, 2016.

Company's position regarding cancellation of the structural separation, and the Company continues to work in parallel to cancel the structural separation in the Group (see Section 1.7.2.1).

For information about processes for sharing management resources and utilizing synergies between the subsidiaries Pelephone, Bezeq International and DBS, see Section 1.8.

1.1.5 Investigation by the Securities Authority and Israel Police

On June 20, 2017, the Israel Securities Authority (ISA) launched a public investigation ("the Investigation") which, among other things, included searches and seizure of documents at the offices of the Company and DBS. According to the information received by the Company from the ISA, the investigation concerns suspicions of offenses under the Securities Law and Penal Law, 1977, regarding transactions relating to the former controlling shareholder and the transaction for the purchase of DBS shares by the Company from Eurocom DBS, concerning transactions to provide satellite communications services between DBS and Spacecom, a company controlled by the Company's former controlling shareholder, and with respect to dealings between the Ministry of Communications and the Company.

The investigation involved the questioning of the former Chairman of the Company's Board of Directors, the former CEO of the Company, the former CEO and CFO of DBS, and as far as the Company is aware, also other senior officers and senior employees in the Group in the relevant period ("Those Under Investigation").

On November 6, 2017, the Israel Securities Authority issued a press release regarding the conclusion of the Investigation and the transfer of the Investigation file to the Tel Aviv District Attorney's Office (Taxation and Economics). According to the announcement, the ISA has concluded that there is prima facie evidence establishing the involvement of the main suspects in the case in several offenses. Notably, in this context, on November 20, 2017, the Company and DBS received a letter informing them of the suspicions against them and that the investigation file relating to the investigation of the Company and DBS had been submitted to the District Attorney's Office for review.

Further to the opening of the Investigation, several civil legal proceedings were initiated against the Company, its senior officers in the relevant period and companies in the group that formerly held the controlling interest in the Company, including motions for certification of class actions and motions for discovery of documents before submitting a motion for certification of a derivative claim. For information about these proceedings, see Section 2.18.

On September 1, 2019, the Taxation and Economic Division of the State Prosecutor's office issued a press release ("the State Prosecutor's Announcement") announcing that it had informed the former controlling shareholder of Bezeq Group, Mr. Shaul Elovitch, and other senior executives in the Company and in DBS in the relevant period, including Mr. Or Elovitch, Mr. Amikam Shorer, Ms. Linor Yochelman, and the former CEO of DBS Mr. Ron Eilon, that it is considering filing charges against them subject to a hearing, on suspicion of crimes of serious fraud, breach of trust, and reporting offenses under the Securities Law. According to the State Prosecutor's Announcement, the hearing letter refers to suspicions in various cases, including impairing the work of the Company's Independent Board Committee that was handling the acquisition of DBS shares by the Company, fraud related to receiving rewards in the acquisition of DBS shares by the Company, and prejudicing the work of the Company's Independent Board Committee that dealt with the contractual relations of DBS with Spacecom. Hearing letters were also sent to a number of companies in the Eurocom Group, of which Shaul and Or Elovitch were part and acted in their interests as part of the suspicions ascribed to them. A hearing letter was also sent to Spacecom.

Additionally, according to the State Prosecutor's Announcement, the latter informed the Company's former CEO, Ms. Stella Handler, and a former advisor to Bezeq Group, that it is considering bringing charges against them, subject to a hearing, for crimes of fraud and breach of trust in their dealings with the former Director General of the Ministry of Communications, Mr. Shlomo Filber. In this context, Handler is also suspected of reporting offenses under the Securities Law and of obstruction of justice. Furthermore, according to the Announcement, Stella Handler and Shaul Elovitch are also accused of reporting offenses under the Securities Law and of obstruction of justice.

Additionally, in a joint press release issued on February 18, 2018, the ISA and Israel Police announced that in light of evidence found by the ISA during its investigation, which raised suspicion of additional offenses, on that date a new joint investigation was opened by investigators of the ISA and the Unit for Combating Economic Crime at Lahav 433 ("the New Investigation"), in which a number of suspects were arrested, including senior Bezeq Group executives at that time (including Mr. Shaul Elovitch and the Company's former CEO, Ms. Stella Handler), and restrictive conditions were imposed on them. On December 2, 2018, a spokesperson for the Police and the Securities Authority announced the conclusion of the investigation (the "Notice"). According to the Notice, the investigation case is concerned primarily with the alleged suspicion of bribery, fraud and breach of trust committed by Prime Minister Benjamin Netanyahu and by Shaul Elovitch, the controlling shareholder (at the times relevant to the investigation) in Bezeq Group and the Walla! website. With the conclusion of the investigation, Israel Police and the ISA believe that there is sufficient evidence in the case to substantiate the suspicions against the main parties involved in the affair, some of whom are former Company officers (Mr. Shaul Elovitch, Ms. Stella Handler, and also Mr. Or Elovitch, a former director in the Company, and Mr. Amikam Shorer, the former Director of Strategy and Business Development in the Group). Notably, on February 28, 2019, the list of allegations in relation to Mr. Benjamin Netanyahu was published. Among other things, the list of allegations also addresses matters that were investigated as part of the new investigation, including suspicions that Mr. Netanyahu used his powers to promote matters pertaining to Mr. Shaul Elovitch's business and his economic interests and those of Bezeq Group. Furthermore, as emerges from the Attorney General's published decision, he is considering issuing a criminal indictment against Mr. Shaul Elovitch for offenses of bribery, perverting the course of justice and obstruction of the investigation, offenses of money laundering and reporting offenses under the Securities Law as part of this case.

On January 28, 2020, charges were filed in the Jerusalem District Court against the former controlling shareholder of the Company, Mr. Shaul Elovitch, in Case "4000" on various offenses, including bribery and reporting offenses in an immediate report.[4]

The Company does not have complete information about the investigations, their content, or 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 impact on the Company and its financial reports. On this matter see Note 1.3 to the 2019 Financial Statements.

1.2 Segments of operation

The Group has four main segments of operation which correspond with the corporate division among the Group companies and report as business segments in the Company's consolidated financial statements (see also Note 29 to the 2019 Financial Statements):

1.2.1 The Company – Fixed-line domestic communications

This segment consists primarily of the Company's operation as a Domestic Carrier, including telephony services, Internet infrastructure and access services (and including wholesale BSA service), transmission and data communications services and wholesale service for use of the Company's physical infrastructures. The Company's activities in the domestic fixed-line segment are described in Section 2 of this report.

1.2.2 Pelephone – Cellular communications

Cellular communications, marketing of terminal equipment, installation, operation and maintenance of cellular communication equipment and systems. Pelephone's operations are described in Section 3 of this report.

1.2.3 Bezeq International – Internet, international communications, and NEP services

Internet access services (ISP), international communication services, NEP services and the provision of ICT solutions. Bezeq International's operations are described in Section 4 of this report.

[4] Notably, to the best of the Company's knowledge, on January 22, 2020, the Attorney General's office sent a response to a request dated December 3, 2019 in relation to the possibility of indicting the Company and Walla, in which bringing charges against the companies is still being considered and no decision has yet been made on the subject, and also that there are material differences between considerations for the indictment of suspects who are human beings and the indictment of legal entities.

1.2.4 DBS – Multi-channel television

Multi-channel digital satellite television and over the Internet (OTT) broadcasting services for subscribers (DBS) as well as the provision of value added services for subscribers. DBS's operations are described in Section 5 of this report.

Notably, in addition, the Company's consolidated financial statements include an "Others" segment, which covers mainly Internet-related content and trading, (through Walla!),[5] and customer call center services (through Bezeq Online). The “Others” segment is not material at the Group level.

1.3 Investments in the Company's capital and transactions in its shares

On completion of the transaction for the transfer of control in the Company, see Section 1.1.2. Other than this, no investments were made in the Company’s equity in the reporting year and the Company is not aware of any other material transactions performed by interested parties in the Company’s shares outside the stock exchange.

1.4 Dividend Distribution

1.4.1 Dividend distribution policy

On March 27, 2019, the Board of Directors resolved to revoke the Company’s dividend distribution policy that had last been updated on March 6, 2018. The decision was made with a view to improving clarity and transparency vis-a-vis the shareholders and in the circumstances created by the inability to distribute a dividend resulting from the expectation that it would fail to pass the profit test over the next two years. Accordingly, the Board of Directors decided that it would be incorrect to maintain the dividend policy where in practice it is ineffective.

Cancellation of the dividend distribution policy will not prevent the Board of Directors from examining a possible dividend distribution to the Company’s shareholders from time to time, taking into account, inter alia, the statutory provisions, state of the Company’s business and its equity structure, while maintaining a balance between ensuring the Company’s financial robustness and stability, including its debt level and credit rating, and continuing to increase value for the Company’s shareholders by continuing to distribute a dividend, all subject to the approval of the general meeting of the Company’s shareholders with respect to any specific distribution, as stipulated in the Company’s articles of association.

1.4.2 Dividend distribution

For information about dividends distributed by the Company in 2017-2019, see Note 22.2 to the 2019 Financial Statements. At the date of the report, the Company has no outstanding, distributable profits.

[5] Until September 2018, also included trading services through Walla Shops. For legal proceedings relating to Walla, see Section 2.18.3.

1.5 Financial information about the Group's segments of operation

All the data in Sections 1.5.1 to 1.5.4 are in NIS million.

1.5.1 2019

	Domestic fixed-line communications	Cellular communications	International communications, Internet services and NEP	Multi-channel television (3)	Others	Adjustments to consolidated (2)	Consolidated
Total revenues:							
From externals	3,757	2,316	1,283	1,344	229	-	8,929
From other segments of operation in the corporation	316	46	56	1	9	(428)	-
Total revenues	4,073	2,362	1,339	1,345	238	(428)	8,929
Total costs attributable to:							
Variable costs attributable to segment of operation (1)	307	1,080	782	630	177		
Fixed costs attributable to segment of operation (1)	1,624	1,381	614	850	60		
Total costs	1,931	2,461	1,396	1,480	237	435	7,940
Costs that do not constitute revenue in another segment of operation (3)	1,883	2,357	1,153	1,457	232	858	7,940
Costs that constitute revenue in other segments of operation	48	104	243	23	5	(423)	-
Total costs	1,931	2,461	1,396	1,480	237	435	7,940
Profit from ordinary operations attributable to owners of the Company	2,142	(99)	(57)	(135)	1	(863)	989
Total assets attributable to operations at December 31, 2019	8,091	4,088	1,130	1,491	151	(1,914)	13,037
Total liabilities attributable to segment of operation at December 31, 2019	12,466	1,434	414	576	79	(1,247)	13,722

(1) The Group companies that are companies providing services (as opposed to manufacturing companies), do not manage a dedicated pricing system, which differentiates between fixed and variable costs. The above distinction was made for the purposes of this report only. Variable costs are costs for which the companies have flexible management and control in the short-term and which directly affect output, in contrast with fixed expenses, which are not flexible in the short term and do not directly affect output (on this, regarding the definition of fixed and variable costs, “short-term” means a period of up to one year).

(2) Details of adjustments to consolidated – transactions between segments of operation.

(3) See Note 11 in the 2019 Financial Statements concerning adjustment of a loss from impairment of assets in the cellular communications and multi--channel television segments. The impairment loss in these segments is presented as part of the adjustments.

1.5.2 2018

	Domestic fixed-line communications	Cellular communications	International communications, Internet services and NEP	Multi-channel television	Others	Adjustments to consolidated (2)	Consolidated
Total revenues:							
From externals	3,883	2,401	1,338	1,473	226	-	9,321
From other segments of operation in the corporation	313	42	53	-	15	(423)	-
Total revenues	4,196	2,443	1,391	1,473	241	(423)	9,321
Total costs attributable to:							
Variable costs attributable to segment of operation (1)	1,340	1,263	685*	678	198		
Fixed costs attributable to segment of operation (1)	1,632	1,182	595	851	79		
Total costs	2,972	2,445	1,280	1,529	277	1,366*	9,869
Costs that do not constitute revenue in another segment of operation (3)	2,915	2,343	1,042*	1,516	270	1,783*	9,869
Costs that constitute revenue in other segments of operation	57	102	238	13	7	(417)	-
Total costs	2,972	2,445	1,280	1,529	277	1,366	9,869
Profit from ordinary operations attributable to owners of the Company	1,224	(2)	111*	(56)	(36)	(1,789)	(548)
Total assets attributable to operations at December 31, 2018	8,896	4,124	1,344	1,606	159	194	16,323
Total liabilities attributable to segment of operation at December 31, 2018	14,284	1,425	567	687	84	(1,158)	15,889

(1) The Group companies that are companies providing services (as opposed to manufacturing companies), do not manage a dedicated pricing system, which differentiates between fixed and variable costs. The above distinction was made for the purposes of this report only. Variable costs are costs for which the companies have flexible management and control in the short-term and which directly affect output, in contrast with fixed expenses, which are not flexible in the short term and do not directly affect output (on this, regarding the definition of fixed and variable costs, "short-term" means a period of up to one year).

(2) Details of adjustments to consolidated – transactions between segments of operation.

* Reclassified for the purpose of consistency with the policy for presenting the Group's expenses.

1.5.3 2017

	Domestic fixed-line communications	Cellular communications	International communications, Internet services and NEP	Multi-channel television	Others	Adjustments to consolidated (2)	Consolidated
Total revenues:							
From externals	3,953	2,500	1,466	1,650	220	-	9,789
From other segments of operation in the corporation	291	46	71	-	17	(425)	-
Total revenues	4,244	2,546	1,537	1,650	237	(425)	9,789
Total costs attributable to:							
Variable costs attributable to segment of operation (1)	690	1,319	810*	626	179		
Fixed costs attributable to segment of operation (1)	1,583	1,155	559	860	78		
Total costs	2,273	2,474	1,369	1,486	258	(181)*	7,679
Costs that do not constitute revenue in another segment of operation	2,197	2,362	1,149*	1,477	250	244*	7,679
Costs that constitute revenue in other segments of operation	76	112	220	9	8	(425)	-
Total costs	2,273	2,474	1,369	1,486	258	(181)	7,679
Profit from ordinary operations attributable to owners of the Company	1,971	72	168*	163	(20)	(244)*	2,110
Total assets attributable to operations at December 31, 2017	9,086	3,271	1,210	1,502	178	1,602	16,849
Total liabilities attributable to segment of operation at December 31, 2017	13,901	536	410	1,154	64	(1,360)	14,705

(1) The Group companies that are companies providing services (as opposed to manufacturing companies), do not manage a dedicated pricing system, which differentiates between fixed and variable costs. The above distinction was made for the purposes of this report only. Variable costs are costs for which the companies have flexible management and control in the short-term and which directly affect output, in contrast with fixed expenses, which are not flexible in the short term and do not directly affect output (on this, regarding the definition of fixed and variable costs, "short-term" means a period of up to one year).

(2) Details of adjustments to consolidated – transactions between segments of operation.

* Reclassified for the purpose of consistency with the policy for presenting the Group's expenses.

For explanations about the development of the financial information presented in Sections 1.5.1 to 1.5.3, see Section 1 of the Directors Report on the State of the Company's Affairs ("the Directors Report").

1.5.4 Main results and operational data

Condensed data showing the results of each of the Company's main segments of operation in 2018 and 2019:

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

	2019	2018	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues (NIS million)	4,073	4,196	985	1,025	1,020	1,043	1,026	1,043	1,064	1,063
Operating profit (NIS million)	2,142	1,224	296	440	875	531	(87)	451	387	473
Depreciation and amortization (NIS million)	861	850	225	225	204	207	217	218	211	204
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	3,003	2,074	521	665	1,079	738	130	669	598	677
Net profit (NIS million)	1,192	567	134	175	562	321	(155)	257	202	263
Cash flow from current activities (NIS million)	1,847	2,206	476	484	416	471	600	583	507	516
Payments for investments in property, plant & equipment, intangible assets and other investments (NIS million)	881	976	193	145*	333*	210	225	233*	313*	205
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	407**	227**	14	14	340**	39**	270**	8	(58)**	7
Payments for leases	114	99	28	25	27	34	9	28	29	33
Free cash flow (NIS million) (2)	1,259	1,358	269	328***	396***	266***	636***	330	107***	285
Number of active subscriber lines at the end of the period (in thousands)(3)	1,718	1,818	1,718	1,743	1,768	1,792	1,818	1,843	1,865	1,889
Average monthly revenue per line (NIS) (ARPL)(4)	49	52	48	49	49	50	51	51	52	53
Number of outgoing use minutes (million)	3,499	4,014	820	888	865	926	989	960	1,010	1,055
Number of incoming use minutes (million)	4,291	4,627	1,046	1,099	1,056	1,090	1,160	1,125	1,151	1,191
Total number of internet lines at the end of the period (thousands) (7)	1,575	1,656	1,575	1,589	1,613	1,635	1,656	1,663	1,662	1,653
The number of which provided as wholesale internet lines at the end of the period (thousands) (7)	592	626	592	601	612	624	626	617	600	574
Average monthly revenue per Internet subscriber (NIS) - retail (ARPU)	97	96	98	98	97	96	96	93	93	92
Average bundle speed per Internet subscriber - retail (Mbps)(5)	67.8	59.1	67.8	66.2	64.0	61.5	59.1	57.4	55.4	53.5
Telephony churn rate (6)	11.7%	11.6%	2.9%	3.0%	2.7%	3.0%	3.1%	2.7%	2.8%	3.0%

(1) EBITDA (Earnings before interest, taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations that counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices that are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies. The Company’s EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from the impairment of property, plant and equipment and intangible assets. Commencing January 1, 2019, and to reasonably present economic activity, the Company presents ongoing losses from the impairment of property, plant and equipment 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 11 to the 2019 Financial Statements and Section 7.

(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 property, plant and equipment, 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 indication 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.

(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) Excluding revenues from transmission services and data communication, internet services, services to communications operators and contractor and other works. Calculated according to average lines for the period. On this matter, see Section 7.

(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.

(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.

(*) In Q2 2018 - including permit fee payments in the amount of NIS 112 million (75% of the requirement) for the sale of the Sakia property. In Q3 2018 - including payment of purchase tax in the amount of NIS 9 million. In Q2 2019 - including payment of a betterment levy in the amount 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 the betterment levy.

(**) In Q2 2018 - land appreciation tax paid on the sale of the Sakia property was recorded as a reduction of amounts received from the sale of property, plant and equipment in the amount of NIS 80 million; in Q4 2018 - including proceeds of the Sakia sale in the amount of NIS 155 million; in Q1 2019 - including proceeds of the Sakia sale in the amount of NIS 5 million, as well as a refund of land appreciation tax that was received in the amount of NIS 5 million. In Q2 2019 - including the proceeds of the Sakia sale in the amount of NIS 323 million.

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

1.5.4.2 Pelephone

	2019	2018	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue from services (NIS million)	1,709	1,755	416	446	430	417	437	449	438	431
Revenue from the sale of terminal equipment (NIS million)	653	688	186	166	140	161	181	155	164	188
Total revenue (NIS million)	2,362	2,443	602	612	570	578	618	604	602	619
Operating profit (loss) (NIS million)	(99)	(2)	(97)	16	(8)	(10)	(4)	(2)	2	2
Depreciation and amortization (NIS million)	633	655	163	157	156	157	177	161	159	158
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	534*	653	66*	173	148	147	173	159	161	160
Net profit (loss) (NIS million)	*(47)	24	*(69)	18	2	2	2	6	7	9
Cash flow from current activities (NIS million)	677	770	146	200	136	195	156	194	181	239
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	292	306	75	72	82	63	78	69	90	69
Payments for leases	242	259	51	76	46	69	70	64	50	75
Free cash flow (NIS million) (1)	143	205	20	52	8	63	8	61	41	95
Number of postpaid subscribers at the end of the period (thousand) (2) (5)	1,911	1,831	1,911	1,895	1,866	1,842	1,831	1,817	1,800	1,760
Number of prepaid subscribers at the end of the period (thousand) (2) (5)	425	374	425	415	397	382	374	368	801	786
Number of subscribers at the end of the period)(2)	2,336	2,205	2,336	2,310	2,263	2,224	2,205	2,185	2,601	2,546
Average monthly revenue per subscriber (NIS) (ARPU) (3)	63	62	60	65	64	63	66	68	57	57
Churn rate (4)	30.7%	33.3%	7.3%	7.3%	7.5%	8.6%	9.0%	9.1%	7.3%	8.0%

* After adjustment for non-recurring expenses resulting from implementation of the collective labor agreement detailed in Section 3.9.4, Pelephone's EBITDA amounted to NIS 611 million and NIS 143 million in 2019 and Q4 2019, respectively, and Pelephone's net profit in 2019 was NIS 12 million, and net loss in Q4 2019 was NIS 10 million.

(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 from Q3 2018), and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, 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. Notably, a customer may have more than one subscriber number ("line"). The subscriber list includes subscribers who use different services (e.g. data for car media systems), from which the average revenue is substantially lower than for other subscribers. On the change in the definition of subscribers from Q3 2018, see note (5) below.

(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. On the effect of the change in the definition of a subscriber from Q3 2018 on the ARPU index, see note (5) below. See also Section 7.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the period, to the average number of active subscribers during the period. On the effect of the change in the definition of a subscriber from Q3 2018 on the churn rate, see note (5) below. See also Section 7.

(5) From Q3 2018, Pelephone updated the definition of an active subscriber so that its subscriber listing will no longer include IOT subscribers, and it added a separate comment for prepaid subscribers so that a prepaid subscriber will be included in the list of active subscribers from the date on which the subscriber loaded his device, and it will be removed from the list of active subscribers if no outgoing calls were made for six months or more. As a result of this change, at the beginning of Q3 2018, 426,000 prepaid subscribers and about two thousand IOT subscribers were written off Pelephone's subscriber listings. This led to an increase of NIS 11 in the ARPU index and an increase of 1.5% in the churn rate in Q3 2018.

1.5.4.3 Bezeq International

	2019	2018	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues (NIS million)	1,339	1,391	330	329	339	341	370	333	336	352
Operating profit (NIS million) *	(57)	111	(86)	(21)	17	33	19	30	29	33
Depreciation and amortization (NIS million)	190	194	51	47	46	46	60	46	45	43
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1) *	133**	305	(35)	26	63	79	79	76	74	76
Net profit (NIS million)	(50)	77	(67)	(18)	10	25	13	20	20	24
Cash flow from current activities (NIS million)	255	300	87	64	48	56	106	73	54	67
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)(2)	128	126	21	40	34	33	25	26	44	31
Payments for leases	32	36	8	8	8	8	9	9	9	9
Free cash flow (NIS million) (1)	95	138	58	16	6	15	72	38	1	27
Churn rate (3)	26.2%	25.5%	6.3%	7.1%	6.2%	6.6%	7.7%	5.8%	6.0%	6.0%

(*) Reclassified

(**) After adjustment for non-recurring expenses resulting from implementation of the collective labor agreement detailed in Section 4.8. In 2019, the EBITDA of Bezeq International amounted to NIS 280 million and net profit was NIS 65 million.

(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.

1.5.4.4 DBS

	2019	2018	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues (NIS million)	1,345	1,473	331	334	337	343	356	367	375	375
Operating profit (loss) (NIS million)	(55)	(1,156)*	(6)	20	(24)	(45)	(1,139)*	1	(17)	(1)
Depreciation, amortization and ongoing impairment (NIS million)	219	323	46	50	68	55	84	81	79	79
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	164**	(833)*	40	70	44	10	(1,055)*	82	62	78
Net profit (loss) (NIS million)	(69)**	(1,148)*	(7)	15	(27)	(50)	(1,137)*	(2)	(10)	1
Cash flow from current activities (NIS million)	143	226	31	37	22	53	46	34	60	86
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	238	297	32	69	73	64	81	79	75	62
Payments for leases	30	31	7	8	7	8	6	9	8	8
Free cash flow (NIS million) (1)	(125)	(102)	(8)	(40)	(58)	(19)	(41)	(54)	(23)	16
Number of subscribers (at the end of the period, in thousands) (2)	555	574	555	558	565	568	574	584	582	580
Average monthly revenue per subscriber (ARPU) (NIS)(3)	199	211	198	198	198	200	206	210	215	214
Churn rate (4)	21.2%	21.5%	5.2%	5.5%	4.9%	5.6%	5.6%	5.1%	4.7%	6.1%

(*) See Note 11.4 to the 2019 Financial Statements concerning impairment of assets.

(**) After adjustment for non-recurring expenses resulting from the implementation of the collective labor agreement detailed in Section 5.11, in 2019 the EBITDA of DBS amounted to NIS 209 million and the net loss was NIS 24 million.

(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. In Q4 2018, the standardization formula was updated as a result of which the number of subscribers fell by 7,000. This is partially due to the fact that the average revenue per small business customer in the special offers (at least 100 customers per offer) increased in 2018 as a result of customers moving over to packages that are richer in content at a higher price.

(3) Monthly ARPU is calculated by dividing total DBS revenues (from content and equipment, premium channels, advanced products, and other services) by the average number of customers in the period. See also Section 7.

(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period. The churn rate includes DBS subscribers who moved from satellite services to Sting TV and the reverse. DBS believes that the rate of movement is negligible and is not more than 1.% of all DBS subscribers in the year. See also Section 7.

1.6 Group Outlook

Given the outbreak of the coronavirus (COVID-19) and the resulting substantial uncertainty in the global and local economy, at this stage, the Company is unable to publish an accurate outlook for the Group's results for 2020.

The Company considers it important to continue to provide guidance, and will therefore continue to closely monitor developments in the coming months, and will consider, depending on the situation, the possibility of publishing a forecast for 2020, together with the publication of the results for the first quarter of 2020, if feasible.

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

The communications market, both globally and in Israel, is characterized by rapid development and frequent changes in technologies, business structure of the industry and applicable regulation. Below is a description of the main trends and central characteristics of the communications market in recent years, which have significantly affected the operations of the Group as a whole.

There is fierce competition in most of the Group’s operating segments:

In cellular telephony segment, the large number of operators has strengthened competition and led to lower prices, increased customer portability. In the fixed-line telephony segment, competition, including from cellular companies, has brought about a decline in use of fixed-line telephony minutes and higher customer churn (including many customers without a fixed line at home), which in turn has affected the Group’s results.

In the television services segment, competition has increased by over the top (OTT) streaming television content services (VOD services and linear channels), including by foreign service providers such as Netflix, and receiving Idan+ channels, which are not subject to regulatory supervision and the same liabilities as those of the multi-channel broadcast providers.

In the Internet and Internet access infrastructure services segment, there is fierce competition with companies that own infrastructure and through the wholesale market (see Sections 1.7.3 and 2.16.4) and the implementation of additional wholesale services is deepening.

To reduce the impact of the foregoing, the Group companies are introducing streamlining and other measures to improve the services they provide and differentiate themselves from their competitors.

Considering the diversity of the Group's communication operations, regulatory and other developments could, in certain cases, have different (and even opposite) effects, on different areas of operation and on risk factors in the Group (see Sections 2.20, 3.19, 4.14 and 5.19), meaning that changes in regulation and other factors that adversely affect one area, could potentially have a positive effect on another area. In certain cases, opposing effects on the areas of operation might be offset one against the other at the Group level.

1.7.1 Communications groups in the Israeli market

The market is recently characterized by competition among communications groups (the Company’s Group, Hot Group, Cellcom Group and Partner Group) operating in parallel in several segments (fixed-line and cellular telephony, fixed-line and cellular Internet services, multi-channel television and international calls)[6].

It is noted that competitors that do not belong to the above communications group (such as Golan Telecom, WE4G (Xfone), MVNO cellular operators, international operators and ISPs, including service providers in the wholesale market) also operate in the market.

The competition between the communications groups is reflected by increased use of "service bundles" or bundles of several services that include combinations of several different communication services. The communications groups market service bundles consisting of various communication services of the companies in each group to enable them to offer its customers a comprehensive solution that does away with the need to subscribe to several different providers, and to offer more attractive tariffs than purchasing each service separately (in some cases with "cross-subsidization" among the bundle components). These trends were reinforced with implementation of a wholesale BSA service (see Section

[6] In this regard, a group is characterized by proximity arising from the identity of shareholders, even though in some of the groups there is corporate, accounting or marketing segregation between the entities belonging to the Group.

2.16.4.2), allowing operators that do not own infrastructure and those that are not part of a communications group to offer a full end-to-end service bundle (including infrastructure) to their customers.

Providing customers with comprehensive services that meet their different needs is becoming easier due to technological convergence (see Section 2.1.4), regulatory changes and regulation through a single general license granted to different communications operators, enabling communications services that required separate licenses in the past to be provided under the same license.

At the reporting date, stricter restrictions apply to Bezeq Group in marketing service bundles than to the other Groups, as set out below.

On January 29, 2020, Partner reported that it had received an offer from HOT and its controlling shareholder to acquire 100% of its issued share capital. Later, Partner announced that its Board of Directors resolved to review all business options facing it. On February 16, 2020, Electra Consumer Products Ltd. ("Electra") reported that it is negotiating with Cellcom for Cellcom to acquire Electra's holdings in Golan Telecom. On the same day, Pelephone submitted a conditional bid to acquire full ownership and control of Golan Telecom. On February 18, 2020, Electra report that it has signed a binding memorandum of understanding with Cellcom, Golan Telecom and the Board of Directors and CEO of Golan Telecom for the sale of all Golan Telecom shares to Cellcom, subject to compliance with the preconditions that include mainly obtaining approval from Competition Commissioner and Ministry of Communications and the absence of any material adverse change (as defined).

Structural changes and mergers between competing communications groups and companies may have material implications on the structure and competition of the communications market and on the Group's activity. At this time, the Company is unable to assess these effects, considering, inter alia, that the negotiations to obtain the approvals for the mergers between these competitors are in the initial stages.

1.7.2 Activity of Bezeq Group as a communications group and the structural separation restriction

At the reporting date, the Group is subject to several regulatory restrictions in terms of joint ventures between the Group companies, including the obligation to maintain structural separation between the Company and its subsidiaries and the restriction on marketing joint service bundles that include the services of the Company and its subsidiaries. These restrictions place the Group in an inferior position in terms of competition, which is worsening over time compared with other communications groups.

Against the background of the challenges facing the Group and the future needs forming in the communications market environment, in parallel with the Company's actions to cancel the structural separation, the Board of Directors and the Company are taking measures to implement a comprehensive strategic plan for the Group as a communications group within the complex regulatory restrictions imposed on it (see Section 1.8).

Following are additional details about the main restrictions applicable to the Group in its activity as a communications group:

1.7.2.1 Structural separation

A. **Structural separation obligation** - the Communications Law grants the minister the authority to order accounting segregation between different services provided by the same group/company and to demand separate companies for the provision of different services, including separation of services to a license holder from services to a subscriber, and provisions regarding implementation of the separation.

The Company's domestic carrier license stipulates that it must maintain structural separation between itself and its subsidiaries[7]. This requires, inter alia, the management of the Company and that of the subsidiaries to be fully segregated, including in terms of the business, finance and marketing

[7] Pelephone, Bezeq International, DBS and Bezeq Online.

systems, and the Company is prohibited from disclosing commercial information to a subsidiary (subject to exceptions).

The structural separation restrictions place the Group in an inferior competitive position, which is worsening over time compared with other communications groups that are not subject to such far-reaching limitations, and compared with the option for the operators to provide end-to-end services to subscribers using wholesale services. These structural separation restrictions also give rise to high overheads.

B. **Cancellation of the structural separation** - On February 14, 2019, the Company petitioned the Supreme Court against the Ministry of Communications to cancel the structural separation in Bezeq Group immediately, after the Ministry failed to accept to the Company's requests on the subject even though, in the Company's opinion, all conditions justifying and requiring cancellation of the structural separation under in the policy document dated May 2, 2012 concerning expansion of competition in the fixed-line communication wholesale market ("Policy Document") have been met, inter alia, because many companies operate in the internet-based television service segment following the launch on February 17, 2015 of a broadband wholesale market, in which various service providers offer end-to-end broadband services on the Company's infrastructure to over a half a million customers, and in view of the fact that there is fierce competition in the cellular service segment. On September 19, 2019, (after several extensions) the State filed its response to the petition. The State's response argued that the petition should be dismissed outright since the petition is premature, prior to completion of the examination of the issue of structural separation by the special professional team appointed for this purpose by the Director General of the Ministry of Communications. It was also argued that the petition should be dismissed in its own right in the absence of any grounds for judicial intervention in the matter, and since the conduct and decisions of the Ministry of Communications and of the Minister of Communications are very reasonable and are in the broad area of professional discretion granted to the Ministry of Communications in such matters; that the discretion of the Minister of Communications is not bound by the policy document concerning expansion of competition in the field of fixed-line communications - the wholesale market (which includes addressing the cancellation of the structural separation), in which it was explicitly stipulated that the development of the wholesale market and the possibility that it might harm competition or the public interest must be assessed, and this was done. It is also argued that in any case the Company has not complied with the terms and principles set out in the policy document and the provisions of the regulations set for its implementation in all matters related to the advancement and development of reform of the wholesale market. On December 31, 2019, the Company filed its answer to the response of the State and other respondents, explaining and claiming, inter alia, that the allegations should be dismissed outright since they are baseless and contradictory, the factual basis presented in the responses is fundamentally flawed and biased, the policy document establishes a clear commitment for respondents to cancel the structural separation obligation, which they should have done since the conditions have been met, and it is justified, correct and appropriate to comply with the Company's request to issue a conditional order, as sought in the petition, and later to make the conditional order absolute. On January 30, 2020, a hearing was held on the petition and due to the court's questions about the length of time of the work of the professional team appointed to discuss the matter is taking, the State notified the court that the professional team's recommendations will be filed within four months and a revised notice for the State will be submitted to the court by June 15, 2020, while the parties are keeping to all their claims.

1.7.2.2 Marketing joint service bundles with a subsidiary

The Company is permitted to offer subscribers joint service bundles with its subsidiaries, subject to approvals by the Ministry of Communications and several terms laid down in the domestic carrier license, including:

- The bundled must be "unbundleable", meaning that a service included in them will be offered separately and on the same terms.
- At the time of submitting a request for approval of a bundle, there is a group of services in similar format being marketed to a subscriber as a package by a license holder who is not a subsidiary of the Company, or there is a group that includes license holders who provide a private subscriber with all the services included in the joint service bundle.
- Joint service bundles marketed by the subsidiaries including the services of the Company, are also subject, according to their licenses, to similar limitations, including a requirement for unbundling (except for a bundle marketed by a subsidiary that contains only the Company's Internet infrastructure service).

These limitations, and in particular the unbundling obligation, which severely limits the Group's ability to offer discounts on the components of the bundles, puts the Group in a competitively inferior position compared to the competing communications groups, which are not subject to similar limitation in marketing bundles (other than a limitation on marketing a joint bundle of HOT-Net and other companies in HOT Group). In this regard, it is noted that the HOT Telecom and HOT Mobile licenses allow them to market joint service bundles to the business sector, with certain restrictions. The Company's limitation is more significantly manifested with implementation of the wholesale BSA services and the option for ISPs to provide full end-to-end services (infrastructure + service provider) to customers at reduced prices compared to the unbundleable bundles that the Company can market (on which the following restrictions are also imposed).

<u>Marketing joint service bundles with DBS</u> - concerning limitations on collaboration with DBS for the sale of joint service bundles under the licenses of the Company and DBS, see also Section 5.15.9. On March 27, 2017, the Ministry of Communications notified the Company that it would not approve the Company's request to market joint service bundles with DBS, given that it will, in the near future, be completing several regulatory measures that allow more complete implementation of the wholesale market reform, including regulation of telephony resale, new regulations relating to the Company's retail tariffs, regulation of a mechanism to reduce profit margins and regulation of the conditions for marketing bundles in which the Company markets infrastructure services together with the ISP services of an ISP ("reverse bundles"). According to the Ministry's notice, it is therefore willing to review requests of this kind for joint service bundles which include internet, telephone and television, in at least six month's time, after it has examined the effect of the above measures on the market and is certain that the Company satisfies the regulatory requirements. As at the date of the report, the Company has not filed another request on the subject. It should be noted that on February 15, 2018, the Ministry addressed the Company's announcement of its intention to send interested customers a link to the DBS site, expressing its position that marketing DBS internet-based television ("Sting") by the Company is not in line with the structural separation provisions of the Company's license and accordingly, the Company does not market Sting service of DBS.

<u>Marketing joint service bundles of internet infrastructure together with ISP</u> - in 2017, further to the Ministry's demand, changes were made to the bundle sales format, mainly splitting the bundle after a year.

On January 23, 2019, the Ministry of Communications distributed a letter regarding the reverse bundle stipulating that disconnecting subscribers and reconnecting them to a reverse bundle in a single bill is a violation of the Ministry's decision (the provisions of the service providers' licenses obligate them to contact the service subscribers prior to disconnecting them from the services). Subsequently, on March 4, 2019, the Company received notice from the Ministry of Communications that following a meeting held with the Company's representatives, the Ministry is considering changing the reverse bundle format. Until the change is made (if at all) the Company was instructed to follow the present provisions, including with regard to splitting the bill and the prohibition against renewing the reverse bundle proactively. Subsequently, on March 26, 2019, the Ministry published a hearing on this matter, including its intention to set a cooling off period of one month after the split before offering a new bundle.

April 16, 2019, the Company submitted its comments whereby it should be allowed to market a reverse bundle that meets the customer's basic requirements for assurance and continuity of service, which is not limited in time and allows the customer to disconnect at any time.

On July 24, 2019, the Company received hearing documents from the Ministry of Communications, in part concerning a change in the marketing formula of the "reverse bundle". According to the information in the hearing documents, the Ministry is considering changing the formula presented at the hearing on March 26, 2019, and determining, inter alia, that the Company will not be obligated to market a reverse bundle for ISPs that have accumulated over 100,000 wholesale BSA customers on the Company's network and have also provided accessibility to over 100,000 households to their independent optical fiber infrastructure on the Company's physical infrastructure. The Ministry will also determine that the provisions for breaking up the bundle after 12 months will be cancelled. According to the hearing, this format will enter into force after the launch of the Company's fiber project and a reasonable possibility will be provided to purchase the BSA service on the fiber network. The Company submitted its comments on the hearing on September 8, 2019 in which it made clear that there is no reason to make the necessary change in the format of the bundle conditional on the launching of the Company's fiber project.

Further to the oversight proceeding conducted at the Company in February 2019, on November 26, 2019, the Company received a final supervision report and notice of the intention to impose an overall fine of NIS 2,572,000 for the Company failing to comply fully with the provisions of the license in respect of the "reverse bundle". On January 1, 2020, the Company submitted its comments that it did not violate the provisions of its license or of the Ministry and, therefore, sanctions should not be imposed on it.

Marketing joint bundles with Pelephone - on February 10, 2019, the Ministry rejected the Company's application dated January 13, 2019 to market a joint bundle of internet infrastructure (with or without an infrastructure provider) together with Pelephone's cellular services, *inter alia*, for reasons that it did not find that approval of the request would contribute to competition in the communications market, but would rather lead to impairment of the competition developing on the wholesale market and the existing competition in the cellular market, and strengthening the power of the Bezeq Group and its existing competitive edge. The rejection letter further indicated marketing joint service bundles was discussed by the interministerial team that is examining the structural obligations applicable to Bezeq and HOT groups (the team for examination of the structural separation obligation). It should be noted that joint bundles with Pelephone were approved in the past.

1.7.2.3 Further limitations on cooperative ventures and preferences between the Group companies

There are more limitations on cooperative ventures between the Company and the Group Companies, both under competition laws and conditions laid down by the Competition Commissioner in approvals of mergers between the Company and the Group Companies, prohibiting discrimination in favor of Group Companies when providing certain services (see Section 2.16.8), and by power of the orders of the Company's license, which oblige it to provide its services equally to all. For further limitations, see also Section 5.15.9.

Lifting of the restrictions on structural separation and waiving the limitations applicable to cooperative ventures between the Group Companies as set out above, if lifted, may form various opportunities for the Group to utilize synergies or the facilitate utilization of such synergies.

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

Recently a wholesale market model has been implemented in Israel, as part of which the obligation to sell wholesale services to other communications operators was imposed on owners of a country-wide fixed-line access infrastructure (the Company and HOT) to allow other communications operators to use the Company's infrastructure at prices set out in regulations.

As part of this, the Ministry of Communications established service portfolios setting out the format for provisions of the services by the infrastructure owners:

1.7.3.1 Wholesale BSA service

This service allows service providers that do not own infrastructure to offer their customers full internet services, including internet connectivity services (of the ISP) and internet infrastructure services (based on the Company's network). Since launching the service, hundreds of thousands of customers have switched to receiving services through these service providers).

1.7.3.2 Wholesale service use of physical infrastructures

This service allows service suppliers without infrastructure to use the Company's physical available-for-transfer communication cables infrastructure and dark fibers.

The service was expanded since the amendment to the Communications Law required the Company to allow other licensed domestic carriers, which are not necessarily suppliers without infrastructure, to use its passive infrastructure to perform any telecommunications activity and provide any telecommunications services under their licenses. The same amendment also grants the Company the right to use physical infrastructure of other companies.

1.7.3.3 Wholesale telephony service

This service allows service providers that do not own infrastructure to offer their customers telephony service at wholesale tariffs using the Company's network. Until August 2018, the temporary arrangement allowing the Company to provide the service in a resale format, meaning a format in which the service provider purchases a line and call minutes from the Company and receives a range of services (including technical services) from the Company, whereas according to the Ministry of Communications' notice, as from August 2018, the Company is required to provide the service in a wholesale format, meaning a service format in which the service is provided through the Company's switch, but the call also goes through the service provider's switch, both as an isolated service and as a supplementary service to the BSA service. Since August 2018, the Company is prepared to provide resale services at wholesale prices (without technical services), although with this service the call does not pass through the service provider's switch, and since the beginning of 2019, the Company is prepared to provide a wholesale telephony service that passes through the service provider's switch, and based on Bezeq's subscriber switch and another component outside the switch (for further information, also see Sections 2.1.8, 2.7.2 and 2.16.4).

The maximum tariffs which the Company may charge for providing the services are laid down in regulations.

To the best of the Company's knowledge, the sale of wholesale services on the HOT network was launched in mid 2018 and the Company believes that the volume of wholesale subscribers on the HOT network is not high at this stage.

The regulatory provisions regarding the wholesale market, as well as its implementation and development in the reporting period, affect a material part of the Group's activities. For further information about the wholesale market services and their regulation, see Section 2.16.4.

1.7.4 Additional regulatory aspects relevant to the entire Group or several Group Companies

1.7.4.1 Interconnect tariffs

The Group's telecom companies (Bezeq, Pelephone and Bezeq International) pay interconnect fees to other carriers for calls that are terminated on the networks of those carriers, and some of them (Bezeq and Pelephone) receive interconnect fees for calls that are terminated on their networks and from international communications operators for incoming and outgoing calls on their networks. The interconnect fees are determined by the regulator as the maximum tariffs in the interconnection regulations. The changes in the interconnect tariffs have an offsetting effect at the Group's level, in view of their effect on the expenses or revenue of the Company and its subsidiaries.

1.7.4.2 Restriction of the exit penalty a license holder can collect from a subscriber

Under the provisions of the Communications Law, holders of domestic carrier, ITS and broadcasting licenses (including the Company, Bezeq International, DBS and B.I.P) may not charge disconnection fees from subscribers who cancel agreements if their average monthly bill is less than NIS 5,000, or deny them a benefit that they would have received had they not ended the agreement[8]. Cellular operators (including Pelephone) may not collect disconnect fees from customers who hold up to 100 phone lines or condition a contract for cellular services on an agreement to purchase, rent or lease terminal equipment (“unlocking”). As a rule, these restrictions make customer retention difficult for the communications operators that are subject to them.

1.7.4.3 Non-discrimination in the offering of benefits and special tariffs

Due to the different positions expressed by the Ministry of Communications in the past, inter alia, in motions to certify class actions filed against Pelephone, Bezeq International and DBS, alleging discrimination of customers, communications companies may be restricted under certain circumstances be able to offer benefits and special tariffs to their new customers or to prevent a subscriber from switching to plans marketed to new customers. The Ministry of Communications announced its intention to hold a hearing regarding revision the provisions of the licenses regarding price discrimination between subscribers with the trend of standardizing the licenses in a manner that is also consistent with the changes and developments in the market and had not yet done so. On December 9, 2019, the Tel Aviv-Jaffa District Court issued a ruling addressing the changing positions of the Ministry of Communications on the matter and believes that the Ministry’s position should not be adopted, since there are several major flaws in formulating its opinion and the manner in which it was adopted (lack of a factual foundation, lack of consultation with the Competition Authority, lack of reasoning, lack of coherence and failure to hold a hearing). The ruling dismissed the motions to certify class actions and an appeal was filed against it. For further information, including the appeal filed against the ruling, see Sections 3.16.1(D) and (G), 4.12.1(C) and 5.17.1(B).

1.7.4.4 Amendments of licenses and additional legislation

A. Call center response times

The amendment to the licenses of the Company, Pelephone and Bezeq International prescribes, among other things, provisions concerning the obligation to route calls on certain matters to a professional human response, call waiting times as well as provisions concerning call center work hours, the recording and documenting of calls and reporting obligations. The amendment came into force on date of entry into effect of the Consumer Protection Law (July 25, 2019) dealing, *inter alia*, with waiting time for a human response. The DBS broadcasting license was amended in the same way. The amendments led to an increase in costs for operating the call centers of the Group’s companies. It should be noted that in November 2019, the Ministry of Communications issued a demand for information as part of the oversight activity to all communications companies on the issue of waiting times for a human response at call centers. A similar demand was addressed to DBS in January 2020.

8 With regard to the operators’ claims in the hearing conducted by the Ministry of Communications in respect of this provision, that the discounts or benefits, which are prescribed in the conditions that the subscribers are required to comply with, do not violate the provisions, the Ministry decided that in any case it will examine whether the conditions are real and relevant also when the subscriber remains as the operators’ subscriber.

B. Amendment on the subject of IPv6 protocol (internet addresses)

On July 3, 2019, the Ministry of Communications published a decision on the hearing and a license amendment in which the transition to Ipv6 protocol will take place in accordance with the defined milestones. For the Company (as the holder of a domestic carrier license) and for the owners of Internet access licenses, it was determined, among other things, that within 12 months of date of the amendment of the license, the network and its component will be adapted to provide access for subscribers to the Ipv6 Internet protocol service from all terminal equipment that supports Ipv6 protocol; license holders are to voluntarily transfer existing and new subscribers with terminal equipment that supports Ipv6 to addresses on Ipv6 protocol. The subscribers will be transferred according to milestones so that up to 24 months from the date of the amendment, 50% of the subscribers will be transferred, up to 36 months - 75% and up to 48 months - 100% (excluding subscribers in possession of private terminal equipment that does not support the Ipv6 protocol and have decided not to replace it, provided that the license holder signs them on a waiver). With respect to the holders of cellular licenses (such as Pelephone), it was determined that the voluntary transfer will reach 100% within 24 months. The Company is preparing for the transfer, and at this stage, no material expense is expected as a result.

1.7.4.5 Consumer legislation and privacy protection laws

Changes in consumer legislation affect the operations of the Group's companies on a regular basis. Various amendments have been made in recent years to the Consumer Protection Law and regulations, *inter alia*, concerning the cancellation of transactions even after service has begun, disconnection from on-going services, the need for the customer to give express consent to continue transactions after the end of the specified period and sending of messages, provisions concerning a refund of charges collected from the subscribers which are not in accordance with the communication agreement plus fixed handing charges prescribed in the Law, restriction on debt collection procedures, maximum waiting time for a human response, and extension of the visiting times of technicians at the subscribers' homes. Various bills have also been tabled in the Knesset introducing further amendments to the Consumer Protection Law which may, inter alia, affect the terms of the agreement and the conduct of the Group's companies towards their subscribers.

Likewise, the activity of the Group’s companies is affected by the Privacy Protection Law and its regulations with respect to management and maintenance of databases and the information security that they contain. In May 2018, the Privacy Protection Regulations (Information Security), 2017 entered into force imposing various obligations on database owners, including obligations to establish procedures and conduct risk assessments in terms of information security and use of advanced security measures to protect information.

1.7.4.6 Enforcement and financial sanctions

Over the last few years, the Communications Law, the Economic Competition Law, the Securities Law, the Consumer Protection Law and the Telegraph Ordinance were amended, giving the regulators powers of enforcement, supervision and imposition of substantial graded fines for violation of these laws or regulations and their provisions. A similar bill to amend the Protection of Privacy Law, 1981, which also includes changes in the penal part of the law, is in advanced stages of legislation. Likewise, the Law to Increase the Enforcement of Labor Laws was legislated. This legislation affects the way in which the Group's companies manage their affairs, in part with respect to concern for imposition of sanctions, their ability to protect themselves, etc.

The Ministry of Communications has recently made extensive use of the oversight powers and has issued notice of its intention to impose fines on the Company for ongoing regulatory matters as well as matters pertaining to implementation of the wholesale market. For the fine regarding implementation of the wholesale market, see Section 2.16.4.2 and for the notice of the intention to impose a fine regarding the wholesale telephony service, see Section 2.16.4.4.

For the fine regarding passive infrastructure, see Section 2.16.8.7. For the notice of the intention to impose a fine in respect of the reverse bundle, see Section 1.7.2.2.

Moreover, provisions enabling administrative enforcement by means of imposing fines or an administrative warning are anchored in the Telegraph Ordinance (see Section 2.16.9).

The Consumer Protection and Fair Trade Authority also exercises enforcement powers provided in the Consumer Protection Law and from time to time issues demands for information, conducts investigations against the Group's companies for suspected violations of this law and imposes fines.

1.7.4.7 The Market Concentration Law

The Market Concentration Law was published in December 2013. The following is a summary of the main provisions of the law relevant to the Company:

A. Restriction on the control of companies in a pyramid structure

The law prohibits a tier company (public traded or bond issuing companies that are a reporting entity), which is a second tier company (a tier company whose controlling shareholder is not a tier company), from controlling another tier company. Transition and special provisions were established with regard to existing companies in respect of the composition of the Board of Directors and appointment of directors. Due to the transfer of control of the Company, as set out in Section 1.1.2, as at the report date no restrictions apply to it in this regard.

B. Restrictions on providing credit to business groups

Powers were granted to the Minister of Finance and the Governor of the Bank of Israel to promulgate regulations and provisions limiting the cumulative credit that financial institutions in Israel may give to a corporation or business group (a group of companies under joint control and their controlling shareholder).

C. Market concentration considerations in the allocation of rights - restrictions on the allocation of rights in critical infrastructures to a highly concentrated entity

The law prescribes a special, restrictive procedure that the regulator must apply prior to allocation of rights (such as a license, franchise, contractual agreement with the state to operate a critical infrastructure and in certain circumstances also to extend existing licenses) in sectors defined as a "critical infrastructure" to entities that are classified as a "highly concentrated entity". In this regard, a list of sectors was defined that will be deemed "critical infrastructure sectors", including operations for which certain communications licenses are required (domestic carriers, excluding a specialist domestic carrier (such as VoB operators and cellular operators), broadcasting licenses, and other sectors. The Company and the companies that it controls are included in the list published by the Competition Authority and are considered highly concentrated entities. The procedure prescribed in the law in relation to the allocation of a right to a highly concentrated entity will also apply to approval given for transferring the means of control in state-owned companies or companies that were previously government companies (the Company included) at the rates defined in the law, to a highly concentrated entity.

The law may adversely affect the Group's ability to enter new areas of activity as well as its current operations.

D. Separation between significant non-financial companies and significant financial entities

The law determines restrictions on holding financial entities by significant non-financial companies, on specific types of cross-holdings in significant non-financial companies and significant financial entities and on holding cross-company positions in such entities. The Company and the companies that it controls are defined as significant non-financial corporations under the Market Concentration Law.

1.7.4.8 Hearing on millimeter waves

Millimeter wave technology enables substantially larger wireless broadband transmission than technologies that were available in the past. The technology can be used from point to point and from point to multiple points.

On September 9, 2019, the Ministry of Communications published a hearing of the draft Ministry policy relating to millimeter waves addressing application of the use of frequencies that enable the use of millimeter technology in two key areas: (1) V-Band on 57-66 GHz frequencies - without any need for a license, and (2) E-Band which on certain frequencies will remain in place and will be licensed, in order to meet the current needs of communications providers, while for other frequencies will be under a new regime of “simple permits”, allowing the Ministry to monitor and control use in that area, without the need for a license. On September 24, 2019, the Company submitted its comments as well as several questions for clarification, and it stated that regulation of the use of this technology cannot be detached from the general regulations, and that it is fitting for the use of this technology will be permitted only for those who hold an appropriate license for communications service providers.

1.7.4.9 Hearing on asymmetry

On February 11, 2020, the Ministry of Communications published a hearing on information asymmetry in respect of infrastructure. According to the hearing document, due to the inherent competitive advantages of infrastructure owners over service providers and the asymmetry of the information in the possession of service providers wishing to use the physical infrastructure of the infrastructure owner compared to the information in the possession of the infrastructure owners, the Ministry is considering to establish various provision to reduce such information gaps and prevent impairment of competition. The provisions under consideration include: Extending the time periods required for the service providers to issue notices and transfer information to them; prescribing the Ministry of Communications the possibility of demanding the network engineering plans from the infrastructure owners; determining the duty to submit development plans to the Ministry of Communications in case of intentions to expand, develop or upgrade the network; and the duty to routinely update the website of the infrastructure owner in respect of the scheduled fiber deployment plans within three consecutive months and publish statistical information in the internal interface between the operators regarding orders, malfunctions, etc. On March 8, 2020, the Company submitted its comments to the hearing, claiming, among other things, that for the sake of the principle of transparency and non-discrimination and if the Ministry intends to create additional mechanisms in the market that require disclosure of commercial information between the companies, the identical mechanisms must be created for the Company and all other market players.

1.7.5 Restrictions on creating charges on the assets of Group companies

For convenience, below are referrals to Sections in the 2019 Periodic Report that relate to the restrictions applicable to Group Companies in placing charges on their assets, and the main restrictions:

1.7.5.1 Regulatory restrictions - the Communications Law, Communications Order (which applies to the Company) and some of the communications licenses of the Group Companies contain a restriction on granting of rights to a third party on assets used to provide the critical service or on the assets of the license[9], as the case may be, including the need to obtain regulatory approval to create charges on these assets. In some cases, such as Pelephone’s cellular operator’s license, and Bezeq International's unified license, there are exceptions permitting the creation of charges in favor of banks without the need for the regulator’s advanced approval, provided that the charge agreement includes instructions to

9 The assets required to secure the provision of service by the license holder.

ensure that the services rendered under the license will not be affected if the bank exercises the charge. In addition, under the provisions of the law and the communications licenses, the license and the resulting rights are not transferable and they cannot be pledged or confiscated (with certain exceptions). See also Sections 2.16.3.7, 3.14.2 and 5.15.8.

1.7.5.2 Contractual restrictions - the Company has made undertakings to certain financing entities not to pledge its assets without simultaneously creating a charge of the same class, rank and amount (negative charge), subject to specific exceptions. See also Note 15.4 to the 2019 financial statements.

1.7.6 Pandemic - coronavirus outbreak

At the beginning of 2020, the coronavirus (COVID-19) outbreak started in the world, which is an event with numerous implications, including macroeconomic ("the Event"). Due to this Event, many countries, including Israel, are taking significant measures in an attempt to prevent the virus from spreading, such as limiting the movement of citizens, gatherings, transport of passengers and merchandise, closing borders between countries, etc. As a result, the Event and the measures taken have significant implication also on many economies and on the global capital market.

Subsequently, the Group Companies are tracking developments related to the Event and reviewing the potential implications on their business activities. These implications may be reflected (and in part are already reflected, as set out below*), inter alia*, in impairment of the Group Companies' activities, including the supply chain, the customer service and fault repair system, staff availability, revenue from the sale of terminal equipment, roaming services in Pelephone, and a general decline in the level of business activity in the economy (see Section 2.20.10). This has led to payment difficulties in specific sectors. In terms of a decline in business activity in the economy, notably, part of the implications are already expressed in some Group Companies. On one hand, there is a decrease in segments related to tourism (including roaming), hospitality, travel, restaurants, culture and entertainment, and on the other hand, a certain increase in segments related to government, health, working from home and households.

As at the reporting date, there has been damage to some of the above activities, but at this stage, the damage is not yet material and there is no material impact on the financial and business position of the Group Companies. However, this is naturally a changing Event that is beyond the control of the Group Companies, and therefore, extensive spread of the virus, and/or the decisions of the Israeli government and of countries and authorities in Israel and worldwide in this regard, may affect them accordingly.

The Group Companies are taking various measures to deal with the risks and exposures due to the implications of the Event, including an increase the number of employees who working remotely, training employees who are required to be in contact with the public, providing the accessories required, activity to increase the inventories of equipment purchased in China, and expanding the sources of supply of the core products also from other countries.

At this stage, the Group Companies are unable to reliably assess the expected quantitative impact of the Event on their business activities. With regard to Pelephone, if the reduction in the volume of international travel and the impairment of the terminal equipment supply chain last long, a significant decrease in Pelephone's revenues and profit is expected in 2020, which is estimated at tens of millions of NIS.

The assessments in this Section are forward-looking information, as defined in the Securities Law. This information may be affected by various factors, including the continuation of the coronavirus outbreak and the extent the outbreak, the measures taken by the competent authorities to deal with the Event and their impact on the Group Companies, the behavior of the customers and suppliers of the Group Companies due to the Event and measures taken as a result, the ability to maintain the foregoing activities of the Group companies, etc.

On this matter, see also the description of the risk factors in the areas of activity in Sections 2.20.13, 3.19.1.2, 4.14.9 and 5.19.1.4.

Notably, on March 16, 2020, the Director General of the Ministry of Communications sent a letter regarding "Provision of Services during the Coronavirus Crisis", under which, *inter alia*, due to the state of emergency declared by the Knesset, the Group Companies (and other communications entities to which the letter was sent) are to make reparations according to the following principals, in addition to the Ministry of Health's provisions issued from time to time: Engineering system and technicians – 100%, service system – 50% and above, and headquarters - 30%. The Group Companies are acting accordingly. Most service and headquarters systems were converted to working from home and some employees of the Companies were sent on leave.

In addition, on March 17, 2020, the Ministry of Communications published a hearing (for response by March 18, 2020) that in view of letters received by the Ministry from license holders regarding compliance with the provisions of their licenses in during the period of the spread of the coronavirus, the Minister of Communications is considering revising the licenses of the communications companies to enable him to allow the license holder to deviate from a provisions in the license, fully or partially, based on conditions to be set out in a directive, which will be issued for a limited period of three months maximum.

1.7.7 For a description of other regulatory developments in the reporting period and the main restrictions applicable to the Group's areas of operation, see Sections 2.16, 3.14, 4.11 and 5.15.

1.8 Bezeq Group's Business Strategy

In 2019, the Board of Directors of the Company continued to review, implement and update the Group's business strategy that includes various streamlining processes and organizational changes. This, in part, against the ongoing decline in revenues of the Group's companies in recent years. To address this ongoing trend, the Group companies have introduced various streamlining measures and in this context the Board of Directors granted the Company and the subsidiaries Pelephone, Bezeq International and DBS approval to take action to implement such measures and the synergy in the subsidiaries.

Additionally, further to the foregoing, in October 2019, the Company's Board of Directors approved a vision and strategy for Bezeq Group based on the principles it had previously approved, as follows:

The Group's vision

Bezeq Group will lead Israel's communications market, provide the entire range of communications requirements for the private and business market and will strive to consistently improve its business performance.

The Group's strategy for 2020

- To lead the communications market through the ownership and operation of advanced, top notch infrastructure and provide outstanding service, while complying fully with the regulatory limitations.
- To meet the technology, business and service-oriented needs for all communications requirements (separately and in bundles) of the Company's customers.
- To focus exclusively on Israel's domestic market.
- To emphasize the Group's profitability in the medium term, rather than market share, as a strategic goal.
- To strive for financial stability and improved aggregate performance while continually streamlining operations and taking calculated risks.
- Until structural separation is abolished, the Group will work in two channels - one channel: Bezeq Fixed Line and the other: Pelephone, Bezeq International and DBS.

Streamlining measures and promoting integration of synergies between the subsidiaries

In 2019, the subsidiaries Pelephone, Bezeq International and DBS ("the Subsidiaries") implemented substantial measures to promote and integrate the synergy between them. Among others, the following central measures were implemented:

- The three companies signed collective agreements that include streamlining measures and synergy (for information, see Sections 3.9.4, 4.8 and 5.11.3)[10], allowing the subsidiaries to implement synergy activities and streamlining of over 1,000 employees in 2020-2021, in addition to streamlining by not recruiting employees.
- The Subsidiaries completed a transition to one unified management team, while streamlining the decision making processes, together with savings of tens of millions of shekels annually.
- Implementation of streamlining measures and saving operating expenses in all three Subsidiaries.
- Launching combined bundles (unbundleable, as the case may be) that are sold in the sales channels of the Subsidiaries and include television and internet services.
- An agreement was signed to integrate a joint CRM system on an advanced cloud platform.
- The Subsidiaries started implementing further synergy measures, such as cross sales, deepening joint purchasing and using shared resources.

For information regarding further strategic goals regarding each of the Group Companies, see Sections 2.19, 3.17, 4.13 and 5.18.

For the decisions of the Boards of Directors of the Company and DBS on the outline for gradual transition from satellite broadcasts to over the top (OTT), see Section 5.19.

The estimates set out in this Section are forward-looking information that may be affected by various factors, including future changes in the Israeli market in general and in the communications market in particular, strategic and other measures that the Company and its subsidiaries might introduce, regulatory changes, changes in the Company's competitive status, etc. Furthermore, the foregoing could be affected by the materialization of any of the risk factors listed in Sections 2.20, 3.19, 4.14 and 5.19.

[10] For information on collective agreements signed by Walla! and Bezeq Online, see the Company's immediate reports dated September 12, 2018 and November 30, 2019, included here by way of reference.

2. Domestic Fixed-Line Communications

2.1 General Information on the Operating Segment

2.1.1 Operating segment and changes occurring therein

The Company holds a general license to provide domestic fixed-line communication services and provides a range of such services as described in Section 2.2, mainly internet access infrastructure services, domestic fixed-line telephony, transmission and data communication services, cloud and digital services, and wholesale services (with regard to the wholesale services, see Section 2.16.4).

2.1.2 Legislative restrictions, standards and special constraints

2.1.2.1 Communications laws and the Company's Domestic Carrier License

The Company's operations are subject to government regulations and extensive oversight due to its position as a general license holder under the Communications Law, which is subject to the provisions of that Communications Law, its regulations, orders and rules, and the provisions of the Domestic Carrier License and other laws. In this respect and for the restrictions on the Company's activity, inter alia, in respect of price setting, structural separation, permits for new services and service bundles, see Sections 1.7.2 and 2.16. For information about the regulation of the wholesale market, see Section 2.16.4.

In addition, the Company was declared a provider of telecommunication services under the Communications Order. Pursuant to this declaration, the Company is obliged to provide a number of basic services under the domestic carrier license, and may not terminate or reduce them without approval. The order also sets out restrictions on transferring and acquiring means of control in the Company, and certain restrictions on the activities of the Company. For details, see Section 2.16.3.

2.1.2.2 Economic competition laws

The Company was declared a monopoly in its main areas of operation, and is also subject to oversight and restrictions under the Economic Competition Law (see Section 2.16.8).

2.1.2.3 Environmental laws and planning and construction laws

Some of the Company activities involve the use of wireless frequencies and facilities that emit electromagnetic radiation, which are subject to the Telegraph Ordinance (see Section 2.16.9), the Non-Ionizing Radiation Law (see Section 2.15.2), and to UBP 36 and UBP 56 (see Section 2.16.10), respectively.

2.1.3 Changes in the scope of operation in the segment and its profitability, market developments and customer characteristics

For key data about the scope of operation and profitability in domestic fixed-line communications in 2018 and 2019, see Section 1.5.4.1. The following is a description of the main changes in the scope of operation in the segment in the reporting period[11]:

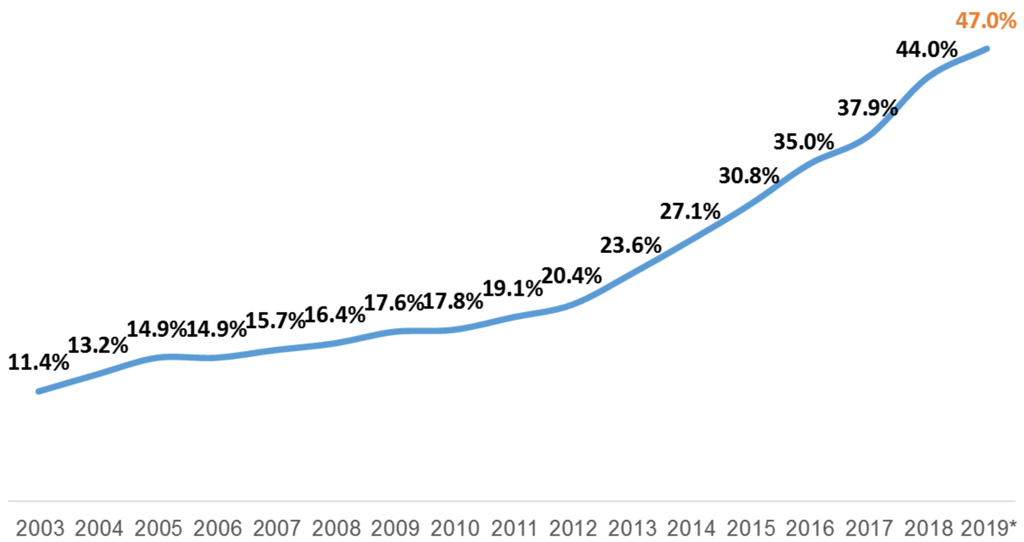
2.1.3.1 Wholesale market - at the beginning of 2015, the Company started providing a wholesale BSA service to service providers, whereas as at the end of 2019, the number of wholesale internet lines on the Company's network was 592,000, which constitutes 38% of all Company subscribers. In this regard, it is noted that these lines also include lines that were not on the Company's network in the beginning (new or from a competitor's network). There are only few subscribers to the wholesale telephony services. Regarding the provision of wholesale telephony services and wholesale services using passive infrastructure, see Section 2.16.4.

2.1.3.2 Fixed-line telephony - In recent years this segment has been characterized by a decline in demand, which is reflected in the decrease in the rate of ownership of

[11] For detailed data and definitions of subscriber and average income, see the notes to the table in Section 1.5.4.1.

fixed telephone lines and in a gradual erosion of the number of calls originating in fixed-line networks. The Company believes that this trend is due mainly to the rise in the scope of use of cellular phones in view of the comprehensive call-minute deals the cellular companies market extensively in recent years and the decrease in prices in the segment (the Company estimates that 85% of all calls originate in the cellular network), and from an increase in VoIP calls (see Section 2.1.4). In 2019, the number of Company lines declined by 6%. Likewise, the number of call minutes (incoming and outgoing) on the Company's fixed telephone lines declined by 11% compared with 2018. The average monthly revenue per phone line decreased by 5%.

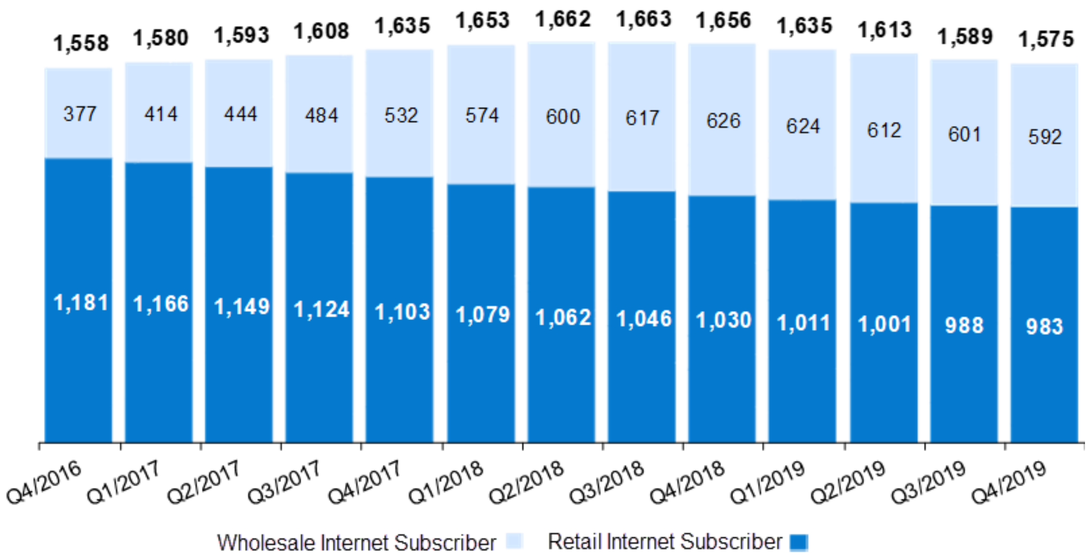
Graph - Rate of households without a fixed-line home telephone line[12]



2.1.3.3 Internet access - in the Internet segment, a growth has been recorded in recent years in terms of number of subscribers. Moreover, the Internet segment is characterized by a rise in broadband speeds and the adoption of advanced services and value-added applications. The Company believes that in 2019, there was a 3% increase in the number of fixed-line Internet subscribers in Israel compared to 2018. In 2019, the number of Internet subscribers (retail and wholesale) of the Company decreased by 5% compared to 2018. In 2019, there was an increase in the number of fixed-line Internet subscribers using the fiber optic infrastructure of the Subsidiaries. These companies do not publish the number of subscribers connected and the Company does not have information regarding this figure. In addition, in 2019, the number of wholesale market subscribers on the cable infrastructure of HOT increased. HOT does not publish the number of subscribers and the Company does not have information regarding this number. Average monthly revenue per internet subscriber (retail) rose by 4% compared with 2018.

[12] The data were taken from the Central Bureau of Statistics publications (press releases, initial findings of a 2017 survey of household expenses) dated December 12, 2018 and November 26, 2019. With regard to 2019 data, the Company's estimate is based on Central Bureau of Statistics' surveys from previous years.

Graph - Breakdown of Internet lines on Bezeq infrastructure (quarterly, in thousands):



2.1.3.4 Transmission and data-communication services

The transmission and data communications segments for business customers and communications providers is characterized by a rapid increase in customer broadband consumption, but in general at lower prices per given volume of traffic. This stems both from development of the technology allowing greater bandwidth at lower prices than in the past, and from competition in this area (see Section 2.6.4). There is also a decline in use of the Company's transmission and data communication services by communications providers, mainly due to migration to the use of independent infrastructures of the communications providers, including as part of the wholesale market. In this matter, see also Section 2.16.4.3.

2.1.3.5 Use of physical infrastructure - with regard to this wholesale service and granting competing infrastructure owners the option of using the Company's passive infrastructure, see Section 2.16.4.

2.1.3.6 Service bundles

On the increase in consumption of service bundles and packages, see Section 1.7.1 and regarding the Company's joint service bundles, see Section 1.7.2.

2.1.4 Technological developments that may have a significant effect on the operating segment

2.1.4.1 A trend has been established in the communications market with the migration to technologies based on IP protocol, which promotes technology convergence between the different communication systems (for example, telephony and data). Moreover, the penetration of integrated products that enable various communication solutions in a single device (for example, cellular and Wi-Fi services) has increased. These two, together with the growth in availability of IP-based technologies and the continuing increase in bandwidth consumption provide customers, including business customers, a broader range of applications and services on IP-based infrastructures, such as telephony services, including private exchange services, video transfer services, television, private networks, network services with enterprise applications on the internet infrastructure (ERP, CRM, etc.), and cloud services. These developments are leading to increased demand for bandwidth by the Company's internet infrastructure, transmission and data communication service customers. For the deployment of fiber optic cables and ultra-high-speed browsing, see Section 2.7.2. Technological developments and falling prices of the equipment could enable other operators to provide services similar to those provided by the Company at much lower costs.

Technological changes could lead to cannibalization of services. An example is the decrease in consumption of the Group's traditional fixed-line telephony services (for competition in the telephony segment by provision of services on the Company's Voice over Broadband (VoB) infrastructure, see Section 2.6.2). This increase in the cellular service speeds allows cellular operators to compete with the Company's telephony and Internet services, and market larger bandwidths to their customers at lower prices. As at the reporting date, the Company estimates the increase in the number of customers browsing the cellular Internet has not materially affected the volume of its Internet activity. Nevertheless, the potential growth in the use of cellular networks at the expense of use of the Company's network is real.

2.1.4.2 The Company also deals in the development and provision of wireless technology-based services for IOT (Internet of things) solutions for homes, cities and smart facilities, see Section 2.2.5.

2.1.4.3 With regard to the establishment of communications infrastructure that compete with the Company's infrastructure, see Section 2.6.5 and on the Company's network, see Section 2.16.4.4.

2.1.5 Critical success factors and changes in the operating segment

2.1.5.1 The ability to offer reliable communications systems at a competitive price based on a cost structure suited to the frequent changes in the Company's business environment.

2.1.5.2 Regulatory decisions and the ability to cope with them.

2.1.5.3 The ability to maintain innovation and technological leadership and translate them into advanced and reliable applications of value for the customer at short response times, and marketing primacy.

2.1.5.4 Preservation of brand values and their adaptation to the conditions of the changing competitive environment, including the wholesale market.

2.1.5.5 Effectiveness of the sales and services groups.

2.1.5.6 Managing an informed price policy, subject to regulatory restrictions, including restrictions and changes following implementation of the wholesale market.

2.1.6 Main entry and exit barriers and changes in the operating segment

Operating in the domestic fixed-line communications segment requires receipt of the appropriate Domestic Carrier licenses.

Traditionally, the main entry barrier to this segment stemmed from the need for heavy investment in technological infrastructure and in surrounding systems until obtaining economies of scale, and from high costs involving the establishment of marketing, sales, collection and customer support systems and the building of a brand. Over the years, these traditional barriers to the Company's operating segment have lessened considerably as a result of the following factors: technological improvements, lower infrastructure and equipment prices, easing of regulation granted to new competitors, the mandatory obligation to allow the use of the Company's (and HOT's) infrastructures and services, including in the wholesale market, and the use of VoB-based technology, which enables telephony services to be provided on a broadband infrastructure of another operator without the need for an independent fixed-line telephony infrastructure.

The main exit barriers stem from the commitment of the Company laid down in its license to provide its services universally (to the entire public in Israel), its subordination to the provisions of the Communications Order, the regulations accompanying the Communications Law, and the provisions under Section 13A of the Communications Law relating to emergency operation, its commitment to those of its employees who are employed under collective agreements, the large investments requiring time before seeing a return, and the commitment to the repayment of long-term loans taken to finance the investments. Some of these exit barriers are unique to the Company and not relevant to other operators in the segment.

2.1.7 Substitutes for and changes in the products in the segment

Cellular communications services are a substitute product for the Company's services, in both the telephony segment, including through applications and IP technology such as VoB (see Section 2.6.2) and Internet (see Sections 2.6.2 and 2.6.3), transmission and data communications segment. Technological developments (e.g., 4G and in future 5G in cellular, fiber-optic based infrastructure and advanced cable internet protocols) enable the provision of new services at high speeds and competitive prices.

2.1.8 Competition structure and changes therein

Domestic fixed-line telephony is regulated and overseen by the Ministry of Communications, inter alia by granting licenses to entities operating in the segment.

In the communications market, two holders of licenses to provide domestic fixed-line communication services are obligated to provide them to anyone requesting them nationwide (universal service): the Company and HOT Telecom (the obligation does not apply to other unified domestic carrier license holders). Moreover, with regard to IBC, whose deployment obligations were reduced to no less than 40% of households in Israel within 10 years from the date of receipt of a unified general license as a new type of special, general license (infrastructure) (July 31, 2019) that replaced the general (domestic carrier infrastructure) license[13]. The three companies compete with each other. However, they are allowed to make mutual use of each other’s physical infrastructures (except for the infrastructure owned by IEC, which is required for the provision of critical services) and the infrastructures of another domestic carrier license, so that there can in fact be competition through the physical infrastructures of another license holder, and in practice, mainly on the Company’s infrastructures (in this regard, see Section 2.16.4.4).

Cellcom and Partner, that are holders of special domestic carrier licenses (that do not require universal deployment) have deployed an independent fiber network, including on the Company’s physical infrastructure, and Cellcom has also acquired control of IBC and transferred the IBC fiber network to it (see Section 2.6.5).

There is competition in the fixed-line telephony segment, and those competing with the Company as part of communications groups (see Section 1.7.1) are the cellular companies (see Section 2.6.2.2), HOT Telecom and VoB service providers which have been operating under licenses for several years with no obligation to provide universal services, and without their own independent access infrastructure. For information about wholesale telephony services, see Section 2.16.4.

The internet segment is characterized by high rates of penetration, which are attributed to the deployment of a national access infrastructure. The Company’s main competitor in this segment is HOT. Upon implementation of a wholesale market, ISPs compete with the Company in providing service packages, including broadband Internet access infrastructure using the Company's infrastructures, in which they use wholesale services. The Company is also exposed to competition from the cellular networks (see Section 2.1.4).

In the wholesale services segment, HOT competes with the Company as the owner of infrastructure compelled to provide wholesale services. In practice, wholesale BSA services on the HOT network were launched in the second half of 2018 (see also Section 2.16.4).

In the transmission and data communications segment, the Company competes mainly with HOT Telecom, Cellcom and Partner, which operate as communications groups and provide a full communications solution to customers.

Competition in the industry depends on a number of factors, such as regulatory decisions, possible changes in the terms of the licenses of the Company and the subsidiaries, and in the terms of the licenses of their competitors, mergers and joint ventures between companies that compete with the Group companies, the possible repercussions of the Market Concentration Law, further development of the wholesale market, the lack of symmetry between the ability of the Company and the competitors to provide a comprehensive service, the new services that the Company will be permitted to provide, the tariff policy, cancellation

[13] The obligation to provide services to anyone in Israel requesting them also applies to general license holders that offer cellular services, e.g. Pelephone, Cellcom and Partner, and in the international telephony services segment, such as Bezeq International.

of the structural separation, the extent of flexibility granted to the Company when offering unbundleable service bundles, including with subsidiaries, and technological developments.

For a description of the development of competition, see Sections 1.7 and 2.6.

2.2 Products and Services

2.2.1 General

The Company provides a wide range of communications services to its business and private customers, as described below.

2.2.2 Telephony

The Company's telephony services include mainly the basic telephony services on the domestic telephone line, and associated services such as voice mail and caller ID.

The Company also provides its customers with a national numbering services for businesses (1-800, 1-700), for full or partial payment for the calls by the business.

The Company operates a unified telephone directory[14] on a code (1344) determined by the Ministry of Communications for fixed-line and cellular telephony operators, as well as a unified website which is free of charge, in addition to the Company's 144 service.

On provision of service in a resale format and on wholesale telephony services, see Section 2.16.4.4.

2.2.3 Internet access infrastructure services

The Company provides broadband Internet access infrastructure services using xDSL technology.

For information about changes in the number of Company internet subscribers and average monthly revenue per Internet subscriber, see Section 1.5.4. For information about the Company’s market share in the segment, see Section 2.6.3.

Internet service has become one of the Company's main occupations and a central channel for its investments in technology, marketing, advertising and customer acquisition and upgrades. The average speed of the Company's Internet subscribers[15] at the end of 2019 was 67.8 Mbps compared with an average of 59.1 Mbps at the end of 2018. The minimum speed of the package provided for new customers is usually 15 Mbps.

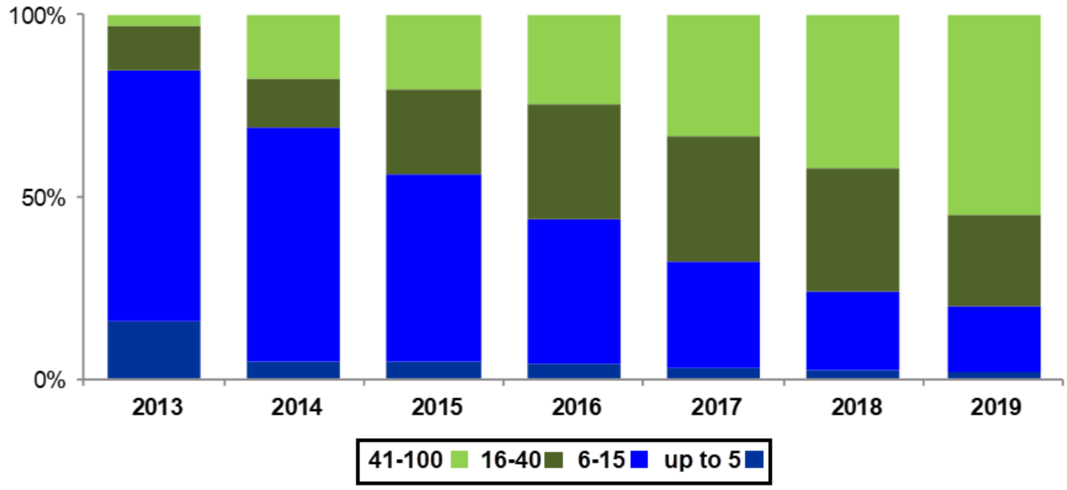
xDSL service is also provided on subscriber lines free of charge for the access line. Notably, according to the decision of the Ministry of Communications, the Company may not apply differential xDSL pricing between subscribers who use the service together with telephony service and subscribers who only use the xDSL service.

The Company is obligated to provide broadband Internet access services in a wholesale BSA format to service providers that provide end-to-end Internet services in this way to their customers, including infrastructure. On this service, see also Section 2.16.4.

[14] A "unified" directory service is an information service containing data on the subscribers of all the operators. Fixed-line and cellular telephony operators are obliged, under the terms of their licenses, to provide unified information services. The activity is exempt from the need for approval of a cartel, which is valid until November 5, 2023.

[15] For bundles with a range of speeds, the maximum speed per bundle is taken into account.

Graph – Changes in bundle speeds of the Company's Internet subscribers in 2013-2019 (in Mbps at the end of each year)*:



* For bundles with a range of speeds, the maximum speed per package is taken into account.

2.2.4 Transmission and data-communication services

Data communication services are network services for point-to-point data transmission, data transmission between computers and between various communications networks, services to connect communications networks to the internet, and remote access services.

The Company offers transmission services, including at high speeds, to communication operators and their business customers over a variety of interfaces (see Section 2.6.4).

There is also a decline in use of the Company's transmission and data communication services (see Section 2.1.3.4).

2.2.5 Cloud and digital services

As from the 2017 Periodic Report, the Company reports its revenue under this category separately.

This category includes, among others, virtual server services; Bcyber service; smart home, smart business and smart city services; private virtual PBX (IP Centrex) services; and B144 service, which is the Company's advertising platform for digital advertising and marketing platform to small businesses, BCam, Wi-Fi, SMS and remote backup.

2.2.6 Other services

2.2.6.1 Additional services to communications operators

The Company provides services to other communications operators, including cellular operators, international call operators, HOT, NEP operators, ISPs, domestic carriers, and Palestinian communications providers.

Among the services provided by the Company are infrastructure services, connection to the Company's network, billing services, leasing of space, and services in leased premises.

For wholesale services to communications operators and the option of using the Company's physical infrastructure by infrastructure owners as well, see Section 1.7.3. In this regard, it should be noted that in 2019, there was a certain deterioration in the payments of communications operators, deferment of payments and an increase in the volume of disputed claims. This situation is in parallel to erosion of the financial strength of various operators, which increases the risk of having to recognize bad debts. Nevertheless, at this time this deterioration does not materially affect the Company.

2.2.6.2 Broadcasting services

The Company operates and maintains radio transmitters, among other things, for Israel Broadcasting Corporation, Israel Army Radio (Galei Zahal), and the transmitters of several regional radio stations. It also operates the DTT transmitters for the Second Authority. The Company is responsible only for operating and maintaining the transmitters for broadcasting of radio and television content, and not for the content of the broadcasts. In this matter, see also Section 2.15.

2.2.6.3 Contract works

The Company carries out set-up and operation works of networks or subnetworks for various customers (e.g., the Ministry of Defense, HOT Telecom, radio and television broadcasting companies, cellular operators, international call operators, local authorities, municipalities, and government bodies).

2.2.7 Sale of terminal equipment

In 2019, the Company started selling smartphones (in addition to the other terminal equipment that it sells). The Company intends to expand the range of terminal equipment offered in the future.

2.3 Breakdown of product and service revenues

The following table shows the distribution of the Company's revenues by main products and services in its segment of operation, 2017-2019 (in NIS millions):

	2019	2018	2017
Revenue from Internet infrastructure services	1,578	1,596	1,544
Percentage of total fixed-line revenues	38.74%	38.04%	36.38%
Revenue from fixed-line telephony	1,039	1,156	1,281
Percentage of total fixed-line revenues	25.50%	27.55%	30.18%
Revenue from transmission and data communication services	948	977	975
Percentage of total fixed-line revenues	23.27%	23.28%	22.97%
Revenue from cloud and digital services	274	260	230
Percentage of total fixed-line revenues	6.73%	6.20%	5.42%
Revenue from other services and terminal equipment sales	234	207	214
Percentage of total fixed-line revenues	5.74%	4.93%	5.05%
Total revenues from the domestic fixed line communications	**4,073**	**4,196**	**4,244**

2.4 Customers

The Company is not dependent on a single customer, and there is no customer that accounts for 10% or more of the Company's total revenue. The Company's revenues are divided into two main customer types: Private (50%) and Business (50%).[16:] The distribution is by revenue, as shows in the following table (in NIS millions):

	2019	2018	2017
Revenue from private customers	2,029	2,101	2,232
Revenue from business customers	2,044	2,095	2,012
Total revenue	**4,073**	**4,196**	**4,244**

2.5 Marketing, distribution and service

The Company has marketing, sales and service systems for its business and private customers, which include customer managers for the business sector, combined sales and service centers around the country, technical support centers for private and business customers, 9 points of sale and service (Bezeqstores) at various locations, as well as a virtual online shop.

The Company markets its services mainly through mass media advertising, telesales centers, customer managers and an array of independent dealers which include sales centers operated by outsourcing, and ISPs which, upon establishment of the wholesale market, mainly market end-to-end

16 Including revenue from the service providers in the wholesale service.

service packages based on the Company's wholesale BSA services. The Company also has independent service and sales channels on its website, a dedicated application (Bezeq Sheli, My Bezeq), and Interactive Voice Response (IVR).

2.6 Competition

The following is a description of the development of competition in the domestic fixed-line communications segment:

2.6.1 Wholesale market (see also Section 2.16.4)

The wholesale market enables communications providers to compete with the Company while using its physical infrastructure and services at controlled prices that are not set by the Company. It also allows them to offer their subscribers, inter alia, broadband services and end-to-end service bundles.

In June 2017, tariffs were published for some of the wholesale market services on HOT's network. To the best of the Company's knowledge, the number of wholesale subscribers on the HOT network is small (in this regard, including the hearing on the price decrease for BSA services on the HOT network, see Section 2.16.4).

2.6.2 Telephony

The Company estimates that at the end of 2019, its market share in the fixed-line telephony market was 53% of the private sector and 71% of the business sector, a decrease of 1% in the private market and no change in the business market, compared with 2018[17].

The competition in the fixed-line communications segment is lively:

2.6.2.1 Competition from other Domestic Carrier license-holders

The Company and HOT Telecom both own nationally-deployed fixed-line telephony infrastructures and are in fierce competition with each other, which is manifested, inter alia, by HOT marketing the "triple" (combining internet infrastructure, telephony and cable television), and possibly cellular services as well, mainly to households (for the marketing of business service bundles to the HOT Group and marketing of the service bundles of the Bezeq Group, see Section 1.7.2.2). HOT also markets telephony services to business customers.

The Company also has competition from license holders for domestic fixed-line communication services, including VoB (see Section 2.1.8), which provide the service (including through the "triple"), inter alia, on the Company's broadband access service, including the wholesale BSA service.

Since July 2017, the Company provides telephony services on its network in a resale format to unified license holders that are permitted to provide domestic carrier services. Since August 2018, the Company offers an available wholesale telephony service in a similar format to that of the service portfolio, at the tariffs of the Use Regulations. At the date of this report, the number of subscribers receiving the service is negligible. For this matter and the wholesale telephony service, see Section 2.16.4.

2.6.2.2 Competition in telephony from the cellular companies

In Company's opinion, this high penetration rate combined with low airtime rates on an international scale and bundles that include call minutes with no effective limit at fixed monthly prices have made the cellular telephone a product that largely substitutes for the fixed-line telephone. The Company believes that a deepening replacement fixed lines with cellular lines is one of the reasons for the reduction in the average traffic per line, and the growing removal rate of telephone lines (see Section 2.1.3).

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[17] These market shares are in terms of lines and based on the Company's assessment. Notably, HOT is not a reporting entity and its data are not public. Accordingly, it is difficult to provide accurate data regarding the market shares and these are estimates only.

In the cellular telephony sector, the trend has been switching to using applications that allow making calls and sending messages via the Internet.

Partner and Cellcom also provide domestic fixed-line services through companies they own, and they sell service bundles that combine fixed-line and cellular telephony and Internet services

2.6.2.3 VoC services

According to the Ministry of Communications policy, VoC service is a fixed service, the provision of which will be regulated in the general or special licenses of domestic carriers that currently provide VOB services, since VOB or VoC telephony are services which use IP technology over another entity's data transmission network (irrespective of whether such network is mobile or fixed) and it is therefore a single fixed service.

Moreover, in view of the Ministry of Communications' decision of August 6, 2014 regarding exemption from a general license or permit to set up and operate access points, the cellular operators can use Wi-Fi access points as part of their network to provide services, allowing loads to be diverted to this network from the cellular network.

2.6.3 Internet infrastructure segment

The Company estimates that at the end of 2019 its market share in the Internet infrastructure market (to retail and wholesale customers) was 63% (compared with 69% at the end of 2018). The Company also estimates that its market share in terms of retail customers at the end of 2019 was 39%[18].

The competition in this segment is also fierce:

2.6.3.1 Competition from HOT Group – HOT's Internet infrastructure is deployed nationwide, through which a range of communication services and interactive applications can be provided.

The HOT network is currently the main alternative to competition with the Company’s infrastructure in the private sector. HOT was compelled to provide wholesale services, including BSA services, and to the best of the Company's knowledge, it started marketing wholesale BSA services on its network since mid-2018. In this matter, see also Section 2.6.1.

In 2019, HOT started to market a 500 Mbs high-speed Internet service.

To the best of the Company’s knowledge, after several delays and relief granted to HOT over the years for implementation of the universal service obligation imposed on it, on July 28, 2019, the Minister of Communications adopted the recommendations of the advisory committee and approved the provision of services by HOT in areas without infrastructure based on a technology neutral format, i.e. without being under obligation to deploy physical infrastructure, but it will be permitted to make immediate use of any cellular network to provide its services at download speeds of 12/30 Mbps. The adopted recommendations also prescribed milestones for upgrading the network for the alternative cellular network, minimum service quality and reporting obligations.

2.6.3.2 Competition from ISPs and communications groups based on the BSA wholesale service - operating the wholesale market enables ISPs and related companies (holders of a single license) to offer customers service bundles that also include Internet infrastructure based on the Company's infrastructures and services (in exchange for controlled tariffs to be paid by the communications providers to the Company). Moreover, if and insofar as the mechanism for preventing a 'margin squeeze' is implemented, similar to the one described in the Ministry of

[18] The Company’s assessment of its market share in the Internet infrastructure services at the end of 2019 is based on the number of customers that use services on the Company’s infrastructure (retail and wholesale) and its estimate of the number of HOT (wholesale and retail), Partner (fiber) and Cellcom (fiber and IBC) subscribers. Notably, HOT is not a reporting entity and its data are not public. Accordingly, it is difficult to provide accurate data regarding the market shares and these are estimates only. In addition, Partner and Cellcom (IBC) do not report the number of subscribers connected to their fibers and it is only an estimate.

Communications hearing (see Section 2.16.4.2), the Company's ability to market promotional offers of its retail services will also suffer, in terms of both time to market (TTM) and prices at which the services are offered. In addition, on the Company's bundles, see Section 1.7.2.2.

2.6.3.3 Competition from the Partner and Cellcom communications groups based on an independent fiber network that enables providing an ultra-high speed Internet service - in addition to the information in Section 2.6.3.2, Partner and Cellcom provide an increasing volume of Internet services at ultra-wide bandwidth speeds on an independent fiber network, while also using the Company's passive infrastructure in the wholesale market. According to media reports, these groups have reached such deployment (as opposed to connection) of 840,000 households (as at the end of the third quarter of 2019, including IBC in Cellcom data). The Company has not yet started providing ultra-wide bandwidth services, including due to the effect of regulation in this regard, which has not yet been established, on the economic feasibility in providing the service (on this matter, see also Section 2.7.2).

2.6.3.4 Competition from cellular operators – the cellular companies have deepened their Internet activities on the cellular range both in the private sector and in the business sector. Unlike the fixed-line communications segment (where the provision of access infrastructure services is separate from provision of Internet access services), the cellular Internet service is provided as a single unit. Browsing services are provided both from the cellular handset and through a cellular modem that connects to laptop and desktop computers.

2.6.3.5 Competition from IBC - IBC, whose universal deployment obligation according to long-term milestones set out in its license (enabling provision of services to license holders) was reduced, as set out in Section 2.1.8, is setting up fiber infrastructure to provide Internet over the grid (and has started operating commercially in a limited number of cities). According to media reports, as at the publication date of this report, the number of customers enlisted by IBC is negligible.

According to the Ministry of Communications' decision dated August 8, 2018, IBC's deployment obligation was reduced to gradually reach at least 40% of households in Israel within 10 years, and only after the Cherry Picking period (which will last three and a half years) will the new license holder be required to provide accessibility for at least one household in the periphery for every household provided with access in the center of the country.

On January 13, 2020, a hearing document dealing with granting IBC the option of providing a reverse bundle service private end customers and other services to large business customers was published ("the Hearing Document"). According to the Hearing Document, the Ministry is considering to approve IBC's requests as follows: (1) To permit it to operate on cooperation with access providers whereby IBC and the access provider sign an agreement together with the end customer for the access provider to provide Internet access services and IBC Internet infrastructure services and IBC to provide associated services ("Reverse Bundle Services") to the end customer, and (2) to allow IBC to sell its services to companies in the business sector and to serve as an ISP providing services in the business market, under its special license. According to the Hearing Document, the applications will be approved with conditions (including approval to market Reverse Bundle Services for a limited period of five years or a volume of 400,000 end subscribers, whichever is earlier, equal marketing to access providers and end subscribers, and maintaining the structural separation obligation and prohibition on preference), in a manner that translates into increased competition in the fixed-line infrastructure market, while reducing the differences compared to the regulation applicable to its competitor IBC. The Hearing Document also indicates that since the government's decision stipulates that IBC will engage with license holders only and not directly with private consumers (other than large business customers with the Minister of Communications' approval), and if the hearing recommendations are formulated into a final decision, it will be necessary to amend government's decision in this regard and appropriate amendments in the IBC license will also be required. On

February 3, 2020, the Company submitted its comments focusing on (1) the material difference between the purpose behind establishment of the IBC venture and the current cumulative situation. The Company believes that in this situation, it will not be possible to continue to operate by provision of further relief to IBC. (2) the fact that the transaction for the sale of Cellcom's fiber network to IBC and IBC allegedly being based on the same network as the main platform for it to comply with the terms of its license and to provide Internet services to end customers apparently change the rules of the game. The Company believes that since at present the details of the transaction and its implications have not been fully disclosed to it and do not mention the Hearing Document at all, a hearing cannot be held without receiving full and complete information in this regard. Accordingly, the Company applied to receive complete information and the Ministry's comments to the new circumstances that have been created. It was further clarified that in this situation, and before receiving the required details and clarification, any move that offers changes and benefits to IBC is invalid, lacks transparency and is not adopted or implied on the basis of complete information.

To the best of the Company's knowledge, the acquisition of control of IBC by Cellcom and another investor (Israel Infrastructures Fund) was concluded on July 31, 2019, under which Cellcom sold its fiber optic infrastructure to IBC.

2.6.3.6 Hearing on licensing for new operators to provide Internet access infrastructure services

In March 2020, the Ministry of Communications published a "hearing document for licensing for new operators seeking to provide a broadband Internet access infrastructure service" according to which, in view of the fact that the procedure to obtain a general license to provide Internet access infrastructure services is complicated, as part of the Ministry of Communication's policy to encourage the introduction of new communication technologies, and to promote competition and entry of new competitors in the communications market, and against the backdrop of actions taken by the Ministry to encourage deployment of broadband Internet infrastructure, the Ministry believes that it is fitting to lower the entry barriers and the official threshold requirements for new operators wishing to provide the service. Accordingly, the hearing document proposes a regulation hierarchy, so that anyone wishing to provide the service will be able to do so in the first stage in the format of a special license and will not require a general license. The Company is studying the hearing documents, but at the same time, it believes that under specific circumstances, the principles of the hearing may lead to possible impairment of the Company's business in scopes that it is unable to estimate at this stage. On March 12, 2020, the Company sent a letter to the Ministry of Communications clarifying that it is not a standard hearing, but a fundamental and material change of policy in the communications sector, and that from past experience, such changes are made by means of a comprehensive and exhaustive analysis, and usually after the work of a public committee. The Company requested receiving a draft of the special license, which, according to the hearing documents, the Ministry was supposed to publish, but failed to do so. The Company requested adjusting the original schedule for a response and to schedule it for at least 60 days after the date of publication of the draft of the special license.

The fact that the Company's is restricted in marketing DBS television services (including over the Internet) in view of the structural separation restriction imposed on it (see Section 1.7.2.1) puts it at a material competitive disadvantage.

2.6.4 Transmission and data communications

In addition to the Company, other companies operating in this segment are Cellcom, Partner and ISP companies.

To the best of the Company's knowledge, Cellcom has deployed and set up a transmission network that it uses for its own needs and to compete with the Company's services in the transmission and data communications market. Partner also operates in the transmission and data-communication service segment combined with telephony and Internet to business customers.

Cellcom and Partner use the Company's physical infrastructures as part of the wholesale service (see Section 2.16.4.3)[19], inter alia, to compete with the Company in this segment and/or for self-consumption.

Also operating in the segment are the infrastructure owners, IBC (at the reporting date, in a non-material volume) and HOT (nationwide, but not full deployment). These infrastructure owners are permitted to use the Company's physical infrastructure. In this regard, see Sections 2.16.4.3 and 2.6.5.

Under the IBC license, IBC will enter into an agreement with IEC to obtain the right to use its fiber optic network and will become the network's operator. Furthermore, IBC has a special license (which does not impose a universal obligation) to provide domestic fixed data-communication services, according to which it is entitled to provide IPVPN services and broadband data-communication lines.

2.6.5 Other competing infrastructures[20]

There are also currently a number of infrastructures in Israel with the potential to serve as communications infrastructures, which are based on optical fibers and mostly owned by government companies and entities, such as Israel Railways, Mekorot Israel National Water Co., Petroleum & Energy Infrastructures Ltd., and the Cross Israel Highway Ltd. Some municipalities are also trying to create an alternative to installation of pipes or fibers by deploying their own infrastructures.

2.6.6 The Company's deployment and ways of coping with the intensifying competition

The Company deals with competition in domestic fixed-line telecommunication services in several ways:

2.6.6.1 The Company launches new communications services, value added applications (such as smart home, smart facilities, integration services, etc.), bundles of products and services, and joint bundles (that correspond to some of those offered by its competitors, although under an unbundling restriction, see Section 1.7.2) to broaden the scope of use of subscriber lines, respond to customer needs and strengthen its technological innovation image. The Company invests in enhancement and modernization of its infrastructure so as to enable it to provide advanced services and products for its subscribers.

2.6.6.2 The Company is working on introducing a high-speed Internet infrastructure service and increasing the number of its customers for the service. NGN enables customer upgrades to higher speeds, and the creation of added value for the customer by means of broader consumption of content, leisure and entertainment applications (see also Sections 2.2.3 and 2.7.2, including in respect of fiber deployment). The Company produces and markets added value solutions and services for quality and secure browsing. In 2019, the Company launched a new broadband speed that meets the needs of customers to increase the data upload speed (upload speed of up to 5 Mbps with a download speed (unchanged) of up to 100 Mbps. The Company also markets various specialized products to improve the reception and browsing quality at the customer's home, such as the Be router and BSpot product. At the end of 2019, the Company launched an innovative Wi-Fi Mesh repeater that interfaces with the Be router and extends the range of use of the Wi-Fi network at the customer's home.

2.6.6.3 The Company works constantly to improve the quality of its services and to retain its customers, as well as to simplify and automate processes, and to adapt its operations to the structure of competition in its segment.

2.6.6.4 The Company has simplified its tariff structure and offers its customers alternative payment packages (see Section 2.16.1.4), tracks and campaigns.

2.6.6.5 The Company offers consumption-adapted packages and tracks for the telephony service.

[19] Unified license holders that are entitled to provide domestic fixed-line services may also receive a wholesale service for use of the Company's physical infrastructures.

[20] Migration to HOT and IBC infrastructure.

2.6.6.6 The Company is acting to reduce its operating expenses and is focusing on investing in growth activities as a means of decreasing maintenance expenses. Nevertheless, the Company's ability to adjust its expenses in the short and medium term is limited due to the structure of its costs, which are mainly rigid in the short and medium term (in particular depreciation expenses and expenses related to salaries and salary incidentals, as well as operating costs such as infrastructure maintenance and building leasing and maintenance).

2.6.6.7 In April 2018, the Company launched its new router - Be. This is an advanced router with an innovative design and cutting-edge capabilities including, among others, smart Wi-Fi which provides quality, continuous broadband on home Internet, cyber protection and preparation for a smart home. The router and services are managed by a dedicated application. At the end of 2019, the number of Company customers using the Be router was 321,000 (approximately 33% of the Company’s retail Internet customers).

2.6.7 Main positive and negative factors that affect the Company’s competitive

2.6.7.1 Positive factors

A. Nationally deployed, quality infrastructure through which a range of services are provided.

B. Presence in most businesses and households.

C. Strong and well-known brand.

D. Technological innovation.

E. High positive cash flow.

F. Broad service infrastructure and varied customer interfaces.

G. Professional, experienced and skilled human resources.

2.6.7.2 Negative factors

The Company believes that various restrictions imposed upon it by existing regulation, impede its ability to compete in its areas of operation. The main restrictions in this context are the following:

A. Wholesale market (see Section 2.16.4) - operation of the wholesale market at controlled prices, arrangements subject to the intervention of the regulator, implementation of a control mechanism over the Company's wholesale services offers, expansion of use and of those permitted to use the Company's infrastructure. Nevertheless, the possibility of canceling the structural separation following operation of the wholesale market may also positively affect the competitive position of the Company.

B. Absence of tariff flexibility

The Company is limited in its ability to grant discounts on its main services and to offer differential tariffs. For this matter and the hearing regarding changes to the supervisory mechanism of tariffs, see also Section 2.16.1.

With regard the hearing on prevention of a margin squeeze in the wholesale market, see Section 0.

C. Structural separation

For information about the structural separation obligation applicable to the Company, see Section 1.7.2.

D. Universal service and fiber deployment obligation

The Company operates under an obligation to provide service to the entire public in Israel at a uniform price (universal service). Due to this obligation, the Company is required to provide services also in circumstances that are not financially viable (subject to the possibility of obtaining an exemption in extraordinary circumstances). On the scope of the obligation to provide services on an ultra-wide bandwidth fiber network, see Section 2.7.2. This obligation is not imposed on the special domestic carrier license holders, which can offer their services only to the Company's most profitable customers, which are a material source of the Company's income, and in practice, these companies are deploying fibers at an accelerated rate in economically feasible areas. In addition, HOT, which is obligated to provide universal services, received various relief for the full deployment, IBC was granted significant exemptions and relief, and the Company is obligated to allow HOT companies and IBC to use its passive infrastructures (see Section 2.16.4).

E. Restrictions in marketing joint service bundles of the Company and other Group Companies

See Section 1.7.2.2.

F. Characteristics of fixed-line telephony terminal equipment

Fixed-line terminal equipment does not have personal characteristics and is technologically less advanced than cellular terminal equipment, and the supply of advanced services that can be consumed with it is limited.

2.7 Fixed Assets and Facilities

2.7.1 General

The Company's fixed assets consist mainly of domestic communications infrastructure and equipment, real estate assets (land and buildings), computer systems, vehicles, and office equipment.

2.7.2 Infrastructure and domestic fixed-line communications equipment

Telephony network

The Company's telephony network consists of exchanges (meaning call switching and transferring calls from the origin to the destination), a transmission network (through which the connection between the exchanges takes place), data communication networks, an access network (that connects the network end point at the subscriber to the exchange) and terminal equipment installed at the subscriber. The connection from the terminal equipment to the access network is based on copper cables, and this copper network is the Company's access infrastructure for the telephony services (note that the same copper cables are also part of the Company's Internet network, as set out below). Subscribers are managed through a class 5 telephony switch. In 2020, the Company expects to replace its telephony switch with a new one and to convert all telephony customers to this switch.

Internet network

The Company has a Next-Generation Network (NGN) based on a core IP network and deployment of an optical fiber network to street cabinets (a network topology known as Fiber to the Curb, FTTC), and also based on an access network (a system that connects NEPs on the subscriber's premises to the network and engineering systems). The connection from the home to the access network is based on copper cables and the connection from the access systems to the backbone is based mainly on optic cables. In addition, some of the peripheral equipment (equipment installed at the subscriber, such as routers) is owned by the Company and leased to the customer. In the NGN, download broadband speeds of up to 100 Mbps and innovative added value services can be provided using VDSL2. Other advantages of the new technology are simplification of the network structure and better management ability.

At this stage, the Ministry of Communications does not allow the Company to make across-the-board use of 35B technology (expansion of the xDSL technology with which speeds of up to 300 Mbps can be reached, depending on the quality of the copper infrastructure), despite the fact that HOT started marketing a service at speeds of 500 Mbps, without the Ministry's intervention or setting out condition for it.

A. Ultra-wide bandwidth fiber infrastructure

The Company is expanding the deployment of infrastructure, including optical fiber deployment since 2013 so that the fibers will be as near to the customer's premises as possible (FTTH/FTTB), as a basis for future provision of more advanced and broader-band communication services than those currently provided, inter alia, based on new technologies using the copper cables on the customer's premises.

As at the end of 2019, the Company deployed optical fibers directly to 120,000 buildings and in certain areas to a point at the center of a group of buildings. All in all, the connection potential is up to 1.5 million households and businesses.

The key advantage of an optical fiber over copper is the possibility of transmission at higher speeds. There are also operating advantages which are insignificant compared with this advantage. The reason for the Company's decision to freeze the fiber deployment is the absence of the certainty necessary to pursue a business plan that is economically sustainable on one hand, and the absence of economic justification for the Company to launch the service in view of the major investments entailed in completing the deployment and operating the service on the other. At this time, the deployment of fibers by the Company's competitors is intensifying competition in the areas of deployment with a negative impact for the Company. Nevertheless, the Company believes that due to its operational advantages, and principally the access to skilled, professional manpower, in the medium and long term its superiority will be maintained. The Company believes that at this point in time, placing the deployment on hold does not affect the Company's compliance with the regulations, which are currently under review by the Minister of Communications (see below the update to the call for public comments). The Company believes that from such time as it decides to launch services based on the fiber network, it will be possible operationally to reach significant coverage[21] of more than 50% of households in Israel within a period of 4-5 years.

The investment required to deploy the fibers is a function of two central factors: The scope and rate the deployment. There is uncertainty regarding both of these factors until regulation is established.

The estimates detailed above are forward-looking information based on the Company's assumptions and expectations the materialization of which is uncertain. The information might be affected by various factors, including regulatory decisions, the Company's future capabilities, changes in technology, etc. or the materialization of any of the risk factors detailed in Section 2.20.

B. Status of the regulatory decisions on deployment and provision of services on an ultra-wide bandwidth fiber network:

(1) Call for public comments of Ministry of Communications with respect to the ultra-wide bandwidth infrastructure deployment policy in Israel

On December 18, 2018, the Ministry of Communications published a call for public comments with respect to the principles for deployment of ultra-wide bandwidth infrastructure in Israel[22] setting out the basis for the policy under consideration at the Ministry which, according to it, is intended to supplement the existing system of incentives and create regulatory certainty for the communications companies in terms of fiber regulation. In the call for public comments, the Ministry presents initial principles according to which it is considering formulating regulation aimed at providing a solution for the different issues. Subsequently, the Company held open discussions on the subject with the Ministry of Communications' representatives, in which, and in the response that it submitted to the call for comments, the Company raised its position on the failures that it believes are inherent in the intentions published in the call for public comment.

Further to the above call for public comment, the Ministry announced the establishment of an interministerial team to review the policy for deployment of ultra-wide bandwidth fixed communication infrastructure in Israel that includes representatives from the Ministry of Communications, Ministry of Finance and the Competition Authority. On November 5, 2019, the Ministry of Communications published the interministerial team's recommendations to the public's comments[23]:

[21] The percentage of households that are able to receive ultra-high-speed Internet service based on advanced technologies within a reasonable period given that suitable infrastructure is available in close proximity to them.

[22] The call for public comment was attached to the Company's Immediate Report dated December 19, 2018, included here by way of reference.

[23] The recommendations were published on the Ministry's website: https://www.gov.il/he/departments/publications/Call_for_bids/05112019

A. The Company will be able to choose the statistical areas in which it will deploy and operate optical fiber networks to all households in those areas. Notice of the areas selected must be submitted to the Ministry of Communications by the specified date and this will be written into the regulations that will obligate the Company. Deployment in these areas must be completed within five years.

B. A fund will be set up to provide financial incentives for deployment of an optical fiber network to all households in all statistical area in which the Company announced that it will not deploy a fiber network ("the Incentive Areas" and "the Fund", respectively). The Fund will allocate monies through tenders and winners will be determined on the basis of the lowest offers for deployment per household in the areas in which the optical fiber network is to be deployed.

C. The Fund will be financed by annual payments made by license holders under the Communications Law (including the Company) of 0.5% of their annual revenues.

D. To encourage the Company to undertake a wide deployment and limit the Incentive Areas, and to reduce the deployment costs in the Incentive Areas and create a high level of competition, the team recommended: To establish limitations on the Company's deployment in the Incentive Areas; the Company will not be able to compete in the tenders for the allocation of monies from the Fund; the cost of use of the Company's physical infrastructures in the Incentive Areas will be set using a different method of calculation than set out in the regulations for the wholesale market and as a result will be significantly lower; and winners of the tender will be obligated to provide BSA service to other license holders.

Notably, the team was also of the opinion that the examination should be continued regarding the deployment obligation of HOT as part of an additional expert opinion, in accordance with developments in the HOT network and to adjust the HOT deployment obligation, taking note of the advantages of its existing infrastructure and scope of the deployment of its passive network.

The team believes that implementation of the proposed regulations will, in the short term, lead to wide deployment of a fiber optic network, and within a reasonable time to a nationwide deployment of a fiber optic network.

The recommendation documents also indicates that in order to implement the recommendations, amendments to the regulations, secondary legislation and licenses will be necessary.

On December 15, 2019, the Company forwarded its comments to the team's recommendations stipulating that in order to effectively promote deployment of the fiber network, several amendments to the proposed outline are required: The tariffs for use of the Company's infrastructure (ducts and/or dark fiber) in the Incentive Areas should not be reduced; the regulation is unreasonable and contracts the principles of the law and economics; the Company must be allowed to participate in tenders in the Incentive Areas; amendment must be made regarding the Company's rate of deployment and time constants for connection of customers.

(2) Tariffs for service on the ultra-wide bandwidth fiber infrastructure

Tariffs for BSA service on the Company's network - On July 24, 2019, the Company received hearing documents from the Ministry of Communications, inter alia on determining a maximum tariff for access to ultra-wide bandwidth managed on the Company's fiber network. According to the Ministry, the hearing on this subject is part of the comprehensive fiber plan being formulated and includes a recommendation for setting a maximum tariff for BSA service over fiber[24]. According to the hearing documents, the maximum tariff is temporary

[24] The maximum recommended tariff, including installation and repair of faults, for accessibility service and data transfer on the core network at a maximum broadband speed of 400 Mbps will be NIS 71 per line per month (excluding VAT); and for this service at a maximum broadband speed of 1,000 Mbps - the maximum tariff will be NIS 85 per line per month (excluding VAT). The broadband speed is calculated in the hearing documents as the total of the upload rate and download rate. The maximum broadband speed will have a different breakdown between the download and upload

and will be applicable immediately upon provision of the service. This tariff will remain in force until a tariff is set by the Company in accordance with the regulatory guidelines to be adopted following publication of the fiber plan. It is clarified that the Company does not currently operate a fiber optic network that reaches the homes of private customers and it will only be possible to provide the BSA service once such a network has been established, if at all. The Company submitted its comments on the hearing on September 8, 2019, stating that corrections should be made to the factual assumptions used to calculate the service tariffs proposed by the Ministry, where the derived tariffs are much lower than they should be. The Company further stated that there is no logic or foundation to the determination that the installation prices are part of the service price and that a basic condition for providing the service is that infrastructure is already in place in the NEP Section that the end customer or the service provider has the right to use, an issue which the Company claims is not regulated in this hearing. The Company also noted that instead of the temporary tariff, it should be determined that from the outset tariffs for wholesale service on optical fibers will be set by the Company based on generally accepted Economic Replicability Tests around the world.

Tariffs for the service of service providers - On August 4, 2019, the Company received hearing documents from the Ministry of Communications concerning a standard tariff for fiber based Internet services (FTTP). According to the hearing documents, this is another layer in the regulations that will apply to the provision of fiber-based Internet services, whereby the Ministry is considering to determine that the provision of FTTP services by service providers (who do not have a deployment obligation) cannot discriminate against subscribers based on the type of infrastructure they are using, including if the infrastructure belongs to the service provider or to another infrastructure owner or other party. The Company submitted its comments on the hearing on September 8, 2019 and stated that it is extremely important that effective enforcement mechanisms should be in place, including significant sanctions for breach of the regulations, for effectively maintaining the proposed model, and that discrimination should be prohibited, whether regarding different tariffs or in kind.

On this matter, see also Immediate Reports of the Company dated July 25, 2019 and August 5, 2019, included here by way of reference.

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

On January 5, 2020, the Company received a hearing documents on joint use of fiber optic infrastructure in existing residential buildings. The hearing documents set out the principles under consideration to regulate vertical deployment of the fiber optic infrastructure in existing residential buildings (and further indicate that regulation of such deployment in new residential building is also being reviewed). The hearing document is further to the call for public comment and recommendations of the interministerial team (see above). According to the hearing document, the Ministry believes that provisions should be established to oblige joint of fiber optics infrastructure to be deployed in existing residential buildings in a FTTH configuration with appropriate compensation for the operator that deploys the infrastructure. According to the proposed arrangement in the hearing document, domestic operators that intend to deploy fiber optic infrastructure in an existing residential building where there is no fiber infrastructure will be required to offer all other domestic operators joint use of fiber infrastructure that it deploys in the building in return for participation in the costs of setting up the infrastructure or another commercial agreement between them. The domestic operator that deploys the fiber optic infrastructure will be required to do so in a way that allows joint use thereof by at least one domestic operator, in addition to the operator/operators that have agreed with the joint operator on joint use of the fiber infrastructure before its deployment. The joint operator will own the infrastructure and will be responsible for ongoing maintenance and repair of faults throughout the life of the infrastructure. The Hearing Document also indicates that the fiber infrastructure to be deployed from the communication cabinet on the floor to the subscriber's apartment is, apparently, part of the "internal wiring", as defined in the Communications Law, and accordingly, the subscriber will be permitted to purchase the internal wiring from the license holder according to the provisions of that Section, and similarly in respect of payment for this segment, and the proposed arrangement will not apply to existing residential building in which fiber optic infrastructure was deployed prior to start of the arrangement. On January 30, 2020, the Company filed its comments to the hearing that it agrees with the starting point regarding the great importance of regulating vertical

rates, based on the decision of the service provider using the BSA service over fiber, and it will be limited to an upload rate of 50% of the download rate.

deployment to promote deployment of a fiber network and provide ultra-wide bandwidth services in Israel, and there is therefore no rationale or justification to exempting fiber optic infrastructures deployed in building until now from the joint principle. Additionally, the existing deployment covers a substantial percentage of apartments in the relevant buildings for joint use.

2.7.3 IT

The IT system in the Company supports four main areas: Marketing and Customer Management, engineering infrastructures of the telecommunications networks, Company resources management, and company-wide systems.

The Company's IT system is large and complex, and supports critical work processes and handles very large volumes of data. This system consists of a large number of systems, some of which are information systems that started being developed many years ago, while others are modern and were developed and applied recently. Most of the systems operate in open computer environments.

2.7.4 Real Estate

2.7.4.1 General

The Company's real estate assets delivered from two sources: The assets transferred to the Company by the State in 1984 under the assets transfer agreement (see Section 2.17.2.1) and assets in which the rights were acquired or received by the Company subsequent to that date, including assets leased from third parties.

The real estate assets are used by the Company for communications activities (exchanges, control rooms, broadcasting sites, etc.) and for other activities (offices, storage areas, etc.). Some of them are undeveloped or partially developed, and can be used for other purposes.

The following is a list of the Company's assets in accordance with the material rights on the asset. Furthermore, the Company has an interest (migration rights, etc.) in other real estate (such as for the construction of offices and laying cables):

Right	Number of Assets	Plot Area (thousand sq. m.)	Built Area (thousand sq. m.)	Notes
Ownership, lease or right of lease	307	852	101	Of this, 302 properties cover an area of 823 thousand sq. m. and 80 thousand sq. m. built up are for communication needs, and the remainder for administration needs. 16 are jointly owned with the Ministry of Communications and/or Israel Postal Company Ltd., with whom an agreement was signed to define and regulate the rights of the parties in these properties (see Section 2.17.2.3). The parties operate as required by the orders of the agreement, and inter alia, to separate joint debits and systems.
Possession (authorized/possession rights by law)	40	1.5	0.8	Assets in Israeli settlements in the Administrated Territories, all for communication needs. There is no written regulation of the contractual rights for these properties, but in the Company's opinion this does not create material exposure.
Lease	329	30.6	65	Of which, 314 properties on a 14 thousand sq. m. built area for communication needs, and the remainder for administration needs. Of which, 2 thousand sq. m. built up are sublet.
Miscellaneous rights in 'control rooms'	2,352	N/A	26 (based on estimate)	These are rooms for cables and installations for residential communications. For most of the assets, the rights are for use granted to the Company under the Communications Law and its regulations, and there is no written rights arrangement with the property owners. In the Company's estimation and based on past experience, this does not create material exposure.
Right of capital lease	An asset in Sakia (near the Mesubim junction)	70 net	-	The property was sold. See Section 2.7.4.4.

2.7.4.2 Registration

At the date of publication of this Periodic Report, the Company's rights in a considerable number of its real estate assets are not registered in the Lands Registry, and therefore they correspond to contractual rights. The Company is in the process of registering in its name those properties that can be registered in the Lands Registry.

2.7.4.3 Real estate settlement agreement

On March 10, 2004, a settlement agreement signed on May 15, 2003 between the Company, Israel Land Authority (ILA) and the State ("the Settlement Agreement") was validated as a judgment. The agreement concerns most of the real estate assets transferred to the Company under the asset transfer agreement signed for commencement of the Company's business activity. The Settlement Agreement stated that the assets remaining in the Company's possession have the status of capitalized lease, and subject to the execution of individual lease contacts, the Company will be entitled to make any transaction in the properties and to enhance them. The Agreement sets out a mechanism for payment to the ILA for improvements made in the properties (if any), beyond the rights under plans approved by 1993, as set out in the Agreement, at the rate of 51% of the property appreciation following the improvement (less part of amounts paid for a betterment levy or to the ILA for an increase in value, if a betterment levy was paid). The Settlement Agreement also states that 17 properties must be returned to the State, through the ILA, on various dates (up to 2010), and on the terms laid down in the Settlement Agreement.

As at the date of publication of this periodic report, the Company returned 15 properties to the ILA. Two additional properties will be returned after the Company receives substitute properties, as provided in the Settlement Agreement.

2.7.4.4 Sale of real estate

General

According to the approval of the Company’s Board of Directors, the Company is continuing to take measures to sell properties that are inactive and/or can be vacated relatively easily without incurring significant expenses, based on a list presented to the Board from time to time. The migration to the NGN allowed the Company to streamline the network structure and sell some of the real estate assets that were vacated as a result of migration to this network.

Over the last few years, the Company has sold real estate assets that were inactive or could be vacated relatively easily, recognizing capital gains for these sales, which in some years were material (in 2019, the Company sold real estate assets amounting to NIS 166 million).

The Company completed the sale of most of the properties (in terms of value) which met this definition and also intends to complete the sale of the remaining properties of this type in the forthcoming years. Selling these remaining properties is likely to generate additional capital gains for the Company in material amounts (although at a substantially lower amount than the capital gains recorded by the Company in recent years).

It is emphasized that the foregoing also relates to real estate assets for which a concrete decision to sell them has not yet been made, and there can be no certainty regarding the timing of their sale, if at all. Furthermore, the sale of some of the properties may involve difficulties, including a lack of demand or various planning restrictions.

In view of the foregoing, it is emphasized that the Company's foregoing estimates are forward-looking information, as defined in the Securities Law and may not materialize, or may materialize significantly differently than foreseen. These estimates are based, *inter alia*, on the Company's estimates regarding the value of the real estate assets it owns in relation to their carrying amount, since the Company has no appraisals for some of the assets, or the appraisals in the Company's possession are out of date and the valuations are therefore based on the Company's internal estimates; and regarding the Company's inability to predict the consideration that may actually be paid for any assets sold (if and when they are sold).

Property in Sakia

On January 21, 2018, the Company signed an agreement for the sale of the Sakia property to Naimi Towers Ltd. On May 5, 2019, the transaction was concluded and the total consideration received by the Company for the property (including linkage differences and interest according to the provisions of the agreement) amounted to NIS 511 million, plus VAT.

On May 21, 2018, the Company received a demand from the ILA for permit fees of NIS 148 million plus VAT for a property improvement plan approved prior to signing the agreement ('the Demand"). The Company filed an objection to the Demand on legal grounds. On January 20, 2019, the ILA dismissed all of the Company's claims on legal grounds. However, the parties are currently negotiating as part of the dispute settlement mechanism set out in the Settlement Agreement. If this mechanism fails to end the dispute, the Company will file a financial claim requesting the court to instruct the ILA to return the paid permit fees to the Company and to require the ILA to pay the betterment levy demand, as defined below. In parallel, the Company filed an assessment appeal against the Demand. On August 5, 2018, the Company received a demand from the Or Yehuda Local Planning Committee for payment of a betterment levy of NIS 143.5 million for the sale of the property ("Demand for Betterment Levy"). On September 17, 2018, the Company filed an appeal on the Demand for Betterment Levy, and sent the ILA a demand for payment of the full amount of the betterment levy according to the ILA's undertaking in the compromise settlement. On January 20, 2019, the ILA dismissed the Company's demand to pay the betterment levy. Upon conclusion of the sale transaction as set out above and receipt of the entire consideration, the Company paid half of the betterment levy in the amount of NIS 75 million, and provided a bank guarantee for the other half of the levy, without this derogating from or prejudicing the steps taken or to be taken by the Company to cancel or reduce this levy. Notably, the amount of the permit fees to be determined at the end of the proceedings could also affect the amount of the betterment levy that the Company will be required to pay the planning committee. The Company estimates that the permit fees and the betterment levy it will be required to pay will be lower and possibly even substantially lower than the total amount of the demands.

The Company recorded a capital gain of NIS 403 million in its financial statements for Q2 2019, based on its estimate regarding the permit fees and the betterment levy it will be required to pay. If the Company's above estimates are not realized, the final capital gain will be between NIS 250 million and NIS 450 million. In this regard, see also Note 13 to the 2019 Financial Statements.

The information contained in this Section relating to the Company's estimates and the capital gains resulting from the sale of the property is forward-looking information, as defined in the Securities Law, and it is based, *inter alia*, on the foregoing and the Company's estimates regarding its claims pertaining to payment of the demands. The information may not fully materialize insofar as the Company's aforementioned estimates materialize differently than expected.

Transfer of the Company's headquarters

Before the end of 2020, the Company's headquarters are expected to move from Azrieli Towers in Tel Aviv to Holon, under an agreement signed in December 2018 according to which the Company will lease 20,000 square meters for a term of 10 years, with an extension option for several further terms.

2.8 Intangible assets

2.8.1 The Company's Domestic Carrier license

The Company operates under its domestic carrier license, which forms the basis for its activities in domestic fixed-line communications (for a description of the main points of the license, see Section 2.16.2).

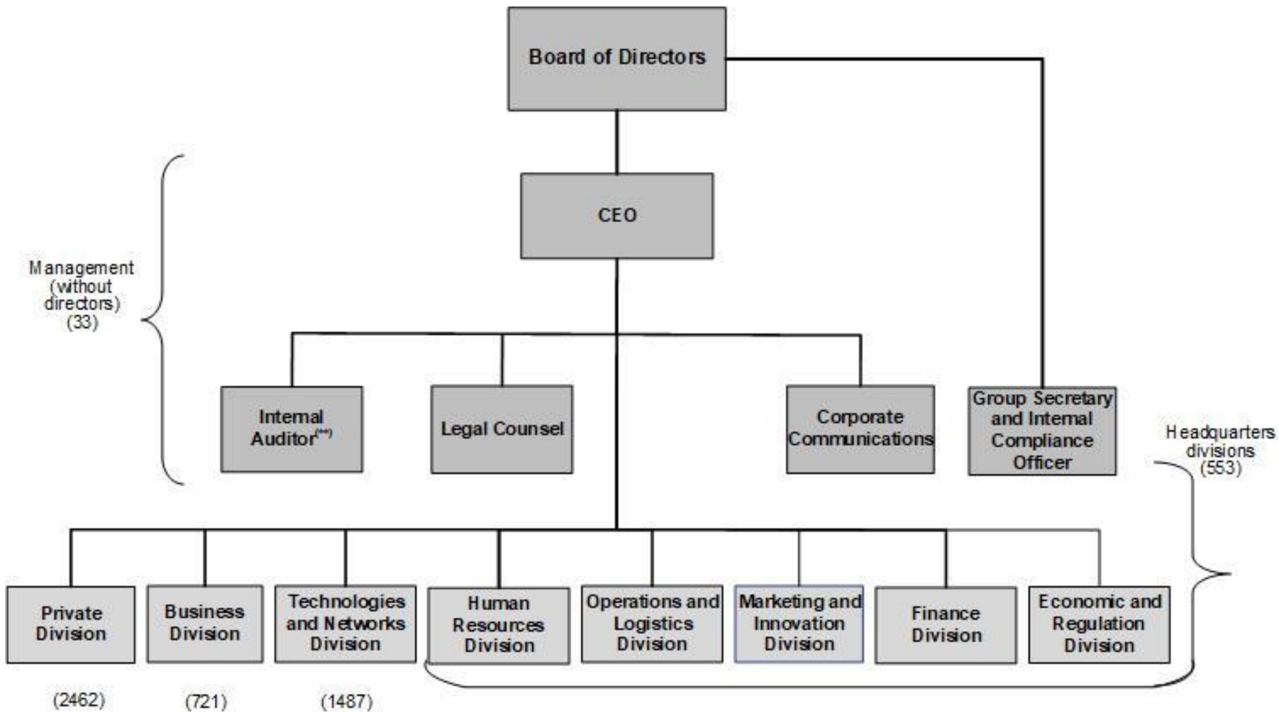
2.8.2 Trademarks

The Company uses trademarks that characterize its services and products. At the date of publication of this Periodic Report, there are 210 trademarks registered or in the process of being registered in the Company's name with the Registrar of Trademarks. The main trademarks of the Company are "Bezeq" – the name of the Company, and "B" – the Company's logo. The Company has also registered a model of its new Be router.

2.9 Human resources

2.9.1 Organizational structure and headcount according to the organizational structure

The following chart shows the general organizational structure of the Company as at December 31, 2019:



2.9.2 Number of Company employees and employment frameworks

The number of Company employees as at December 31, 2019 is 5,256 (compared with 5,494 at the end of 2018). 92% of the Company's employees are employed under a collective agreement (out of which 61% are tenured employees and the remainder are non-tenured employees). The rest of the Company's employees (8%) are employed under personal agreements, not under collective agreements.

For details about the special collective agreement of December 2006 and its amendment, see Section 2.9.4.

2.9.3 Early-retirement plans

In 2019, 212 tenured employees retired from the Company under the early-retirement plan.

On December 16, 2018, the Company's Board of Directors approved a budget for termination of employment at the Company to finance the 2019 streamlining plan, mainly the retirement of 243 tenured employees (veteran and new) according to the terms of the Collective

Agreement dated December 2006. The Company's Board of Directors also approved a provision for the Early-Retirement Plan until the end of the term of the Collective Agreement (end of 2021), for all Company employees transferred from the Ministry of Communications (94 employees), who are expected to retire in 2020 and 2021.

In addition, on November 6, 2019, as part of the implementation of its streamlining plan, the Company's Board of Directors approved the retirement of 140 tenured employees (veteran and new tenured employees) and termination of the employment of an additional 60 employees with flexible employment status, at a total cost of NIS 143 million.

In this regard, see also Note 18.5 to the 2019 Financial Statements.

2.9.4 Characteristics of employment agreements in the Company

Labor relations in the Company are regulated in collective agreements between the Company, the representatives of Company employees and the Histadrut, and in personal agreements. Company employees are also subject to expansion orders to certain general collective agreements such as cost-of-living increment agreements.

In December 2006, a special collective agreement was signed between the Company, the union and the Histadrut, regulating labor relations in the Company following the transfer of control of the Company from the State to Ap.Sb.Ar. Holdings Ltd. (the former controlling shareholder of the Company) (see Section 2.9.1). Following are the main points of the collective agreement and its amendments signed over the years (all together in this Section: "the Agreement").

Under the Agreement, all the agreements, arrangements and traditional behavior in the Company prior to execution of the Agreement, including the mechanism for linkage of salaries to the public sector, would continue to apply only to the veteran tenured employees of the Company to which the Agreement would apply, subject to changes inserted specifically in the Agreement. The hiring of existing and future temporary workers would be on the basis of monthly/hourly wage agreements based on a wage model according to occupation, with high managerial flexibility. The Agreement sets out restrictions on certain kinds of future organizational changes, and a mechanism of notification, negotiation and arbitration with the union in the event of organizational changes.

Under the Agreement, during the term of the Agreement, two employee-directors[25] who are proposed by the union will serve on the Company's Board of Directors (subject to their approval by the Board of Directors and their election by the general meeting). The employee-directors are not entitled to payment for their service as directors, and will not participate in Board discussions of the terms of employment of senior employees.

The Agreement also defines the "new tenured employee", whose terms of employment differ from those of a veteran tenured employee of the Company (under the collective agreement): his wage model is according to the Company's wage policy and market wages; at the end of his employment in the Company he is entitled to increased severance pay only (depending on the number of years of employment).

As part of the retirement arrangements, the Company may, at its discretion, terminate the employment of 203 tenured employees (including new permanent employees) each year (relevant for 2017-2021).

The latest amendment to the Agreement was approved by the Company's Board of Directors on August 30, 2015, under which the Agreement and the retirement arrangement were extended to December 31, 2021.

For details of other material agreements concerning labor relations, see Section 2.17.3.

2.9.5 Officers and senior management in the Company

On the date of publication of the periodic report, 8 directors serve in the Company (out of a composition of 9 directors decided by the Board of Directors), of whom three are external directors, one is an independent director (who is not external directors) and four are not

[25] At the beginning of 2016, the workers union announced that it agrees that so long as up to 15 directors serve on the Board of Directors, one representative among the employees will also serve on the Board and if the number of directors exceeds 15, an additional representative among the employees will serve on the Board.

independent directors (including one director among the employees). In addition, 11 senior management members also serve in the Company.

The members of senior management are employed under personal agreements that include, inter alia, pension coverage, payment of bonuses based on targets and advance notice months before retirement.

For information regarding compensation of officers, see Section 7 to Chapter D of this periodic report and Note 30 to the 2019 Financial Statements.

On May 23, 2019, the general meeting affirmed the Company's compensation policy in accordance with Section 267A of the Companies Law, including updating the policy for three years, commencing January 1, 2019.

On February 6, 2020, the general meeting of the Company's shareholders approved, among other things, an amendment to the liability notes for indemnity and exemption granted to the Company's senior executives and directors serving the Company and/or who may serve the Company from time to time (including those who are part of the controlling shareholder and/or his relatives and/or officers in companies owned by the controlling shareholder) and amendments to the Company's Articles of Association and compensation policy.

2.9.6 Labor disputes

On January 23, 2019, the Company received notice of a strike or stoppage in accordance with the Labor Dispute Settlement Law announced and approved by the Histadrut, commencing on February 5, 2019. According to the notice, the matters in dispute are: (a) The employees' representatives demand that there should be negotiations with them concerning the transfer of control and the need to sign a collective agreement to protect employees' rights; (b) the unilateral decision to allow subcontractors to operate the Company's switching equipment and carry out actions that until now were exclusively performed by the Company's employees (according to the clarification received after the notice was sent, referring to the decision of the Ministry of Communications that facilitated work by employees of competitors'' subcontractors on the Company's infrastructure). After the chairman of the Company's labor union informed the Company CEO that the employees' representatives intend to take, without limitation, a series of organizational measures and actions relating to the cessation of work in the Company's infrastructure, on February 10, 2019, the Company filed a petition by a party to a collective dispute and petition for injunction order with the Tel Aviv Regional Court under which the court is requested, inter alia, to order the workers representatives to refrain from adopting the foregoing industrial actions. In the hearing on the case, a provisional order was issued. The parties are negotiating, and subsequent to joint motions filed with the court, the hearings that were due to take place in the case were postponed and the Company must give notice by April 5, 2020 on its application regarding further proceedings.

On February 20, 2020, the employees' representatives announced that they were taking industrial action due to lack of progress in the collective agreement negotiations. According to the announcement, the following measures will be performed: Cancellation of Friday shifts (of customer service technicians in the Private Division), suspension of fiber optic activity, stopping the preparation of financial statements and a prospectus and stopping preparation and sending of invoices to private customers. In the same announcement, the employees' representatives proposed that Company management should speed up and move forward with negotiation on the agreement immediately in order to avoid escalation of the industrial action. The Company petitioned the Labor Court for an injunction against the industrial action, and later that day, the court validated the agreement of the parties, whereby the parties will negotiate and the employees' representative will refrain from taking industrial action until March 1, 2020. On March 1, 2020, Company employees launched sanctions and on March 15, 2020, the employees' organization announced an end to the sanctions in view of the situation (coronavirus outbreak).

2.10 Equipment and suppliers

2.10.1 Equipment

The main equipment used by the Company includes exchanges, communication cabinets (MSAG), copper cables, optical cables, transmission equipment, data communication systems and equipment, servers, internet modems and routers. The Company purchases most of the equipment needed for its communications infrastructure from Israeli companies affiliated with international communications equipment manufacturers. Hardware and software are purchased from a number of main suppliers.

2.10.2 Percentage of purchases from main suppliers and form of agreement with them

With respect to Section 23 of the First Schedule to the Securities Regulations, the Company considers a "main supplier" to be a supplier that accounts for more than 5% of the volume of the Company's annual purchases and accounts for more than 10% of the volume of all the Company's purchases in a particular operating segment.

In 2019, the Company had no main supplier, as defined above.

2.10.3 Dependence on suppliers

Most of the equipment purchased for data communication, switching, transmission and radio systems is unique, and over its years of operation the possibility of obtaining support other than through the manufacturer, is limited.

In the Company's opinion, in view of the importance of having the manufacturer's support for specific equipment used, the Company may be dependent on the following suppliers:

Supplier	Area of Expertise
Alcatel-Lucent Israel Ltd.	Metro transmission and access systems to the NGN
Juniper Networks	Metro transmission
Dialogic Networks (Israel) Ltd.	Transfer exchanges for connecting operators to the Company's switching network
Adtran Holdings Ltd.	Access systems to the NGN
IBM	Hardware and backup, restoration and survivability solutions for systems and infrastructures, and storage equipment
VMware	Infrastructure for most of the virtualization of the servers
Heights Telecom T. Ltd.	Be router

Regarding switching exchanges for end customers in the NGN - the Company is in the process of migrating to a new switch, as set out in Section 2.7.2. The Company signed a service agreement with Cisco Group (the manufacturer) for the provision of support services for the new switch upon mitigation to it, and the Company is likely to be dependent on this supplier accordingly. Until migration to the new switch and so long as telephony services are provided through the existing switch, support services will be provided by Momentech.

Agreements with suppliers on which the Company may be dependent, as noted in this Section, generally include a warranty period for a certain period of time and conditions specified in the agreements, followed by another period of maintenance or support. Where necessary, the Company may enter into an agreement with the supplier for the supply of support and/or maintenance services for a further period. These agreements usually contain various forms of relief for the Company should the supplier breach the agreement. Such agreements with suppliers are usually long term.

2.11 Working Capital

For information about the Company’s working capital, see Section 1.4 in the Directors Report.

2.12 Investments

For information about the Company’s investments in affiliates, see Note 14 to the 2019 Financial Statements as well as Sections 3 and 4 to Chapter D of this Periodic Report.

2.13 Financing

2.13.1 Average and effective interest rates on loans

As at December 31, 2019, the Company is not financed by any short-term credit (less than a year). The following table shows the distribution of long-term loans (including current maturities):

Loan term	Source of finance	Principal amount (NIS millions)	Currency or linkage	Type of interest and change mechanism	Average interest rate	Effective interest rate	Interest range in 2019
Long-term loans	Banks	1,816	Unlinked NIS	Fixed	3.82%	4.02%	3.20%-6.85%
	Non-bank sources	107	Unlinked NIS	Variable, based on annual STL rate*	1.53%	1.59%	1.53%-1.75%
	Non-bank sources	4,301	Unlinked NIS	Fixed	3.34%	3.44%	3.22%-5.25%
	Non-bank sources	3,252	CPI-linked NIS	Fixed	2.20%	2.24%	2.10%-3.70%

* STL return per year (211) - 0.144% (average of last 5 trading days of February 2020) for the interest period commencing March 1, 2020.

For additional details about the Company's loans, see Note 15 to the 2019 Financial Statements.

2.13.2 Restrictions on borrowings

2.13.2.1 Restrictions included in the Company's loans

See Note 15 to the 2019 Financial Statements. At the date of the financial statements and the date of publication of this periodic report, the Company is in compliance with all the restrictions applicable to it.

2.13.2.2 Bank of Israel restrictions on a single borrower and group of borrowers

The Supervisor of Banks' directives include restrictions on the liability of a single borrower and of a group of borrowers towards the banks. The Supervisor of Banks' directives could from time to time affect the ability of banks to grant further credit to the Company. For details about the authorization to determine restrictions on borrowings for a business group in the Market Concentration Law, see Section 1.7.4.7.

2.13.3 Reportable credit

As at December 31, 2019, the Company's reportable credit, in accordance with Legal Position 104-15 of the Securities Authority (Reportable Credit Event) is debentures (Series 6 and Series 9) of the Company, as set out in Note 15 of the 2019 Financial Statements and Section 4 of the Directors Report.

2.13.4 Credit received during the reporting period

For information regarding credit received during the reporting year by public debt raising, see Section 2.13.5.

Private placement

In June and September 2019, the Company raised debt in the total amount of NIS 800 million by means of private loans from a financial institution and a bank with an average duration of 6.8 years and fixed shekel interest at an average rate of 3.5%. The terms of the loans are similar to those of other loans taken by the Company.

Issuance of debentures Series 11-12

In July 2019, the Company completed a private placement of debentures (Series 11 and 12) to institutional investors, as follows: 427,891,000 debentures (Series 11) of NIS 1 par value each, unlinked, at an interest rate of 3.6% and an average duration of 7.7 years, and 461,740,000 debentures (Series 12) of NIS 1 par value each, of the Company, CPI-linked and bearing 2.1% interest with an average duration of 8.25 years. The total consideration received by the Company for this placement (gross) is NIS 890 million. The debentures were listed for trading on the TASE's TACT (Tel Aviv Continuous Institutional Trading System). The Company intends to register the debentures for trading on the stock exchange, subject to the statutory provisions, to publish a prospectus and to obtain the necessary permits. With regard to approval for submission of a draft prospectus to register for trading, see below. When the debentures are listed for trading on the TASE's main list, the interest rate to be paid for the balance of the principal of the debentures from the date of listing on the TASE main list, will be reduced by 0.4%. The terms of the debentures are similar to the terms of the debentures from the existing series of the Company (Series 6, 7, 9, and 10).

Private placement of debenture (Series 12) in exchange for debentures (Series 6)

In December 2019, the Company completed a private exchange of NIS 300,000,000 par value of the Company's debentures (Series 6) in return for allocation of NIS 337,500,000 par value of the Company's debentures (Series 12) by way of expanding debentures (Series 12), being an exchange ratio of NIS 1.125 par value of Debentures (Series 12) traded on the TACT system of the TASE for each NIS 1 par value of debentures (Series 6). On the option of reducing the interest rate for the debentures, see the Section above.

Private expansion of debentures (Series 11)

In December 2019, the Company completed a private placement by way of expanding the series listed for trading on the TACT Institutional system, of 174,969,000 debentures (Series 11) of NIS 1 par value each, unlinked (principal and interest) to any index, for consideration in cash of NIS 1.018 for each NIS 1 par value of debentures (Series 11) for a total of NIS 178,118,442.

Early repayments

In 2019 the Company completed the early repayment of several loans from financial institutions and banks in the total amount of NIS 1.83 billion (principal). In September 2019, the Company also completed a tender offer of NIS 444 million par value of Debentures (Series 7) according to a specification at a price for each of NIS 1 par value debentures.

2.13.5 Company debentures

For details about the debentures issued by the Company, see Note 15 to the 2019 Financial Statements, and Section 4 to the Directors' Report. Also see Section 2.13.4.

2.13.6 Credit rating

Company debentures are rated by S&P Maalot Ltd. with an il/AA-/Negative rating and by Midroog Ltd. with an Aa2 rating with a negative outlook.

For information regarding the Company's rating history in the last two years, see its immediate reports dated March 1, 2018, April 26, 2018, November 18, 2018, May 7, 2019, June 25, 2019, July 10, 2019, August 12, 2019, November 25, 2019 and December 10, 2019 (S&P Maalot Ltd.) and February 4, 2018, April 30, 2018, November 18, 2018, April 8, 2019, June 25, 2019, July 10, 2019, August 6, 2019, November 25, 2019 and December 10, 2019 (Midroog Ltd;), included here by way of reference.

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

2.13.7 Company assessment regarding debt raising in 2020 and possible sources

In 2020, the Company expects to repay NIS 1.8 billion of loan principal and interest, including debentures (as well as the amount scheduled for early repayment of bank/institutional credit, at the Company's discretion).

The Company raises capital from time to time to finance its cash flow. The financing options at the Company's disposal are raising debt by means of new bank loans and/or by private or marketable debt. The Company intends to continue taking measures in 2020 to adjust its debt structure to its needs and sources.

On March 18, 2020, the Company's Board of Directors approved submission of an application for a permit to publish a prospectus for listing for trading of debentures (Series 11 and 12) that were listed for trading on the TACT system, and a shelf prospectus based on its financial statements as at December 31, 2019 together with an initial draft of the prospectus.

It is emphasized that at this time, publication of a prospectus has yet to be approved and no decision has been made on implementation of a raising under the shelf prospectus.

2.13.8 Liens and collateral

For information regarding liens and collateral of the Company, see Note 21 to the 2019 Financial Statements.

2.14 Taxation

2.14.1 For information about taxation, including the deferred tax asset for carry-forward losses for tax purposes of DBS, see Note 7 to the 2019 Financial Statements. Also, regarding motion to certify a derivative claim on the tax assessment agreement in respect of DBS losses, see Section 2.18I.

2.15 Environmental risks and means for their management

2.15.1 General

Some of the Company's facilities, such as broadcasting, wireless communications or high-voltage facilities[26] are sources of electromagnetic radiation that are included in the definition of "radiation sources" in the Non-Ionizing Radiation Law.

2.15.2 Non-Ionizing Radiation Law

The law regulates the handling, establishment, operation and supervision of radiation sources. The law provides, inter alia, that the establishment and operation of a Source of Radiation require a permit; sets punitive provisions and severe responsibility of a company, employees and officers that breach the provisions of the law; imposes recording and reporting obligations on a permit-holder, and grants supervisory powers mainly to the Supervisor of Non-ionizing Radiation at the Ministry of Environmental Protection (in this Section: "the Supervisor"), including with regard to the terms of the permit, cancellation of the permit and removal of a Source of Radiation.

The Company obtained operating permits from the Supervisor for the communication facilities and broadcasting sites it operates. The Company also took the measures required to obtain radiation permits for high-voltage facilities included in its assets, and as at the report date, it has permits for 15 high-voltage facilities, all of which have an establishment and operation permit or valid category approval.

It is noted that the Commissioner requires building permits as a condition for the continued validity of the operating permits for communications facilities (including broadcasting facilities) he granted, as well as the fulfillment of additional conditions, inter alia, concerning wireless access installations which have category approval granted to the Company by the Supervisor. See also Section 2.16.10.

The law includes a punitive chapter under which, inter alia, the construction or operation of a source of radiation in contravention of the provisions of the permit and the construction or operation of a source of radiation without a permit, after having been warned in writing by the Commissioner, are strict liability offenses.

2.15.3 Permits

On the permits for broadcasting facilities required under the Planning and Construction Law, see Section 2.16.10.

2.15.4 Company policy for radiation risk management

The Company applies a work procedure for the construction, operation and measurement of sources of non-ionizing radiation, and an appropriate compliance procedure that was approved by its Board of Directors. The Company has assigned an officer to oversee implementation of the compliance procedure. Periodic reports on the status of Sources of Radiation are submitted to the CEO and to the Board of Directors.

2.16 Restrictions and control of the Company's operations

The Company is subject to systems of laws that regulate and limit its business activities. The main body overseeing the Company's activities as a communications company is the Ministry of Communication.

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[26] The establishment and operation of these facilities require an establishment permit as well as an operating permit in accordance with the Non-Ionizing Radiation Law. The establishment of high-voltage facilities (transformers) in Company sites is aimed at providing energy for use by the Company's facilities.

2.16.1 Control of Company tariffs

Arrangements in Sections 5 and 15 to 17 of the Communications Law and the terms of the Company's Domestic Carrier license apply to the Company's tariffs, as set out below in this Section.

The control of the Company's tariffs (as set out below) has a number of implications – the Company's tariffs are subject to regulatory intervention (even if they are not set in the regulations or in alternative payment packages), and from time to time, the Company is exposed to significant changes in its tariff structure and tariff levels. The review mechanism for the controlled tariffs, as defined in the authorizing legislation and the regulations, results in a real average erosion of the tariffs over the years. Control of the tariffs creates or could make it difficult for the Company to provide an appropriate and competitive response to market changes and to offer competitive prices at short notice. Furthermore, the restrictions on granting discounts on tariffs limit the Company in participation in certain tenders.

Following are the main control arrangements over the Company's prices:

2.16.1.1 Under the Communications Law, the Minister of Communications is entitled, with the approval of the Minister of Finance, to determine payments (including maximum payments or minimum payments) for services from a license holder. The payment can be determined on the basis of the cost, according to the calculation method instructed by the Minister plus a reasonable profit; or reference points deriving from payment for services provided by the license holder; payment for comparative services; payments in other countries for such services.

2.16.1.2 Tariffs fixed in regulations - the tariffs for the Company’s controlled services (telephony and others) which are stipulated in the regulations, were updated in accordance with a linkage formula less an efficiency factor provided in the regulations, so that on average, the Company's controlled tariffs erode in real terms. After five years without any update to the regulation tariffs, on May 23, 2018, the Ministry of Communications announced an update of the Company’s tariffs stipulated in the regulations, effective from June 1, 2018, based on the update formula set out in the Communications (Telecommunications and Broadcasts) (Calculation and Linkage of Payments for Telecommunications Services), 2007, so that the tariffs for the services provided by the Company set out in the regulations will be reduced by an average of 11.88%, except for the fixed monthly payment for the telephone line, which remained unchanged. On June 1, 2019, a temporary order came into force stipulating that the payments were not updated on June 1, 2019 and the details of the formula were updated on the date of the update effective from June 1, 2020.

2.16.1.3 The Communications and Finance Ministers are authorized (under Section 5 to the Communications Law) to prescribe interconnect payments or for the use by a license holder of the communication facilities of another license holder, and to provide instructions in this regard (including with regard to related arrangements), inter alia, based on the parameters set out in Section 2.16.1.1.

2.16.1.4 Alternative payment packages - If tariffs that are neither maximum nor minimum are set for supervised services, the Company may offer an alternative payments package for a bundle of those services, provided that the Ministers of Communications and Finance do not oppose the package. The Gronau report[27] states that an alternative payment package will be approved only if it is worthwhile for 30% or more of subscribers who use the services offered in the package, and that the smaller the market share of the Group in fixed-line telephony is, the higher the maximum discount rate permitted in an alternative payment package will be[28].

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[27] The Gronau Commission’s report on the rules of competition in the communications industry in a letter from the former Minister of Communications dated August 13, 2008 adopting the report (with changes) (“the Gronau Report”).

[28] A maximum discount rate of 25% when the Group's market share is between 75% and 85%, and 40% when the market share is between 60% and 75%.

If maximum or minimum payments are determined according to Sections 5 or 15 the Communications Law, for telecommunication services provided to another license holder, the Company may indiscriminately offer any other license holder an alternative payments package for the bundle of services at maximum or minimum payments, and such services together with services for which payment has not been determined according to Sections 5 or 15 to the Law, provided the Ministers are not opposed or approved the package.

2.16.1.5 The Company may request a reasonable payment for a service for which a payment is not determined according to Sections 5 or 15, or for which a maximum or minimum payment has been determined. The Minister of Communications may the Company to notify him of any payment the Company intends to request as set out above and of any change in the payment prior to the provision of the service or the change. If the Minister of Communications determines that the Company intends to request an unreasonable payment, or a payment that raises suspicion of harming competition, the Minister may instruct (for a period not exceeding one year) the maximum payment it may request for the service or separation of the payment for the service from the payment for the bundle of services. The Minister will assess whether the payment is unreasonable according to the parameters in Section 2.16.1.1(1) above and may assess the payment based on the provisions in Section 2.16.1.1(2) above.

2.16.1.6 On June 27, 2017, the Company received a hearing letter from the Ministry of Communications[29] that two alternative supervisory mechanisms are under review for the current telephony tariffs (and other services for which the tariffs are fixed in regulations):

A. To convert the existing supervisory method that sets fixed rates to maximum rates; the main telephony services (telephone line - NIS 57.92 including VAT, and NIS 0.0187 including VAT for calls, according to the proposal) will be set in relation to the updated costs structure; for most of the additional services, the present tariff will become the maximum tariff and price control will be lifted for some of the services.

B. To lift the price control from the main telephony services - telephone line and calls, and from additional services that are currently supervised in fixed tariff format, and to set a maximum price for a “controlled bundle” which will include a telephone line and call minutes which the Company will offer customers who wish to subscribe to this service, similar to the alternative payments bundle currently offered by the Company for which there is most demand.

Similarly, it was proposed that only existing subscribers of the alternative payment package for the "Kav Kal" (Light Line) service will be able to continue to receive it. The Ministry of Communications is also considered determining that price control will be lifted on PRI channels and the price control on their call components will be canceled. The Company submitted its comments on the hearing, opposing the proposed tariffs.

The Company believes that the change in the control mechanism under consideration in the hearing, if implemented, will negatively affect its financial results. The Company believes that its retail tariffs will also be affected by the wholesale prices for telephony services (see Section 2.16.4.4). On this matter, see the Company’s Immediate Report dated June 28, 2017 (attached to the hearing letter), included here by way of reference.

2.16.1.7 For the August 29, 2017 hearing regarding margin squeeze prevention mechanism, submission of marketing offerings for Ministry of Communications

[29] The competition expansion policy document of May 2012 stipulates that within six months of publication of the Shelf Offering (for the sale of wholesale services), the Minister will take action to change the method of oversight of the Company's prices so as to be controlled by the setting of a maximum price. The Gronau Report stipulated that as long as the Group's market share remains higher than 60%, control of the Company's prices will continue in the mandatory price fixing format.

approval, and the hearing for wholesale telephony services in a resale format and wholesale service tariffs, see Section 2.16.4.

2.16.1.8 In respect of the wholesale market - On March 18, 2019, the Ministry published a hearing regulating the maximum payments for the wholesale services of the infrastructure owners in 2019-2022. According to the hearing, the Ministry intends to updated the prices, inter alia, based on assumptions regarding the demand volumes and equipment price trends and their effect on the cost of providing the service in the economic model. Until completion of the hearing process, the Ministry of Communications extended the applicability of the maximum payments for wholesale services to 2018, so as to continue to apply from 2018 onwards. It should be noted that prior to extension of the applicability, the Ministry published a hearing noting, inter alia, that the key trends in the market, including the demand trends and decrease in equipment prices, indicate that the cost of providing the wholesale services is declining over time. Previously, on February 20, 2017, the Ministry decided to make changes to the demand forecast mechanism used to calculate the maximum tariffs for the wholesale services set out in Use Regulations for 2017 and 2018. Certain tariffs were revised in the regulations on July 1, 2018. In the above hearings on the wholesale market tariffs for 2019-2022, the Ministry indicated that it is considering a mechanism for implementation of the Minister's decision of February 20, 2017 which became effective from that date until July 1, 2018.

On May 5, 2019, the Company submitted its comments on a hearing on tariffs for the wholesale market. In its comments, the Company pointed to material errors in the calculation and the underlying assumption concerning tariffs for the BSA service and the obligation to link the tariff for a technician's visit to a relevant index; instead, the Company proposed a dynamic mechanism which addresses the model of demand in passive service as well (instead of the current assumption relating to demand the feasibility of which is unrealistic), and it submitted its objection to imposing the tariff retroactively.

Subsequently, on February 20, 2020, the Minister of Communications decided in a hearing to amend the Communications (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network) Regulations, 2014 ("the Amendment" and "the Regulations", respectively) as follows:

1. The Amendment includes formulas for updating the maximum payments to which the Company is entitled for use of its network (BSA wholesale service) on January 1 each year, between 2019 and 2022, and stipulates that on November 15 each year, the Minister of Communications will publish the demand forecast index, which is a component of the update formula. The demand indices for 2019 and 2020 were set in the Minister's notice that was attached to his decision. The Amendment will apply retrospectively as from January 1, 2019.
2. The Amendment further stipulates that upon entry into effect of the Regulations, a reduction of certain payment components will become effective in a manner that leads to offsetting between the Company and another license holder that consumed services in the period between February 2017 (date of the decision to update the maximum payments) through to July 2018 (the date of update of the Regulations), until completion of the offsetting for that period.

The update of the maximum payments for 2019 and 2020 is expected to lead to a non-material decrease in the Company's revenues compared to the revenues that would have been received based on the current tariffs according to which the communications market operated as from July 2018.

For wholesale market tariffs on the HOT network, see Section 2.16.4.

On May 19, 2019, the Ministry of Communications sent the Company a preliminary supervisory report on the subject of price quotes for transmission services. According to the supervisory report, for which the review commenced at the beginning of 2017, the Company ostensibly deviated from the provisions of its license by submitting a tender offer that includes reduced tariffs for transmission lines that were not offered transparently to all its business customers. The ministry argues that it was unaware of the discount included in these tariffs, the discount did not appear in the price lists for the transmission service submitted to the ministry in recent years, and it does not comply with the test of reasonability, under the provisions of Section 17 of the Communications Law. The ministry further stated that it seems that this practice continues to the present time for other services as well, particularly in other tenders. On June 30, 2019, the Company submitted its comments on the supervisory report stating the Company did not deviate from the provisions of its license and that, among other things, this model was reviewed by the Ministry of Communications and complies with the tests of reasonability, and that the service providers were even aware of it and used it.

2.16.2 The Company's Domestic Carrier license

The Company operates, *inter alia,* under the domestic carrier license[30]. The main topics covered in the license are:

2.16.2.1 Scope of license, the services the Company must provide, and the duty of universal service

The Company is required to provide its services to all on equal terms for each type of service, irrespective of location or unique cost. The license is unlimited in time; the Minister may modify or cancel the license or make it contingent; the license and any part of it cannot be transferred, no charge can be imposed on it, nor can it be subject to attachment. With regard to the addition of wholesale services to the Company's license, see Section 1.7.3. For the deployment and universal service obligation in respect of the ultra-wide bandwidth network, see Section 2.7.2.

2.16.2.2 Structural separation principles

For a general description of the structural separation applicable to the Company and terms for its cancellation, see Section 1.7.2.

2.16.2.3 Tariffs

The Company provides a service or package of services for which no tariff is set under Section 15 or 15A of the Communications Law at a reasonable price and offers them to all, without discrimination and at a uniform tariff. See also Section 2.16.1.

2.16.2.4 Marketing joint service bundles

In respect of the provisions of the domestic carrier license that enable the Company to request to market joint service bundles subject to restrictions, see Section 1.7.2.2.

2.16.2.5 Operations of Company networks and service standards

The Company is required to maintain and operate the network and provide its services at all times, including in emergencies, in an orderly and proper manner according to the technical and service quality requirements, and to work towards improving its services. The license includes a Service Standards for the Subscriber appendix, which is to be amended after the Company provides the Ministry with data. The Company submitted its proposals for amendment of the appendix to the Ministry, adapting it to the current state of affairs and the licenses of other operators, but the amendment report has not yet been executed. For the license amendment in respect of the response of the call centers, see Section 1.7.4.4(A).

2.16.2.6 Interconnect and use

Provisions were prescribed for the duty of interconnect to another public switching network and the option of use by another license-holder; a duty to provide infrastructure services to another license holder (including wholesale service) on

[30] A copy of the Domestic Carrier license appears on the Ministry of Communications website at www.moc.gov.il.

reasonable and equal terms is also provided, as well as refraining from preferring a license holder that is a company with an interest.

2.16.2.7 Security arrangements

Provisions have been made for the operation of the Company's network in times of emergency, including the obligation to operate it in a manner that prevents its collapse in emergencies.

The Company is required to provide telecommunication services and set up and maintain the terminal equipment infrastructure for the security forces in Israel and abroad, as provided in its agreements with the security forces. Furthermore, the Company provides special services to the security forces. The Company will take action to ensure that each purchase and installation of hardware in its telecommunications installations, except for terminal equipment, will be made in full compliance with instructions given to the Company according to Section 13 of the Communications Law.

The Company is required to appoint a security officer and to comply fully with the security instructions contained in the appendix to the license.

2.16.2.8 Supervision and reporting

Extensive reporting duties to the Ministry of Communications are imposed on the Company. In addition, the Director General at the Ministry of Communications (as defined in the Company's license) is granted the authority to enter facilities and offices used by the Company and to seize documents. On August 1, 2019, the Company’s general license was amended reducing and consolidating the reporting obligations.

2.16.2.9 Miscellaneous

A. The Domestic Carrier license includes restrictions on the acquisition, maintenance and transfer of means of control pursuant to the Communications Order (see Section 2.16.3) and on cross-ownership, which are mainly a ban on cross-holding by entities with an interest in another material Domestic Carrier[31] as noted in the license, and restrictions on a cross-holding by entities with Domestic Carrier licenses or general licenses in the same operating segment.

B. The Company submitted a bank guarantee in a total amount in NIS equivalent to USD 10 million to the Director General of the Ministry of Communications for securing fulfillment of the terms of the license and for indemnifying the State for any loss it incurs due to their violation by the Company.

C. The Director General at the Ministry of Communications is authorized to impose a monetary sanction for violation of any of the terms of the license (on this matter, see also Section 1.7.4.6).

D. During a calendar year, the Company may invest up to 25% of its annual income in activities not intended for providing its services (the incomes of the subsidiaries are not considered Company income for this purpose).

For details about the wholesale market and wholesale service portfolios, see Section 2.16.4.

2.16.3 The Communications Order

The Company was declared a provider of telecommunication services under the Communications Order. By power of that declaration, the Company is required to provide certain types of services and may not cease them or narrow them. Among these services are basic telephone service, infrastructure service, transmission service and data communication service including interconnect, and other services listed in the schedule to the Order.

The main provisions of the Communications Order are these:

[31] A Domestic Carrier with a market share of 25% or more.

2.16.3.1 Restrictions on the transfer and acquisition of means of control in a company, which include a ban on holding 5% or more of means of control of a certain kind without the prior written approval of the Prime Minister and the Minister of Communications ("the Ministers").

2.16.3.2 Transfer or acquisition of control in a company requires the approval of the Ministers ("Control Permit"). The Control Permit will lay down the minimum rate of holding in each of the means of control in the Company by the holder of the Control Permit, where a transfer of shares or an issuance of shares by a company, as a result of which the percentage of the holding of the Control Permit holder will fall below the minimum percentage, is prohibited without the prior approval of the Ministers, subject to permitted exceptions (among them – an issuance to the public under a prospectus, or sale or private placement to institutional investors)[32].

2.16.3.3 Holdings not approved as aforesaid will be considered "exceptional holdings", and the Order states that exercise of a right by power of exceptional holdings will not be valid, and the Order also states that exercise of a right by power of exceptional holdings will not be valid. The Order also contains provisions authorizing the Ministers and the Company to petition the courts for enforced sale of exceptional holdings.

2.16.3.4 A duty to report to the Ministers upon demand is imposed on the Company, on any information on matters relating to provision of an essential service.

2.16.3.5 At least 75% of the members of the Board of Directors of the Company must be Israeli citizens and residents who have security clearance and security compatibility as determined by the General Security Service. The Chairman of the Board, the external directors, the CEO, the Deputy CEO and other office-holders in the Company as listed in the Order, must be Israeli citizens and residents and have security clearance appropriate to their functions.

2.16.3.6 "Israeli" requirements are laid down for the controlling shareholder in the Company: for an individual – he is an Israeli Entity (as defined in the Order); for a company – it is incorporated in Israel, the center of its business is in Israel, and it is an Israeli Entity (as defined in the Order) that holds at least 19% of each of the means of control in it, or holds at least 19% of the voting rights at the general meeting and rights to appoint directors who are controlling shareholders and has the right to appoint at least a fifth of the number of directors in the Company and its subsidiaries, and no less than one director in each, appointed by it, provided that the rate of holdings in the Company, directly or indirectly, do not at any time fall below 3% of any type of means of control of the Company.

Notably, on March 8, 2020, the Company received hearing documents published by the Ministry of Communications on “change in the minimum holding requirement for means of control of a general license by an Israeli entity”. In the hearing, it was recommended to amend the Communications Order and other legislative provisions setting out Israeli requirements regarding additional communication license holders, to grant the option of exchanging the Israeli requirement under the law with a provision according to Section 13 of the Communications Law and the procedure set out in it, whereby alternative provisions to the Israeli requirements will apply to the relevant license holder. The date for comments to the hearing was set for March 29, 2020.

2.16.3.7 The approval of the Ministers is required for granting rights in certain assets of the Company (switches, cable network, transmission network and data bases and banks). In addition, grant of rights in means of control in subsidiaries of the Company, including allotment of more than 25% of the shares in the subsidiary, requires the approval of the Ministers.

2.16.3.8 Certain actions of the Company require the approval of the Minister of Communications, among them voluntary liquidation, a settlement or arrangement

[32] For the minimum rate of holding of control of B Communications Group, see Section 8 in Chapter D to this periodic report.

between the Company and its creditors, a change or reorganization of the structure of the Company, a merger and split of the Company.

2.16.4 Wholesale market

Recently, the Company provides services under a wholesale market model, as part of which the obligation to sell wholesale services to other communications operators was imposed on owners of a country-wide fixed-line access infrastructure (the Company and HOT).

The regulatory provisions regarding the wholesale market, as well as its implementation and development in the reporting period, affect a material part of the Group's activities.

2.16.4.1 Policy document

The wholesale services were established pursuant to the policy document dated May 2, 2012 in which the Minister of Communications adopted the main recommendations of the committee appointed to review and revise the structure of Bezeq's tariffs and to set wholesale service tariffs in the communications industry (Hayek Committee). The policy document states, inter alia, that owners of country-wide fixed-line access infrastructures who provide retail services, including the Company, will be obligated to sell wholesale services to holders of telecommunication licenses on a non-discriminatory basis and with no discounts for size. The document also stipulates the terms for cancellation of the structural separation (see Section 1.7.2.1B) and that within six months of publication of the Shelf Offering for the sale of wholesale services by the infrastructure owners, the Minister will take action to change to a method of oversight of the Company's prices by the setting of a maximum price and within nine months, the Ministry will formulate regulations aimed at increasing the investment in and upgrading fixed-line communications infrastructure in Israel.

Further to the policy document, at the end of 2014, the Ministry of Communications established service portfolios setting out the format for provisions of the services by the infrastructure owners. The maximum tariffs that the Company may charge for these services were set by the Ministry of Communications with the Minister of Finance’s approval, in the Use Regulations for that year. Tariffs for HOT’s wholesale services were only published on June 26, 2017.

2.16.4.2 BSA services

The Company started providing the service on February 17, 2015. This service allows service providers that do not own infrastructure to offer their customers full end-to-end internet services, including internet connectivity services and infrastructure services of the Company Since launching of the service, hundreds of thousands of customers have switched to receiving services through these service providers. In this regard, see Sections 1.5.4.1 and 2.1.3.

In the initial period of provision of the service, the Ministry conducted an oversight proceeding at the Company, which led to imposition of NIS 8.5 million in fines. The Company paid the fines. The petition filed by the Company against this process was dismissed. The appeal filed by the Company against dismissal of the petition was also dismissed[33]. In addition, disputes erupted between the Company and the service providers regarding implementation of the service portfolio. These disputes concern, inter alia, the payments owing to the Company for the service and division of responsibility for installation and malfunctions.

In order to receive the BSA service, the service providers must be connected to the Company’s network at central points of interface. All communications providers have been connected to the Company’s network. On January 16, 2019, despite the operational difficulties indicated by the Company, the Ministry of Communications ordered the Company to immediately allow connection of the

[33] Notably, on January 19, 2020, a judgment was handed down in which the motion to disclose documents was partially accepted according to Section 198A of the Companies Law concerning this fine. The Applicant seeks, through disclosure of the documents, to review the option of filing a motion to certify a derivative claim against Company officers/employees who were involved in handling the matter, when the amount of the relevant derivative claim is the out-of-pocket amount incurred by the Company as a result of the fines imposed on it (NIS 8.5 million).

service providers to the MSAG, in addition to its obligation to allow connection in the current way, at the service provider's election.

On August 29, 2017, the Ministry of Communications published a secondary hearing (for the hearing published on November 17, 2014), on determination of the format for reviewing a margin squeeze by fixed-line broadband network owners in marketing offerings. A market squeeze is a situation in which the infrastructure owner decreases the retail prices and the margin between the retail prices and the wholesale price of the inputs of the infrastructure purchased by the service providers to a level that erodes the profit of the service providers to the point of being economically unfeasible to continue their activity. According to the secondary hearing, the Ministry is considering allowing the infrastructure owners to conduct their own review to rule out margin squeeze, by means of inspection tools to be approved by the Ministry (in addition to the limited advance review track). As considered, the effective tariff for the reviewed service or group of reviewed services will not be lower than the minimum price level set for marketing those services examined by the license holder. In the hearing, "license holder" includes the Company, Bezeq International, DBS, HOT Broadcasts, HOT Telecom and HOT Net. The Company submitted its comments on the hearing whereby there is no reason to determine a format for examining margin squeeze, although if such format is determined, the independent inspection mechanism proposed in the hearing should be expanded. The Company believes that if the margin squeeze review format is applied, it could affect the ability of the Company and Group companies to market bundles with respect to the timing of the offers and the prices they will be able to offer.

To the best of the Company's knowledge, the sale of wholesale services on HOT's network has begun. The volume of wholesale subscribers on HOT's network is negligible at this stage, although the Company believes that it has increased over the last few months. On December 30, 2019, the Ministry of Communications published a hearing proposing to reduce the tariff of the BSA service on the HOT network.

2.16.4.3 Wholesale service use of physical infrastructures

(1) Format and applicability of the service

The Use of Physical Infrastructures service portfolio ("the Original Service Portfolio") entered into entered into force on July 31, 2015 and accordingly, the Company allows suppliers without infrastructure to use its physical available-for-transfer communication cable infrastructure and the available dark fibers out of the Company's available optic cables, while in order to connect to the service provider's infrastructure to the Company's infrastructure, the service provider must set up a passive infrastructure near the Company's passive infrastructure facility.

In December 2016, as part of the amendment to the Communications Law, a licensed domestic carrier was also obligated to allow other licensed domestic carriers (which are not necessarily license holders without infrastructure) to use its passive infrastructure (excluding the passive infrastructure of a licensed domestic carrier owned by IEC and which it requires, for the purpose of its operations as the holder of a critical service provider license) to perform of any telecommunications operation and provide any telecommunications service under its license. This means allowing IBC to use the Company's passive infrastructure and as from October 1, 2017 also HOT Telecom.

On January 16, 2019, the Ministry of Communications issued a decision regarding the service portfolio for mutual use of passive infrastructures. The Director's provisions and the service portfolio amendment that were attached to the decision stipulated, inter alia, unlike the Original Service Portfolio[34], that for deployment, an operator using the infrastructure of the infrastructure owner will not be required to set up a passive infrastructure facility, even in the last manhole (the last manhole before the building). The infrastructure of another domestic carrier (meaning, a domestic carrier license holder, including an infrastructure

[34] These provisions were also anchored in the mutual service portfolio that replaced the director's provision described.

owner, that uses the physical infrastructure of another license holder) will be connected to the infrastructure of the infrastructure owner by the passive infrastructure component (conduit/duct pipes, etc.) to be installed between the passive infrastructure of the operator using the infrastructure (manhole, telecom cabinet, junction box, etc.) and the passive infrastructure facility of the infrastructure owner. The definition of the physical infrastructure available to an operator using infrastructure was expanded and includes, among other things, communications rooms as well. The amendment and the provision also anchor the right of the infrastructure owner to payment for the guidance activity to the employees of the operator using the infrastructure.

On December 31, 2019, the Ministry of Communications published a decision and service portfolios for completion of the regulation for implementation of the mutual use of physical infrastructures obligation. The Ministry established the service portfolio Mutual Use of Passive Infrastructures ("the Mutual Service Portfolio") as a uniform portfolio in the licenses of all operators with a general license to provide fixed-line domestic carrier telecommunications services (including holders of a special general license). The Mutual Service Portfolio replaces the Director's provision dated January 16, 2019 and incorporates new provisions and some of the provisions in the Original Service Portfolio and the Director's provision.

The Mutual Service Portfolio does not include provisions for a dark fiber leasing service and an optic wavelength service, which remained in the Original Service Portfolio, established for the infrastructure owners (the Company and HOT) as part of the wholesale market regulation.

The dark fiber leasing service and optic wavelength service will be used only by holders of a special general domestic carrier license and will continue to apply according to the Original Service Portfolio, at the tariffs stipulated in the Use Regulations. In parallel to establishing the Mutual Service Portfolio, amendments were made to the original wholesale service portfolio, and the regulation regarding use of a dark fiber and wavelengths will remain in it. The implementation processes of both portfolios are anchored in the Mutual Use Service Portfolio and are also applicable to implementation of use of a dark fiber and wavelengths.

The implementation processes in the Mutual Service Portfolio includes provisions regarding the service provision stages (access to information, planning, execution of works), service principles and components (so that an infrastructure owner that intends to establish underground infrastructure in an area where there is no physical infrastructure will offer every domestic operator in advance to share the expenses. An infrastructure owner who is obligated to provide universal service will only be required to allow a domestic operator with such obligation that refuses the offer to use the infrastructure five years after completing establishment of the infrastructure). Use of infrastructure between domestic operators will be prioritized by the FIFO (first in first out) method.

(2) Parties performing the works

Pursuant to the Ministry of Communication's decision and dismissal of the Company's petition against it, the work on the Company's infrastructures is performed by the service providers through contractors on their behalf. Since the service is in a format that did not exist before, differences of opinion arise from time to time.

Within this framework, on April 16, 2018, the Ministry of Communications announced, *inter alia*, that the Company must allow the service providers to lay communications cables through the Company's telecom manhole located at the opening of the conduit leading to private land, and to perform any necessary works in the manhole for this purpose, all without derogating from the service providers' responsibility to obtain the landowner's permission.

For the Competition Authority's announcement regarding infrastructure, see Section 2.16.8.7 and for the motion to certify a class action and two motions to exercise rights prior to filing a derivative claim on this matter, see Section 2.18.1(K).

(3) Tariffs

The tariffs for use of the Company's physical infrastructure by the service providers (operators with a special general license) were set out in the Use Regulations. According to the amendment to the Communications Law, the tariffs of the infrastructure owners were to be set by the Minister of Communications with the agreement of the Minister of Finance by April 1, 2018, whereas until these tariffs are set, the tariffs in the Use Regulations will apply, and once the tariffs have been set, accounting will be settled retroactively between the Company and HOT Telecom only. On August 13, 2018, a hearing and draft regulations were published on determining the maximum payments for mutual use by infrastructure owners of access service to passive infrastructure, according to which the Minister is considering determining that the tariff will be the same as for the payments currently defined in the Use Regulations for a domestic carrier which is a special general license holder. On September 9, 2018, the Company submitted its comments on the hearing to determine the payments (together with an expert economic opinion), in which it stipulated, among other things, that the distinction must be maintained between operators that do not own infrastructures and infrastructure owners, and certainly those governed by the obligation of universal service. As of the date of this report, the tariffs have not yet been determined. Notably, according to the Ministry of Communication's letter dated August 9, 2018, the Ministry is considering refraining from setting a maximum or minimum payment for service to be provided by other domestic carriers for which no payment was defined.

2.16.4.4 Wholesale telephony service

On May 18, 2017, the then Acting Minister of Communications issued a decision according to which the Company will provide telephony services in a resale format for one year from July 31, 2017, at prices set by him (higher than the wholesale tariffs, in view of the service content). This decision is the result of a petition filed by the Company with the Supreme Court, inter alia, against the Minister of Communications' decision of November 14, 2014 regarding provision of wholesale telephony services in the service portfolio format. The petition included claims that the service would be impossible to implement in the service portfolio format (BSA + telephony) and is unjustified. Provision of wholesale telephony services (at wholesale prices) on the Company's network was postponed for the 14 months of the arrangement, when the option to extend the arrangement or turn it into a permanent arrangement will be reviewed (a recommendation on this matter will be put for a public hearing). On March 25, 2018 the Company wrote to the Ministry requesting that the Ministry extend the arrangement, at the current price and format, and that the arrangement becomes permanent. The Company clarified that the service format in the service portfolio is impossible to implement, unjustified and contradicts the global trend. The only way that enables the Company to provide the service in the service portfolio format entails switch replacement and compelling the Company to perform a complex, disproportionate unauthorized and unjustified procedure.

On June 5, 2018, the Ministry of Communications informed the Company that it will not extend the temporary arrangement relating to telephony service in resale format and that accordingly, as at August 1, 2018, the Company must provide wholesale telephony service in the format defined in the BSA + Telephony service portfolio ("the Service Portfolio") and must do so both as a stand-alone service and as a supplementary service to the BSA service. Upon receiving this notice, the Company stipulated that it does not expect to meet the deadline specified in the notice, further to its previous clarifications that the service format in the service portfolio cannot be implemented technologically and that it requires the replacement of a switch which is a prolonged, complex process, and that it intends to ask the Ministry to find a solution for this problem. After discussions with the Ministry, the Company offered, commencing August 1, 2018, telephony call minutes service and associated wholesale services in the wholesale market on the basis of the service portfolio in a technology format which is similar to the resale arrangement and with wholesale market tariffs. The Company's license was revised two months later and included this service as voluntary. In parallel, the Company began the process of replacing the switch which will also enable compliance with the service portfolio requirements.

The Company offered the Ministry of Communications a technological solution in addition to provision of a wholesale telephony service. In view of the fact that this solution was intended to be temporary and implemented for a limited period, until replacement of the switch, and taking into account its estimation regarding the relatively low potential of customers of the service, the Company repeated its claim that the wholesale telephony services in the engineering outline defined in the service portfolio in a carrier preselection format on a telco-grade level was and still is impossible to implement on Bezeq's switch.

On January 31, 2019, the Ministry replied that it does not intend to approve compliance with the service portfolio in advance, because after coordination with the service providers and launching of the service, the Ministry will review whether the breach has ceased, and it would not accept a solution that does not provide a full solution for the provisions. Since the beginning of 2019, the Company is prepared to provide a wholesale telephony service that passes through the service provider's switch, and based on Bezeq's subscriber switch and another component outside the switch. The Company clarified that due to the expected volume of customers and the migration stage to a new switch, the fact that the solution is not on a telco-grade level (according to the requirements of the service portfolio) is not expected to be significant.

The Company believes that the implementation of wholesale telephony in general will adversely affect its financial results. However, at this time the Company is unable to estimate the extent of the impact, which could be significant, given that it depends on different variables, including the volume of demand for the service, the price levels of substitute products currently available on the market (such as VoB), etc.

<u>Supervisory reports and fines</u>

On October 19, 2017, the Ministry of Communications sent the Company a final supervision report regarding implementation of a wholesale telephony service (the "Supervision Report"), according to which the Company violated the provisions by failing to provide the wholesale telephony service on May 17, 2015. Concurrently with the Supervision Report, the Company was issued the notice whereby, after it was found to have violated the provisions of the Use Regulations and the Company's license, and in accordance with the authority vested by the Communications Law, the Company was notified of the intention to impose a fine on it of NIS 11,343,800. Further to the supplementary supervision report to the Supervision Report dated August 8, 2018, on December 27, 2018, the Company received notification from the Ministry of Communications that the Director General of the Ministry decided to impose a fine of NIS 11,163,290 on the Company for a breach of the provisions on implementation of wholesale telephony services. The Company filed a petition against the decision. On January 22, 2020, the State filed its response dismissing the Company's arguments and upholding its decision to impose a fine, claiming that not only is it reasonable, but also necessary for fulfillment of central function of the Ministry's to promote competition. In this regard, see also two motions to certify class actions claiming, inter alia, that the Company acted to delay and thwart the wholesale market reform (Section 2.18.1(C)).

2.16.5 Authority with respect to real estate

Pursuant to the provisions of Section 4(F) of the Communications Law, the Minister of Communications granted the Company certain powers in connection with real estate, as set out in Chapter Six of the Law.

The law distinguishes between land owned by the State, the Development Authority, the Jewish National Fund, a local authority or a company lawfully established and owned by one of them, and a road ("Public Land"), and other land ("Private Land"). With regard to Public Land, the Company and any person authorized by it, can enter it to perform network deployment and maintenance works and to provide telecommunication services, provided that the deployment is executed according to the provisions of the Planning and Construction

Law. The amendment to the Communications Law and the Planning and Construction Law cancels the duty to obtain the approval of the local Planning and Construction Committee, so certain actions do not require a building permit if performed by a license holder that was granted powers under Chapter F of the Communications Law, if carried out according to an approved plan.

A network on Private Land will be deployed according to the provisions of the Planning and Construction Law and requires the consent of the landowner, the lessee in perpetuity or the protected tenant, as the case may be.

Under the provisions of the Telecommunications (Installation, Operation and Maintenance) Regulations, 1985, if the Company is of the opinion that providing a telecommunications service to an claimant requires the installation of a telecommunications device on the applicant's premises (or shared premises), the Company may request that the applicant, as a prerequisite for providing the requested service, allocate a suitable place on the premises for installation of the device, for the sole use of the Company, and it may use the device to provide service to other applicants as well.

Under the provisions of the Planning and Construction (Application for a Permit, its Terms and Tees) Regulations, 1970, an applicant for a permit to construct a residential building is required to install infrastructures for telephone, radio, television and Internet services so that the customer can choose whichever provider it prefers. In commercial buildings, if preparations for communications are installed, an underground infrastructure must be laid. At the same time, the Company's license was amended (as were the licenses of HOT Telecom and DBS), so that if the Company uses the internal wiring (part of the access network installed in residences and in apartments intended to be used by those residences only) for provision of its services, it is obliged to provide maintenance services for that wiring installed by the permit applicant, without this granting it any proprietary rights in the internal wiring.

2.16.6 Immunities and exceptions to liability

The Minister of Communications granted the Company certain immunities from liability for from damages listed in Chapter Nine of the Communications Law, in accordance with his authority to grant immunity to a general license-holder.

In addition, Section 13 of the Communications Law contains exceptions to criminal and civil liability for an act done in fulfillment of a directive to provide services to the security forces in that Section.

2.16.7 Regulations and rules under the Communications Law

At the date of publication of this Periodic Report, regulations in three additional and important areas apply to the Company: (1) cessation, delay or restriction of telecommunications activities and services; (2) installation, operation and maintenance; and (3) ways of overseeing the actions of the license-holder.

2.16.8 Economic competition laws

2.16.8.1 The Competition Commissioner (in this Section: "the Commissioner") declared the Company a monopoly in the following areas:

A. Basic telephone services, provision of communications infrastructure services, and transfer and transmission of broadcasting services to the public[35.]

B. Provision of high-speed access services through the access network to the subscriber[36.]

C. Provision of high-speed access services for ISPs through a central public telecommunications network.

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[35] Declaration of July 30, 1995.

[36] On November 10, 2004, the Commissioner split the declaration of December 11, 2000 on internet access infrastructure into two separate declarations (Declarations 2 and 3).

The Commissioner's declaration of the Company as a monopoly constitutes prima facie evidence of its content in any legal proceeding, including criminal proceedings.

2.16.8.2 The Company has adopted an internal compliance procedure containing internal rules, guidelines and an internal reporting and control system, the purpose of which is to ensure that the activities of the Company and its employees are carried out in accordance with the provisions of the Economic Competition Law.

2.16.8.3 According to the conditions of the Competition Authority's approval dated March 26, 2014 of the merger (as defined in the Economic Competition Law) between the Company and DBS, the following restrictions apply to the Company and DBS:

A. The Company and any person authorized by it (in this Section: "Bezeq") will not impose any restriction on consumption of fixed-line Internet infrastructure services stemming from the customer's accumulated browsing volume, and will not cause the option granted to a customer to use any service or application provided over the Internet to be restricted or blocked.

B. Bezeq will deduct amounts for provision of multi-channel television services from the Internet provider payments for connection to the Company's network.

C. Bezeq will sell and provide Internet infrastructure services and television services under equal terms to all Bezeq customers (the sale of Internet infrastructure services as part of a service bundle will not be considered sale under unequal terms).

D. Bezeq and DBS will cancel all exclusive arrangement regarding non-original productions and will not be party to such exclusive arrangements (except with regard to a third party who is the broadcast license owner at the date of the decision). In addition, for two years from approval of the merger (which have passed in the meanwhile), Bezeq will not prevent any entity (other than anybody who is a broadcast license owner at the date of the decision) from purchasing rights in original productions (does not apply to new productions).

For the full format of the Competition Authority's decision, see the Company's immediate report dated March 26, 2014.

2.16.8.4 As part of the approval of the merger of the Company and Pelephone on August 26, 2004 (as subsequently amended), restrictive terms were imposed, mainly prohibiting discrimination in favor of Pelephone in the supply of a product in which the Company is a monopoly, prohibiting the bundling of the supply of certain products by any of the companies when purchasing products or services from the other, and restrictions on certain joint activities.

2.16.8.5 As part of the merger approval of Walla and the Company of September 12, 2010, terms were imposed restricting discrimination in favor of Walla vis-à-vis its competitors in the supply of a product in which the Company is a monopoly.

2.16.8.6 On November 16, 2014, the Company received the decision of the Deputy Commissioner of the Competition Authority pursuant to Section 43(A)(5) of the Economic Competition Law, to the effect that the Company had abused its position as a monopoly and determined unfair purchase and sale prices of a service in a monopoly, in contravention of the provisions of Section 29A to the Economic Competition Law in setting a negative margin by determining lower prices for Internet and telephony services than for internet infrastructure only, in a campaign. The decision states that these prices places competitors who wish to offer this service at a disadvantage. On March 20, 2018, pursuant to the agreed application of the parties, a ruling was handed by the Competition Tribunal in the appeal filed by the Company against the decision, according to which the earlier decision was null and void, i.e. as though it was never handed.

2.16.8.7 On March 7, 2018, the Company received notification from the Competition Authority that, in accordance with her authority under Section 43(A)(5) of the Economic Competition Law, the Competition Commissioner is considering determining that the Company abused its position in contravention of Section

29A(a) and Section 29A(b)(3) of the Law, and imposing financial sanctions on the Company and the former CEO for an alleged breach of the provisions of Section 29 of the Law and the foregoing Sections. According to the notice, the evidence in its possession indicates that the Company allegedly made use of its market strength as a result of its control of the passive infrastructure and has placed obstacles in the way of new players who wish to use the Company's passive infrastructure to install communications networks that will be used to compete with the Company in providing communications services to consumers, such that this was likely to deter them and prevent them from setting up an independent fixed-line communications network or at least to delay them and limit the scope of the network. According to the notice, the Company's actions raise concerns of harm to the end consumer. The alleged acts of violation by the Company are blocking access to private areas and demanding the cutting of fibers.

Further to the hearing on the matter in which the Company and its former CEO presented arguments and evidence that there had been no fault in their actions and they had not breached the Competition Law, on September 4, 2019 the Company received the Competition Commissioner's ruling ("the Ruling") concerning abuse of the Company's position in contravention of the provisions of Section 29A of the Economic Competition Law as well as a demand for payment under the provisions of Section 50H of the Law for NIS 30 million from the Company and NIS 0.5 million from the Company's former CEO. The date for appealing the ruling was set (by agreement) for March 25, 2020 and the Company intends to file an appeal. Together with the Ruling, the Company also received notice of the intention to apply a new charge by the Competition Authority in which the Commissioner is considering charging the Company with an additional financial sanction of NIS 8,285,810 for failure to respond to the 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 the Ruling. The Company filed its comments that it did not breach the Economic Competition Law and there is therefore no reason to apply any enforcement powers by virtue of the law, and the Competition Commissioner was asked not to impose the fine under consideration. The Company further claimed that even if it was fitting to determine that it has violated the Economic Competition law in this regard (which is not the case), the amount of the fine under consideration is wrong and should be infinitely lower than the amount weighed. For information on a new motion to certify a class action and two motions to exercise rights prior to filing a derivative claim following this ruling, see Section 2.18.1(K).

2.16.8.8 On January 10, 2019, an amendment to the Economic Competition Law entered into force (in this amendment, the name of the law was changed from the Antitrust Law to the Economic Competition Law), the main points of which are:

A. Imposition of an independent and increased obligation on officers to oversee and prevent breaches of the Law.

B. Exacerbation of criminal punishment for a cartel - five years imprisonment without requiring aggravating circumstances.

C. Increasing the maximum amount for imposition of financial sanctions up to NIS 100 million (for each breach).

D. Another definition of a monopoly, based on a market power test (in addition to the alternative of anybody that holds a market share of over 50%).

E. Increasing the aggregate sales turnover that requires merger notices to NIS 360 million.

2.16.9 The Telegraph Ordinance

The Government deals with the shortage of radio frequencies for public use in Israel (among other reasons, due to the allocation of a large number of frequencies for security purposes), by limiting the number of licenses granted for the use of frequencies, and providing incentives for efficient use of frequencies.

The Telegraph Ordinance regulates the use of the electromagnetic spectrum, and applies, inter alia, to the Company's use of radio frequencies as part of its infrastructure. The set-up and operation of a system that uses radio frequencies is subject, under the Telegraph Ordinance, to grant of a license, and the use of radio frequencies is subject to the designation and allocation of a suitable frequency. The Telegraph Ordinance imposes license fees and fees for the designation and allocation of frequencies.

2.16.10 Setting up communications facilities

The National Outline Plan for communications, NOP 36 (within the Green Line) and NOP 56 (in the Administered Territories), were designed to regulate the deployment and manner of set-up of communication facilities in a way that would ensure coverage for transmitting and receiving radio, television and wireless communications, while avoiding radiation hazards and minimizing the damage to the environment and the landscape, and also to simplify and increase the efficiency of the processes involved in setting up the facilities.

The Company has erected and is erecting broadcasting facilities and wireless communication facilities for providing broadcasting services to its customers, and uses such communication facilities, mainly for providing services to areas that are not connected to the fixed-line communications infrastructure (remote areas or new towns).

<u>NOP 36 - Communications installations in the Administered Territories</u>

The classification of the facilities according to their technical variables and physical dimensions, which affect the determination of safety ranges for protection against the effects of radiation and the extent to which they protrude on the landscape, determine which facilities will be included in Part A of the NOP 36 and which in Part B of the Plan. Part A of NOP 36 deals with guidelines for establishment of small and miniature broadcasting installations, and part B deals with guidelines for setting up large broadcasting installations.

The Company has obtained building permits for most of the small broadcasting installations in accordance with NOP 36A. From time to time, a need arises to add broadcasting installations which require that building permits be obtained in accordance with NOP 36A. Given the exemption granted under the orders of the Planning and Construction Law and of the Communications Law, the Company believes that it is not obliged to obtain building permits for miniature broadcasting installations, which are “wireless access facilities” under those laws. Notably, in 2008 a draft amendment to NOP 36A dealing with changing the guidelines for the licensing of small and miniature broadcasting installations was filed. To date, the draft has not been adopted.

<u>NOP 56 – Communications facilities in the Administered Territories</u>

NOP 56 regulates the manner of setting up and licensing of communications installations in the Administered Territories. The Plan contains transition provisions for facilities erected with a permit for small installations.

The Plan also includes a requirement for production of a communications license and receipt of the consent of the Commissioner of Government Property at the Civil Administration.

The Company has arranged the licensing for 71 installations in the Administered Territories held by the Company (few other sites have not been organized). The Company also recently arranged the licensing of the facilities on the customer’s premises with the Communications Officer in the Civil Administration according to a demand sent by the Officer to the Company in November 2016.

<u>Radiation permits</u>

With regard to the radiation permits for the communications and broadcasting facilities, see Section 2.15.

<u>Exemption from a permit to add antennas to existing lawful broadcasting facilities</u>

The addition of an antenna to an existing, lawful broadcasting facility is exempt from a permit, subject to meeting a combination of conditions and exclusions, which are set out in the Planning and Building (Exempt from a Permit) Regulations. The Company is taking the required steps to add antennas to its broadcasting facilities according to the mechanism set out in these regulations.

2.16.11 Consumer legislation

For information about consumer legislation applicable to the Company, see Section 1.7.4.5.

2.17 Material Agreements

The following is a brief description of substantial agreements outside the normal course of the Company's business, which were signed in the reporting period and/or which are in force.

2.17.1 For the Deeds of Trust of the debentures (Series 6, 7, 9-12) issued by the Company, see Note 15 to the 2019 Financial Statements and Section 4 of the Directors Report.

2.17.2 Real estate

2.17.2.1 Asset transfer agreement between the Company and the State, January 31, 1984

An agreement between the State and the Company, under which the Company was granted the State's rights in assets which the Ministry of Communications used for providing telecommunication services, and the Company assumes the rights of the State in those assets and for the obligations and liabilities relating to those rights immediately prior to implementation of the agreement. Moreover, under this agreement, the State's rights, powers, obligations and duties, as well as the contracts and transactions that were in force for telecommunication services immediately prior to application of the agreement, were transferred to the Company.

2.17.2.2 Settlement agreement dated May 15, 2003 between the Company and the State and Israel Lands Administration, in the matter of rights relating to real estate See Section 2.7.4.3.

2.17.2.3 Agreement between the Company and the Postal Authority dated June 30, 2004

An agreement between the Company and the Postal Authority to define and regulate the rights of the Company and the Postal Authority in their joint assets. The agreement listed the joint assets and defined the part of each party in them. It was determined that each of the parties shall have exclusive rights in its parts, except for the matter of rights in common property, building rights or rights for which there is an explicit other determination. The agreement determines, among other things, a mechanism of right of refusal if a party wishes to make a sale transaction and a priority right for a rental transaction. For a number of additional properties, the party with exclusive rights in them, in whole, will be one named party.

2.17.2.4 For the agreement between the Company and Naimi Towers Ltd. for the sale of the property in Sakia, see Section 2.7.4.4.

2.17.3 Employment agreements

2.17.3.1 A comprehensive pension agreement dated September 21, 1989, between the Company, the Histadrut and the joint representation of workers committees, and Makefet Fund – Center for Pension and Compensation Cooperative Association Ltd, provides a full and autonomous arrangement in everything relating to the pension insurance of Company employees. The agreement applies to all transferred employees (who were transferred from the Ministry of Communications to the Company), all of the members of the cumulative pension fund who were employed by the Company on the date of execution of the pension agreement, and all permanent and temporary Company employees, with the exception of special employee groups (students, employees under personal contracts or employees working according to another alternative arrangement).

2.17.3.2 Special collective agreement for early retirement dated November 23, 1997, as amended and extended on September 4, 2000, March 18, 2004, April 17, 2005 and June 28, 2005, between the Company, the Histadrut and the Union.

A collective agreement for early retirement of employees in a pension track and an increased compensation track, under which Company employees retired in the past. The renewed collective agreement of December 2006 noted in Section 2.17.3.6 is based, *inter alia*, on this agreement. For information on this matter and the matter of early retirement, also see Note 18 to the 2019 Financial Statements.

2.17.3.3 Agreement to affirm rights dated September 4, 2000 between the Company, the Histadrut and the Union.

A special collective agreement relating, inter alia, to affirmation of the rights of the transferred employees (who were transferred from the Ministry of Communications to the Company). This agreement affirms the rights of the transferred employees to any pension right to which they were entitled by power of being former civil servants, under the Company's pension agreement adopted by the Company as part of its pension agreement. Under this agreement, these rights become "personal rights" which cannot be canceled except by a waiver of personal rights under law (in other words, by personal waiver by the employee himself or herself).

2.17.3.4 Generation 2000 agreement dated January 11, 2001 between the Company, the Histadrut and the Union

Following an amendment in July 2000 to the Hiring of Workers by Human Resource Contractors (Amendment) Law, 2000, a special collective bargaining agreement was signed on January 11, 2001 for hiring new employees and stipulating the terms of their salaries. The agreement applies to new employees and employees who were previously employed at the Company through human resource companies, in positions listed in the appendix to the agreement (customer service representatives at call centers, typists, warehouse employees, secretaries, mail sorters and distributors, porters, drivers, forklift operators and others). Under the special collective agreement of December 2006 (see Section 2.17.3.6), it was agreed that the "Generation 2000" agreement would not apply to employees hired by the Company after July 1, 2006. It was also agreed to insert minor amendments into the terms of employment of workers hired under the Generation 2000 agreement.

2.17.3.5 Agreements with alternative entities that replaced the Makefet Fund in everything relating to early retirement arrangements of Company employees

As from 2005, the early retirement arrangements of the Company's employees are implemented through alternative entities in place of Makefet Fund.

On April 24, 2014, the Company and Menora Mivtachim Insurance Ltd. ("Menora") signed an agreement regulating pension payments for the early retirement of Company employees and provision for the payment of old-age and survivors' pensions to employees who retire from the Company under the special collective retirement agreement signed by the Company, the Union and the Histadrut on February 12, 2014. The Commissioner of Insurance approved the policy and it entered into force on March 31, 2016. Accordingly, as at May 1, 2016, Menora issued policies for retiring employees, and payment of the annuities and related payments is made on the basis of these policies. The term of the agreement (after being extension twice) is until the end of 2021.

2.17.3.6 For the special collective agreement of December 2006 and its amendment, see Section 2.9.4.

2.18 Legal proceedings

The Company's reporting policy is based on considerations of quality and of amount. The Company decided that the bar of amount materiality would be events affecting the Company's net profit by 5% or more according to its latest annual consolidated financial statements, net of the effects of events not during the regular course of business that have a non-recurring effect on the Company's results, such as impairments of assets, cancellation of tax assets, provisions for employee retirement, capital gains, etc., according to the latest consolidated annual reports of the Company. Accordingly, in the absence of relevant qualitative considerations, this Section describes legal proceedings involving NIS 65 million or more[37] before tax (NIS 50 million of the net profit in 2019), and legal proceedings in which the amount claimed is not stated in the statement of claim, except in the case of a claim which prima

[37] For reviewing claim amounts vis-à-vis this bar, the amounts were linked to the CPI. The amounts noted in this Section are the original amounts (without linkage differentials). On the matter of the bar, where similar proceedings take place against a number of companies in the Group, the amount of the claim might be reviewed cumulatively in respect of all the proceedings together. In addition, it is clarified that if certain proceedings relate largely to the same legal or factual issues, or it is known that such issues are reviewed or considered together, then for setting the bar of quantitative materiality as noted in these Sections, the amount involved was examined in all those proceedings together.

facie does not reach the above amount bar (and all unless the Company believes the claim has other aspects and/or implications beyond its monetary amount). In regard to class actions, it is noted that submission of class actions in Israel does not involve payment of a free deriving from the amount of the claim. Accordingly, the amount of a claim in claims of this type may be significantly higher than the scope of true exposure for those claims.

2.18.1 Pending proceedings

	Date	Parties	Instance	Type of proceeding	Description	Original Amount of the Claim (NIS millions)
A.	January 2015	Shareholder v. the Company and Company officers	District Court (Tel Aviv, Economic Department)	Motion to certify a class action	Claim for compensation of shareholders for losses, which according to the claim, sustained due to "the Company failing to submit reports to the TASE and concealing material information from the investor public", regarding two significant issues: "lowering the interconnect fees" and "reform of the wholesale market". On August 27, 2018, the Economics Department of the Tel Aviv District Court issued a ruling certifying the action as a class action ("the Certification Decision"). Regarding the cause in the wholesale market reform, the class action group was defined as anyone who purchased Bezeq's shares starting on June 9, 2013 and held all or some of the shares until the filing of the class action lawsuit In this matter, the Court held that the plaintiff proved the existence of alleged damage, by virtue of the fact that during the period of disclosure, Bezeq's stock price fell by 10%, but the actual damage will be calculated during the hearing of the main case. With respect to the cause of the lowering of the interconnect fees, the class action group was defined as anyone who purchased Bezeq's shares from February 28, 2013 and held them up to May 29, 2014. In this regard, the Court ruled that no impairment was recorded that could be attributed to the discovery of the alleged misleading information, but the plaintiff should be allowed to prove that during the hearing of the main case. October 28, 2018, the Company and the senior officers being sued, filed a motion in the Economics Department in the Tel Aviv District Court for a rehearing on the Certification Decision, requesting the court to cancel it and to dismiss the motion to certify a class action. On December 1, 2019, a ruling was handed down on the rehearing as follows: Regarding the reduction of interconnect charges - the court accepted the motion insofar as it deals with claims related to reports on the reduction of interconnect charges, having reached the conclusion that the claimant had not proved that there had apparently been damage as a result of reduction of interconnect charges, and therefore there was no place to approve the class action on this claim. Regarding the wholesale market reform - the court dismissed the motion in respect of the defendant's' arguments on reporting about the wholesale market reform. However, regarding the definition of the class of claimants, the court accepted the defendants' argument that June 9, 2013 is irrelevant in respect of misrepresentation claimed in the report dated January 16, 2014 (the report about the decision on the list of services and the hearing document regarding tariffs), and ruled that the claim related to this report must be distinguished from that related to failure to report receipt of the list of services hearing document dated June 9, 2013. Accordingly, the court has reduced the definition of the class of claimants in respect of the report of January 16, 2014 to all those who purchased the Company's shares (excluding the respondents and/or those acting on their behalf) from January 16, 2014 (instead of June 9, 2013) and held those shares (in whole or in part) in the period between January 15-20, 2014. Following the court's proposal and the agreement of the parties, the case was referred to mediation, but it was unsuccessful.	NIS 2 billion (based on the out-of-pocket method) and, alternatively, NIS 1.1 billion (according to the approximate out-of-pocket method). This amount is expected to decrease since the claim has not yet been revised in view of the decision to hold another hearing, in which, inter alia, some of the arguments in the motion to certify were dismissed.

	Date	Parties	Instance	Type of proceeding	Description	Original Amount of the Claim (NIS millions)
B.	March 2015	Shareholder	District Court (Tel Aviv, Economic Department)	Motion to certify a derivative claim together with a statement of derivative claim.	The claim was filed against the Company, against Shaul Elovitch, the controlling shareholder (indirectly) and Chairman of Board of Directors of the Company on the relevant date, and against Company directors on the relevant dates who voted for the Company's transaction under the motion, as set out below ("the Respondents”). According to the allegations in the motion, the Company decided, through the Respondents, to enter into a transaction to purchase all the holdings and shareholders loans of Eurocom DBS (a company indirectly controlled by the Company's controlling shareholder) in DBS in return for NIS 680 million in cash and contingent considerations of up to NIS 370 million. The plaintiff claims that the consideration which is expected to be paid for the transaction is exorbitant and the decisions of the Respondents to enter into the transaction caused the Company great damage after they were in breach of their duty of care and fiduciary duties towards the Company and were negligent in their positions. The plaintiff also alleged that the Company's controlling shareholder violated his duty of fairness and that the Company was in breach of its duty of disclosure and reporting regarding the commitment of the trustee of Eurocom DBS' holdings in DBS to sell the holdings as from the end of March 2015. In view of the foregoing, the plaintiff requests that the court approve filing of a derivative claim on behalf of the Company against the Respondents for the damage allegedly incurred by the Company as a result of the Respondent's decisions with respect to the transaction of NIS 502 million. On January 26, 2017, the court approved submission of a revised motion by the plaintiff that includes further claims relating, inter alia, to the independence of the parties advising the Company, alleged faults in the work of the Audit Committee, Board of Directors and general meeting, and alleged faults stemming from representation of Eurocom by entities serving as directors in the Company. In view of the Israel Securities Authority investigation, inter alia, in connection with the agreement under this claim (see Section 1.1.5) and the ISA’s position that the proceedings should be delayed, the court decided upon a stay of proceedings in this case, at this stage, until October 31, 2019, and ISA filed a motion for further the stay of proceedings until March 31, 2020. For information on motions to disclose documents prior to filing of a motion to certify a derivative claim which the court resolved to consolidate in April 2018, see subSection H.	502

C.	November 2015 and March 2018	Customer v. the Company	Central District Court	Two claims together with motions to certify class actions	Motion dated November 2015 - It was alleged that the Company abused its monopoly position, inter alia, by "preventing and blocking competition in general and effective competition in the Israeli communications market" and acted to delay and thwart the wholesale market report, thereby causing damage to the Israeli public and earning unreasonable profits only as a result of abusing its power as a monopoly. According to the plaintiffs' allegations, the damage caused by the Company to the communication market in Israel is expressed by the Company's excessive and unreasonable profits and they seek to claim damages of NIS 800 million, which they allege is based on 10% of the Company's surplus operating income stemming from abuse of its monopolistic power. Accordingly, the plaintiffs set the amount of the claim at NIS 556 million, after the amount was reduced in another action (which in the meantime ended in withdrawal). In December 2017, the court approved inclusion in the case an immediate report published by the Company on October 22, 2017, in which the Company reported on a final oversight report issued by the Ministry of Communications concerning implementation of the wholesale telephony service and notice of the Ministry's intention to impose a financial sanction in this matter. In December 2018, the Ministry of Communications imposed a fine of NIS 11 million on the Company (on these matters, see Section 2.16.4.4). On March 3, 2019, the Company informed the court that in the light of the expected changes to the judicial panel if the petition for approval is accepted, it agrees to the court's proposal to approve the motion to treat the claim as a class action without a reasoned decision being handed down in this case by the court, while reserving all its arguments for the actual claim. It should be noted that in that notice, the Company updated the court that on February 25, 2019 it filed an administrative petition against the foregoing decision of the Director General of the Ministry of Communications of December 2018. Subsequently, on March 5, 2019, the court accepted the motion to treat the claim as a class action and clarified that all arguments of the parties are reserved for hearing of the actual claim and that the evidence and investigations that were heard as part of the motion to certify will be part of the evidence in the class action. Motion of March 2018 - a similar motion to that of November 2015 that was filed by the same plaintiffs also alleging that the Company abused its monopoly position, inter alia, by preventing competition in the communications market, thereby causing damage to the Israeli public and earning unreasonable profits as a result of abusing its power as a monopoly. While the relief and damage claimed in the November 2015 motion related to the period up to the date of filing that motion, in this motion the relief and damage claimed relate to a period from the date of filing the November 2015 motion through to the end of 2017, in view of the plaintiffs' allegation that the Company did not cease the actions alleged against it in the previous motion and in view of the allegation added to the tort, in addition to exploitation of the strength of the Company, "acts of corruption and unlawful activities for proscribed purposes of the Director General of the Ministry of Communications". According to the plaintiffs, the damage caused by the Company to the telecommunications market in Israel is reflected in the excess and unreasonable profitability of the Company. The claimed damage of NIS 258 million, in this motion is also based on 10% of the Company's surplus operating profit, arising from abuse of its monopolistic strength (in addition to the damages claimed in the previous motion). On May 31, 2018, the Company filed a motion for stay of proceedings in view of ISA's investigation (see Section 1.1.5). On March 28, 2019, the court ruled to stay the proceedings in the case in view of the ISA's investigation and until any other decision is made the date for filing the response to the motion for certification was extended. The Attorney General's representative was asked to	Motion 556 dated November 2015 and Motion 258 dated March 2018

	Date	Parties	Instance	Type of proceeding	Description	Original Amount of the Claim (NIS millions)
					update the court and the parties attorneys on this matter within 6 months from the date of the decision. In September 2019, the Claimants filed a motion to submit a new motion for certification of a class action (a motion that was filed against the Company in September 2019, further to a ruling by the Competition Commissioner from September 4, 2019, regarding abuse of the Company's position - see description below) in the court in which this proceeding is being heard and to strike out that motion on the grounds that it is a similar, later motion. Additionally, on October 23, 2019, the Company was served with a motion by the claimants in the motion for certification to instruct an amendment to the motion for certification by adding respondents (directors and senior executives from the relevant period some of whom are currently serving in the Company) and to include additional evidence in the motion for certification. On October 30, 2019, the court gave notice that in view of its decision on the stay of proceedings in the case it does not see fit at this time to instruct that the motion to amend the motion for certification should be submitted for the Company's response and that when the stay of proceedings in this case comes to an end, the claimants must request appropriate instructions.	
D.	August 2016	Customer v. the Company	Tel Aviv District Court	Action and motion to certify a class action	A motion claiming that the Company charges a monthly payment, unlawfully and without consent, for "support and/or warranty services" as part of using its Internet infrastructure and adds customers to the service unlawfully, that the Company charged for Internet access services also after termination of the bundle, and that the Company added subscribers to a broadband speed that is incompatible with the existing infrastructure.	* Claim for an unknown amount.
E.	February 2017	Customer v. the Company	Central District Court	Motion to certify a class action	A motion alleging that the Company collects payment from some of its customers for an anti-virus service, while in practice it does not provide them with such service, and that it starts charging for provision of the service from signing of the agreement with the customers and not from actual provision of the service. Accordingly, the Applicant requests requiring the Company to compensate its customers that purchased the service and did not actually receive it for the damages incurred by them, including refunding of amounts collected for the service. The case is in mediation proceedings.	* There is no accurate estimation, estimated at NIS tens of millions.
F.	April 2017 and May 17, 2017	Customers against the Company (motion of April 2017 also against the subsidiary Walla! Communications Ltd., Yad2 and an advertising company owned by Walla)	Tel Aviv District Court	Two motions for certification as class actions	The motion pertains to the Company's B144 service, which enables businesses to advertise on the Internet (the "Service"). According to the petitioner, the Respondents charged subscribers to the Service unlawful charges On January 25, 2018, the court resolved, further to motions filed by the Company and other respondents, to dismiss the first motion in limine on grounds that it does not meet the criteria set out in the Class Actions Law, the existence of flaws in the motion, and in view of the existence of the second motion which is similar to the first (on July 19, 2018, the Supreme Court dismissed the appeal filed against this resolution in view of the fact that no guarantee was deposited).	* The amount of the claim cannot be estimated.

	Date	Parties	Instance	Type of proceeding	Description	Original Amount of the Claim (NIS millions)
					On July 21, 2019, the parties filed a petition for approval of a compromise agreement on the second motion at an amount that is not material for the Company, which is awaiting public objections and the position of the Attorney General and the regulator.	
G.	June 2017	Shareholders of the Company against the Company, Chairman of the Company's Board of Directors, members of the Company's Board of Directors, and companies in the Eurocom Group (the first motion against the CEO of the Company and the CEO and CFO of DBS as well).	At the Tel Aviv District Court (Economic Department)	Two motions to certify class actions	The subject of the motions is a transaction from 2015 in which the Company acquired from Eurocom DBS (a company controlled by the former controlling shareholders of the Company) the balance of shares of the subsidiary DBS Satellite Services (1998) Ltd ("DBS") that it held (in this Section: "the Transaction"). The first motion was filed in the name of anyone who acquired Company shares between February 11, 2015 and June 19, 2017 (excluding the respondents and/or those acting on their behalf and/or connected with them). In the motion it is argued that the report concerning the Transaction was misleading and/or deficient, and on account of which due to the opening of a public investigation into the Transaction by the ISA the public has become aware of details concerning the Transaction and its implementation, which led to a drop in the Company's share price in the days following the disclosure and analysis of the new information. The Petitioner argues that the Respondents acted contrary to the provisions of the Securities Law and contrary to the provisions of additional laws, and caused holders of the Company's securities heavy financial losses, amounting to millions of shekels if not more. The second motion was filed in the name of three sub-classes - anyone who acquired (1) shares of the Company, (2) shares of B Communications Ltd, and (3) shares of Internet Gold - Golden Lines Ltd. on the Tel Aviv Stock Exchange between May 21, 2015 and June 19, 2017. The Petitioner argues that the public that invested in the aforementioned shares was seriously misled, which was uncovered following the opening of a public investigation into the Transaction by the ISA on June 20, 2017, whereby the increase in the cash flow of DBS as reported in the Company's financial statements was artificially inflated, according to their claim, thereby misleading reasonable investors who based themselves on DBS cash flow data to estimate its worth, which led to over-valuation of the above companies. The Petitioner also claims additional damage caused to the groups of shareholders in B Communications and Internet Gold. In accordance with a procedural arrangement approved earlier by the court, the petitioners agreed in the aforementioned motions to administer the motions jointly and they will file a consolidated motion. Pursuant to the Attorney General's request to extend the stay of proceedings in view of the ISA investigation (see Section 1.1.5), the court approved a further stay of proceedings, at this stage until March 31, 2020.	1,240 in the first motion and 568 in the second motion

	Date	Parties	Instance	Type of proceeding	Description	Original Amount of the Claim (NIS millions)
H.	June-August 2017	Company shareholders against the Company and DBS (not including two motions that were filed only against the Company)	Tel Aviv District Court	Various motions to disclose documents prior to filing a motion to certify a derivative claim under Section 198(a) of the Companies Law, which was filed subsequent to the ISA investigation.	In some of the motions, the court was moved to instruct the Company (and DBS, as applicable) to submit to the Petitioners certain documents in connection with an interested party transaction between DBS and Spacecom from 2013, as amended early in 2017 (in this Section: "DBS - Spacecom Transaction")[38]. On April 15, 2018, the court resolved to consolidate the four motions that were filed on this matter. Subsequently, on June 24, 2018, the plaintiffs filed a consolidated and amended motion. Additionally, further to motions of the ISA, in view of the investigation the proceeding was stayed at this stage until March 31, 2020.	
I.	February 2018	Company shareholders against the Company as a formal respondent and against Company directors at the relevant times to the motion and against the controlling shareholders (indirectly) of the Company at the relevant times to the motion, Shaul Elovitch and Yosef Elovitch ("the Respondents").	Tel Aviv District Court - Economic Department	Motion to certify a derivative claim	According to the allegations in the motion, it concerns the Company's execution of an assessment agreement with the Tax Authority which was signed on September 15, 2016 ("the Assessment Agreement"), whereby the Company paid the Tax Authority NIS 462 million in tax for financing revenue from loans to DBS, whereas on the other hand, it was agreed that DBS' losses in respect of financing expenses for the Company's shareholder loans to DBS would be fully recognized for the Company after the merger between the Company and DBS. The plaintiffs claim that as a result of execution of the Assessment Agreement, the Company paid an aggregate of NIS 660 million, of which NIS 462 million was paid to the Tax Authority and NIS 198 was paid to the controlling shareholders as a contingent consideration ("the Contingent Consideration"), which was set out in an agreement for acquisition of all the holdings and shareholder loans of Eurocom DBS ("the DBS Transaction"). According to the plaintiffs, the Company's execution of the Assessment Agreement constituted an exceptional transaction of a public company in which the controlling shareholder has a personal interest, and it was unlawfully executed, since it was contrary to the Company's interests and because the approvals required by law to enter into the transaction were not obtained. According to the plaintiffs, the damage incurred by the Company as a result of execution of the Assessment Agreement ranges between a minimum of NIS 65 million (if the	65 minimum 219 minimum

[38] It is noted that on July 23, 2017, a motion to certify a class action of NIS 37 million was filed in the Tel Aviv District Court (Economic Division) against Spacecom, its controlling shareholders and officers and against the Company's CEO and secretary on the relevant dates of the claim in connection with the DBS-Spacecom Transaction.

	Date	Parties	Instance	Type of proceeding	Description	Original Amount of the Claim (NIS millions)
					Company will be permitted to offset DBS' losses with respect to financing expenses) and a maximum of NIS 219 million (if the Company will not be permitted to offset all of DBS' loses for financing expenses). The alleged damage is estimated by comparing the payments which the Company was charged (the tax liability and Contingent Consideration) and the tax asset created for it in the Assessment Agreement, to the payments it would have been liable for and the tax asset that would have been created for it had it entered into a settlement agreement with the tax authorities proposed by the tax authorities on the date of approval of the DBS Transaction. The plaintiffs claim that the respondents who are directors violated, inter alia, their duty of caution and fiduciary obligations (and with respect to the respondents who are controlling shareholders of the Company, also their duty of fairness), and accordingly the plaintiffs request that the court approve filing of a derivative claim in the Company's name against the respondents, and to require them to compensate the Company for the damage allegedly suffered by it as a result of breach of their obligations towards the Company. At the request of the ISA, in view of the investigation the proceedings were stayed at this stage until March 31, 2020.	
J.	June 2018	A shareholder against the Company, DBS, Shaul Elovitch and Or Elovitch	At the Tel Aviv District Court (Economic Department)	Motion to disclose and inspect documents under Section 198(a) of the Companies Law.	The court is asked to instruct the Company, DBS, the former controlling shareholder in the Company, Shaul Elovitch, and his son Or Elovitch (hereinafter together: "Messrs. Elovitch"), to submit to the petitioner, as a shareholder in the Company, various documents for the purpose of examining the possibility of filing a motion to certify a derivative claim on behalf of the Company. According to the petitioner, the controlling shareholder of Bezeq, B Com, and Messrs. Elovitch breached their duties of loyalty and fairness towards the Company in that the sale of 115 million Bezeq shares on February 2, 2016 by B Com while B Com and Messrs. Elovitch used inside information about the Company, and at a value significantly higher than the real value of the shares. The petitioner argues that this sale produced unlawful profits for B Com in the amount of NIS 313 million. The alleged inside information is that the financial statements of DBS and the Company supposedly did not reflect the Company's de facto financial position, but rather a "free cash flow" that was allegedly inflated in order to increase the consideration in the transaction in which the Company acquired the shares of Eurocom Communications Ltd. in DBS ("Yes Transaction"). Notably, there is another motion pending against the Company to certify a derivative claim in connection with the Yes Transaction (see Section 2.18.1(B)), which is stayed due to the ISA's investigation. In this current motion, the petitioner argues that despite the fact that its motion is based in part on the same factual background, it is different from the existing proceedings in this matter. In view of the Investigation, the proceeding was stayed at this stage until March 31, 2020.	

	Date	Parties	Instance	Type of proceeding	Description	Original Amount of the Claim (NIS millions)
K.	September 2019	Customer v. the Company	Tel Aviv District Court	Motion to certify a class action	A motion filed further to the Competition Commissioner's ruling dated September 4, 2019, regarding abuse of the Company's position "("the Ruling") (on this matter, see Section 2.16.8.7) arguing that the Company's actions and failures as described in the ruling (blocking its competitors from passing through the Company's infrastructure to gain access to the building, as well as the refusal to insert cables using the continuous method and instead forcing the competitors to deploy the cables in an inferior, expensive and problematic way without real justification) caused financial loss to consumers. The definition of the group on whose behalf the class action will be filed is anyone who purchased fixed-line communications services in Israel between July 2015 and March 2018, regardless of whether or not they purchased these communication services from the Company. Damage was claimed for loss of the reduced tariff in the communications bundles that the group members could have enjoyed were it not for the Company's alleged actions or failures. On a motion to submit this motion and to strike it out on the grounds that it is a similar later motion that was filed by claimants in another motion for certification of a class action, see SubSection (C). Notably, in January 2020, the Company received two demands to exercise rights prior to filing a derivative claim and motions to disclose documents in connection with exercise of the Company's rights against officers in respect of the Ruling. The demand alleges that the findings and violations included in the ruling grant the Company cause for claim against Company officers and that the Company is entitled to compensation from the officers for damages that it has and will incur. The Company responded to both applicants that the motions are premature and it is not yet time to discuss them, inter alia, since the Company is currently working to exercise its rights in appeal proceedings against the Commissioner's decision. Subsequently, in March 2020, both claimants filed motions (separately, with the Economic Department of the Haifa and Tel Aviv District Courts) to disclose documents under Section 198A of the Companies Law, 1999, in order to examine filing of a motion to certify a derivative claim.	400
L.	September 2019	Customer v. the Company and another service company	Jerusalem District Court	Motion to certify a class action	The motion concerns the entitlement of certain groups (such as the elderly and the disabled) to discounts on payments for essential services that the Defendants provide for them. It is argued that the defendants do nothing to ensure that the rights of these people are protected, create difficulties for them and they do not credit them for overpayments. The definition of the groups in whose name the class action will be conducted is any person who is entitled to reduced payment to any of the Defendants but paid the full price over the 7 years preceding the filing of the motion without exercising their entitlement, and/or those who presently pay a reduced amount but have not received a retroactive refund for the differences for the entire period of their entitlement.	90

	Date	Parties	Instance	Type of proceeding	Description	Original Amount of the Claim (NIS millions)
M.	October 2019	Customer v. the Company and another respondent	Haifa District Court	Motion to certify a class action	It is alleged that the Company is in breach of the provisions of Section 13B of the Consumer Protection Law by failing to specify in the invoice or payment notice sent to the consumer the fixed payment components for a "telephone line" and their amounts. Accordingly, it is alleged that the Company is prevented from collecting the fixed payment and it must return it to the customers who paid it. The definition of the group in whose name the class action is being made is the Company's entire customer base that was charged a fixed fee, without specifying the fixed payment components and their amounts in the invoice or payment notice sent to them. The personal loss claimed is NIS 490 (fixed payment of NIS 35 per month multiplied by 14 months, from the date of the amendment of the Consumer Protection Law stipulated in the above provision).	Exceeds NIS 2.5 million (an amount of NIS 88 million is specified in the body of the claim).
N.	December 2019	Customer v. the Company	Tel Aviv District Court	Motion to certify a class action	It is claimed that when the applicant ordered an ordinary telephone line, the Company added him to another service as well (voice mail and caller ID) without his knowledge and without requesting it. Accordingly, the applicant seeks to include in the definition of the class of claimants in whose name the class action is being made anyone who was charged by the Company for a service related to telephone services without receiving their explicit request and/or consent to ordering the related service, in the seven years preceding the motion to certify until the motion is certified.	At this stage, it cannot be estimated, but it is over NIS 2.5 million.

2.18.2 Legal proceedings which ended during the Reporting Period or by the date of publication of the report

	Date of Filing of the Claim	Parties	Instance	Type of Proceeding	Description	Original Amount of the Claim (NIS millions)
A.	June 2016	Customers against the Company, Bezeq International and other ISPs	Central District Court	Claim and motion to certify a class action	Consolidated motion to certify a class action filed following consolidation of several similar motions against the Company claiming that it is intentionally the browsing speed defined for the ISPs and refraining from repairing malfunctions on the matter. Against the ISPs (including Bezeq International) it is alleged that they are misleading their customers regarding the internet browsing speed by selling them packages at a speed that they are unable to provide. In March 2019, the parties filed an agreed motion to abandon the motion against the Company. On April 30, 2019, the court issued a ruling in which it approved the Plaintiffs' abandonment of the motion for certification after reaching the conclusion that there are evidential difficulties in conducting a proceeding against the Company, and this after inspecting the documents they received from the Company and the Company's response to the motion.	Cannot be estimated.

	Date of Filing of the Claim	Parties	Instance	Type of Proceeding	Description	Original Amount of the Claim (NIS millions)
B.	April 2018	Customer v. the Company	Tel Aviv District Court	Motion to certify a class action ("the Present Motion")	The motion alleges that the Company is in breach of the prohibition prescribed in the Communications Law on sending advertisements ("spam"), in part by means of text messages to customers who contact it, which include a link to Bezeq's website. The amount of the class action consists of monetary loss (estimate of the loss for time wasted in dealing with the spam messages) and non-monetary loss due to mental anguish, causing a nuisance and so forth. Notably, a similar motion for the same matter (but for a later period) and in the amount of NIS 52 million was filed in March 2015 in the same court ("the Previous Motion") and on January 9, 2018 it was certified as a class action. The Company filed an a motion for permission to appeal this decision. The present motion for certification was filed in respect of text messages sent by the Company after the Previous Motion was filed. On June 6, 2019, the Supreme Court issued a judgment in which the motion for appeal and the appeal of the Company were accepted. Subsequently, on June 16, 2019, the motion to abandon this motion was accepted thus terminating both proceedings.	85
C.	December 2017	Action filed in the name of holders of B Communications securities against B Communications and senior executives therein, DBS and officers (past and present) of DBS, and the Company.	Court in New York State, USA	Motion to certify a class action	The motion alleges false and misleading declarations made by the respondents concerning the transaction in 2015 in which the Company acquired from Eurocom DBS the balance of DBS shares it held, including in connection with the second contingent consideration paid by the Company in accordance with the terms of the transaction. On March 28 2019, the Company received notice of a ruling issued by a US court from that same date, which accepted the motions of DBS and the senior officers (past and present) of DBS and the Company, and it dismissed the claim against them outright, due to the absence of personal jurisdiction against them.	*

2.18.3 Legal proceedings against an investee which is not a key operating segment (Walla)

	Date of Filing of the Claim	Parties	Instance	Type of Proceeding	Description	Original Amount of the Claim (NIS millions)
A.	May 2018	Walla website visitors against Walla	Tel Aviv District Court	Motion to certify a class action	It alleges that on its website, Walla publishes "advertising-related articles" without due disclosure of the fact that they contain marketing content, and that the publication of marketing content without proper disclosure, as alleged, is, among other things, a breach of the provisions of the Consumer Protection Law, violation of the Rules of Journalism Ethics, a tort and unjust enrichment. In July 2019, the court instructed that Walla should be struck out as a respondent in the motion and that the relevant arguments in this motion should be included in the motion from May 2018 (SubSection D below).	60
B.	December 2018	Site visitors to the respondents' websites against Walla and four other respondents	Central District Court	Motion to certify a class action	It is alleged that Walla and two of the other defendants published advertisements on their websites and applications for the marketing, sale and distribution of smoking and tobacco products, including electronic smoking products, which are allegedly manufactured and distributed by two other defendants. The petitioners' main argument in the claim is that such advertisements are prohibited by law in general, and, specifically, when targeted to minors. The petitioners further claim that use of certain advertising and marketing means is prohibited, and this constitutes, inter alia, a violation of the provisions of the Restriction on Advertising and Marketing of Tobacco Products Law, the Consumer Protection Law, the Consumer Protection Regulations (Advertisements and Marketing Methods Targeted at Minors), breach of statutory duty, violation of personal autonomy, negligence, breach of the duty of good faith and unjust enrichment	300 (Against all 5 respondents)
C.	December 2018	Walla website visitors against Walla	Tel Aviv District Court	Motion to certify a class action	It is alleged that Walla biased press coverage on its website in favor of the Prime Minister, allegedly in exchange for excessive regulatory benefits granted to its controlling shareholder - the Company, and its (former) controlling shareholder. The petitioner alleges that the members of the class suffered non-monetary damage in the form of a violation of autonomy, and also demands restitution of Walla's alleged unjust "enrichment." As stated in the motion, the amount of the class action is unknown. The Attorney General announced that he would present himself at the proceeding and further to his request, the court ordered a stay of proceedings in the case, at this stage until March 31, 2020.	*

	Date of Filing of the Claim	Parties	Instance	Type of Proceeding	Description	Original Amount of the Claim (NIS millions)
D.	March 2019	Site visitors to the respondents' websites against Walla and eight other respondents	Tel Aviv District Court	Motion to certify a class action	It alleges that on its website, Walla publishes "advertising-related articles" without due disclosure of the fact that they contain marketing content, and that the publication of marketing content without proper disclosure, as alleged, is, among other things, a breach of the provisions of the Consumer Protection Law, violation of the Rules of Journalism Ethics, a tort and unjust enrichment. The claimants also mention the motion to certify a class action on a similar matter (Section A above) and indicate that they wish to add further layers to the motion to certify. Further to subSection A, in October 2019 a revised motion to certify was filed in which several changes were made, including extending the period of the claim and the number of consumers who were exposed to the advertising, various legal grounds were added, the loss components were altered from NIS 60 million to NIS 90 million, and relief was added relating to the removal of advertising for offensive products and the removal of prohibited sensitive advertisements.	90

* The amount of the claim or that it is a non-monetary claim was not indicated.

2.19 Business Goals and Strategies

2.19.1 Forward-looking information

The following review of Company strategy includes forward-looking information as defined in the Securities Law, and involves assessments about future developments in the economy in general relating to customer behavior and needs, the pace of adoption of new services, technological changes, regulatory policy, marketing strategies of competitors, and the effectiveness of the marketing strategy of the Company.

The Company's strategy and the business objectives stemming from it are based on internal research and data, secondary sources of information, and primarily the reports of research companies, publications about the activities undertaken by similar communications operators in Israel and around the world, and the work of consultants who assist the Company.

Nevertheless, it is far from certain that the strategy and the main activities described here will actually be implemented or implemented in the way described. The circumstances that could lead to non-implementation of the strategy or even its failure, lie in the general condition of the economy, frequent technological changes, regulatory constraints, the formation of a sustainable business model for new services that the Company intends to provide, and a superior marketing strategy by competitors. In addition, changes to the composition of the Board of Directors or ownership of the Company, which will bring about a change in the composition of the Board of Directors, could result in a change in its strategy and its business objectives.

2.19.2 Strategy summary and intentions for the future

2.19.2.1 Vision and purpose

The Company's objective is to be the leading communications company in Israel, that provides a wide range of communications services and solutions to private and business customers.

The Company is working to maintain its competitive position and to continue being the customer’s first choice in telephony, internet and telecommunications and to this end, has set several goals:

A. Preservation of leader status in an environment of intensifying competition (leader in service and strengthening of perceived values – innovative products, reliability, proximity to the customer);

B. Encouraging the recruitment of new customers and fidelity motivators among existing customers;

C. Creation of new sources of income by launching new, innovative services and products;

D. Ongoing adaptation of the organization to the competitive and technological environment and operational excellence.

2.19.2.2 Means

To implement this strategy and attain these objectives, the Company operates a wide range of advanced communications networks that operate on a broad nationwide system of infrastructures, and allows it to provide the world’s most advanced communications services. The Company is working to upgrade and develop the communications networks that it operates and strives to continuously expand and improve the range of products and services which it offers. The Company operates the widest system of services among the communications companies in Israel, including technical and commercial centers and an extensive system of service and installation technicians.

2.19.3 Main projects – planned and in progress

With regard to the Company’s deployment of a fiber optic network as close as possible to the customer’s premises, see Section 2.7.2.

2.20 Risk Factors

The Israeli economy in which the Company operates is essentially stable. Nevertheless, there are risk factors stemming from the macroeconomic environment, the unique characteristics of the industry in which the Company operators, and Company-specific risk factors that are likely to have significant implications on the Company and affect, inter alia, its status, results credit rating and ability to repay its debts as follows:

2.20.1 Competition

The competition in the domestic fixed-line communications industry has recently intensified, from other communications groups, other domestic carriers, mainly HOT (holder of a general license), and cellular operators, and it strengthened significantly with implementation of the wholesale market by communications groups and other communications operators (holders of a special or unified license) competing with the Company in selling end-to-end service packages based on the Company's infrastructures at prices prescribed by the regulator (see Sections 1.7.3 and 2.16.4). A large number of customers receive wholesale Internet services provided on the Company’s network, while the Company has no connection with such customers. There is also competition from potential infrastructure owners (see Section 2.6). This has led to the churn of some of the Company's customers and lowering of prices for part of the Company’s services and to a rise in the costs of acquiring new customers and retaining existing ones. The entities competing with the Company at present or those that might compete with it in the future, benefit from greater business flexibility than the Company, including the ability to cooperate with subsidiaries and affiliates for marketing joint packages of services (see Sections 1.7.2 and 1.7.3). The ability of competitors to offer packages with tariff flexibility compared with the restrictions that prevent the Company from doing the same, harms the Company's ability to compete.

2.20.2 Government control and regulation

The Company is subject to government control and regulation relating, among other things, to the licensing of operations, setting permitted operating segments, setting tariffs, operation, competition, payment of royalties, providing universal service, holding its shares, relations between the Company and its subsidiaries and a ban on ceasing or limiting its services (which could oblige the Company to provide services even in circumstances which are not economically worthwhile), For details, see Section 2.16. This control and regulation result at times in government intervention that the Company believes impedes its business activities. As part of this, the Company is exposed to the imposition of various sanctions by the Ministry of Communications, including financial sanctions (see Section 1.7.4.6).

In addition, the Minister of Communications may cancel, limit or condition, as the case may be, the Company’s license according to terms set in the Communications Law, and is authorized to change the terms of the Company’s license, intervene in existing tariffs and marketing offerings and impose instructions on the Company. Significant changes in the regulatory principles applicable to communications as a whole and to the Company in particular, could oblige the Company to make changes in its strategic plans, and harm its ability to plan its business activities for the long term. For possible changes due to the wholesale market reform, see Section 2.16.4. For possible restrictions by virtue of the Market Concentration Law on the renewal of licenses and allocation of new licenses, see Section 1.7.4.7.

2.20.3 Tariff regulation

The Company’s tariffs for a central part of its services (including interconnect fees and price for use of the Company’s infrastructure and network) are subject to government control and intervention. The Minister of Communications is authorized to intervene in existing tariffs and marketing offerings and impose instructions on the Company (see Section 2.16.1). On average, the Company’s controlled tariffs erode in real terms. Significant changes in controlled tariffs, if implemented, could have a materially adverse effect on the Company's business and results. Regarding the uncertainty about the supervision mechanism of Company's controlled tariffs and their revision, see Sections 2.16.1 and 2.16.4. Additionally, the restrictions applicable to the Company in marketing alternative payment bundles may make it difficult for the Company to provide an appropriate competitive solution to market changes and are materially manifested compared to those competing with the Company basis of its infrastructures in the sale of end-to-end service packages using wholesale BSA services supplied by the Company. Similarly if the approval and examination mechanism established by the Ministry of Communications with regard to reducing margins in the Company's packages and tracks is implemented (see Section 2.16.4.2) In the context of the implementation of a wholesale market, the Ministry of Communications has the power to set the price for which the Company will sell its services to license holders. The low prices determined may impair the Company's level of revenues and profits and its ability to recover its investment (for the wholesale market, see Section 2.16.4).

2.20.4 Streamlining procedures and labor relations

The Company's implementation of human resources and organization plans (including retirement plans and restructuring), involves coordination with the workers and significant costs, including compensation for early retirement. The implementation processes of such plans are liable to cause unrest in labor relations and to be damaging to the Company regular activities. See also Sections 2.9.3, 2.9.6 and 2.17.3.

In addition, as described in Section 1.8 to the report, the Company, like the other companies in the Group, are implementing streamlining procedures that include, inter alia, a move to new offices, organizational changes and reduction of the staff base, in parallel to managing infrastructure and other significant projects. The streamlining procedures, by nature, involve the risk of loss of knowledge, employee turnover, shifting the management focus, etc.

2.20.5 Restrictions on relations between the Company and companies in Bezeq Group

Structural separation - The Company's general license obliges it to ensure that its relations with its main investees in the Group do not result in preferring them over their competitors. Separation is required between the managements of the Company and those companies, as is separation between the business, financial and marketing systems, assets and employees, which causes duplication high overheads and makes it difficult to manage strategy at the Group level. In addition, the Company is limited in its ability to offer joint service bundles with those companies (see Section 1.7.2).

In view of intensifying competition, based on the provision of service bundles to customers and the possibility, given the wholesale services, of offering customers end-to-end services, the effect of this risk factor surpassed the Company's activity and results. Nevertheless, with regard to the possibility that the Group be granted a permit to provide non-splittable service bundles and cancel the structural separation in future, and other possible changes due to the wholesale market, see Sections 1.7.2 and 2.16.4.

In Q2 2019 reports, the Company's Board of Directors decided to derecognize a deferred tax asset of NIS 1,166 billion for carry-forward losses for tax purposes in DBS The probability of utilizing the carry-forward losses in DBS is affected, inter alia, by the cumulative chances of cancellation of the structural separation by the Ministry of Communications, extension of the approval of the tax authorities to offset the losses and having sufficient profits to implement the offsetting.

2.20.6 Legal proceedings

The Company is a party to legal proceedings, including class actions, which could result in it being ordered to pay significant sums, most of which cannot be estimated, and therefore, no provisions have been made in the Company's financial statements for most of them. In addition, the Company's insurance policies are confined to defined cover limits and to certain causes, and might not cover claims for certain types of damages. In recent years, class actions against large commercial companies have become more numerous and severe. By their very nature, class actions may reach substantial amounts. In addition, since the Company provides communications infrastructures as well as billing services to other licensees, parties suing those licensees in other class actions are also likely to try to involve the Company as a party to such proceedings. For a description of legal proceedings, see Section 2.18.

2.20.7 Exposure to changes in exchange, inflation and interest rates

The Company measures exposure to changes in exchange rates and inflation by the surplus or deficit of assets against liabilities, based on the type of linkage. The Company's exposure to changes in currency exchange rates against the shekel is low. The Company's exposure to inflation rates is high, and therefore the Company takes steps to cover part of the inflation exposure. In addition, the Company has exposure to changes in the interest rates in relation to its borrowings. In this regard, see also Note 31 to the 2019 financial statements.

2.20.8 Electromagnetic radiation and licensing of broadcasting facilities

The subject of the electromagnetic radiation emitted from broadcast facilities is regulated mainly in the Non-Ionizing Radiation Law (see Sections 2.15 and 2.16.10). The Company is working to obtain permits to set up and operate its various broadcasting installations; however, the difficulties it faces in this area, including difficulties stemming from the change in policy by relevant entities and amendments to statutes and standards, could impact adversely on the infrastructure of these installations and on the regularity of provision of services using them, and as a result, on the Company's revenues from these services. The Company's third-party liability policy does not currently cover liability for electromagnetic radiation.

2.20.9 Frequent technological changes

The communications sector is characterized by frequent technological changes and the shortening of the economic life of new technologies - see Section 2.1.4. The significance of these trends creates a need to invest numerous resources in technology upgrades, a lowering of entry barriers for new competitors, an increase in depreciation rates, and in certain cases, redundancy of technologies and networks owned by the Company, the cost of investment in which is still recorded on its balance sheets. The introduction of innovative technology not used by the Company or that the Company is prevented from using may impair its competitive position.

2.20.10 Dependence on macro-factors and on levels of business activity in the economy

Stability in the financial market and the strength of economies in countries around the world, have recently been subjected to high volatility. So far, the Israeli economy has displayed economic resilience, reflected in further economic expansion, maintaining low levels of unemployment and inflation rates within government targets. Nevertheless, further rising of housing prices, global economic shocks and uncertainty in the political and defense arenas may cast doubt over a continuation of these trends. The Company estimates that if the local economy slides, following external or internal events, into a slow-down and a worsening of business activity, then its business results will be harmed, *inter alia*, as consequence of poorer revenues (including revenues from affiliates) or due to an increase in the Group's financing costs.

2.20.11 Failure of Company systems and cyber risks

The Company provides services using various infrastructure systems that include, among others, exchanges; transmission, data communication and access networks; cables; computer systems and others ("the Systems"). The Systems have critical importance in operating the Company's business and fulfill a vital function in its ability to perform its activities successfully. Hacking, interference, damage or collapse of the Systems may impair the Company's business. Some of the Company's Systems have backups, but nevertheless, damage to some or all of these Systems, whether due to a technical fault (including in the event of termination of a contract with a supplier who is relied on for support of the Systems), a natural disaster (earthquake, catastrophe, fire), damage to physical infrastructures by communications service providers using them or malicious damage (including through cyber attacks as set out below), could cause extreme difficulties in providing service, including if the Company is unable to repair the systems.

The Company faces a risk of activity intended to affect use of a computer or the computer material stored in it ("Cyber Attack"). Attacks of this kind may lead to interference of business, theft of information/funds, reputation damage, and damage to systems. As a leading communications company that provides diverse communications services in various segments, it is a target for and experiences Cyber Attacks, which are handled by it.

The Company is an entity overseen by Israel National Cyber Directorate and is obligated to comply with stringent information security standards. In this regard, the Company implements a protection policy that includes the most advanced security systems available, which are operated in a manner that combines effective security with the operational needs of the Company and layers of security to protect its infrastructures and Systems, which are designed to prevent and reduce the possibility of malicious or unintentional use of data of the Company's network by an internal or external entity, and the possibility of an external entity taking control and managing network components or abusing information about the Company's infrastructures and networks in any manner.

The Company overseas implementation of its protection policy, including testing its level of effectiveness and the Company's readiness, as part of which, the Company conducts periodic tests and drills at different frequencies for different scenarios (including through external companies specializing in this field).

Despite the Company's investments in means of reducing these risks, it is unable to guarantee that these efforts will succeed in preventing harm and/or interference in the Systems and the information related to them.

2.20.12 Impairment of subsidiaries

Pursuant to the accounting standards, the Company prepares valuations of its subsidiaries to periodically test for impairment of goodwill and of assets regarding which there are indications of impairment. Taking note of the business position of the subsidiaries and the discrepancy, if there is any, between the carrying amount in the Company's accounts and their recoverable amount as a cash-generating unit, any decline in the value of the subsidiaries' operations could lead to the recording of an impairment loss (write-off) in the Company's books. Additionally, a significant change in circumstances that leads to a change in estimates could occur due to a high-intensity isolated event and/or as the result of a sequence of small changes that occur over time, which have a significant cumulative effect in the long term and/or due to a change in estimates (even on a small scale) regarding the long term. Valuations rely on assumptions which are correct at the date of the report that might not materialize or could partially materialize and different perspectives affect, with varying intensity, the value of the activity, where assumptions for the long term many have a relatively large weight compared with assumptions regarding the short term. These assumptions are sensitive to values in the representative year, to the discounting interest rate and the permanent growth rate. On this matter, see also Note 11 to the 2019 Financial Statements and Section 3.1 of the Directors Report.

2.20.13 Pandemic

At the beginning of 2020, a coronavirus outbreak started in the world. Subsequently, the Company is tracking the development of this outbreak and pandemic events in general and is reviewing the potential implications on its business operations, when part of the implications have already been expressed in practice in the Company. These implications could be manifested, and some have already manifested, *inter alia*, in damage to the supply chain and the customer service system. According to the Company's initial assessments, at this time no material decline in the Company's revenue is expected that can be attributed to the effect of this outbreak. Nevertheless, this is naturally a variable event that is beyond the Company's control. Therefore extensive spread of the virus and/or the decisions of the countries and the authorities in Israel and worldwide in this regard, may affect the Company accordingly.

It is noted that a significant part of the Company's activities (consolidated) are in its subsidiaries. The risk factors of these companies and the assessments of their managements as to the risk factors are described in Sections 3.19, 4.14 and 5.19.

The following table rates the effects of the risk factors described above on the Company's activities, in the estimation of its management. It is noted that this assessment of the extent of the impact of a risk factor reflects its extent assuming it is realized, and does not assess or give weight to the likelihood of its realization. The order in which the risk factors appear above and below is not necessarily according to the rate of risk.

Table of risk factors - Domestic fixed-line communications[39]

	Extent of risk factor's impact on Company activities		
	Major	**Moderate**	**Minor**
Macro risks			
Exposure to changes in exchange, inflation and interest rates			X
Dependence on macro-factors and on levels of business activity in the economy		X	
Pandemic		X[40]	
Sector-specific risks			
Increasing competition	X		
Government control and regulation	X		
Tariff control	X		
Electromagnetic radiation / Licensing of broadcasting facilities		X	
Frequent technological changes		X	
Risks unique to the Company			
Exposure in legal proceedings		X	
Labor relations		X	
Restrictions on relations between the Company and companies in Bezeq Group	X		
Failure of Company systems and cyber risks	X		
Impairment of subsidiaries		X	

The information included in this Section 2.20 and the assessments regarding the impact of the risk factors on the Company's operations and business constitute forward-looking information as defined in the Securities Law. The information and assessments rely on data published by the Ministry of Communications, the Company's assessments of the market situation, its competitive structure, and possible developments in this market and in the Israeli economy. Actual results may differ significantly from these assessments if a change occurs in one of the factors taken into account in making them.

[39] It is clarified that the Group Companies' assessments of the impact of the risk factors in the table (in this Section and Sections 3.19, 4.14 and 5.19) did not estimate the probability of the realization of the risk factor but rather, the impact of the risk factor on the relevant company should it be realized. It is also noted that some of the Group companies make estimates of the probability of the scenarios of some of the risk factors mentioned in these Sections for certain internal needs of their own, but no orderly estimate is made at the Group level of all the risks listed in the tables in this and the aforementioned Sections.

[40] The extent of the impact of this risk factor on the Company's activities was classified as moderate, assuming that the Event will be limited in scope and time. Otherwise, the extent of the impact could be greater.

3. Pelephone – Mobile radio-telephone (cellular telephony)

3.1 General information about the area of operations

3.1.1 Pelephone's segment of operation

Pelephone provides cellular mobile communications services and sells and services terminal equipment. Pelephone's services are described more fully in Section 3.2. Pelephone is wholly owned by the Company.

3.1.2 Major legislative and regulatory restrictions specific to the operating sector

3.1.2.1 Communications and mobile telephony (MRT) license laws

Pelephone's operations are regulated and controlled under the Communications Law and subsequent regulations, the Telegraph Ordinance, and the mobile telephony license that it holds. The mobile telephony license prescribes conditions and guidelines that apply to Pelephone's activities, (for details, see Section 3.14.2.

3.1.2.2 Tariff control

The interconnect fees (supplementary call and text message (SMS) fees collected by Pelephone from other operators) are fixed in the Interconnect Regulations. The other rates fall under certain regulatory control as regulated under the mobile telephony license and the Communications Law (see Sections 3.14.1 and 3.14.2).

3.1.2.3 Environmental laws and planning and construction laws

The set-up and operation of a wireless communication infrastructure, including cellular communications, is subject to the provisions of the Non-Ionizing Radiation Law and the required Ministry of Environmental Protection permits, and the provisions of planning and construction laws (see Section 3.13.1).

3.1.3 Changes in the volume of activity

For financial information regarding the scope of Pelephone's operations, see Sections שגיאה! מקור ההפניה לא נמצא. and 3.3.

<u>Revenue from services</u>

The mobile radio telephony segment is extremely competitive. Competition in this sector (see Section 3.6 has led to high subscriber churn between the cellular operators and consistent erosion of the prices of base packages together with continued increase of browsing volumes included in the packages, and to an increase in the internet browsing volume included in the base package that has caused further significant erosion of the average revenue per user (ARPU). The growth in number of postpaid subscribers in the past five years compensated for the price erosion and allowed Pelephone to maintain relatively stable income.

<u>Revenues from sales of terminal equipment and electronic products.</u>

The terminal equipment market is also fiercely competitive among the cellular operators and competing against the numerous stores that sell terminal equipment imported by parallel import. In 2019 the trend of manufacturers launching device models at lower prices compared to previous years continues which, together with the decrease in number of devices sold to end customers, has led to further decile in average revenue per device. To minimize damage to revenues, Pelephone increased the range of equipment it sells and it also sells non-cellular electronic equipment.

Most terminal equipment and electronic products are sold with installments. The decrease in terminal equipment sales over the years has led to a decrease in trade receivables as well as a decline in trade payables to terminal equipment suppliers.

3.1.4 Market developments and changes in customer characteristics

The cellular market growth rate is lower due to penetration rate saturation[41]. The market penetration rate at September 30, 2019 was 120%.

3.1.5 Technological changes than can affect the segment of operation

The cellular telecommunications market is dynamic with frequent technological developments in all areas of operation (handsets, telecommunications network technologies and value added services).

Technology developments and the desire to widen the range and quality of services offered to the customer, require the cellular operators to periodically upgrade their network technologies. Cellular networks in Israel operate mainly over UMTS/HSPA and LTE technologies.

As at Reporting Date, Pelephone's LTE network is deployed in most parts of the country, and Pelephone continues to deploy its network in accordance with a regulated plan.

Pelephone operates three technologies: MIMO4x4, Beam Forming and Quam 256, enabling improved performance and increased browsing speed on fourth generation websites.

In 2019, Pelephone launched its IMS based services[42]: Voice over WiFi as an improved solution for indoor coverage, as well as Voice over LTE that enables vacating third-generation frequency resources for future LTE use. In addition, it enables Voice over LTE sequence service with Voice over WiFi.

Pelephone constantly reviews new technologies that come onto the market and the need to upgrade its existing network technologies, depending on the competitiveness of the market and the economic viability of the investment in such technologies.

Expanding capacities and speeds with LTE technologies and development of the next cellular generations depends on the allocation of frequencies. For details, see Section 3.8.2.

3.1.6 Critical success factors

3.1.6.1 Nationwide deployment of an advanced high-quality cellular network, regular maintenance of the high standard network and regular substantial investments in cellular infrastructure for both high quality country-wide coverage and for providing customers with the most advanced services using cutting edge infrastructures and technologies (also see Section 3.7.1).

3.1.6.2 Subscriber base growth

3.1.6.3 Competitive prices

3.1.6.4 Extensive and varied distribution channels

3.1.6.5 A diverse range of service channels, including digital channels, allowing effective and quality support and service to a large range of customers.

3.1.6.6 Adapting the cost structure and streamlining operations allowing Pelephone to confront the increased competition.

3.1.6.7 A Brand that represents a high quality, reliable and state-or-the-art network.

3.1.6.8 Top-notch and skilled work force.

3.1.7 Main entry and exit barriers[43]

3.1.7.1 Main entry barriers are:

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[41] Penetration rate - the ratio between the number of subscribers in the market and the total population in Israel (excluding foreign workers and Palestinians, although they are included in the number of subscribers).

[42] IP Multimedia Sub System - IMS - a system in the core of the network that is used, among other things, for switching IP calls (such as, Voice over LTE, Voice over Wifi). These two services are currently being launched as an integrated cover solution for inside homes and to reduce traffic on the 3G network. The infrastructure will be used for additional services such as One Number, Rich Call Services, etc.

[43] The foregoing entry and exit barriers apply partially and to a limited extent to the virtual operators.

A. Market penetration rate saturation (see Section 3.1.4).

B. The need for a mobile telephony license, allocation of frequencies that involve vast costs due to, among other things, the shortage of these resources (see Section 3.8.2.1) and the regulatory supervision (see Section 3.14.2).

C. The need for significant financial resources for ongoing large-scale investments in infrastructures, which are affected by frequent technological developments (also see Section 3.7.1.3).

D. The difficulty involved in setting up radio sites due to regulatory restrictions and public opposition.

3.1.7.2 Main exit barriers are:

A. The large investments and the time required to recoup them.

B. The commitment to provide customers with services is due to the terms of the mobile telephony license and agreements made in accordance with those terms.

3.1.8 Structure of competition in the sector and changes occurring in it

3.1.8.1 General

The cellular communications market in Israel is extremely competitive, which is reflected in the high subscriber churn between operators, substantial erosion of rates and profit margins.

As at Reporting Date there are six operators with mobile telephony license in the cellular telecommunications market in Israel (Pelephone, Cellcom, Partner, Golan Telecom, HOT Mobile and XFone) and a few MVNO operators with mobile telephony licenses for hosting on another network (virtual operators). For further information concerning the proposed HOT-Partner merger and binding memorandum of understanding for Cellcom's acquisition of Golan Telecom, see Section 1.7.1 above.

3.1.8.2 Infrastructure sharing

Infrastructure sharing allows consolidation of the cellular operators' sites and substantially reduces the operating and maintenance costs of the radio sites of each operator. To the best of Pelephone's knowledge, as of Reporting Date, infrastructure sharing on the market are as follows:

A. Partner and HOT Mobile operate under radio segment infrastructure sharing through a joint company.

B. Cellcom and Golan Telecom operate under a network sharing agreement.

C. Cellcom and XFone operate under a hosting and network sharing agreement.

3.1.8.3 Virtual operators - MVNO

To date, several MVNO licenses have been granted to virtual operators. Only a few MVNO licenses are active on the market.

For additional information about the structure of competition, see Section 3.6.

3.2 Services and Products

3.2.1 Services

Description of the services Pelephone provides for its subscribers:

3.2.1.1 Package services that include:

A. **Basic telephony services (VOICE)** – basic voice services, call completion and auxiliary services such as call waiting, follow-me, voice mailbox, voice conference call and caller ID, MMS multimedia messages and more.

B. **Browsing and data communications services** –internet browsing using 3G and 4G mobile devices.

C. **Messaging service** – a service for sending and receiving SMS text messages.

3.2.1.2 **Added value services** - Pelephone offers its customers added value and supplementary services such as Pelephone cloud backup services, anti-virus and cyber security services, etc.

3.2.1.3 **IOT (Internet Of Things) services** - Pelephone offers its customers advanced IOT solutions such as smart building networks with command and control systems, big data services, etc.

3.2.1.4 **Roaming services** - Pelephone provides its customers with roaming coverage in more than 220 countries worldwide. Pelephone also provides incoming roaming services for the customers of foreign operators staying in Israel.

3.2.1.5 **PTT (Push to Talk) services** - Pelephone began offering its business customers the most advanced PTT services worldwide, enabling fast and secure organizational communications at the push of a button.

3.2.1.6 **Servicing and repair services for terminal equipment** – Pelephone offers expanded repair and warranty services; for a monthly fee entitling the customer to mobile handset repair and warranty services, or for a one-time payment at the time of repair.

Pelephone provides part of these services under hosting agreements to other cellular operators that use Pelephone’s network, so that they can provide services to their customers.

3.2.2 Products

Terminal equipment – Pelephone offers various types of mobile phones, on-board telephones, PTT devices, hands-free devices and supplementary accessories that support its range of services. Pelephone also offers other terminal equipment such as tablets, laptops, modems, speakers, smart watches, headphones and related electronic equipment.

3.3 Revenue from products and services

Breakdown of Pelephone's revenues from products and services (in NIS millions):

Products and services	2019	2018	2017
Revenue from services	1,709	1,755	1,782
Percentage of Pelephone's total revenue	72.4 %	71.8 %	70 %
Revenue from products (terminal equipment)	653	688	764
Percentage of Pelephone's total revenue	27.6 %	28.2 %	30 %
Total revenue	2,362	2,443	2,546

3.4 Trade receivables

Breakdown of revenues from customers (in NIS million):

Products and services	2019	2018	2017
Revenue from private customers	1,334	1,415	1,541
Revenue from business customers (*)	1,028	1,028	1,005
Total revenue	**2,362**	**2,443**	**2,546**

(*) Revenue from business customers include revenues from hosting agreements, most of which was from Rami Levy.

At the end of 2019, Pelephone had 2.3 million subscribers, consisting of 1.8 million postpaid subscribers and 0.4 million prepaid subscribers. It should be noted that the revenues from the prepaid subscribers is immaterial relative to Pelephone's total revenues. It should be noted that following the revision of the definition of an active subscriber (see Section שגיאה! מקור ההפניה לא נמצא.), at the beginning of the third quarter of 2018 some 0.4 million prepaid subscribers were deleted from Pelephone's subscriber base.

3.5 Marketing, distribution and service

Pelephone's distribution system consists of 400 points of sale at which subscribers can enroll for Pelephone services. The point of sale network is diverse and includes stores and stalls operated by Pelephone, retail chains that market Pelephone products and 24 customer service and sales centers deployed around the country that engage in sales, repair of devices and customer retention. Furthermore, Pelephone operates an internal and external network of telephony salespeople. As a rule, these dealers are paid a commission on sales.

Pelephone’s subscriber service network includes online channels, including Pelephone’s website, its “My Pelephone” App, and 8 call centers.

3.6 Competition

3.6.1 General

In recent years, the Ministry of Communications has adopted several regulatory measures aimed at increasing competition in the cellular communications market. The proliferation of cellular operators in the market led to extreme competition, which continued in 2019. This ongoing trend led to high subscriber churn between operators and to a decline in prices of cellular service packages, resulting in significant erosion of rates and profit margins, on the private customer market as well as the business customer market.

To compensate for the erosion of package prices, Pelephone adopted a strategy for increasing the number of subscribers together with streamlining measures and adjustment of its cost structure (see Section below).

For further information concerning the proposed HOT-Partner merger and details of Pelephone's offer to acquire Golan Telecom and the memorandum of understanding for the acquisition of Golan Telecom by Cellcom, see Section 1.7.1 above.

Breakdown, to the best of Pelephone's knowledge, of the number of subscribers of Pelephone and of its competitors in 2018 and 2019 (thousands of subscribers, approximate).

		Pelephone	Cellcom	Partner	HOT Mobile (2)	Golan Telecom	MVNO and Other Operators (1)	Total subscribers in market
At Dec 31, 2018	No. of subscribers	2,205	2,851	2,646	1,579	906	476	10,663
	Market share	20.7 %	26.7 %	24.8 %	14.8 %	8.5 %	4.5 %	
At Sept 30, 2019	No. of subscribers	2,310	2,767	2,651	1,629	923	639	10,919
	Market share	21.2 %	25.3 %	24.3 %	14.9 %	8.5 %	5.8 %	

(1) Most of the MVNOs and other operators (including, among others, XFone) are private companies which do not publish figures regarding the number of their subscribers and these figures are based on estimates.

(2) Hot Mobile's subscriber data for the third quarter of 2019 are based on an estimate.

(3) The number of subscribers as of September 30, 2019 and December 31, 2018, are based on public reports issued by Cellcom, Partner, HOT Mobile and Golan Telecom (in Electra's financial reports).

3.6.2 Infrastructure sharing agreements and providing right of use of networks

For further information concerning the existing infrastructure sharing agreements in the market as at Reporting Date, see Section 3.1.8.2. As aforesaid, infrastructure sharing allows consolidation of the cellular operators' sites and substantially reduces the operating and maintenance costs of the radio sites of each operator.

Pelephone is not party to a network sharing agreement, therefore it does not benefit from the savings of a shared radio network, but on the other hand it has exclusive control of its cellular network, maintenance of its technological channel and the scope of its investments. Furthermore, the inventory of frequencies in Pelephone’s network is smaller than that of the competitors' networks.

3.6.3 Positive and negative factors that affect Pelephone's competitive status

3.6.3.1 Positive factors

A. An extensively deployed high quality cellular network.

B. Its positioning as a high-speed, cutting edge cellular network.

C. Its positioning as a secure network.

D. The diverse and widespread distribution system operates through call centers and numerous points of sale that are operated by Pelephone, external resellers and through leading retail outlets.

E. A broad service network and diverse customer service interfaces, including digital channels, enables a high level of customer service.

F. The sale of sub-brands through designated selling channels alongside the Pelephone brand.

G. Robust equity structure and positive cash flow.

3.6.3.2 Negative factors

A. As a subsidiary of the Company, Pelephone is subject to regulatory restrictions for entering other areas of operation and expanding the service bundles it can offer its customers, which do not apply to its competitors.

B. Restrictions of joint activities with the Company, including marketing of joint service bundles (see Section 1.7.2).

C. The establishment, operating and maintenance costs of Pelephone's cellular networks are expected to be much higher compared with the competitors that operate through infrastructure sharing.

3.7 Property, plant and equipment

Pelephone’s property, plant and equipment include its core network infrastructure equipment, radio sites, electronic equipment, computers, motor vehicles, terminal equipment, office furniture and equipment and leasehold improvements.

3.7.1 Infrastructure

3.7.1.1 Pelephone currently operates communications networks using two main technologies:

A. LTE 4G technology is based on GSM standards. The advantages of this technology are larger data communication capacity and faster download rates than with the 3G technologies. All the terminal devices that support this technology also support the 3G technologies and the transition between the technologies is seamless.

B. The UMTS/HSPA technology is based on GSM 3G standard. This technology is globally widespread, and enables subscriber identification and services to be provided through a SIM card, which can be moved from one handset to another.

3.7.1.2 As of Reporting Date, the infrastructures for Pelephone's networks are mainly based on two switch farms, which are connected to more than 2,400 sites.

3.7.1.3 Network launches

In recent years Pelephone has invested in deploying its fourth generation network and upgrading with new technologies such as Beam Forming, Quam 256 and MIMO4x4,and Carrier Aggregation on the access network and IMS on the core network (see Section 3.1.5). Pelephone estimates that the expected scope of its investments in the network in 2020 will not differ significantly from its investments in 2019, other than additional investments in frequencies in the expected frequencies tender, the scope of which at this time is uncertain (see Section 3.8.2.4), and in the deployment of the appropriate equipment, as well as certain possible exchanges of frequencies in accordance with the requirements of the State (see Section 3.8.2.3).

In addition, as part of its ongoing investments, over the coming decade Pelephone will be required to continue establishing new broadcasting sites, among other things, to comply with the terms of its mobile telephony license.

Pelephone has also started planning and preparations for an implementation schedule for advanced fifth generation data communications services. The plan is scheduled for integrating with existing infrastructures and systems. Operating such advanced services requires obtaining additional and specific frequency ranges for fifth generation services, which the Ministry of Communications intends to allocate under a number of frequency tenders (see Section 3.8.2.4).

Pelephone's foregoing estimates concerning the costs of the network launches and the date they are incurred, are forward-looking information, as defined in the Securities Law, based on Pelephone's forecasts and assessments, in part, regarding the speed of expanding and updating the network. Consequently, the information may not be fully or partially realized or may be realized in a different manner than that estimated, if these forecasts and assessments are not realized, or will be realized differently than expected.

3.7.2 Premises used by Pelephone

Pelephone does not own land, and leases premises from others, including the Company, for its operations. Below is a description of the main premises used by Pelephone:

3.7.2.1 The premises Pelephone uses for setting up its communications sites and network centers, as referred to in Section 3.7.1, are spread throughout the country and are leased for varying periods (in many cases, for 5 years with an option to extend for a further 5 years). With regard to licensing of the sites, see Section 3.14.3.

3.7.2.2 Until December 31, 2019, Pelephone's permit agreement with the Israel Lands Authority (ILA) for the use of ILA land for erecting and operating telecommunication sites, which regulated, among other things, permit fees for such use through to December 31, 2019, was valid. Pelephone and the other cellular operators are currently negotiating with the ILA with regard to the terms for renewing the permit agreement.

3.7.2.3 Pelephone's head offices are located in Givatayim and at the end of 2020, it is expected to move its head offices to Petah Tikva.

3.7.2.4 For its sales and service operations, Pelephone leases 56 service centers and points of sale throughout the country.

3.7.2.5 Pelephone has other lease agreements for warehouses (including its main logistics center where the central laboratory for repairing customer devices is located), offices, call centers, and two switch farms that it uses for its operations.

3.8 Intangible assets

3.8.1 Licenses

For details about Pelephone's mobile telephony license and its license to operate in the Administered Territories, see Section 3.14.2.

3.8.2 Frequency usage rights

3.8.2.1 There is a shortage of frequencies for public use in Israel (among other things, because of the designation of numerous frequencies for security uses). As a result, the government limits the number of licenses granted for using frequencies. A tender is expected to be conducted in 2020 for allocation of additional frequencies to the cellular operators (the “Tender” or “Frequencies Tender”) - see Section 3.8.2.4 below.

3.8.2.2 Pelephone's inventory of frequencies

Under its mobile telephony license and the Telegraph Ordinance, Pelephone has rights of use of frequencies in the 850 MHz and 2100 MHz spectrums for operating its UMTS/HSPA network, and in the 1800 MHz spectrum for operating its LTE technology network (see also Section 3.1.5). In 2017 Pelephone returned two frequency bands of 1 mega bandwidth each in the 850 MHz spectrum to the national frequencies pool and towards the end of April 2017 it received a temporary allocation of one 5 mega bandwidth band in the 1800 MHz spectrum. This allocation has use restrictions and is for a limited period.

On December 30, 2019, the Ministry of Communications reallocated the temporary allocation of this band until December 31, 2020 under terms and restrictions, to allow Pelephone to prepare for the expected changes involved in switching frequencies in the first giga spectrum (see Section 3.8.2.3).

3.8.2.3 Switching frequencies in the first giga spectrum

In July 2018, the Ministry of Communications informed Pelephone that it plans to adapt the cellular frequencies in Israel to European standards and to the region in which the State of Israel is located, so that Pelephone and another cellular operator will be required to switch the frequencies alloted to them in the 850 MHz spectrum to others in the first giga spectrum. On February 5, 2020 the Ministry of Communications informed Pelephone of its intention to execute the plan to switch the 850 MHz frequencies that Pelephone uses, in light of the electromagnetic interference caused to neighboring countries due to the failure to adjust the allocation of cellular frequencies in Israel to the frequency commissioning based on European standards and the region in which the State of Israel is located. According to the plan, Pelephone will receive 800 MHz frequencies in place of the 850 MHz frequencies, while in the first stage and to deal with the foregoing interferences, the number of 850 MHz frequencies used by Pelephone will be reduced to 5 MHz (instead of the current 10 MHz), as of May 31, 2020. Pelephone submitted, at the request of the Ministry of Communications, its position on a number of issues, and on March 17, 2020, the Ministry announced its final decision regarding implementation of the outline according to its notice dated February 5, 2020.

The foregoing decrease in the number of 850 Mhz frequencies may adversely affect the services provided by Pelephone. It is noted that the frequency serves the Company’s 3G services, however impairing these services may also affect the 4G services in certain areas due to possible network overload and roaming on 4G networks. It is emphasized that Pelephone is unable, at this stage, to estimate the scope of the damage. Pelephone is reviewing the matter and adopting measures to minimize the damage, if any.

Switching frequencies is a complex engineering project that requires replacement and upgrading of the active/passive infrastructures at all of Pelephone’s radio sites and is liable to incur substantial costs that could vary depending on the process and timing to be determined by the Ministry of Communications.

Pelephone's foregoing estimates are forward-looking information, as defined in the Securities Law. These assessments may not materialize, may materialize partially or substantially differently from that expected, depending on, among other things, how the plan will be implemented in practice and on the condition of Pelephone's network.

3.8.2.4 Tender for mobile radio telephony services over advanced bandwidths (the "Tender")

On July 15, 2019, the Ministry of Communications published a tender for the allocation of additional frequencies including frequencies for 5G.

The highlights of the Tender are, inter alia, as follows:

Proposed frequencies in each frequency range are:

- 700 MHz - Bandwidth 30x2 MHz
- 2,600 MHz - Bandwidth 60x2 MHz
- 3,500-3,800 MHz - Bandwidth 300 MHz

Operators of existing networks may compete in the Tender.

In addition, new players may compete for 100 mega (out of 300) in the 3,500 MHz range, on condition they comply with qualifying conditions. Winners among the new players will be granted special licenses for providing specific 5G services; however, they will not be entitled to provide earlier generation cellular services, and will be 5G operators only.

The Tender will allow bidders to compete simultaneously for all the frequency ranges and to offer combined bids.

The Tender includes, among other things, provisions concerning network coverage and quality requirements that will be formalized as part of an amendment to the mobile licenses of the existing operators.

The Tender includes options for receiving the following incentives:

- Option of a discount on the frequency fees in the first four years, subject to the approval of the Ministry of Communications and Ministries of Finance.
- Option of receiving a performance grant for the deployment of 5G sites pursuant to the conditions provided in the Tender (such as compliance with scope of deployment, time schedules, duration and timing of the deployment compared with others and additional conditions set out in the Tender).

Based on the terms of the Tender, the date of payment for the frequencies was set in February 2022.

Bidding in the Tender is expected to take place during the first half of 2020. Pelephone intends submitting a bid in the Tender.

At this stage, Pelephone is unable to estimate the effects and outcome of the Tender.

For further information, see Section 3.19.2.1. For information concerning exposure to disruptions in the frequency ranges used by Pelephone, see Section 3.19.3.9.

3.8.3 Trademarks

Pelephone has a number of registered trademarks, Its primary trademark is "Pelephone".

3.8.4 Software, computer systems and databases

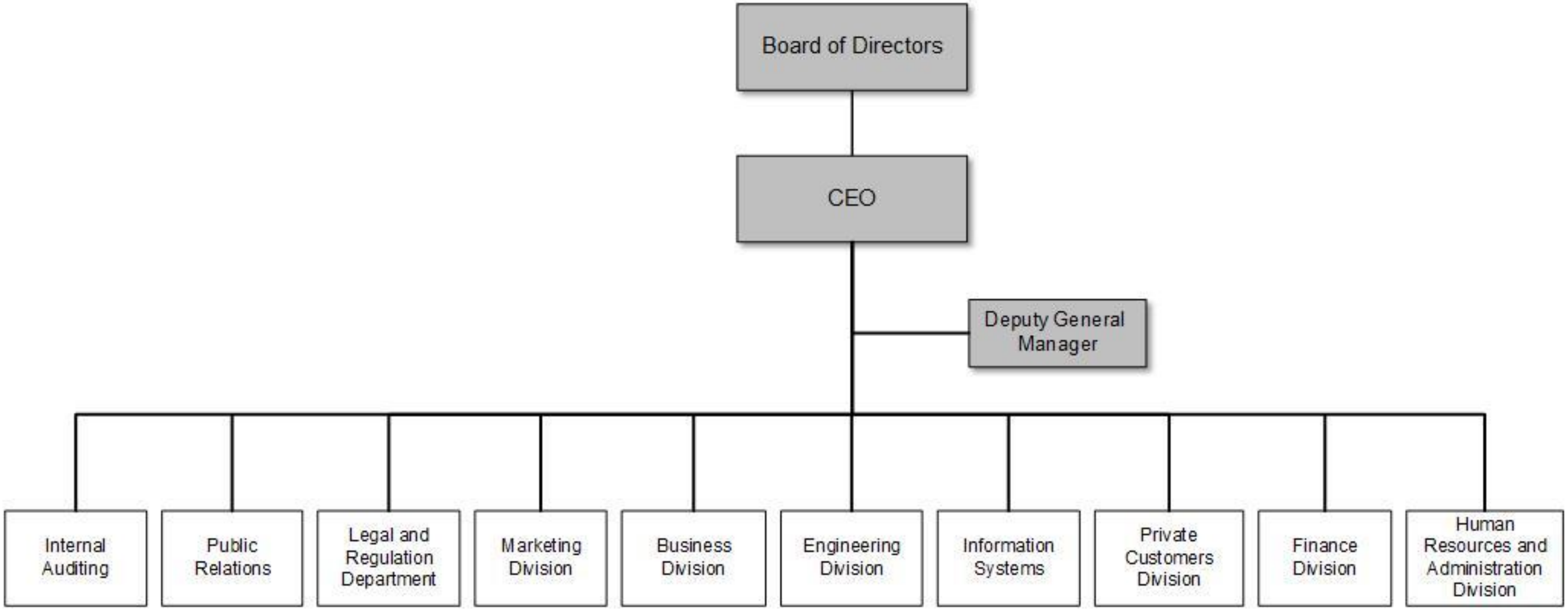
Pelephone uses software and computer systems, some under purchased licenses and others which were developed by Pelephone's IT department. Many of these licenses are limited in time, and are periodically renewed. The primary systems used by Pelephone are Oracle Applications' ERP system and Amdocs's customer management and billing system.

Pelephone is also upgrading its CRM system (customer management) on the state-of-the-art Salesforce cloud platform.

3.9 Human resources

3.9.1 Organizational structure

Pelephone's organizational structure at reporting date:



(*) The head of the Private Customer Division is the Deputy CEO.

As part of implementing the synergy with the Group's subsidiaries, Pelephone's CEO, Ran Guron, also serves as CEO of DBS and Bezeq International. Most of Pelephone's current VPs also serve as VPs at DBS and Bezeq International.

3.9.2 Human Resources and Positions

Breakdown of the number of employees at Pelephone, based on organizational structure.

Department	Number of employees	
	December 31, 2019	December 31, 2018
Management and HQ	238	257
Business and Private Customers Divisions	1,533	1,757
Engineering and Information Systems	431	439
Total	**2,202**	**2,453**

The total number of employees in the above table includes employees employed in part time positions. The total number of positions[44] at Pelephone as at December 31, 2019 was 1,956 (at December 31, 2018 - 2,099).

3.9.3 Terms of employment

The majority of Pelephone's employees are employed under monthly or annual contracts, based on the professions and positions in which they are employed. Most of the service and sales employees are shift workers who work part time and are employed on an hourly basis. The rest of Pelephone's employees are employed under monthly contracts.

3.9.4 Collective agreement

Labor relations at Pelephone are regulated under a collective agreement signed between Pelephone and the New Histadrut Labor Federation - Cellular, Internet and High-tech Workers Union (the “Labor Union”) and Pelephone workers' committee. The agreement applies to all Pelephone employees, with the exclusion of senior managers and certain employees in predefined positions.

On November 13, 2019 the parties signed to renew the existing collective agreement, which includes streamlining and synergy measures, for a period starting November 12, 2019 through June 30, 2022 (the “Agreement”).

According to the Agreement, Pelephone may, among other things, terminate the employment of 210 tenured employees during the Agreement period, some of whom as voluntary early retirement. In addition, according to its plans, it will terminate the employment of a further 190 non-tenured employees in addition to not recruiting employees to replace those who have ended their employment. Similarly, the Agreement includes the grant of a one-time bonus to employees who will not be included in the severance program.

The total estimated cost is NIS 100 million and will be expended across the Agreement period, assuming full exercise of Pelephone’s rights to streamlining as aforesaid and compliance with the conditions for granting additional economic benefits to employees.

3.9.5 Labor disputes

On January 31, 2018 Pelephone was informed by the New Histadrut Labor Federation - Cellular, Internet and High-Tech Workers Union (the “New Histadrut”), that it was announcing a labor dispute pursuant to the Settlement of Labor Disputes Law, 1957. According to the New Histadrut announcement, the matter under dispute is the employees demand for consultation and negotiations regarding the sale of the controlling interest in the Company to new controlling shareholders and the arrangement of their rights thereunder.

Subsequent to the New Histadrut announcement, on November 28, 2019, Pelephone received notice from the Chairman of the New Histadrut and Pelephone workers committee that included a demand to hold collective negotiations with the employees' representatives following the transaction for acquisition of control of the Company. Pelephone is unable to estimate, at this stage, the consequences that might arise due to the foregoing notice.

[44] The number of positions at Pelephone were calculated as follows: Total monthly work hours divided by the standard monthly work hours.

3.10 Trade payables

3.10.1 Suppliers of terminal equipment

Pelephone purchases some of the terminal equipment and accessories from various suppliers in Israel and worldwide, and others it imports independently. In addition, Pelephone purchases terminal equipment and accessories on consignment with the right to return terminal equipment to the suppliers. The agreements with some of the suppliers are based on framework agreements that regulate, among other things, the supplier's technical support for the terminal equipment it supplies, the availability of spare parts and repair turnaround, as well as the supplier's product warranty as required by law. Most of these agreements do not include a purchase commitment on Pelephone's part, purchases are made on a regular basis by means of purchase orders based on Pelephone's needs.

In the event of termination of an engagement with a supplier of certain terminal equipment, Pelephone can increase quantities of terminal equipment purchased from other suppliers or purchase terminal equipment from a new supplier.

Other significant suppliers of Pelephone are Apple and Samsung, with which Pelephone does not have agreements requiring the purchase of a minimum annual quantity, and purchases are made on the basis of orders that Pelephone places from time to time, similar to the other brands.

Pelephone's purchases from each of the suppliers, Apple and Samsung, in 2019 accounted for more than 10% of Pelephone's purchases from all of Pelephone's suppliers[45], however less than 5% of the Group's (consolidated) purchases from all of its suppliers. The distribution of the purchase of terminal equipment among the suppliers is such that it does not create any significant dependence on a particular supplier or model of equipment.

3.10.2 Infrastructure suppliers

The cellular infrastructure equipment for the UMTS/HSPA and LTE networks is supplied by LM Ericsson Israel Ltd. ("Ericsson”), which is a supplier of Pelephone for the deployment of the fourth generation radio network (LTE). Ericsson is also a material supplier of Pelephone in the field of microwave transmission. Pelephone has long-term agreements with Ericsson for maintenance, support and upgrading of software for the UMTS/HSPA and an agreement for purchasing 4G LTE equipment with Ericsson, and in its opinion, it may become dependent on Ericsson regarding support for this network and its expansion. In addition, the cellular network uses transmission, for which the Company is Pelephone's main supplier.

Pelephone’s telecommunications network is mostly based on the Bezeq network. Pelephone has a multi-annual agreement with the Company that includes use and maintenance.

3.11 Working capital

3.11.1 Credit policy

Credit in handset sales transactions – Pelephone grants most of its customers who purchase mobile handsets an option to spread payment for up to 36 equal installments. In order to reduce its possible exposure from providing its customers credit, Pelephone acts according to a credit policy that is reviewed from time to time. Pelephone also examines the financial stability of its customers (based on parameters that it sets).

Credit in monthly billing for cellular services – Pelephone customers are billed once a month in billing cycles on different days throughout the month, for service consumption during the previous month.

From most of its suppliers, Pelephone receives credit for periods ranging from 30 days to EOM + 92 days.

Breakdown of average customer and supplier credit in 2019:

	Credit In NIS millions	Average credit days
Customers for sales of terminal equipment (*)	708	338

[45] All Pelephone suppliers, including vendors who are not suppliers of terminal equipment and electronic devices.

Customers for services (*)	215	39
Trade payables	248	33

(*) Net of doubtful debts.

3.12 Taxation

See Note 7 to the 2019 Financial Statements.

3.13 Environmental risks and means for their management

3.13.1 Statutory provisions relating to the environment applicable to Pelephone's operations

The broadcasting sites used by Pelephone are radiation sources, as defined in the Non-Ionizing Radiation Law. The erection and operation of these sites, excluding those listed in the addendum to the law, requires a radiation permit.

The law prescribes a two-step licensing mechanism for obtaining a radiation source operating permit under which the applicant first applies for a permit to construct a radiation source ("the Construction Permit"), which will be in effect for no more than three months and may be extended by the Commissioner for up to nine months, then for a permit to operate the radiation source ("the Operating Permit"), which will be in effect for five years or as otherwise determined by the Minister for Environmental Protection.

With regard to the Erection Permit, by law provides that the permit is contingent upon assessment of the maximum radiation levels to which human beings and the environment are expected to be exposed from the radiation source when in operation, including in the event of a malfunction, and the required measures for limiting the levels of exposure of human beings and the environment to the expected radiation from the radiation source when operating, including implementation of technological means that are in use ("the Limiting Measures").

With regard to the Operating Permit, the law provides that the permit is contingent upon application of the Limiting Measures and to measuring the levels of exposure of human beings and the environment to the radiation generated while the radiation source is operating. The law further provides that the Operating Permit is contingent upon presentation of a licenses under the Communications Law and in certain cases, also of a construction permit pursuant to the Building and Planning Law.

The law includes a punitive chapter under which, inter alia, the construction or operation of a source of radiation in contravention of the provisions of the permit and the construction or operation of a source of radiation without a permit, after having been warned in writing by the Commissioner, are strict liability offenses.

It should be noted that regulation of the maximum permissible human exposure levels to radiation from a source of radiation and the safety ranges from communication broadcasting installations, including a limit on the placing of radiation masts on roof terraces, is still making its way through the Knesset's interior Committee for Environmental Quality, as part of a proposed amendment to the regulations under the Non-Ionizing Radiation Law, which was accompanied by disagreements between the government ministries.

In January 2009, the Radiation Supervisor at the Ministry of Environmental Protection published guidelines regarding safety ranges and maximum permitted exposure levels with respect to radio frequency radiation, including from cellular antennae. Discussions are underway regarding these ranges following the World Health Organization's International Agency for Research on Cancer (IARC) announcement to the effect that radio frequency electromagnetic fields associated with the use of mobile phones may be carcinogenic to humans (Group 2B)[46].

It is also noted that the Ministry of Environmental Protection operates continuously to supervise and monitor the broadcasting sites to check that they comply with the provisions of the Law.

[46] In this matter, it should be noted that from time to time, various documents are published on the websites of the Ministry of Environmental Protection at www.sviva.gov.il and of the World Health Organization at www.who.int.

Cellular services are provided through a cellular phone which emits non-ionizing radiation (also known as electromagnetic radiation). Consumer Protection Regulations (Information regarding Non-Ionizing Radiation from a Cellular Telephone) 2002, specify the maximum permitted radiation level for a cellular phone which is measured in units of Specific Absorption Rate (SAR) and requires that Pelephone informs its customers accordingly. To the best of Pelephone knowledge, all the cellular phones that it markets comply with the relevant SAR standards. Also see Section 3.19.2.5.5.

3.13.2 Pelephone's environmental risk management policy

Pelephone conducts periodic radiation tests to ascertain its compliance with permitted operating and international standards. These tests are outsourced and carried out by companies authorized by the Ministry of Environmental Protection. Pelephone applies an internal enforcement procedure for monitoring implementation of the provisions of the Non-Ionizing Radiation Law, under the supervision of a senior manager. The purpose of the procedure is to assimilate the provisions of the law and limit the possibility of violation.

3.13.3 Transparency for consumers

Pelephone is subject to relevant laws prescribing obligations to publicize and inform customers about the radiation sources that it operates and from the mobile handsets that it supplies. Pelephone publishes information on its website regarding the SAR levels emitted from cellular phones and Ministry of Health regulations regarding preventive caution to be taken when using cellular phones.

3.14 Restrictions on and control of Pelephone's operations

3.14.1 Statutory limitations

3.14.1.1 Communications Law

The cellular services provided by Pelephone are subject to the provisions of the Communications Law and its regulations. For details of the cellular permit granted to Pelephone under the Communications Law, see Section 3.14.2.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions for violations of the provisions of the law and of orders and directives issued thereunder, and for violation of the terms of the license.

3.14.1.2 Wireless Telegraph Ordinance

The Telegraph Ordinance regulates the use of the electromagnetic spectrum, and applies, inter alia, to the Company's use of radio frequencies, as part of its infrastructure. Setting up and operating a system using radio frequencies is subject, under the Telegraph Ordinance, to receiving a license, and the use of radio frequencies is subject to designation and allocation of a suitable frequency. The Telegraph Ordinance imposes license fees and fees for designation and allocation of frequencies.

For the allocation of radio frequencies to Pelephone, see Section 3.8.2.

3.14.1.3 The Non Ionizing Radiation Law

With regard to electromagnetic radiation facilities see Section 3.13.

3.14.1.4 Consumer Legislation and Privacy and Information Security Laws

Pelephone's operations are subject to the Consumer Protection Law, which regulates the obligations of an operator vis-à-vis consumers and the Protection of Privacy and Information Security Laws (see Section 1.7.4.5).

3.14.1.5 Changes in interconnect fees (call completion fees)

Interconnect rates are fixed by the regulator. For details, see Section 1.7.4.1.

3.14.2 Pelephone's mobile radio telephony (MRT) license

3.14.2.1 General

Pelephone's MRT license and its general license for providing cellular services in Judea and Samaria are valid through September 2022[47]

Breakdown of the primary provisions of Pelephone's mobile telephony license:

A. Under certain circumstances, the Minister may modify the terms of the license, restrict or suspend it, and in certain instances even revoke it.

B. The license is non-transferable and contains restrictions on the acquisition or transfer (including by way of a charge), directly or indirectly, of control or of 10% or more of any means of control in Pelephone, including a pledge on said means of control, unless the Minister has given prior consent.

C. Pelephone is obliged to provide interconnect services to all other operators at equal terms and it must refrain from any discrimination in carrying out such interconnect service.

D. Pelephone is required to refrain from granting infrastructure service priority to an affiliate licensee company (as defined in the license) over another licensee.

E. The license sets out the mobile telephony services that Pelephone is permitted to provide and it stipulates that it is not permitted to provide additional mobile telephony services that are not specified in the license.

F. Pelephone may not sell, lease or mortgage any of the assets used for the implementation of the license without the consent of the Minister of Communications, other than certain exceptions as set out in the license.

G. In times of emergency, whoever is statutorily competent shall have the authority to issue Pelephone with certain instructions on its mode of operation and/or manner of provision of services (see Section 3.19.2.9).

H. The license stipulates the types of payments Pelephone may bill its subscribers for with regard to cellular services, and the reports it is required to submit to the Ministry of Communications. The license also determines the Minister’s power to intervene in tariffs, in certain cases.

I. The license obligates Pelephone to a minimum standard of service.

J. To secure Pelephone's undertakings and to compensate and indemnify the State of Israel for any damage that may be caused by acts committed by Pelephone, Pelephone provided bank guarantees to the Ministry of Communications of NIS 84 million.

3.14.2.2 Functional continuity in emergency situations

For details, see Section 1.7.4.4B.

3.14.2.3 Ministry of Communications guidelines regarding amendments to the license

From time to time the Ministry revises various matters in the Company’s licenses, as part of the hearings it conducts.

3.14.3 Site construction licensing

Pelephone’s cellular service is provided, inter alia, through cellular sites deployed throughout Israel in accordance with engineering requirements. The constant need to upgrade and improve the quality of cellular services necessitates setting up cellular sites, configuration changes and changes in existing deployment of antennae.

Pelephone uses two main types of broadcasting sites and with two tracks: macro sites that require a building permit from planning and construction committees (see reference to NOP 36A) and wireless access devices (“Access Devices”), which are exempt from a building permit under the Communications Law and the Building and Planning Law ("the Exemption Provision”), and with regard to which regulations were published in 2018.

[47] The text of Pelephone's MRT license is published on the Ministry of Communications website at www.moc.gov.il. The Judea and Samaria license is subject (with certain changes) to the provisions of the mobile telephony license.

Pelephone's ability to maintain and preserve the quality of its cellular services as well as its coverage is based partly on its ability to construct cellular sites and install information equipment, including broadcasting sites. The difficulties encountered by Pelephone in obtaining the permits and approvals required may have an adverse effect on the existing infrastructure, network performance and on the construction of the additional cellular sites required by the network. There are also deployment difficulties in Judea and Samaria, where a special system of laws applies.

Inability to resolve these issues in a timely manner is liable to prevent the achievement of the service quality targets laid down in the mobile telephony license.

Pelephone, as have the other cellular operators in Israel, established part of the cellular sits around the country on properties administered by the Israel Lands Administration. This, among other things, under an umbrella agreement from 2013. It is noted that the umbrella agreement expired on December 31, 2019 and Pelephone, and the other cellular operators, and the ILA are currently negotiation with regard to the possibility of extending the agreement for a further term to be decided among the parties.

Building permits for erecting a cellular broadcasting facility under NOP 36A:

Licensing for the construction of cellular broadcasting sites that require building permits is governed under NOP 36A, which came into force in 2002.

The licensing procedure under NOP 36A requires, among other things, that the following permits be obtained: a) An erection and operating permit from the Ministry of Environmental Protection, as set out in Section 3.13.1; b) approval of the Civilian Aviation Administration in certain cases; c) IDF approval.

In addition, by law, as a condition for obtaining a permit for erecting a cellular communications broadcasting facility a deed of indemnity must be submitted to the local committee for impairment compensation claims. As at Reporting Date, Pelephone has deposited 650 such indemnity notes with various local councils.

Notwithstanding the current format of NOP 36A, Pelephone (and to the best of its knowledge, also its competitors) encounter difficulties in obtaining some of the required permits, and in particular permits from planning and construction authorities.

In view of the criticism against NOP 36A by various entities, a proposed amendment of NOP 36A was published about ten years ago ("Proposed New NOP 36/A"), which is more stringent and onerous that the current version, and could make the options for obtaining construction permits for cellular sites using this track more difficult. The amendment to NOP 36A has not progressed in recent years, however the need and desire to amend NOP 36A remains.

It should also be noted that in two administrative petitions filed against cellular companies, including Pelephone, with the Haifa District Court, the legality of building permits granted under NOP 36A for cellular broadcasting installations are being questioned. The petitioners' main arguments, in both petitions, were that the frequencies used by the cellular companies do not match the frequencies stipulated in NOP 36A. On April 12, 2018, a judgment was handed in one of the petitions accepting the arguments of the cellular companies and of the appeals committee, and which determined, inter alia, that notwithstanding the use of frequencies that were changed during the development of the cellular infrastructure, the building permits are valid. On October 17, 2018, a judgment was handed in the other petition relating to the same matter, under which a contradictory ruling was made regarding the interpretation of the NOP and the alleged invalidity of the building permits granted (however, no demolition orders were issued). Appeals were filed with the Supreme Court against both judgments, and a hearing in the appeals has been scheduled for March 25, 2020.

As part of the "pergola reform" - Amendment 101 to the Planning and Building Law, 1965, on August 1, 2014, the Planning and Building (Works and Buildings that are Exempt from a Permit) Regulations, 2014, entered into force. Regulation 34 provides, among other things, that the addition of an antenna to an existing, lawful broadcasting facility is exempt from a permit, subject to compliance with a combination of conditions and exclusions, including consistency with the plans and the applicable spatial instructions, to be determined by the local planning committees. It should be noted that this exemption regulation is not practical due to one of the conditions therein, and has not been used.

Access devices exempt from building permits

The second track under which Pelephone sets up broadcasting sites is the access installation track. The access installations are subject to obtaining specific radiation permits, but are exempt from obtaining a construction permit provided that they are erected under the conditions that are set out in the exemption provision (Section 266C to the Law) and the regulations.

Some local authorities have disputed the applicability of the exemption provision on cellular network access installations and their use. Pelephone's position on the applicability of the exemption was accepted in a number of rulings and decisions by local affairs courts and the use of such facilities and the supporting equipment was approved. Appeals have been filed against some of these rulings and decisions, with the Supreme Court.

On October 24, 2018, the Planning and Building Regulations (Installation of Wireless Access Facility for Cellular Communications) 2018, were published. The Regulations restrict and provide additional contingent conditions on the establishment of a wireless access facility that is exempt from building permit. The regulations allow, among other things, under a shortened licensing process, for the relocation of up to two existing facilities to the roof of another building, and the erection of up to ten new facilities by the same license holder in one calendar year. The regulations further stipulate that a facility may not be relocated to the roof of a building that has seven or more broadcasting installations, and that no new installation may be erected on a roof with several broadcasting facilities, unless the roof area exceeds 500 square meters.

On December 23, 2018, the High Court of Justice handed a ruling in the petitions and appeals regarding the exemption for a wireless access facility. The judgment states, among other things, that in view of the significant changes that have been made in the regulatory foundation and factual basis since the petitions were filed, it appears that the petitions are no longer applicable and are to be dismissed, while the Petitioners' fundamental arguments are reserved. The Access Installation Regulations as published, severely restrict the option of using the building permit exemption track for erecting cellular access installations.

As of Reporting Date, Pelephone operates 446 wireless access installations.

It should be noted that in specific enforcement proceedings, that are adopted from time to time, additional arguments arise as to the manner in which the exemption may be used, including compliance with the regulating standards. If Pelephone facilities fail to comply with the conditions set out in the Regulations, there will be exposure, with regard to those facilities, for the need to dismantle or adjust the installations.

On March 27, 2018, an exemption provision was added to the building and planning (Exemption of Permit) regulations for a micro broadcasting facility, as defined in the regulations. The regulations further stipulate, inter alia, that the installation of a mirco broadcasting facility and its external components on an existing building or facility is exempt from a building permit, subject to compliance with cumulative conditions.

Conclusion:

A few sites constructed years ago still lack approvals from the Civil Aviation Administration and the IDF, even though applications for such approvals were submitted a long time ago. Furthermore, there are administrative or other delays in some of the building and planning committees for issuing building permits for sites. Consequently, Pelephone operates several broadcasting sites that have not yet been granted the requisite building permits.

Construction of a broadcasting site without a building permit constitutes a breach of the law and in some cases it has led to the issuing of demolition orders of sites or the filing of indictments or instigation of civil proceedings against Pelephone and some of its officers.

At the reporting date Pelephone has succeeded in most of the above cases in refraining from demolition or delaying implementation of the demolition orders as part of arrangements made with the planning and building authorities in order to attempt to regulate the missing licensing. These understandings did not require admission of guilt and/or conviction of Pelephone's officers. Notwithstanding, there is no certainty that this situation will continue in future, or that there will be no further cases where demolition orders will be issued and indictments will be filed because of building permits, including against officers.

Like other cellular operators in Israel, Pelephone might be required to dismantle broadcasting sites before the requisite approvals and permits have been obtained, on the dates stipulated in the law. Pelephone uses access installations to provide coverage and capacity for highly populated areas. If legal grounds are established requiring the simultaneous demolition of sites in a given geographic area, service in that area may deteriorate until alternative broadcasting sites can be established.

3.14.4 Economic Competition Law

The terms of the merger between Pelephone and the Company include various restrictions regarding cooperation between the companies (see Section 2.16.8).

3.15 Material Agreements

3.15.1 For information regarding the agreements with Ericsson, see Section 3.10.2.

3.15.2 In July 2016 an agreement was signed between Pelephone and the Ministry of Finance Accountant General (the "Accountant General"), under which Pelephone will provide mobile telephony services to State employees for an estimated 100,000 subscribers for three years. Under the agreement, Pelephone provides devices to some of the Accountant General subscribers, in accordance with the provisions of the agreement.

In May 2019 the State decided to exercise its option to extend the agreement and it was extended until August 2022.

3.15.3 For information concerning the agreement with the Israel Lands Administration (that has expired and not yet renewed) see Section 3.7.2.2.

3.15.4 With regard to the collective agreement between Pelephone and the New Histadrut and the Pelephone workers committee, see Section 3.9.4.

3.16 Legal proceedings[48]

Legal claims have been filed against Pelephone as part of the normal course of its business, including motions for certification as class action suits.

3.16.1 Pending legal proceedings

Breakdown of proceedings for claims in material amounts and claims which could have material implications for the operations of Pelephone:

	Date	Parties	Court	Type of Action	Details	Amount of claim NIS million
A.	Aug 2010	Customer v. Pelephone	District Court (Central)	A financial claim filed with a motion to certify it as a class action.	The claimant claims that Pelephone should refrain from collecting Value Added Tax from customers who use its services when they are outside Israel. The motion also contains relief for an order instructing Pelephone to cease charging its customers VAT for such services which they use outside Israel, and an order instructing that the moneys collected to date be refunded. In August 2014 the Court dismissed the application for recognition. In October 2014 an appeal of the ruling was filed. On July 3, 2017 the Supreme Court handed a judgment according to which the applicants' appeal of the dismissal was accepted and the claim was returned to the District Court for a ruling on the question of whether VAT was unlawfully collected for mobile telephony services abroad. Pursuant to the Supreme Court judgment, if the District Court rules in favor of the question and Pelephone will be required to refund its customers the VAT that was erroneously collected it will be able to file an indemnification claim against the Tax Authority for the amounts that it will be required to refund. The judgment further rules with regard to the overseas services packages for which payment is made in advance, the VAT rate is 0. Based on Pelephone's preliminary estimates, the meaning of the Supreme Court judgment is that the outcome of this proceeding has no further material consequences for Pelephone. The petitioners and the State are conducting negotiations, and therefore the Court is holding its decision regarding the petition.	The amount of the claim is not stated, but the application is estimated in the tens of millions of shekels.

[48] For information concerning reporting policies and materiality, see Section 2.18.

	Date	Parties	Court	Type of Action	Details	Amount of claim NIS million
B.	May 2012	Customer v. Pelephone	District (Tel Aviv)	Financial class action suit	The claimant alleges that Pelephone does not inform customers wishing to join its services using a handset that was not purchased from Pelephone, that if the handset does not support the 850 MHz frequency, they will only get partial reception over one frequency rather than two. In March 2014, the court certified the claim as a class action, and this subsequent to Pelephone announcing its agreement (for reasons of efficiency) to conduct the claim as a class action, while retaining its arguments. The proceeding was divided into two stages (first stage is clarification the responsibility and quantification of damages, if necessary, will be the second stage). On January 20, 2019, a ruling was handed in the case that Pelephone is responsible as alleged in the claim, on grounds of misleading conduct under the Consumer Protection Law and on grounds of bad faith in conducting negotiations, and this, with regard to the period up to the date of the certification of the claim as a class action (March 2014). In accordance with the ruling and a previous decision in the case, the next stage in the hearing of the case will be the question of the alleged damage.	124
C.	November 2012	Customer v. Pelephone	District (Jerusalem)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that Pelephone allowed unlawful charging of subscribers for mobile content services that were not ordered, by the content service company, E-interactive. To date the parties are in mediation.	107
D.	November 2013	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that Pelephone does not grant the same perks to all its customers, thereby distinguishing between those customers that they allege Pelephone considers to be highly valuable and others, which they claim is in breach of Pelephone's license and the law. In December 2019 a ruling was handed to dismiss the claim without expenses and subsequently, an appeal was filed with the Supreme Court.	300
E.	February 2014	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that Pelephone acted in a manner that amounted to harassment of a large consumer public by making repeated telephone calls aimed at recruiting customers. The grounds for the claim are breach of statutory duty, negligence, violation of privacy and lack of good faith in negotiations. In May 2019 a judgment was handed, dismissing the claim. In July 2019, an appeal was filed with the Supreme Court against the judgment by the applicants of the motion for certification as a class action.	The amount of the claim is not specified.
F.	July 2014	Customer v. Pelephone and three other cellular companies.	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that Pelephone, together with three other mobile telephony companies, registered subscribers for content services without obtaining their consent and in contravention of the law, and thereby creating a platform for iQtech Group to unlawfully charge tens of thousands of people for content services.	Approximately 100 with regard to the mobile telephony companies and 300 against all the defendants.

	Date	Parties	Court	Type of Action	Details	Amount of claim NIS million
G.	May 2015	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that Pelephone does not offer Walla Mobile tracks to all its existing customers and those who join are subscribers who want to transfer to a different track, and that this in in violation of the provisions of the license that obligates equality, and thereby it misleads its customers. The proceedings in the case were consolidated with another case due to the similarity between the proceedings. In December 2019 a ruling was handed to dismiss the claim without expenses and subsequently, an appeal was filed with the Supreme Court.	The amount of the claim is not stated, but the application is estimated to be in millions of shekels.
H.	October 2016	Customer v. Pelephone, Partner and Cellcom	District (Lod)	A financial claim filed with a motion to certify as a class action.	The claimants allege that the defendants do not allow their subscribers to make full use of their overseas package and this through discriminatory terms under which the package can be used for a very short period (between one week to one month only) and that at the end of that period, the unused balance of the package expires and no reimbursement is given. The parties are waiting for the Court's ruling.	The amount of the claim is not stated, but is estimated in the tens of millions of shekels.
I.	December 2016	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify as a class action.	The claimant alleges that, due to a fire that broke out in one of Pelephone's switching systems, damages were caused to the public for reasons of breach of statutory duty, misleading conduct under the Consumer Protection Law, negligence and unjust enrichment and breach of the duty of good faith.	70
J.	April 2017	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify as a class action.	The claimant alleges that the Defendant changed, unilaterally and without consent, the terms of the agreement between it and the claimant, and others like her, by allowing continued internet use once the included internet usage limit was reached, instead of blocking it, despite Pelephone's announcement on this matter.	80
K.	October 2017	Customer v. Pelephone and Partner	Central District	A financial claim filed with a motion to certify as a class action.	The claimant alleges that the defendants unlawfully use their customers information and thereby violate the communications agreements with them, their operating licenses and various laws, including the Protection of Privacy Law, 1981.	850
L.	March 2018	Customer vs Pelephone, Golan Telecom, Cellcom and Hamilton	Central District	A financial claim filed with a motion to certify as a class action.	The claimants allege that the defendants marketed and/or provided mobile radio service to mobile devices manufactured by Xiaomi, from which it was not possible to call emergency numbers in Israel.	65 (the amount refers to all the respondents and not only Pelephone, without allocation among them)
M.	November 2018	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify as a class action.	The claimants allege that, due to disruptions that occurred in Pelephone's network, the defendant is required to compensate its customers for breach of contract with the customers, as well as a breach of the provisions of its license and various laws, including the Communications Law.	200

	Date	Parties	Court	Type of Action	Details	Amount of claim NIS million
N.	April 2019	Customer v. Pelephone, Bezeq International and 6 other companies	Central District	A financial claim filed with a motion to certify as a class action.	The applicants allege that the respondents fail to inform their customers as required concerning the possible risks involved in the use of the internet and the option of joining content filtering services free of charge, and this contrary to the provisions of the Communications Law. Furthermore, the respondents provide abusive website and content filtering services which, they argue, are not sufficiently effective. The applicants claim that the foregoing constitutes, among other things, a violation of the provisions of the Consumer Protection Law, violation of their duties under the Torts Ordinance, a breach of contract and unjust enrichment.	The amount of the claim is not stated, but is estimated in the tens of millions of shekels.
O.	November 2019	Customer v. Pelephone, Cellcom and Partner	District (Tel Aviv)	A financial claim filed with a motion to certify as a class action.	The applicants claim that Pelephone collected from its customers in the past fees for third parties for content services using the payment means that were provided to Pelephone for paying their cellular bill, and this contrary to the provisions of Pelephone's license and the provisions in law.	400 (against each of the defendants)
P.	January 2020	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify as a class action.	The applicants claim that Pelephone forced every customer that purchased an overseas communications package that includes calls and/or internet browsing from it, via its website or mobile phone App, to consent to receiving advertising notices from it.	The amount of the claim is not specified.

3.16.2 Legal proceedings that ended during the Reporting Period

	Date of filing of the action	Parties	Court	Type of Action	Details	Amount of the original claim NIS million
A.	December 2018	Customer v. Pelephone	Central District	A financial claim filed with a motion to certify as a class action.	The applicant alleges that Pelephone uses information it has on the location of its subscribers for its business needs, and sends them text messages regarding the sale of relevant services for their location, thereby violating the Protection of Privacy Law. In July 2019, a judgment was handed approving the applicant's withdrawal. The motion for certification was struck and the personal claim was dismissed without ordering expenses.	The amount of the claim is not stated, but the claim is estimated at millions of shekels.

3.17 Business strategy and goals

Pelephone's strategic goals are to continue the growth of its customer base while promoting a variety of communication packages and solutions for customers, and advancing synergies with the Group's companies, further development of network innovations and technologies, and providing excellent service. Further streamlining and improvement of the cost structure.

3.18 Anticipated developments in the coming year

In 2020, a number of factors are expected to affect Pelephone’s activities, the main ones being:

3.18.1 Continuing competition and increasing value to the customer.

Pelephone expects that in 2020, the subscriber churn between the companies will continue, and that the competition will focus on increasing value and browsing volume in the packages offered to the customer.

3.18.2 Cellular network and product innovations

In 2020 Pelephone expects to continue promoting a few services and products that will allow it to increase its revenues and image advantage against the competitors, such as: Cyber, IOT, Big Data, and PTT services and to continue focusing on large-scale launches of devices.

3.18.3 Increase in Pelephone subscribers' consumption of services

Pelephone expects that as a result of the increase in browsing volume offered in its packages, the upward trend of online data communications consumption will continue.

3.18.4 Digital transformation

In 2020 Pelephone is expected to continue to develop and expand its online service and sales channels.

3.18.5 Frequencies Tender

A tender will be held in 2020 to allocate additional frequency ranges to the cellular operators (see Section 3.8.2.4) and Pelephone is expected to deploy network equipment that support the allocated frequencies, if it wins an allocation under the tender.

3.18.6 Synergies with the Group’s subsidiaries

In 2019, Pelephone began to implement synergetic processes with the Group's subsidiaries. For details, see Section 1.8. These processes are expected to continue in 2020.

Pelephone's above assessments of developments during the year to come are forward-looking information as defined in the Securities Law. These assessments are based, inter alia, on the state of competition in the cellular sector, the existing regulatory situation and the manner in which innovative changes are implemented in regulation. These assessments may not materialize or may materialize in a manner materially different from that described, depending, inter alia, on the structure of competition in the market, changes in consumption habits of cellular customers, technological and regulatory developments in the sector.

3.19 Discussion of Risk Factors

Risk factors deriving from the macro-economic environment, the unique qualities of the sector in which Pelephone operates, and risk factors specific to Pelephone.

3.19.1 Macroeconomic risks

3.19.1.1 Exposure to changes in exchange rates – Pelephone is exposed to exchange rate risks as most of its terminal equipment, accessories, spare parts and infrastructure equipment are purchased in USD, whereas Pelephone's revenues are in NIS. Erosion of the NIS against the USD may affect Pelephone's profitability if it is unable to adjust selling prices at short notice.

3.19.1.2 Pandemic - at the beginning of 2020 a global outbreak of the Coronavirus occurred. Subsequently, Pelephone is monitoring the developments concerning this outbreak and pandemics in general, and is reviewing the potential effects on its business operations, some of which have already been expressed in practice in Pelephone. These effects could be reflected, and some are already reflected, among other things, in impairment of the supply chain and the customer service network, revenues from the sale of terminal equipment and revenues from roaming services. Based on Pelephone's preliminary assessment, as at Reporting Date, there has been no significant decline in Pelephone's revenues that can be attributed to the consequences of this outbreak. Nonetheless, this is a world-changing event that is not in the control of Pelephone, and therefore the pandemic spreading of the virus, and/or decisions by states and authorities in Israel and around the world, may affect Pelephone accordingly. Among others, if the terminal equipment supply chain is disrupted for a prolonged period, and if the decrease in the scope of travel continues and will also affect the scope of overseas travel during the summer, the material decline in mobile revenues and profit in 2020 is estimated to amount to tens of millions of shekel.

3.19.2 Sector-specific risks

3.19.2.1 Investments in infrastructure and technological developments – the cellular market in Israel and worldwide is characterized by substantial capital investments in the deployment of infrastructure. The frequent technological changes in infrastructure and terminal equipment and the fierce competition in various market segments impose a heavy financial burden on the companies operating in the market, requiring them to update their infrastructure technology from time to time.

3.19.2.2 Competition - the cellular market in Israel is highly saturated and fiercely competitive with a large number of operators, and is exposed to risks resulting from technological and regulatory developments. The costs of establishing, maintaining and operating a mobile telephony network pro rata to the number of subscribers is expected to be higher for Pelephone due to the fact that it does not operate under a network sharing model. The terminal equipment market is also fiercely competitive among the cellular operators and competing against the stores that sell terminal equipment imported by parallel import.

3.19.2.3 Customer credit – Pelephone's sales of terminal equipment are mostly credit-based. Most of this credit, which is not covered by either insurance or sureties, is exposed to risk. It is noted that the credit is spread among a large number of customers and Pelephone's collection mechanisms are efficient and competent.

3.19.2.4 Regulatory developments – the industry in which Pelephone operates is subject to legislation and standardization relating to issues such as increasing competition, setting tariffs, environmental protection, product liability and means for repair, etc. Regulatory intervention in the industry may materially impact Pelephone's structure of competition and operating costs.

3.19.2.5 Electromagnetic radiation – Pelephone operates hundreds of broadcasting facilities and sells electromagnetic radiation emitting terminal equipment (see Section 3.13). Pelephone is taking measures to ensure that the levels of radiation emitted by these broadcasting facilities and terminal equipment do not exceed the radiation levels permitted in the Ministry of Environmental Protection guidelines (the levels adopted are based on international standards). Even though Pelephone acts in accordance with the Ministry of Environmental Protection guidelines, if health risks are found to exist or if the broadcasting sites or terminal equipment are found to emit radiation levels exceeding the permitted radiation standards, thereby constituting a health hazard, this may have an adverse effect due to reduced consumption of Pelephone's services, difficulty in renting sites, compensation claims for physical and property damages in substantial amounts and attempts to exercise the deeds of indemnity deposited with the planning authorities with respect to Section 197 of the Building and Planning Law. Pelephone's third-party liability policies do not currently cover electromagnetic radiation.

3.19.2.6 Site licensing – establishing and operating cellular antennae require building permits from various planning and building committees, a process that involves, inter alia, obtaining several approvals from State entities and regulatory bodies.

For further details of the difficulties Pelephone encounters when erecting and licensing sites, see Section 3.14.3. These difficulties may adversely affect the quality of the existing network and especially the deployment of a new network.

3.19.2.7 Serious malfunction of information and engineering systems - Pelephone provides its services through various infrastructure systems, including switches, data communications and access transmission networks, cables, computer systems, physical infrastructures and others (the “Systems"). Pelephone's business is highly dependent on these Systems. Pelephone has backup systems for some of these Systems, however in the event of damage to some or all of the Systems, whether due to a large-scale technical malfunction, natural disaster (such as an earthquake, fire, etc.), or damage to physical infrastructures (such as the introduction of viruses and cyber attacks as set out below), significant difficulties may arise in providing of services, including in the event that Pelephone is not able to restore the Systems quickly.

3.19.2.8 Information security, customer data protection and cyber risks - as a leading cellular company that provides service to hundreds of thousands of customers, Pelephone is a target for cyber attacks aimed at harming the use of information systems or the information itself. Such attacks or hacking may cause interruption of business, theft of information/money, damage to reputation, damage to systems and information leakage.

Pelephone has experienced cyber attacks that it handled. Pelephone operates information security systems to protect against unauthorized hacker access to the network and/or critical systems. Pelephone supervises the implementation of its protection policy, which includes testing the quality of its effectiveness and readiness. As part of this Pelephone conducts various tests scenarios and attack exercises (including through external companies specializing in this area).

Notwithstanding Pelephone's investments in means for reducing such risks, it can not guarantee that these measures will succeed in preventing damage and/or disruption of the Systems and the information linked to them.

3.19.2.9 State of emergency - during an emergency, legislative provisions and certain provisions of the cellular license empower competent authorities to take necessary measures for ensuring the security of the State and/or public safety, including: obligating Pelephone (as a mobile telephony license holder) to provide services to the defense forces, the appropriation of engineering equipment and facilities belonging to Pelephone, and even to take control of the system.

3.19.2.10 Shortage of frequencies - for information concerning the shortage of frequencies, see Section 3.8.2.1.1 In many cases, allocation of frequencies is carried out in tenders, in a way that could increase the costs of acquiring frequencies and place cellular operators that are not given allocations under the tender at the risk of competitive disadvantage.

3.19.3 Pelephone’s risk factors:

3.19.3.1 Property risks and liabilities – Pelephone is exposed to various property risks and liabilities. Pelephone employs the services of an external professional insurance consultant specializing in this field. Pelephone has insurance policies that cover the regular risks to which it is exposed with restriction on the terms of the policies, such as various property insurances, various liability insurances, loss of profit cover, third-party cover and officers liability insurance. Nonetheless, Pelephone's insurance policies do not cover certain types of risk, including certain faults arising from negligence or human error, radiation risks, terror, etc.

3.19.3.2 Serious malfunctioning of the cellular network – Pelephone’s cellular network is deployed throughout the country via core network sites, antenna sites and other systems. Pelephone's business has absolute dependence on these systems, which are often, sometimes temporarily, in a state of partial survivability. Wide scale malicious damage or malfunction might adversely affect Pelephone’s business and results.

3.19.3.3 Damage by force majeure, war, catastrophe - any damage to the switching farm and/or servers used by Pelephone for its core activities could have an adverse effect on Pelephone's business and its results.

Device malfunction epidemics - various exposures arising from Pelephone's liability as an importer due to manufacturer malfunctions on devices not supported by manufacturers.

3.19.3.4 Legal proceedings – Pelephone is a party in legal proceedings, including class actions, which may result in it being liable for material amounts that cannot presently be estimated and no provision has been made in Pelephone's financial statements for these proceedings. Class action suits may reach high amounts, since a major part of the residents of Israel are Pelephone consumers, and a claim relating to a small amount of damage to a single consumer could grow into a material claim against Pelephone if certified as a class action applicable to all or a large proportion of those consumers.

3.19.3.5 Material suppliers and customers - for information regarding agreements with material suppliers and customers, see Sections 3.10 and 3.15 above. Some of Pelephone's agreements, including with its key customers, are limited in time. There is no certainty that these agreements will be renewed at the end of their term or that options granted to customers for their extension will be exercised. Furthermore, Pelephone may be dependent on certain suppliers as specified in Section 3.10.2 above.

3.19.3.6 Labor relations - Pelephone has a collective agreement with the New General Federation of Workers and with the employees' committee that applies to most of its employees. The collective labor agreement may reduce managerial flexibility and incur additional costs for Pelephone (see Section 3.9.4). In addition, implementation of workforce programs may cause labor unrest and harm Pelephone's current operations.

3.19.3.7 Streamlining measures - as described in Section 1.8, Pelephone implements streamlining plans that include, among other things, sharing of management resources, moving to new offices, organizational changes and reducing the workforce, while managing significant infrastructure and other projects. The streamlining procedures, by their nature, involve the risk of loss of knowledge, employee turnover, shifting of management focus and so on.

3.19.3.8 Impairment of Pelephone's assets - in accordance with the accounting standards, Pelephone performs periodic impairment testing of assets with regard to which signs impairment have been identified. For further information concerning the risk factor relating to identification of impairment losses, see Section 2.20.12.

3.19.3.9 Frequency spectrums - 850 MHz, 1800 MHz and 2100 MHz The frequencies are exposed to interference and could impair the service quality of the networks operated by Pelephone. The factors that could cause interference include the fact that the 850 MHz frequency is also used for terrestrial television broadcasts by television stations in the Middle East on the same frequency, causing interference in Pelephone's 850 MHz UMTS/HSPA network. Furthermore, the Jordanian networks also use the same 2100 MHZ frequency range that Pelephone uses and in view of the limited cooperation between the operators in Jordan and Pelephone, this could have an effect.

For further information regarding the implications of switching frequencies in the first giga spectrum, see Section 3.8.2.3.3

3.19.3.10 Existence of sufficient cash flow - Pelephone is required to maintain cash flows that are sufficient for complying with its business plan for the long term. The lack of sufficient cash flows may adversely affect Pelephone's business and its ability to invest in a widespread network, and could impair its ability to deal with the competitive threats in the market.

The chart below grades the impact of the foregoing risk factors on Pelephone's operations, as assessed by Pelephone's management. It should be noted that Pelephone's assessments of the extent of the impact of a risk factor reflect the scope of the effect of such risk factor, on the assumption that it the risk factor will be realized and the foregoing does not express an assessment or give weight to the chances of its realization as aforesaid. The order in which the risk factors appear above and below is not necessarily based on the extent of the risk.

Summary of risk factors - cellular telephony

	Effect of risk factor on Pelephone's activities as a whole Risk factors		
	Major	**Moderate**	**Minor**
Macro risks			
Exposure to changes in the currency exchange rate.		X	
Pandemic	X		
Sector-specific Risks			
Investments in infrastructures and technological changes	X		
Competition	X		
Customer credit		X	
Regulatory developments	X		
Electromagnetic radiation			X
Site licensing		X	
Severe malfunctions in information and engineering systems	X		
Information security, customer data protection and cyber risks	X		
State of emergency	X		
Frequency shortage		X	
Pelephone's risk factors:			
Severe malfunctions in the communications network			X
Serious malfunctioning of the cellular network	X		
Damage from natural elements, war, disaster	X		
Device malfunction epidemics			X
Legal proceedings		X	
Material suppliers and customers		X	
Labor relations		X	
Streamlining measures		X	
Impairment of Pelephone's assets			X
Frequency spectrums	X		
Existence of sufficient cash flow			X

The information contained in Section 3.19 and Pelephone's assessments of the effect of the risk factors on its operations and businesses is forward-looking information as defined in the Securities Law. The information and assessments rely on data published by the Ministry of Communications, Pelephone's assessments of the market situation and its competitive structure. Actual results may differ significantly from these assessments if a change occurs in any of the factors taken into account in the assessments.

4. Bezeq International – Internet, international telecommunications, and NEP services

4.1 General

4.1.1 Operating segment structure and changes

Bezeq International operates in a number of key areas: providing ISP services; international telecommunications services; domestic telephony services; NEP services; as well as providing ICT (infrastructure and communication technologies) solutions and data transmission and PBX services.

Bezeq International's international telecommunications services, similar to those of its competitor international operators, are provided primarily via the domestic networks of the Company and of HOT and the cellular networks, for connecting the subscriber to the international exchange network.

4.1.2 Legislative and statutory restrictions applicable to Bezeq International

Bezeq International's segment of operations is primarily regulated by the Communications Law and its regulations, and the ITS licenses granted to Bezeq International (see Section 4.11).

For key regulatory developments applicable to Bezeq International, see Section 4.11.5.

4.1.3 Changes in the volume of activity and profit

For information regarding changes in the volume and profitability of Bezeq International's operations, see Sections 1.5.4.3 and 4.3.

4.1.4 Market developments and customer characteristics

The international telephony market in Israel has in recent years seen a decline in call volume, (incoming and outgoing), mainly due to the service bundles offered by the cellular companies that include international calls as well as the multiple free applications that enable calls via the web. In 2019, the trending erosion in the international call market continued.

In 2019 the internet access market recorded subscriber churn, primarily due to the entry of online television operators (OTT) that market "triple" packages containing internet provider and infrastructure services, in addition to television services. At the same time, as a result of the increase in traffic and bandwidth demand due to a change in the subscriber usage mix (primarily real time viewing and listening), Bezeq International is required to increase its operating capacity and international capacity for which it purchases usage rights (for further information concerning Bezeq International's other infrastructure providers see Section 4.9.2).

4.1.5 Main entry and exit barriers

4.1.5.1 The main entry barrier of the international call market is the need for an ITS license under the Communications Law and investment in infrastructure (the volume of investments in infrastructure is lower than the volume of investments in a domestic carrier or cellular infrastructure), which is affected by frequent technological changes. The change in the licensing policy, as set out below, and the expanding use of VoIP technology in this field, significantly reduces the effect of these barriers.

4.1.5.2 The main entry barrier into the data and internet services market stems from investments in infrastructure (international capacity, access to the internet network and broad service network).

4.1.5.3 The main exit barriers for these markets are long-term agreements with infrastructure suppliers and long term return on investments. Furthermore, Bezeq International is committed to providing service to its customers throughout their contract period.

4.1.6 Alternatives for Bezeq International products and the international telecommunications market competition structure and applicable changes

In the international telecommunications market, VoIP technology enables transmission of international calls over the internet for users of this technology, and for TDM network users, through software products (such as Skype) and services of overseas communication providers, and the attractive cost of these services (including the lack of user fees) has led to steady growth in the number of users, and as a result, to a decline Bezeq International's revenues. At the same time, there are currently eight international telecommunication operators on the market that have ITS licenses from the Ministry of Communications for providing Bezeq International services.

4.1.7 Structure of competition in the sector and applicable changes

In the internet access (ISP) sector, ISP licenses have so far been granted to 80 companies, among them are holders of special ISP provider license and holders of special blanket licenses, which are licensed to also provide international operator, domestic operator and mobile telephony services.

For further information regarding competition in the sector, see Section 4.6.

4.2 Products and services

Description of the main products and services provided by Bezeq International.

4.2.1 Internet services

In the internet services sector Bezeq International provides Internet service provider (ISP) services for private and business customers, including requisite terminal equipment and support over DSL based transmission, configuration and cable infrastructure. and access services to the Company's internet infrastructure (as part of the wholesale market); hosting services offering site and server storage services at a designated installation, including value added services (such as monitoring and control); information security services; internet and LAN network connection security using required terminal equipment or software, including monitoring; data services including international IP based data communication solutions for business customers with global deployment; and high speed Wi-Fi services, including public hotspots; Bezeq International also markets packages that include DBS's Sting TV, an internet based television services platform (together with internet access services). In 2019, Bezeq International expanded marketing of packages that include yes content services, in addition to Sting TV, together with ISP services and Bezeq International's home phone line, and DBS also began marketing Bezeq International's ISP services. The packages are subject to the detachability obligation (see Section 1.7.2.2).

Bezeq International provides these internet services primarily via its exclusive wholly-owned Jonah submarine cable between Israel and Italy, launched in December 2011. Bezeq International is the only provider among ISPs operating in Israel to own a submarine cable. Ownership of the sub-marine cable frees Bezeq International from dependence on infrastructure providers, and also allows it to offer its customers higher quality browsing.

4.2.2 Voice (telephony) services

In the voice services sector Bezeq International provides international direct dialing (IDD) services to business and private customers; toll-free dialing overseas for business customers; international call hubbing and routing services - transferring international calls between foreign telecommunication providers (worldwide); phone-card services enabling prepaid and postpaid dialing from Israel overseas and from abroad to Israel, and the 1809 service that allows dialing from Israel to other countries. Furthermore, Bezeq International provides domestic telephony services.

4.2.3 International data services

Providing international data communication solutions for business customers including customized global deployment.

The services are provided via Bezeq International's submarine cable and the optic cables deployed from Israel to Europe over which Bezeq International has long-term user rights, and through its business partnerships with leading global telecom providers such as British Telecom, which provide its customers access to their sophisticated global network services.

In addition to the foregoing services, Bezeq International offers ITS licensees to provide Bezeq International's services and ISP licensees the use of its international capacities (through leasing or by purchasing indefeasible rights of use), over Bezeq International's submarine cable, and the user rights it acquired in European terrestrial infrastructures and in other international networks.

4.2.4 ICT solutions for business customers

Bezeq International provides ICT (Information and Communication Technology) solutions for business customers. Customer ICT solutions include extensive communications solutions such as server and web hosting services ("Hosting Services"), technical maintenance and support services, system and networking services, security and risk management services, IP based services, cloud computing services, online backup services, and sales of equipment. Bezeq International has adopted a comprehensive solution model with a single contact person, so that the customer encounters one contact person who will be fully responsible for the comprehensive services (“one service provider, one responsibility”).

PBX services (exchanges)

Bezeq International markets and maintains communication systems for the entire the Israeli market, and PBX exchanges, telephony networks and IP communications, mainly for its business customers. As part of its service contracts, Bezeq International provides maintenance services for various PBX exchange manufacturers. These services are given for gateways, PBX exchanges and network end points (NEP) for lines used as both internal and external lines.

4.3 Revenues

Breakdown of Bezeq International’s revenues (in NIS millions):

	2019	2018	2017
Internet services	632	659	670
% of total revenues	47.23 %	47.35 %	43.56 %
Voice services and communications (PBX, ICT, Data) for business	707	732	867
% of total revenues	52.77 %	52.65 %	56.44 %
Total revenues	**1,339**	**1,391**	**1,537**

4.4 Customers

Bezeq International is not dependent on any single customer and it does not have one customer that provides 10% or more of its total revenues.

Breakdown of revenue from private and business customers (in NIS millions)[49]:

	2019	2018	2017
Revenue from private customers	441	468	488
Revenue from business customers	898	923	1,049
Total revenues	**1,339**	**1,391**	**1,537**

49 The figures are after reclassification of small office home office (SOHO) customers from private customers to business customers in 2019 (which was also applied to 2018 and 2017 figures).

4.5 Marketing, distribution and service

Bezeq International has sales channels for the private market, including customer recruitment and retention call centers, a country-wide direct sales network, a technical support and customer service network and a distribution channel system that includes external marketing and dealership centers. The business market sales channels include customer recruitment centers and business and administration service and solution centers for business customers. In addition, the Company also sells Bezeq International services as part of joint service bundles - "reverse bundle" (see Section 1.7.2.2).

4.6 Competition

4.6.1 ISP Services

4.6.1.1 The market is saturated with competitors, the main ones being Bezeq International, Cellcom, Partner and Hot Net.

Bezeq International estimates that its share of the ISP market at December 31, 2019 is 30%.[50]

4.6.1.2 Competition in 2019 was reflected in price erosion.

4.6.1.3 Developments in 2019:

A. Continuation of the service bundle sales trend, particularly in view of the wholesale sales model operations (provider + infrastructure) in 2019.

B. Increasing the competitors' foothold in the fiber optic infrastructure sector and their ability to provide high-speed internet services.

C. Increasing competition among ISPs of reverse bundle packages.

D. Increase in Triple bundle sales trend that include, IP and infrastructure services, in addition to television services, in an inseparable service package.

4.6.2 International telephony services

4.6.2.1 As of the end of 2019, there are more than ten players in the market (including Bezeq International, Cellcom, Partner, Golan Telecom and HOT Mobile).

Bezeq International estimates that its market share in the customers' outgoing calls segment as at December 31, 2019 is 27%.[51]

4.6.2.2 General characteristics of competition in 2019:

A. In 2019, the average number of call minutes via international telephony continued to decline, partly due to an increase in the use of various apps for making calls, and due to the service packages offered by cellular operators, which include international call minutes.

B. Competition focuses on defined population sectors that are more active in this segment.

C. The product is a commodity (brand has no significance).

4.6.3 Communication solutions for the business sector

4.6.3.1 In the ICT sector Bezeq International competes with competitors such as Binat, Teldor, IBM and others. In 2019 Bezeq International continued to establish its position in the ICT market and gained recognition and endorsement from leading global suppliers in the market.

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[50] Bezeq International's estimate of its ISP market share sector is based on an external telephonic survey conducted for the Company and is not based on the implicit data that the Company has at this time.

[51] Based on Ministry of Communications publication of figures for outgoing calls.

4.6.3.2 NEP services - the traditional telephone exchange sector includes a large number of competitors and fierce competition that has given rise to erosion of service prices.

4.6.4 Bezeq International promotes its business with emphasis on differentiating it from its competitors as the owner of its own international infrastructure (Jonah cable) for its customers' traffic providing high quality browsing performance, as well as its leading customer service.

4.6.5 The fact that, contrary to some of its competitors, Bezeq International is unable to offer its services as part of a non-detachable communications services bundle, adversely affects its operations.

4.7 Property, plant and equipment

Bezeq International's property plant and equipment include switching and internet equipment, submarine cable, PBX equipment and leased routers, office equipment, computers, software licenses, and leasehold improvements. Bezeq International has five server farms throughout the country.

Bezeq International has Veraz SoftSwitch switches. These switches are used to route Bezeq International’s voice traffic. The value-added services, including dialing cards, are based on an intelligent network (IN).

Bezeq International’s technological infrastructures, which support voice, data and internet systems, are deployed at six sites, inside and outside Israel, inter alia, to provide services with high survivability.

Bezeq International has long-term agreements for the lease of the two main buildings in which it is based. With regard to one of the buildings, the lease period is until March 2024, with several exit options for Bezeq International during this period. The term of the lease on the other building is until December 2021 (with three equal extension options until 2027). Bezeq International has other lease agreements for warehouses (including a main logistics center) and for buildings where it operates the call centers that it uses for its operations.

4.8 Human resources

Breakdown of the Bezeq International workforce in 2018 and 2019:

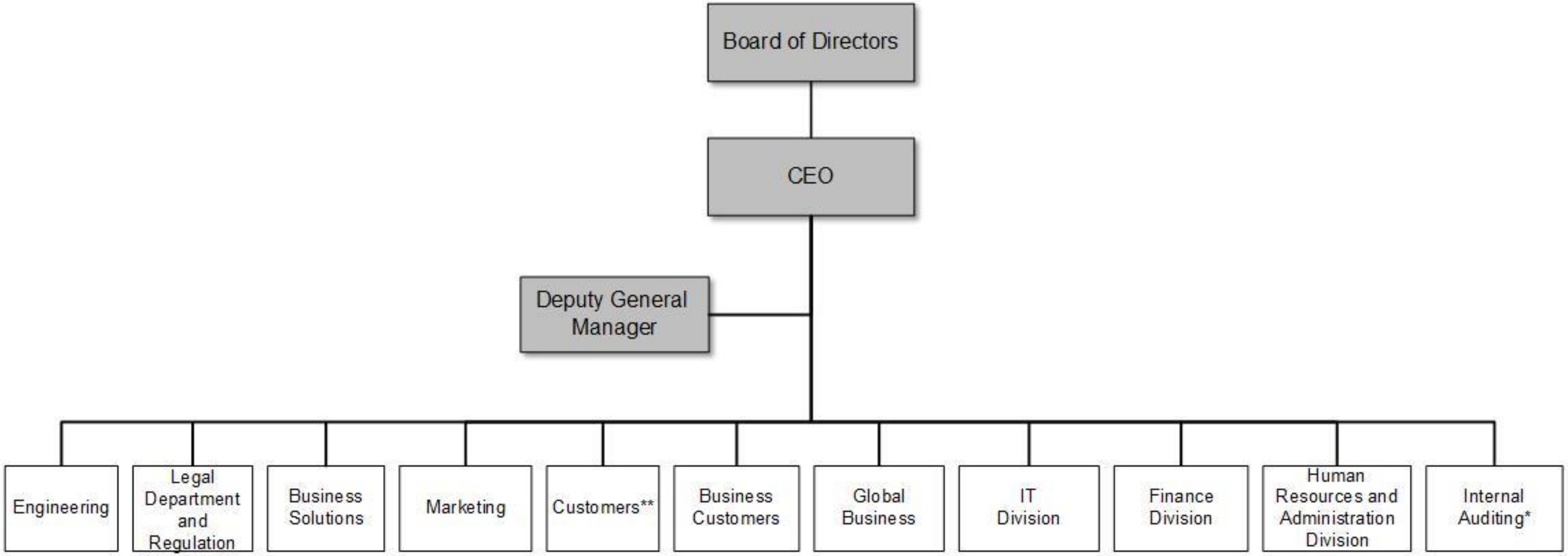
	December 31, 2019	December 31, 2018
Head office employees	863	971
Sales and service representatives	556	682
Total	**1,419**	**1,653**

The total number of employees in the foregoing table includes employees in part time positions. Bezeq International’s total workforce[52] as at December 31, 2019 was 1,329 compared to 1,458 as at December 31, 2018.

52 Total monthly work hours divided by the standard monthly work hours.

Organizational structure

The following chart presents the organizational structure of Bezeq International:



(*) The Internal Auditor is not an employee of Pelephone.

(*) The head of the Private Customer Division is the Deputy CEO.

As part of implementing the synergy with the Group's subsidiaries, Bezeq International's CEO, Ran Guron, also serves as CEO of DBS and Pelephone. Most of Pelephone's current VPs also serve as VPs at DBS and Bezeq International.

On July 11, 2019, Bezeq International signed a collective agreement with the New General Federation of Workers and the workers committee, which includes streamlining and synergetic measures, for a period as of July 11, 2019 through December 31, 2021. According to Bezeq International's program and pursuant to the agreement, Bezeq International may, among other things, reduce the employment of up to 325 employees (of which 150 are permanent employees, some as part of voluntary redundancy), in addition to not recruiting employees to replace those who have ended their employment. Similarly, the Agreement includes the grant of a one-time bonus to employees who will not be included in the severance program. The estimated cost of the foregoing agreement is NIS 68 million, assuming that Bezeq International exercises its full rights for such streamlining and complies with the conditions for granting additional financial benefits to the employees.

For further information concerning to the streamlining and inter-organizational changes at Bezeq International, Pelephone, and DBS, see Section 1.8.

On November 28, 2019, Bezeq International received notice from the Chairman of the New Histadrut and Bezeq International workers committee that included a demand to hold collective negotiations with the employees' representatives in view of the expected closing of the transaction for acquisition of control of the Company. Bezeq International is unable to estimate, at this stage, the consequences that might arise due to the foregoing notice.

4.9 Trade payables

4.9.1 Foreign operators

Bezeq International has collaboration agreements with some 200 foreign operators, under which Bezeq International transfers to and from these operators international calls (including outgoing calls from Israel, incoming calls to Israel and calls between various destinations outside of Israel) to some 240 destinations worldwide.

4.9.2 Capacity providers

Bezeq International is dependent upon the Company for domestic capacity to provide its services.

Most of the international capacity that Bezeq International uses is transmitted via its wholly owned submarine cable. As backup, Bezeq International uses capacity purchased from Med Nautilus and the Cyprus Telecommunications Authority (CYTA).

Under its agreement with Med Nautilus, Bezeq International purchased indefeasible rights of use to a particular non-specific part of the communication capacity transferred by the undersea cable system operated by Med Nautilus between Israel and Europe for a period of up to 15 years from the date on which it started using this capacity (with an option to extend the period of use). The periods of use are at least until 2022 – 2027, depending on the date of the start of use of the capacity. Bezeq International paid for these rights of use in a lump sum payment shortly before the date on which it started using the capacity.

Under its agreement with CYTA, Bezeq International purchased indefeasible rights of use to a particular non-specific part of the communication capacity transmitted via the sub-marine cable network operated by CYTA between Cyprus and Europe. The term of use is at least until May 2022, with an option to extend. In respect of these rights of use, Bezeq International pays a fee that is spread over 4 years.

4.10 Taxation

See Note 7 to the 2019 Financial Statements.

4.11 Restrictions and supervision of Bezeq International's operations

4.11.1 Legislative restrictions

Under the Communications Law, telecommunications operations and provision of telecommunications services, including international telecommunications services and internet access services, require licenses from the Minister of Communications. The Minister is authorized to amend the terms of the license, add to them or detract from them, while taking into consideration, inter alia, the government's telecommunications policy, interests of the public, compliance of the licensee to provision of services, contribution of the license to competition in the telecommunications industry, and the level of service therein

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions for violations of the provisions of the law and of orders and directives issued thereunder, and for violation of the terms of the license.

4.11.2 Licenses

Bezeq International holds a consolidated general license for providing telecommunications services (the "Consolidated License") that is valid through to May 2, 2025.

The main provisions of the Consolidated License are:

A. Under certain circumstances, the Minister may modify the terms of the license, add to or remove from them, and in certain instances even revoke it.

B. The license is non-transferable and contains restrictions on the acquisition or transfer (including by way of a charge), directly or indirectly, of control or of 10% or more of any means of control in Bezeq International, including a pledge on said means of control, unless the Minister has given prior consent.

C. Bezeq International is obliged to provide interconnect services to all other operators at equal terms and it must refrain from any discrimination in carrying out such interconnect service.

D. Bezeq International is required to refrain from granting infrastructure service priority to an affiliate licensee company (as defined in the license) over another licensee.

E. Bezeq International may not sell, lease or mortgage any of the assets used for the implementation of the license without the consent of the Minister of Communications, other than certain exceptions as set out in the license.

F. In times of emergency, whoever is statutorily competent shall have the authority to issue Bezeq International with certain instructions on its mode of operation and/or manner of provision of services.

G. The license stipulates the types of payments Bezeq International may bill its subscribers for with regard to telecommunications services, and the reports it is required to submit to the Ministry of Communications. The license also determines the Minister's power to intervene in tariffs, in certain cases.

H. The license obligates Bezeq International to a minimal level of service.

Pursuant to Ministry of Communications requirements, Bezeq International provided a bank guarantee of NIS 5 million in compliance with the terms of the Unified License.

4.11.3 On July 9, 2014, the Minister of Communications granted Bezeq International the powers pertaining to land that are listed in Chapter 6 of the Communications Law, including access to land for the purpose of laying and maintaining a network (see Section 2.16.5)..

4.11.4 Interconnect payments

With regard to interconnect fees paid to domestic carriers and mobile telephony operators, see Section 1.7.4.1.

4.11.5 Key regulatory developments

4.11.5.1 For possible changes in the communications market that could also affect Bezeq International as a consequence of policy to increase competitiveness, see Section 2.16.4.1.

4.11.5.2 For further information regarding the resolutions adopted with regard to the wholesale market that also affect the segment of operations, see Section 2.16.4.

4.11.5.3 In June 2019, Bezeq International queried the Ministry of Communications with regard to upgrading its engineering program to include optical fiber deployment, and on August 27, 2019, Bezeq International submitted its service portfolio on this topic to the Ministry of Communications. On October 24, 2019, the Director General of the Ministry of Communications informed Bezeq International that at this time, its application for approval of the service portfolio was rejected, in part because it was an exceptional application relating to Bezeq International entering a new operating segment that impacts the regulation of the entire Bezeq Group and questions regarding fiber deployment by the Bezeq Group, and that it requires in depth review of the significance and integration of the service with the Ministry of Communications regulatory concept.

4.12 Legal proceedings[53]

During its normal course of business, legal claims have been filed against Bezeq International, including motions to certify class actions.

4.12.1 Pending legal proceedings

	Date	Parties	Court	Type of Action	Details	Amount of claim NIS million
A.	January 2015	Customer v. Bezeq International	District Court (Central)	A financial claim filed with a motion to certify it as a class action.	They claim that the Moreshet content filtering services that Bezeq International provides for its religious and traditional sector customers, for a fee, do not protect users from offensive content and that their exposure to such content caused them harm. It is further claimed that Bezeq International must compensate the customers who purchased content filtering services and who were not offered the basic filtering service which is provided free of charge. In April 2018, the court partially certified the claim as a class action (the part relating to additional compensation in the amount of NIS 1,000 for each pupil in the schools that use the website filtering software that was removed).	Approximately 61 with the addition of NIS 1,000 for each of the members of the class (every pupil in the Israeli education system).
B.	June 2015	Customer v. Bezeq International (The Israeli Consumer Council replaced the applicant for a class action)	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The applicant claims that excessive amounts are collected from internet service customers. On July 25, 2019, the Tel Aviv-Jaffa District Court certified a motion for a class action and ruled that the definition of the group will be any Bezeq International customer that engaged in an agreement with it for a fixed period and that after said fixed period, Bezeq International collected a higher price from the customer for the services provided under the agreement, without obtaining prior, written notice in accordance with the Consumer Protection Law, and without Bezeq International obtaining their consent to receive notices and updates by email, for seven years preceding the filing of the motion for certification and until today. The cause of action for the claim for which the motion was certified are breach of a statutory duty and unjust enrichment. On October 6, 2019, the Company filed leave to appeal the decision to certify, and a hearing of the appeal was scheduled for July 13, 2020.	Not estimated, but noted that it exceeds NIS 3 million.
C.	April 2019	Customer v. Bezeq International and other telecommunications operators	District Court (Central)	A financial claim filed with a motion to certify it as a class action.	The applicants allege that Bezeq International does not inform its customers as required concerning the possible risks involved in the use of the internet and the option of joining content filtering services free of charge, and this contrary to the provisions of the Communications Law. Furthermore, Bezeq International provides abusive website and content filtering services which, the applicants argue, are not sufficiently effective.	Not noted.

[53] For information concerning reporting policies and materiality, see Section 2.18.

4.12.2 Legal proceedings which ended during the reporting period or by the date of publication of the report

	Date	Parties	Court	Type of Action	Details	Amount of claim NIS million
A.	November 2011	Customer v. Bezeq International	District Court (Central)	Civil class action	According to the plaintiffs, during October 2011, Bezeq International failed to provide its internet customers with the browsing speed it had undertaken in the contract. The plaintiffs claim refund of the monthly fees and compensation for mental anguish. On July 9, 2019 a judgment was handed accepting the class action and obligating Bezeq International to pay compensation to its private internet customers, in the total amount of NIS 9 million (including representative plaintiff costs and compensation).	120
B.	Sept 2016	Customer v. Bezeq International and other international operators	District Court (Central)	A financial claim filed with a motion to certify it as a class action.	The claimants contend that Bezeq International charges excessive and unreasonable rates in contravention of Section 17 of the Communications Law, for outgoing international calls. On July 4, 2019 a judgment was handed to dismiss the motion.	Not noted.
C.	October 2012	Customer v. Bezeq International and other international operators	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimant alleges that Bezeq International discriminates between different customers, and provides identical service packages at different prices to different customers, in contravention of the terms of its license. On December 9, 2019 a judgment was handed dismissing the motion.	Not noted.

4.13 Goals, business strategy and expected development

Bezeq International set itself the goal of continuing to lead the basic internet services market in Israel for private and business customers, while maintaining its revenues in its traditional markets:

4.13.1 To continue its leadership in the ISP market with emphasis on further differentiation of Bezeq International based on its network performance, cyber protection and the quality of the customer services it provides.

4.13.2 To intensify and expand its cloud-based solutions.

4.13.3 Establishing Bezeq International's status as the leading ICT player in Israel, and engaging in large-scale projects in the security and public sectors.

4.13.4 To increase customer satisfaction by strengthening and expanding service openings (automated services, social networks, etc.).

These objectives may not materialize or may materialize in part only, due to regulatory changes that could harm Bezeq International's ability to provide solutions for existing or changing market requirements, and due to all the other risk factors described below.

4.14 Discussion of Risk Factors

Description of the risk factors deriving from the macro-economic environment, from the unique characteristics of the sector in which Bezeq International operates, and Bezeq International's company specific risk factors:

4.14.1 Competition

For information concerning the effect of competition on Bezeq International's businesses, see Section 4.6.

4.14.2 Frequent technological developments and infrastructure investments

Bezeq International's operations are characterized by frequent technological developments. The development of technologies constituting attractive alternatives to some of Bezeq International's products (such as WhatsApp and Skype) is likely to have a materially adverse effect on its operations. Furthermore, technological developments require frequent investment in infrastructure. See Sections 4.1.5.2.2 and 4.1.6.

4.14.3 Government supervision and regulation

For information relating to the application of the provisions of the law and licensing policies and their effect on Bezeq International, see Section 4.11. Certain regulatory changes applicable to Bezeq International could have an adverse effect on its results and operations.

4.14.4 Intra-organizational information security

Bezeq International operates information security systems to protect against information leakage or unauthorized hacker access to the network and/or critical systems. A hacking event may impair performance or adversely affect the Company's business, disclose sensitive information, and even expose the Company to financial sanctions and legal proceedings.

4.14.5 Legal proceedings

Bezeq International is party to legal proceedings, including class actions, some of which could result in its being required to pay substantial sums that, in the opinion of its legal counsel, could require the use of Bezeq International's financial resources. A provision has been made in the financial statements of Bezeq International and the Company for such proceedings. For information concerning legal proceedings to which Bezeq International is a party, see Sections 4.12 and 4.11.5.3.

4.14.6 Failure of Bezeq International's systems and cyber attacks

For details regarding this risk factor, see Section 2.20.11, which is relevant for the risk factor also applying with regard to Bezeq International.

4.14.7 Labor relations and streamlining measures

Bezeq International has a collective agreement with the New General Federation of Workers and with the employees' committee that applies to most of its employees. Implementation of the collective agreement could impact Bezeq International's ongoing operations. In addition, implementation of workforce programs may cause labor unrest and harm Bezeq International's current operations. As described in Section 1.8, Pelephone, DBS and Bezeq International implement streamlining plans that include, among other things, sharing of management resources, organizational changes and reducing their workforces, while managing significant infrastructure and other projects. The streamlining procedures, by their nature, involve the risk of loss of knowledge, employee turnover, shifting of management focus and so on.

4.14.8 Impairment of Bezeq International’s assets

In accordance with the accounting standards, Bezeq International performs periodic impairment testing of assets with regard to which signs impairment have been identified. For further information concerning the risk factor relating to identification of impairment losses, see Section 2.20.12.

4.14.9 Pandemic

At the beginning of 2020 a global outbreak of the Coronavirus occurred. Subsequently, Bezeq International is monitoring the developments concerning this outbreak and pandemics in general, and is reviewing the potential effects on its business operations, some of which have already been expressed in practice in Bezeq International. These effects could be reflected and some have already been reflected, among other things, in impairment of the supply chain and the customer service network. Based on Bezeq International’s preliminary assessment, as at Reporting Date, a significant decline in Bezeq International’s revenues that can be attributed to the consequences of this outbreak is not expected. Nonetheless, this is a world-changing event that is not in the control of Bezeq International, and therefore the pandemic spreading of the virus, and/or decisions by states and authorities in Israel and around the world, may affect Bezeq International accordingly.

The table below demonstrates the effects of the foregoing risk factors on Bezeq International's operations, as assessed by its management. It should be noted that Bezeq International's assessments with regard to the extent of the effect of a risk factor reflect the extent of effect of such risk factor, based on the assumption that the risk factor will be realized and the foregoing does not express an assessment or give weight to the chances of its realization as aforesaid. The order in which the risk factors appear above and below is not necessarily based on the extent of the risk [54].

Summary of risk factors - international telecommunications, internet and NEP services

	Effect of risk factor on Bezeq International's operation		
	Major	**Moderate**	**Minor**
Sector-specific Risks			
Increasing competition		X	
Investments in infrastructure and technological changes		X	
Government supervision and regulation	X		
Pandemic		X[55]	
Special risks for Bezeq International			
Intra-organizational information security		X	
Exposure in legal proceedings		X	
System failure and cyber attacks	X		
Labor relations and streamlining measures		X	
Impairment of Bezeq International's assets		X	

The information contained in Section 4.14 and Bezeq International's assessments of the effect of the risk factors on its operations and businesses is forward-looking information as defined in the Securities Law. The information and assessments rely on data published by the Ministry of Communications, Bezeq International's assessments regarding the market situation and the structure of competition in it, and possible developments in the market and in the Israeli economy. Actual results may differ significantly from these assessments if a change occurs in any of the factors taken into account in the assessments.

[54] See footnote 43

[55] The effect of this risk factor on Bezeq International's operations has been classified as moderate on the assumption that the event will be limited in scope and time. If not, the affect could be major.

5. DBS – Multi-channel television

DBS, also known by its commercial name "yes", is a wholly owned subsidiary of the Company, that provides multi-channel satellite and online television transmissions (OTT) and other services to subscribers in Israel and Judea and Samaria, and owns broadcasting rights for content purchased from third parties and productions in which it invests.

DBS is the only company that currently holds licenses (which are not exclusive) for multi-channel satellite TV broadcasting.

5.1 General information about the area of operations

5.1.1 Structure and changes in segment of operations

5.1.1.1 Several operators operate in subscriber TV broadcasting sector in a number of key categories:

A. Broadcasting licensees under the Communications Law operating in the multi-channel television sector, are DBS and HOT, which provides cable television services and has a pronounced monopoly under the Competitions Law in the multi-channel television broadcasting sector ("the Satellite and Cable Broadcasting Sector"). For further information regarding regulation applicable to the foregoing broadcasting licensees, see Section 5.15. DBS and HOT provide linear channel broadcasts (in this chapter also referred to as “Channels”) and VOD services (regarding the regulation of DBS’s VOD services, see Section 5.15.10.

B. OTT (over-the-top) internet content providers - several local and international audio and visual content providers operate in Israel, broadcasting content via the internet that can be viewed on various types of equipment/ terminal devices. The main local providers operate in a format that includes linear channels and VOD content (including DTT network content that is broadcast via the network or the internet), among them are DBS (Sting TV, yes+ and yesGo; for further information see Sections 5.2.2.2.1, 5.2.2.1.2 and 5.2.2.3.3), Cellcom (Cellcom TV), Partner (Partner TV) and HOT (Next and Play services). The main international providers that operate in Israel are Netflix, Apple and Amazon, which provide VOD content viewing options (as at Reporting Date, some of this content is not translated into Hebrew), without linear channels. To the best of DBS's knowledge, most of the subscribers of the international providers in Israel also subscribe to services provided by the local providers or broadcasting licensees.

C. Providers offering pirated content without copyright permission[56]

D. DTT network

A digital terrestrial television broadcasting system (DTT) known as Idan+ through which certain channels[57] are broadcast to the public, free of charge. The system, as at Reporting Date, is operated by the Second Authority, however, the Minister of Communications and the Minister of Finance have the authority to appoint a private operator to run it, for which the Council has the authority to grant a general broadcasting license that will be financed from subscription fees or commercials.

The channels are broadcast for a broadcasting fees, however the Ministers of Communications and Finance may decide that the State will subsidize broadcasting fees applicable for thematic channels and niche channels.

[56] DBS is a shareholder of Zira Ltd., which acts to prevent infringement of video content copyrights over the internet.

[57] As at Reporting Date the network broadcasts the Broadcasting Corporation's TV channels (CAN 11, CAN Education and Channel 33), the commercial TV channels (Keshet and Reshet), Channel 20, and the Knesset Channel (Channel 99), as well as several radio stations. The DTT operator will also be required to broadcast thematic channels (for which most broadcasts are devoted to a topic set out in the Digital Television Broadcasting Law, 2012 (the “Broadcasting Law”)) and broadcasts of holders of small independent TV broadcasting and Niche TV licenses.

As at Reporting Date, DTT is an alternative product, in part, to the multi-channel television broadcasts.

5.1.1.2 Under the Broadcast Distribution Law, a broadcaster whose broadcasts are part of the open broadcasts (i.e., television channels transmitted via the digital stations), will provide each content provider[58] consent to the transmit its broadcasts via the Internet free of charge, however, without derogating copyrights and production rights pursuant to the law and subject to certain conditions set out in the law, including obtaining a license from the copyright holders and performers (including through the broadcasting entity). With regard to the commercial channels[59], the applicability of the foregoing arrangement was deferred for five years (until January 2022), during which special arrangements will apply, including granting a license to any registered content provider that applies for one, at the best price and under the best terms granted by the commercial channel to other content providers under another broadcasting license that is valid when the license is granted, and all as set out in the interim provisions of the Law.

5.1.1.3 HOT and Cellcom offer their services together with the other media services they provide, including as part of undetachable bundles (such as the Triple bundles providing landline and mobile telephony and TV services). For information pertaining to additional communication services provided by these telecommunication groups, see Section 1.7.1. For information concerning detachable communications bundles offered by DBS, see Section 1.7.2.2.

In the reporting year, the increasing competition in the sector continued, mainly due to the strengthening foothold of local and international online content providers, which operate at relatively low prices. These providers that operate via the internet, without requiring designated infrastructures, and as at Reporting Date also without regulatory supervision, have a materially adverse impact on DBS's competitive position. For further information concerning competition in the sector and the changes that occurred in the reporting year, including in DBS's mode of operation, see Section 5.6. For information regarding regulation of broadcasts via new broadcasting technologies, see Section 5.15.10.

For information concerning the number of DBS subscribers, see Section 5.6.1; and for changes in DBS pricing policies, see Section 5.2.

DBS believes that continuation of this intensification of competition could have a significant adverse effect on its operations and results.

This assessment of DBS is forward-looking information, as defined in the Securities Law, based on, among other things, the expected conduct of the various entities. This assessment may not materialize or may materialize in a manner significantly different from that expected, inter alia, depending on how such television services will develop and be established, the entry of additional players, as well as on the application of regulatory rules regarding the said TV services.

5.1.2 Legislation, restrictions and special constraints in the segment of operations

Licensed operations in the broadcasting sector are subject to extensive communications regulation, particularly the Communications Law, a strict licensing and monitoring regime and Ministry of Communications supervision and policy decisions. Broadcasting operations are also under the ongoing supervision of the Council, which sets policy, makes rules and monitors many areas of the sector, including broadcasting content, compliance regarding original Israeli production obligations, broadcasting ethics, consumer protection and approval of the channels that are broadcast.

TV services provided by non-licensed broadcasters that are not broadcast via satellite or cable, as defined in the Communications Law, are not subject to the foregoing supervision.

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[58] A content provider is defined in the law as an entity whose primary activity is broadcasting a range of content to the public in Israel (such as DBS), provided that the content is broadcast at its initiative, through an interface under its control, whether the content can be viewed in real time, simultaneously by the public, or whether the content can be viewed at a time and place at the viewer's demand.

[59] To the best of DBS's knowledge, as at Reporting Date, such commercial channels are Channels 12 and 13.

Further to the Minister of Communications decision in 2017 with regard to adoption of most of the recommendations of the advisory committee on the regulation of satellite and cable broadcasting and content, that was published in 2016 (“Broadcasting Council”), part of which were sent for review by special purpose taskforces (which to the best of DBS's knowledge have not yet submitted recommendations), a number of legislative measures were initiated and are not yet completed[60]:

5.1.2.1 In 2018, a memorandum for the Communications Law (Telecommunications and Broadcasts) (Regulation of Content Providers) (Amendment No. _), 2018, was published ("the Memorandum"). Based on the Memorandum provisions, its goal is to change the regulatory format of the multi-channel television market and adapt it to technological developments, so that regulation will apply to audio-video content providers transmitting content to the Israeli public with total revenue from NIS 350 million, regardless of the type of technology used for transmitting the content, thereby encouraging competition and reducing the regulatory burden. At this preliminary stage, DBS is unable to estimate all the impacts of the Memorandum, however, in its opinion, if the Memorandum is enacted as proposed, regulation is expected to apply to both DBS's satellite operations and its online services. It should be clarified that this is the beginning of a legislative process and there is no certainty that the Memorandum will become binding legislation in its proposed form or at all.

5.1.2.2 In 2018, a government bill was discussed, which deals, among other things, with the must sell obligation of sports content, including granting license for the content producers or a significant sports operator to broadcast a sports channel. As at Reporting Date, DBS is unable to assess if the foregoing bill will culminate in legislature or in what format, and in any case it is unable to assess the extent of its effect on DBS’s operations.

As the implementation of the Broadcasting Council recommendations, including those adopted by the Minister as aforesaid, require legislative amendments and appropriate regulatory decisions, some of which are still in legislation processes that are not yet concluded, as noted among other things above, as of Reporting Date, the Company and DBS are unable to assess whether these recommendations or legislative efforts will in fact be legislated, in full or in part, or in what format, and they are also unable to assess the effect of such legislative amendments on DBS's business, if they will be adopted and the format for adopting them.

5.1.3 Changes in the segment's volume of operations and profitability

For further information concerning the changes in the scope of DBS’s operations and its profitability, see Section 1.5.4.4.

5.1.4 Critical success factors in the segment of operations and changes occurring in it

5.1.4.1 Quality, differentiation, innovation and originality in the content, variety, branding and packaging of its broadcasts.

5.1.4.2 Applicable value offers.

5.1.4.3 Provision of television services using advanced technologies (with regard to broadcasting technologies, to terminal devices and to user interface).

5.1.4.4 Television services via the internet

5.1.4.5 Offering communication service bundles that include television and other services such as telephony and internet browsing services (see Section 5.15.9).

5.1.4.6 Access and connectivity to international content applications.

5.1.4.7 High level of customer services appropriate for the type of service.

5.1.4.8 Brand strength and its identification with quality, innovation and industry-leading content and services.

[60] For information regarding additional recommendations of the Broadcasting Council that the Minister of Communications decided to adopt, see the Company's Periodic Report for 2017.

5.1.4.9 Attractive price.

5.1.5 Main entry and exit barriers for the segment of operation

5.1.5.1 The main sector entry barriers are: (a) cable and satellite broadcasting - the need for cable and satellite broadcasting licenses and compliance with the applicable regulatory requirements; (b) the investments required of carriers in the sector, including for acquisition and production of content, and for cable and satellite broadcasting - installation of specific infrastructures; (c) the limited volume and the characteristics of the Israeli market; The scope and level of the entry barriers with regard to OTT TV services are very low, especially for international providers for which Israel constitutes another market for existing operations, and this is reflected in an increase in the number of OTT services offered.

5.1.5.2 The main exit barriers are: (a) with regard to licensed broadcasters there are regulatory barriers – termination of operations under the Broadcasting License depends on a decision of the Minister of Communications to cancel the license prior to the end of the license term, under the conditions set out in the license, including arrangements (which could be imposed on the licensee) for ensuring the continuation of broadcasts and services and minimization of harm to subscribers; (b) long-term contracts with important suppliers, and with entities which granted DBS long-term loans.

5.1.6 Alternatives for products in the sector and changes therein

DBS considers the option of receiving multiple foreign channels via inexpensive terminal equipment as an alternative to its services for certain sectors. For information concerning additional alternatives, see Section 5.1.1.

5.1.7 Structure of competition in the sector and changes therein

Competition in the television sector is fierce with a relatively large number of players, most of which operate at very low prices (see Section 5.1), and via advanced online customer interfaces, increasing the intensity of the competition in the sector. Increasing the number of subscribers under current competitive conditions can be achieved mainly by recruiting the competitors' subscribers, which requires considerable investment of resources for retaining existing subscribers and recruiting of new subscribers.

In the reporting year, Cellcom and Partner, as well as Netflix, further established their foothold in the television sector.

The total market share of the broadcasting license holders, DBS and HOT, is being eroded and DBS's share is estimated to be 49% of households in Israel. Cellcom's market penetration rate is estimated to be 9.5% and Partner's market penetration rate is estimated to be 7% of the total households in Israel.[61] DBS does not have information regarding the number of subscribers to the international companies operating in the market or the number of DTT viewers, and DBS believes that most of them are, in addition, also subscribers of the local TV providers operating in the market. DBS estimates that the increasing of the total market share of these players has been slowed down due to the fact that a large part of the remaining households are not potential audiences[62].

For further information regarding competition in the segment, see Section 5.6.

5.2 Products and services

DBS offers satellite TV service and OTT services in bundles of varying values, differentiating between them by the scope of content, scope of inclusive services, interfaces through which they are offered and price. The OTT services are offered as part of DBS's migration trend to gradually migrate its

[61] DBS's assessment of the broadcasting market penetration rates is based on the total number of DBS and HOT subscribers (for the estimate of the number of HOT subscribers, see footnote 64), divided by the total number of households in Israel according to Central Bureau of Statistics data for 2019. Cellcom and Partner penetration rates are based on their reports and publications concerning their subscriber base at the end of the third quarter of 2019.

[62] This assessment is based, among other things, on the estimate of the number of HOT subscribers (see footnote 64 below).

services from satellite TV to OTT services. For information concerning the migration process see Section 5.18.3.

5.2.1 Satellite broadcasting and related services

DBS satellite broadcasts include linear channel broadcasts (approximately 150 channels, of which 30 are HD channels and one 4K channel), as well as radio, music and interactive services.

To allow reception of DBS satellite services, dish antennas are installed on buildings and several types of decoders are installed in the subscriber's home, some of which allow broadcasting reception only (either at SD resolution or at more advanced resolutions), and some of which allow advanced content options such as recording content and viewing VOD content.

Pursuant to the provisions of the Communications Law, the terms of DBS's broadcasting license and the Council's decisions, DBS's satellite broadcasts include a number of basic packages that every subscriber is required to purchase, as well as additional subscriber selectable channels, either as packages or as individual channels.

DBS provides subscribers of its satellite broadcasts ("Satellite Subscribers) online (OTT) VOD services. The vast majority of the satellite subscribers subscribe to content bundles that include VOD services and the rest can purchase them if they want. Part of the VOD service content is provided for a separate fee.

Connecting Satellite Subscribers to VOD services requires, among other things, the use of specific types of decoders. Regarding the issue of regulating DBS's VOD services, see Section 5.15.10.

Satellite TV services are offered in a bundle that contains the vast majority of the linear channels and VOD services, or in bundles with a smaller volume of content (and subscribers can purchase additional channels that are not included in the purchased bundle).

As at Reporting Date, most of the Satellite Subscribers have a special campaign subscription, the highlights of which are: The vast majority of linear channels and VOD services[63] are offered at an all-inclusive price.

5.2.2 OTT services

DBS offers several OTT services:

5.2.2.1 yes+

As of December 2019, DBS offers yes+ services that include linear TV channels, as well as VOD content advanced technology interface. As at Reporting Date, the service is provided via Apple streamers and is expected to also be provided in the future via streamers with Android TV operating system and smart TVs. The services can be used independently or simultaneously with satellite service. The services contain a similar scope of content as offered in the expanded bundle for satellite subscribers.

5.2.2.2 Sting TV

DBS operates its Sting TV service, which includes linear TV channels and VOD content, and is intended for customers who are not satellite subscribers. The services do not include the full range of content offered as part of DBS's other services, and is offered at a relatively low price. The service is based on the Android TV operating system that allows content to be viewed via a streamer, smart TV and other terminal devices.

5.2.2.3 yesGo

DBS also operates its yesGo service, allowing its satellite and yes+ subscribers to view the channels included in the services that they have purchased for home viewing, as well as VOD content, on smartphones and tablets.

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63 As at Reporting Date (the terms of the campaign may change from time to time), the campaign does not include various channels, such as premium channels, premium sports channels, temporary channels, adult channels and certain (discrete libraries and content) VOD content that require additional payment.

5.2.2.4 Triple bundles

In July 2019 DBS began marketing detachable services bundles (for further information see Section 1.7.2.2) that contain its content services (satellite or Sting TV services), together with Bezeq International's ISP and landline home telephone services.

5.3 Revenue of products and services

Following is a table containing a breakdown of DBS' revenues (in NIS millions):

	2019	2018	2017
Revenue from broadcasts and multi-channel television services to subscribers	1,316	1,431	1,629
Percentage of revenue	98%*	97%*	99%*

* The revenues balance is mainly due to payments from channels for broadcasting by DBS.

5.4 Customers

The overwhelming majority of DBS's subscribers are private customers. DBS usually engages with its subscribers in subscriber agreements that regulate the rights and obligations of subscribers in their relations with DBS. The subscriber agreement for Satellite Subscribers is subject to the Council's approval, which was granted. Pursuant to the broadcasting license, the approval of the Standard Contracts Tribunal is required for the standard subscriber contract (approval was granted in the past, and has expired). DBS applied to the Council to amend the subscribers' agreement and the license. In its application DBS requested, among other things, that the provision of the license requiring the Standard Contracts Tribunal's approval for uniform contracts be canceled in view of the legislative amendment concerning this issue. As at Reporting Date, the Council's position concerning DBS's application has not yet been received.

5.5 Marketing and Distribution

5.5.1 Marketing of DBS services is by way of publication in the various media. DBS sales to existing and new subscribers are carried out through two key distribution channels (some operated by DBS employees and others by external resellers, including Bezeq International and Pelephone):

5.5.1.1 Call centers

5.5.1.2 Digital channels

5.5.1.3 Sales representatives working to recruit new subscribers.

5.6 Competition

5.6.1 Competitors in the market

As at Reporting Date there are several competing groups in the market (see Section 5.1).

DBS's main competitors are HOT, which was declared a monopoly in the multi-channel television broadcasting sector and holds the largest share of the market, Cellcom, which holds the largest share of the market among the players that do not have broadcasting licenses, as well as Partner and Netflix.

Over the past year DBS's share of this market has decreased, mainly due to, among other things, the intensification of competition as set out in Section 5.1.7.

Breakdown of DBS's subscriber numbers and market shares[64], to the best of its knowledge, as at December 31, 2018 and 2019[65]:

2019		2018	
Subscribers (in thousands)	**Market share**	**Subscribers (in thousands)**	**Market share**
555	32 %	574	34 %

5.6.2 Nature of competition today

Competition in the market focuses on broadcasting content, price of services, quality of services, as well as offering advanced terminal equipment and state-of-the-art user interfaces, and additional services such as HD and 4K broadcasts and VOD services.

Competition also involves offering additional communications services together with video content (for information regarding service bundles offered by HOT, Cellcom and Partner see Section 1.7.1 and regarding the service bundles offered by DBP, also see Section 1.7.2.2), and regarding the increase in the number of competitors and the foothold they gained (see Section 5.1).

5.6.3 Positive and negative factors that affect DBS's competitive status

5.6.3.1 DBS's management estimates that DBS has competitive advantages, the main ones being:

A. The quality and variety of content DBS broadcasts to its subscribers.

B. The level, quality and availability of DBS's customer service.

C. Using the most advanced cutting-edge technology for providing advanced services.

D. Fostering and promoting the yes brand as a preferred, popular brand with a high level of loyalty.

E. Marketing of several agreement plans, with different prices, offering different content, via various technological interfaces and various customer service formats.

5.6.3.2 However, DBS's competitive operations in the broadcasting sector suffer from inferiority or from adverse factors in a number of areas, the main ones being:

A. Infrastructure inferiority – DBS's infrastructure is inferior because satellite infrastructure does not enable bidirectional communications, it does not enable provision of VOD services and does not enable transmission of telephony and internet services, compared with the infrastructures used by HOT, Cellcom and Partner, which enable them to provide these services. For further information concerning OTT services - see Section 5.2.2. In addition, satellite infrastructure is limited compared to the internet infrastructure with regard to advanced technological interfacing options.

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64 The market shares were calculated out of the foregoing total number of subscribers of DBS, HOT, Partner and Cellcom as specified below (and not out of the total number of viewers and subscribers in the market, due to lack of actual figures in this regard). The estimate of DBS's market share in 2018 and 2019 is based on the number of subscribers of DBS, Cellcom and Partner (based on their reports of the number of their subscribers at the end of the third quarter of 2019), and of HOT , where with regard to 2018 and 2019 HOT did not publish the number of its subscribers, and therefore the figures relating to HOT are estimated by DBS, taking into account past trends and existing figures for the other players). Nonetheless, there is no certainty that the figures assumed for HOT are accurate, and therefore it is possible that the actual market share may be different from those estimated.

65 The number of subscribers is approximate and the market share is rounded. Subscriber – one household or small business customer. In the case of business customers who have more than a minimum number of decoders (such as hotels, kibbutz or gym), the number of subscribers are standardized. The number of business customers who are not small business customers is calculated by dividing the total payment received from all non-small business customers by the average revenue from a small business customer, as is determined periodically.

B. Regulatory restrictions -

for information regarding restrictions on marketing joint service bundles see Section 5.15.9 below.

For information regarding restrictions under the Commissioner's conditions for a merger see Section 2.16.8.3. These restrictions also apply to DBS's OTT operations.

For information regarding the competitive inferiority resulting from the absence of regulatory supervision of players who do not have broadcasting licenses, see Section 5.19.2.2.2. The establishment of the wholesale market reform as set out in Section 1.7.3 does not allow DBS to purchase services from the Company, and could ease the entry of new players and the establishment of their foothold.

C. Space segments - The use of space segments involves heavy expenses, is dependent on receiving services from a third party (see Section 5.16), and is restrictive with regard to the ability to expand the supply of broadcasts (see Section 5.7).

5.6.4 Main methods for coping with competition

Below are the main methods used by DBS for dealing with competition:

5.6.4.1 Content – DBS purchases, produces and broadcasts high-quality, innovative and diverse content, creating differentiation by focusing on branding and attaining dominance with regard to the content it broadcasts;

5.6.4.2 Pricing policy - offering a variety of services at various price levels.

5.6.4.3 Offering OTT services (see Section 5.2.2).

5.6.4.4 Service – DBS places emphasis on its customer service network;

5.6.4.5 Technology – DBS invests in expanding its technological capacities by focusing on providing innovative and advanced services.

5.6.4.6 Branding – DBS nurtures, promotes and differentiates the yes brand.

5.7 Production capacity

The number of channels that DBS is capable of broadcasting to its Satellite Subscribers depends on the number of space segments uses, its compression capability and the bandwidth required for transmission of each types channel. As at Reporting Date, DBS uses almost all the space segments at its disposal, consequently any increase in the number of channels it broadcasts, particularly of HD and 4K channels that require greater bandwidth and will require additional space segments or improvement of the compression software that DBS uses. Space segments are provided to DBS by Space Communications Ltd. (see Section 5.16). These restrictions do not apply for OTT and VOD services, the broadcasting of which depends on internet browsing speeds.

5.8 Property, plant and equipment

Below are the main components of DBS's property, plant and equipment:

5.8.1 Land

DBS leases several real estate properties for its operations. DBS's head office and its main broadcasting center are located in rented premises in Kfar Saba, for which the lease term ends in 2024 (with options granted to DBS for extension of the lease, subject to the terms of the agreement, until 2034). The remainder of the lease term for the other premises that DBS leases ranges between six months and three and a half years (these terms are based on the assumption that DBS will exercise the options granted to extend the leases).

5.8.2 Terminal satellite equipment

DBS installs a receiver dish and other terminal equipment in its subscribers' homes, including decoders enabling reception of broadcasts and smart cards for decoding the encrypted broadcasts. The decoders are leased to subscribers for a fixed leasing fee paid during the entire period the services are received, or are lent to subscribers.

DBS purchases the decoders for its satellite services under supply agreements with the decoder manufacturer and decoder vendor, that imports and supplies DBS with HD Zapper and 4K PVR decoders, where the types of decoders must match DBS's broadcasting and distribution system (for information concerning these services, see Section 5.8.5). Support services for these decoders are provided by a third party.

5.8.3 OTT terminal equipment

Sting TV and yes+ services can be viewed via a wide range of terminal equipment, including various streamer models. DBS purchases streamers from various suppliers and rents them to subscribers. Unlike the decoders designed to receive satellite broadcasts, which require development and adjustments that involve time and costs, streamers are usually off-the-shelf products that require relatively minor adjustment.

5.8.4 Broadcasting equipment and computer and communications systems

DBS has its central broadcasting center in Kfar Saba and a secondary broadcasting center close to Re'em Junction from where it transmits its broadcasts. The broadcasting centers operates reception and broadcasting equipment, as well as computer and communication systems. The secondary broadcasting center is operated by a third party which provides DBS secondary broadcasting center operating and maintenance services under a contract which is valid until the end of 2023 (with DBS having an option to extend that can be exercised six months before the agreement terminates).

5.8.5 Operating and encryption systems

DBS purchases from Synamedia development, integration, encryption, maintenance and warranty services with regard to the operating system of the satellite transmission network and acquires similar services from Synamedia with regard to the OTT system, based on framework agreements signed by DBS and Synamedia in January 2020. These services are provided for various DBS systems, terminal equipment, and for viewing cards and other hardware components required for receiving these services, and DBS receives relevant user licenses for the systems and terminal equipment.[66].

Under the framework agreement, for these services and products, DBS pays Synamedia lump-sum payments and periodic payments, part of which are in a fixed amount and part are based on the number of decoders, and with regard to part of the payments, minimum annual amounts were fixed in the agreement. The agreement with Synamedia regarding the satellite system is valid until February 2026 (with an automatic extension mechanism unless one of the parties decides to terminate the agreement, subject to prior notice as set in the agreement with Synamedia), with an option for early termination of the agreement by DBS in the event that it discontinues its satellite broadcasts as part of the migration. Also see Section 5.18.3.

Under the framework agreement with regard to the OTT system, DBS's existing OTT solution will be upgraded, and it will be supplied with products and services, including the foregoing.

With regard to the services and products provided under this agreement, DBS will pay monthly installments where the agreement stipulates a minimum monthly amount for a set volume of services provided, as well as possible additional amounts that may vary depending on the types and scope of use of services provided to DBS, and development services that DBS is entitled to order under the agreement.

The term of the agreement for the OTT system is until December 2024 (with an automatic renewal mechanism for two-year terms, unless one of the parties announces otherwise, according to the dates set in this regard in the agreement). DBS has the right to exit the agreement regarding the OTT system, starting from January 2023 and thereafter, subject to prior notice and an exit fee (at a descending rate based on the duration of the remaining term of the agreement).

DBS is dependent on the continuous supply of these services, for both the satellite system and the OTT system.

[66] These services were provided by Cisco Group companies until June 2019, and as of that date, the agreement with Cisco was assigned to Synamedia, and was replaced by the foregoing framework agreements.

5.8.6 Computerized billing system

DBS uses software and computer systems for managing its subscriber agreements, including its billing and collection system. In this context, DBS engaged in agreements for licenses, development services and technical support with NetCracker Technology Solutions Ltd and NetCracker Technology EMEA Limited (together: “NetCracker").

DBS is dependent upon NetCracker's system and services due to their importance for managing and monitoring services and content purchased by subscribers and for billing its subscribers. System malfunctions or shutdown of these services to DBS could cause operational difficulties until the fault is repaired or the system/supplier is replaced. As at Reporting Date, part of the agreement components are renewed annually and some are valid until the end of 2023.

5.9 Intangible assets

5.9.1 Licenses

DBS holds the following key licenses:

5.9.1.1 Broadcasting license valid through January 2023 – this license is material to DBS’s operations and is the main regulatory permit for its operations (for the conditions of this license, see Section 5.15).

5.9.1.2 A satellite television license for broadcasting in the Administered Territories, valid through December 2022, the terms of which are similar to those of DBS’s main broadcasting license, as set out in Section 5.9.1.1.1.

5.9.1.3 License to perform uplink operations (transfer of broadcasts from DBS’s broadcasting center to the broadcasting satellite and implementation of set and ancillary operation activities), which is valid until January 2023 or until the end of DBS’s broadcast license, whichever is the earlier. This license is essential for DBS’s operations and is the regulatory permit for the transmission of broadcasting messages from the broadcasting center to the broadcasting satellites and from them to the subscribers' homes.

5.9.2 Trademarks

DBS owns registered trademarks with the main ones designed to protect its trade name (yes).

5.10 Broadcasting rights

5.10.1 DBS has the broadcasting rights of two types of video content.

Content purchased from third parties, including content and channels, that own the broadcasting rights thereto; DBS is working to adapt, as far as possible, broadcasting rights that it acquired to enable it to broadcast via the various media that it operates.

Content which DBS invests in producing (in full or in part), and in addition to the actual right to include the content in its broadcasts, DBS generally also has rights in such content, at the rates specified in agreements with the producers. In most instances, DBS is also entitled to issue authorizations to use the rights and share the revenues stemming from additional use of the content, in addition to DBS broadcasting thereof

The broadcasting and distribution of content by DBS over various media involves payment of royalties to the owners of copyrights and performance rights to music, sound recordings, scripts and directing of content, and for secondary broadcasting included under the Copyright Law, 2007 (the “Copyrights Law”) and the Performers and Broadcasters Rights Law, 1984. Such royalties are paid to several organizations for royalties collected on behalf of the owners of the intellectual property rights, under blanket licenses. Royalty payments under these licenses are, at times, based on a fixed payment and sometimes on various pricing methods, and with respect to some of the organizations, DBS may be required to pay additional amounts as royalties for broadcasting content via certain media, and in amounts that DBS estimates are not expected to be material.

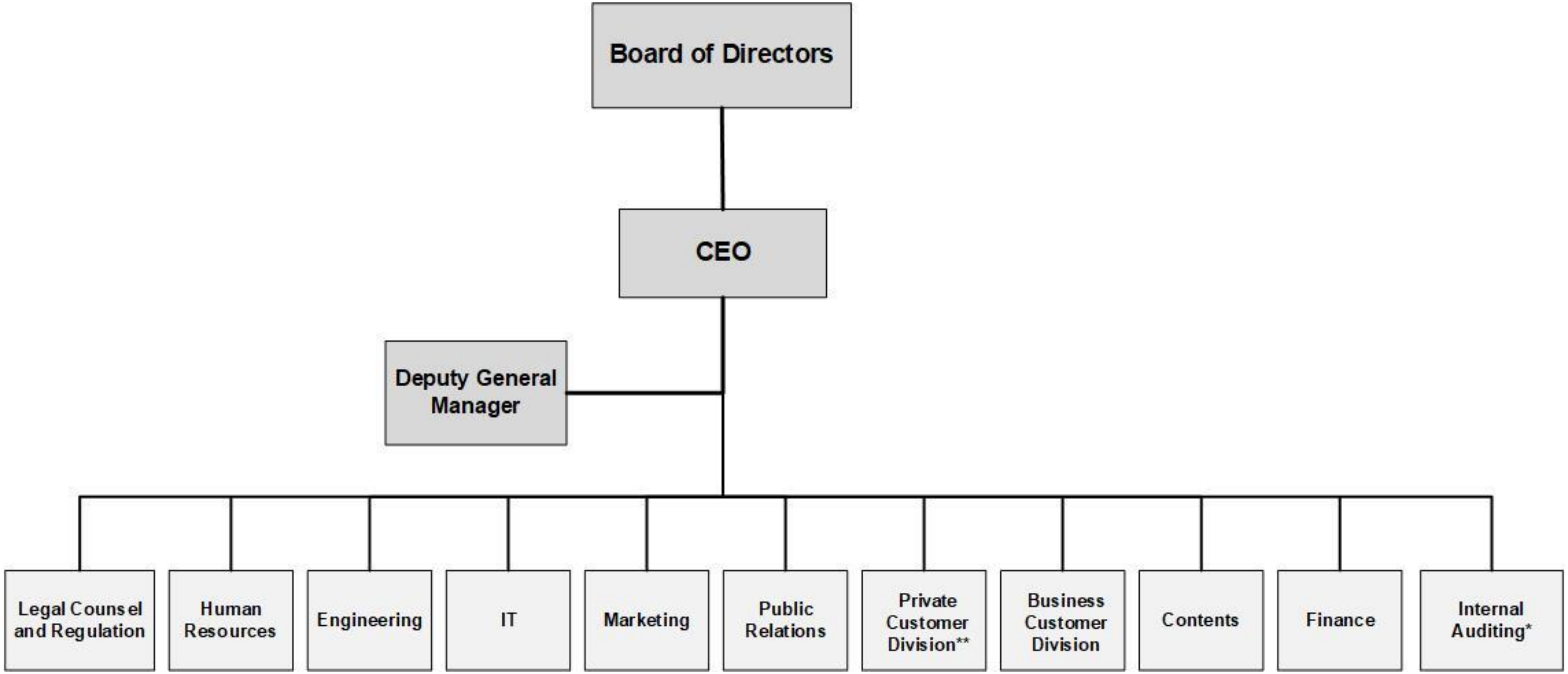
This estimate by DBS is a forward-looking statement, based among other things on estimates by DBS, including regarding the amount of use of the content and the positions of the various organizations, and should any of them change, this estimate may change accordingly.

5.10.2 Given the many content providers from which DBS purchases broadcasting rights, DBS does not have a main content provider and is not materially dependent on any single content provider. Nonetheless, as at Reporting Date, the Israeli sports broadcasting sector is dependent on acquiring broadcasting rights for local sports channels from Sport Channel Ltd. and Charlton Ltd., with which it has a long term agreement. This dependence is due to them being exclusive providers of Israeli sports broadcasts and in light of the high demand for such services among a significant group of DBS customers. The fees paid under these agreements are based on regular monthly payments based on the number of subscribers to DBS broadcasts (excluding the exceptions stipulated in these agreements).

5.11 Human resources

5.11.1 Organizational structure

DBS's management consists of division, each of which are headed by a VP, who are members of DBS management.



(*) The Internal Auditor is not an employee of DBS.

(**) The head of the Private Customer Division is the Deputy CEO.

As part of applying synergy among the Group's subsidiaries, DBS's CEO, Ran Guron, also serves as CEO of Pelephone and Bezeq International. Most of DBS's current VPs also serve as VPs at Pelephone and Bezeq International.

5.11.2 DBS personnel by division

	Number of employees	
	December 31, 2019	December 31, 2018
Head office employees	411	492
Customer Division	924	1040
Total	**1,335**	**1,532**

The total number of employees in the above table includes employees employed in part time positions. The total number of positions at DBS as at December 31, 2019 was 1,177.

5.11.3 Bonuses and Nature of Employment Agreements

Terms of employment at DBS are regulated, among other things, in collective agreements and a collective arrangement, and apply to the majority of the employees (they do not apply to some of the management levels or to all the employees in special trust positions). The DBS workers union is the General Federation of Workers.

Furthermore, DBS employees are employed under personal employment agreements, on the basis of a monthly salary or an hourly wage, with some of the employees also entitled to performance-based compensation. The employment agreements are usually for an indefinite term and each party may terminate the agreement with prior notice as set out in the personal agreement and according to the law, and subject to the provisions of the collective agreement, if applicable.

The agreement, which was signed in 2016 and amended in November 2019 stipulates, among other things, the periods after which DBS employees will become tenured employees, mechanisms for involving the Workers Committee in decision making concerning employment and termination of the employment of tenured employees, as well as annual wage increments and other general benefits DBS will grant to its employees during the term of the agreement.

In January 2018, a special collective agreement was signed that regulates the parties' actions concerning implementation of reforms and structural changes that were at that time on the table.

Following the declaration of a labor dispute in June 2018 due to the intention to implement structural changes in the Group's companies, including DBS, and d the November 2018 announcement of negotiations with the employees' representatives (see Section 1.8.), on March 14, 2019, DBS signed a collective arrangement with the General Federation of Workers and the workers' committee with regard to streamlining and synergy measures. The Arrangement stipulates, among other things, that DBS will be entitled to terminate employment of up to 325 employees during the years of the Arrangement and that a one-time grant will be given to employees who will not be included in the retirement plan. Under the Arrangement, it was agreed to cancel the pending labor disputes. The estimated cost of the Arrangement is NIS 53 million, assuming that DBS exercises its full rights for such streamlining and complies with the conditions for granting additional financial benefits to the employees. In addition, the Arrangement stipulates that DBS is also entitled to streamline by not recruiting new staff, in place of employees whose employment is terminated.

DBS's estimates regarding the cost of the Agreement are forward-looking information, as defined in the Securities Law, which are based, among other things, on DBS's assumptions regarding the realization of the streamlining plan and other conditions set out in the agreement. These estimates may not materialize, or may materialize differently from those anticipated, among others depending on the actual implementation of the streamlining plan, taking into consideration DBS's needs and its ability to realize its plans and meet the additional conditions set out in the Agreement.

The foregoing collective agreements and arrangement are valid through to December 31, 2021. The validity will automatically be renewed for further terms of 12 months each time, unless one of the parties gives at least 90 days notice prior to expiration of their intention to change the agreement.

In December 2019, notice was received at the DBS offices from the General Federation of Workers, announcing a labor dispute. According to the notice, the issues under dispute are: a. DBS's intention to implement organizational and structural changes in DBS, including ownership of the Company, which if implemented, will impact the employees conditions, their rights and employment security, impair the status and powers of the workers' organizations, and constitute a fundamental breach of the collective agreement applicable to the parties; b. lack of good faith as reflected in failure to comply with the duty to consult and negotiate in the framework of collective discourse regarding issues that require consultation and negotiation.

The Company and/or DBS are unable at this stage to assess the significance of the foregoing notice.

5.11.4 Employee compensation schemes

DBS customarily awards its officers and managers, as well as some of its employees, annual bonuses based on attaining goals and performance assessment.

5.12 Trade payables

For information concerning agreements with Space, see Section 5.16

For information concerning agreements with terminal equipment manufacturers and vendors, see Section 5.8.2.

For information concerning agreements with Synamedia, see Section 5.8.5

For information concerning agreements with NetCracker, see Section 5.8.6

With respect to the purchase of broadcasting rights for local sports channels, see Section 5.10.2.

5.13 Financing

DBS has financing from bank sources the amount of which, as at December 31, 2019, is immaterial.

DBS's main sources of financing are shareholders loans and investments by the Company, based on its needs, which DBS estimates, also in the foreseeable future it expects that it will need financing from the Company.

DBS's foregoing estimate is forward-looking information. It is not at all certain that DBS will require financing from the Company or that the Company will always finance DBS's operations and for which periods, and this depends, inter alia, on DBS's situation, developments in the sectors in which it operates, and the state of competition in these sectors, and DBS's future financing needs.

In February 2020, the Company approved a credit facility or a capital investment for DBS of up to NIS 250 million over a period of 15 months, beginning January 1, 2020. The foregoing approval replaces similar approval given in November 2019 (and is not in addition thereto).

5.14 Taxation

For further information, see Note 7 to the 2019 Financial Statements.

5.15 Restrictions on and supervision of DBS

5.15.1 General

DBS's operations, as a holder of a broadcasting license, are regulated by and are subject to an extensive system of laws that apply to the satellite and cable broadcasting sector, including primary legislation (and specifically the Communications Law and subsequent regulations), secondary legislation (including the Communications Rules), as well as administrative directives and Council decisions.

Additionally, DBS's satellite operations are subject to the provisions of its licenses, and particularly the broadcasting license.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions for violations of the provisions of the law and of orders and directives issued thereunder, and for violation of the terms of the license.

5.15.2 Eligibility requirements for satellite broadcasts licensee, cross-ownership restrictions

The regulations of the satellite broadcasting license place various restrictions on a licensee, including eligibility requirements that relate to the holdings of the owner of the license and the interested parties, directly and indirectly, in the licensees under the Second Authority Law[67] and the owners of daily newspapers, as well as requiring DBS officers to be Israeli and at least 26% to be held in Israeli hands, in accordance with the provisions set out in the regulations..

5.15.3 Tariff control

The broadcasting license provides provisions regarding the types of fees the licensee may collect from its subscribers for services provided under the license, and those fixed in DBS price list. The vast majority of the Satellite Subscribers subscribe to campaigns offering DBS services, including various combination content packages, related services, and receipt and installation of terminal equipment, at prices below the listed price. For further information regarding the campaign that applies to most of the Satellite Subscribers, see Section 5.2.

The vast majority of subscribers join special offers, which offer the services of DBS, including different combinations of content packages, related services, as well as the receiving and installation of terminal equipment at prices which below the listed price for all components of the special offer and they appear in the DBS price list. The Council chairperson may intervene in campaigns or reductions offered by DBS if he/she finds that they are misleading to the public or discriminate between subscribers.

Under the Communications Law, the license may stipulate maximum prices that can be charged to subscribers. At the date of this report, no such prices had been set.

5.15.4 Obligation to invest in local productions

Under the provisions of the broadcasting license and the Council's decisions, in 2019 and 2020, DBS is required invest an amount no less than 8% of its revenue from subscription fees[68] in local productions, and according to the Communications Regulations and the decisions of the Council, DBS is required to invest various amounts of such investments in different genres of local productions.

In November 2019, the Council decided to defer until 2021 the applicability of its earlier decision according to which the required rate of investment in local productions will increase to 9%. The Council further decided that in 2020, and based on developments, the Council will hold another hearing to review the current legislative status and the financial position of the licensees, including the hedge formula set out in the Council's previous decision, and will give instructions as it deems appropriate.

5.15.5 Requirement to transmit channels

DBS is obligated to broadcast mandatory channel broadcasts, as dictated by the Minister and the broadcasting license.

In addition, DBS is required to allow the channel producers as provided in the law to use its infrastructures to transmit broadcasts to its subscribers, and this in exchange for a fee ("Transmission Fee") to be determined in an agreement, and in the absence of an agreement, in exchange for a fee to be determined by the Minister, after consulting with the Council. Furthermore, the Minister may require the transmission of small channel licensee broadcasts under the Second Authority Law (which did not hold special licenses prior to the amendment to the law), taking into account DBS satellite capacity. According to the amendment to the Second Authority Law, 2018, holders of small and niche channel licenses that were holders of niche licenses under the Communications Law are exempt from paying transmission fees to HOT and DBS, for a period of 5 years from date of the amendment.

5.15.6 Content of the broadcasts and obligations with respect to subscription

The broadcasting license sets out provisions that relate to the content of DBS's broadcasts, including an obligation to obtain the Council's approval of the channels broadcast by DBS. The Communications Law forbids holders of broadcasting licenses to broadcast commercials, other than a few exceptions.

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[67] As at Reporting Date, the operations of these entities (in the cable broadcasting sector and under the Second Authority Law) are regulated through licenses and not franchises.

[68] Based on DBS Satellite Subscriber revenues in the past year, including DBS revenues from terminal equipment and installations, and pursuant to the Council's decision, also from VOD services.

The broadcasting license also includes provisions regarding the subscriber service terms, including discrimination prohibition.

5.15.7 Ownership of broadcast channels

Pursuant with the Communications Rules, DBS, including its affiliates as defined in the Communications Rules, may own up to 30% of the domestic channels it broadcasts (compared with the 20% applicable to HOT.) DBS is restricted under the Communications Law from owning a news program producer.

5.15.8 General provisions regarding the broadcasting license

The Minister and the Council have parallel authority to amend the broadcasting license. The Minister was authorized to cancel or postpone the broadcasting license for causes set out in the Communications Law and the broadcasting license. The Communications Law and broadcasting license stipulate restrictions on the transfer, attachment and encumbrance of the broadcasting license and any of the assets of the broadcasting license. The broadcasting license requires receipt of the approval of the Minister for specific changes in the holding of the means of control in DBS and imposes a reporting requirement regarding the holders of the means of control; hurting competition by way of an agreement, arrangement or understanding with a third party in terms of provision of broadcasts and services is prohibited, unless approved in advance and in writing by the Council; the obligation to file reports to the Ministry of Communications was defined as well as conditions regarding the regulation of the activity of the licenses; an obligation was stipulated to provide bank guarantees to the Ministry of Communications in the amount of NIS 30 million (principal) (as at Reporting Date, NIS 40 million).

5.15.9 Offering service bundles

Under the broadcasting license, DBS may offer joint service bundles that include service provided by the Company and service by DBS, subject to obtaining Ministry of Communications approval (and if no objections are raised within the period specified in the license, such approval will be deemed granted) and subject to conditions, the most important of which are the detachability obligation, and the existence of a corresponding bundle marketed by a licensee that is unrelated to the Company (see Section 1.7.2.2). A joint service bundle marketed by DBS that includes the Company's internet infrastructure service only, does not require Ministry of Communications approval and the detachability obligation does not apply.

With regard to conditions published by the Commissioner with regard to the merger of the Company and DBS, see Section 2.16.8.3.

DBS believes that in view of the development of competition between the communications groups and the growing importance of the supply of comprehensive communications services (see Section 1.7.1**)**, particularly the competition between it and HOT, Cellcom and Partner that are not subject to such restrictions, if the restrictions with regard to the Company's collaboration with DBS (see Section 1.7.2.2) remain in place, the adverse impact of such restrictions on DBS's results may increase.

5.15.10 Regulation of OTT services

To the best of DBS's understanding, OTT services (such as those offered by Cellcom, Partner, Netflix, and DBS) are not subject to the current regulation on multi-channel satellite TV broadcasting or other regulation under the Communications Act. DBS believes that the VOD services it provides via the internet (see Section 5.2.1) to Satellite Subscribers are also not subject to the foregoing regulation. Nonetheless, from the Council's various decisions (also see Section 5.2.1) it appears that the Council believes it is authorized to also regulate DBS's VOD services.

For information concerning the Minister of Communications decision with regard to the recommendation of the Broadcasting Council on the issue of regulation of transmission of content via the internet, and the Memorandum regarding regulation of audio-visual content providers in Israel, see Section 5.1.2.

If regulation is applied to online content broadcasting, it is expected to impose restrictions on DBS providing these services, however such regulation may reduce the existing gap in the regulation regime between broadcasting licensees and other actors operating in the market.

DBS's estimates in this instance are forward-looking information, as defined in the Securities Law, based in part on the Broadcasting Council's recommendations and the decision of the Minister of Communications relating to the Council's decisions and the wording of the proposed legislation. It is uncertain that this matter will be regulated by legislation or any regulation whatsoever, or in the manner recommended in particular. These assessments may not materialize or may materialize differently from that expected, among other things, depending on how the recommendations of the Broadcasting Council are actually applied, the Council's decisions, the Minister of Communications decisions and the legislative amendments that will be formulated as a consequence.

5.16 Material Agreements

Following is a brief description of the main points of the agreements likely to be considered as material agreements not in the ordinary course of DBS's business, which have been signed and/or are valid in the period of the Periodic Report:

Space segment leasing agreement[69]

Under the 2013 agreement with Spacecom[70], as amended, DBS leases Amos satellite space segments ("Spacecom Agreement").

Under the provisions of the Spacecom Agreement, DBS leases space segments on the satellites, Amos 3[71] (the estimated end of life of which is at the beginning of 2026), and on Amos 7, in which Spacecom owns the right to lease space segments under its agreement with the owner of the rights in this satellite, and which was leased to DBS until February 2021. In February 2020 Spacecom exercised the option granted by the owner of the rights in the satellite, to extend the Amos 7 lease for an additional year, in accordance with DBS's lease term, until February 2022.

According to the Spacecom Agreement, Spacecom has undertaken to make the best possible efforts to position a new satellite, Amos 8, by February 2021, in which case as of that date, DBS will lease space segments on Amos 3 and Amos 8 and after the end of Amos 3's life, only on Amos 8. As Amos 8 will not be positioned until February 2022, DBS will lease space segments on Amos 3 until the end of its life, and will have the right, if it so chooses, to lease space segments on Amos 8 as soon as it is positioned. In DBS's estimate, considering, among other things, that Spacecom has not announced that it has engaged in an agreement for the construction of Amos 8 and based on information received from Spacecom[72], positioning of Amos 8 is not expected before February 2022, if at all[73]. Consequently, even though the term of the original agreement with Spacecom is until 2028, based on

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[69] The estimates in this Section concerning the delivery dates of the satellites, their launching and positioning in space, commencement of the satellite operations and end of their useful life, the number of segments leased and the effects of these aspects are forward-looking information, as defined in the Securities Law, based among other things on the information given by Spacecom to DBS and which, in part, is not in the control of Spacecom, and is dependent on its engagements with third parties. Consequently, these estimates may not materialize or may materialize in a manner significantly different from that expected, inter alia, depending on conditions relating to the launching of satellites, commencement of satellites operating, conditions required for their proper running and the end of the life expectancy of existing satellites, and other external factors (including third parties, among them the holder of rights in the Amos 7 satellite) that impact their operation and the operations of Spacecom and the state of its business.

[70] A company that, at the time the Spacecom Agreement was engaged, was controlled by Eurocom Communications, which was the controlling shareholder of the Company (indirectly) at that time.

[71] As informed by Spacecom, the Amos 3 satellite is experiencing battery malfunction (as set out in the amendment report to the Transaction Report, which is presented by way of reference in this Section below). Since October 2019 the Amos 3 satellite has encountered malfunctioning of the reserve horizon meter sufficiently severe to prevent it from being used, should it be required. In December 2019 Spacecom reported that the reserve horizon meter was intact and that it can be used if needed. For further information concerning the reserve horizon meter malfunction see Spacecom's immediate reports dated October 1, 2019 and December 18, 2019, noted by way of reference.

[72] According to Spacecom reports, the agreement for the construction of Amos 8 was canceled by Spacecom in 2018.

[73] For further information concerning cancellation of the agreement that Spacecom engaged in for the construction of the Amos 8 satellite, Spacecom's notification regarding its reviewing of alternatives to the building of Amos 8 following notice received from a government agency regarding the State's intention to position a satellite, the setting up of an independent committee of the Company's Board of Directors to explore the various alternatives available to DBS, the termination of the foregoing committee's activities, and DBS's notice to Spacecom with regard to preserving its rights not to lease space segments on Amos 8 in the event of a delay in positioning it, see Section 5.16 of Chapter A of the Company's Periodic Report for 2017, its updates in the revised Chapter A of the Periodic Report attached to the Company's third quarter report for 2018, as well as the immediate report issued by the Company on December 17, 2018, noted herein by way of reference.

the provisions of the Spacecom Agreement, the Spacecom Agreement will come to early termination at the end of the lifespan of Amos 3, which to the best of DBS's knowledge, is expected to be at the beginning of 2026, without any compensation and in accordance with the provisions of the agreement (subject to additional early termination options as set out therein).

Leased space segments - under the Spacecom Agreement, throughout the term thereof (and subject to non-availability incidents) DBS will lease 12 space segments from Spacecom on the relevant satellites, according to distribution as set in the Agreement, for the various periods.[74] As of the end of the Amos 7 satellite lease, DBS is expected to lease ten space segments of Amos 3. The agreement also regulates the availability of alternative segments to the leased space segments during the term of the agreement, under the terms and restrictions set in the agreement.

Cost - the estimated total nominal cost for the duration of the term of the lease (from 2017) is USD 263 million, reflecting an average annual cost of USD 21.9 million, subject to discount and reimbursement mechanism as set out in the Spacecom Agreement.

Early termination of the Agreement - the Spacecom Agreement provides a right for early termination without cause, subject to prior notice of 12 months and payment of a consideration based on a mechanism set out in the Agreement. The Agreement also provides DBS rights for early termination of the Agreement in February 2021 due to delay in the agreement for construction of Amos 8 coming into effect. DBS informed Spacecom that it would not exercise this right.

For further information concerning the Spacecom Agreement, see Transaction Report and Notice Regarding the Convening of a Special General Meeting of the Company dated February 16, 2017 (as well as an amended report to the Transaction Report dated March 26, 2017) and an immediate report on the results of the Company's general meeting dated April 3, 2017, noted here by way of reference.

Leasing of space segments on Amos 3 only, is expected to involve a lack the advantages for this satellite, as is leasing of only ten space segments on Amos 3, unless an agreement can be reached with Spacecom regarding the leasing of two additional segments on Amos 3 or leasing additional space segments on other satellites (for further information concerning these matters see Section 5.19.3.4.4).

Leasing fees in 2019 amounted to NIS 77 million.

DBS is materially dependent on Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS, which is also responsible for operation of the space segments. For information concerning exposure to risks in the event of malfunction of one of the satellites or unavailability of the space segments that DBS uses, see Section 5.19.3.4.4 Regarding dependence on Spacecom see Section 5.19.3.5.5.

[74] As of 2018, DBS leases an additional transponder on Amos 7 in place of a space segment on Amos 3, for an interim period. It was agreed that this replacement will not detract from the possibility of shutting down one of the Amos 3 transponders during the eclipse period (as set out in the amended transaction report, noted in this Section below by way of reference.

5.17 Legal Proceedings[75]

5.17.1 Pending legal proceedings

	Date	Parties	Court	Type of Action	Details	The amount of the claim
A.	Sept 2014	Customer v. DBS	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	A claim regarding digital advertisements sent by DBS to its customers, allegedly in contravention of Section 30A of the Communications Law, in breach of DBS's license and breach of the agreement between DBS and its customers. The applicants petitioned the court for relief for the inconvenience caused to the customers of DBS, harassment, loss of time, etc. and relief in an amount that will be determined at the court's discretion, for enrichment of DBS as a result of sending these messages. In June 2019, the court certified the claim as a class action. The motion was approved in respect of non-monetary damages only, and the applicants' claims of monetary damages were rejected. The court also ruled that the definition of the group would be anyone who was a customer of DBS from December 1, 2008 through to the date of this decision and received a violating advertisement notice, and who did not give DBS prior consent to receive advertising material. In July 2019, DBS filed a motion with the Supreme Court for leave to appeal the approval ruling, as well as a motion to stay execution. In August 2019, the Supreme Court ordered a stay of execution of the approval decision pending a decision on the leave to appeal. In addition, in October 2019, the applicants submitted an appeal with the Supreme Court against the approval decision. In November 2019, the applicants filed a motion to reduce the amount of the appeal bond from an amount of NIS 40,000 to NIS 10,000. The Registrar of the Supreme Court partially accepted the request and reduced the bond amount to NIS 30,000. The ruling provides that if the bond is not deposited within 10 days, the appeal will be recorded for dismissal, and the Supreme Court ordered that the leave to appeal be scheduled for hearing before a panel. A hearing has been scheduled for June 2020. In December 2019, a judgment was handed in which the applicants' appeal was dismissed for failure to deposit the appeal bond.	NIS 402 million (with additional remedy requested as the court will find at its discretion).

[75] For information concerning reporting policies and materiality, see Section 2.18.

	Date	Parties	Court	Type of Action	Details	The amount of the claim
B.	June 2015	Customer v. DBS	District Court (Central)	A financial claim filed with a motion to certify it as a class action.	A claim of discrimination against new DBS customers over returning former DBS customers. This, according to the allegations, is contrary to the provisions of its license and by law. The applicant requests non-monetary compensation for the members of the group represented and to allow every subscriber to receive the conditions received by returning subscribers ("the First Motion"). In July 2015, another motion to certify a class action claiming price discrimination was filed against DBS alleging that the Company discriminates against existing customers over new customers by offering them different prices for the same service and that it failed to act transparently. This, in contradiction to the provisions of its license and by law. The additional applicant requests that DBS will compensate members of the group for the monetary difference between the price that each of them actually paid to DBS for the services, and the lowest price they could have paid for those services. In addition, the additional applicant requests that the court order DBS to offer and provide its services to everyone requesting its services at the same terms and to publish them in its various publications. In September 2015, the court held that the two actions will be defined as related cases and in November 2015 the court ordered the consolidation of two motions to certify. With the consent of the parties the court decided to suspend the hearing of the case due to the simultaneous suspension of corresponding cases against other defendants, while there is a pending motion to transfer the hearing on the petitions to another court, as aforesaid. In its decision of March 2018 to certify the procedural arrangements, the court ruled that the proceedings against all the communications companies, including the television companies and the motions against DBS, will be consolidated and heard together, and set procedures for examining the motions for certification. Furthermore, after the parties to the proceedings submitted their summations to the court, in July 2018, a hearing was held on all the motions for certification filed against all the communications companies, during which the court recommended that the plaintiffs consider withdrawing the motions for certification with compensation, and ruled that, if the recommendation is not accepted by September 2018, the court will hand its ruling on the motions for certification. In November 2018, as no further notification was filed in the matter, the court ruled that the case would be passed on for a ruling on the motions for certification. In December 2019, the Tel Aviv District Court handed a judgment dismissing all the motions for certification. In January 2020 the applicants of the First Motion filed an appeal of the judgment with the Supreme Court.	The amount of the claim is estimated to be NIS 13 million plus non-monetary damages as will be awarded by the court. The applicant in the other motion does not indicate the amount of the claim, but the amount of the damage is estimated to be tens of millions of shekels.

	Date	Parties	Court	Type of Action	Details	The amount of the claim
C.	June 2017		Investigation by the Securities Authority		For further information concerning the discovery investigation opened by the ISA in June 2017, and as part of which the former CEO and former CFO of DBS, among others, were questioned, see Section 1.1.5.	
D.	June 2017	Shareholders of the Company Against the chairman of the Company's Board of Directors, members of the Company's Board of Directors, and Eurocom Group companies, and against the CEO of the Company and CEO and CFO of DBS.	District Court (Economic Department) in Tel Aviv	Motion for certification of class actions	For further information concerning the motion for certification of a class action that was filed, inter alia, against DBS and the former CEO and former CFO of DBS, with respect to a transaction from 2015, under which the Company acquired from Eurocom D.B.S. Ltd. the balance of DBS shares held by it, see Section 2.18.1G Also see Section 2.18.1 subSection H.	

	Date	Parties	Court	Type of Action	Details	The amount of the claim
E.	July - August 2017	Shareholders of the Company against DBS	Tel Aviv District Court	A motion for discovery of documents prior to filing a motion for certification of a derivative action under Section 198A of the Companies Law; which was filed pursuant to an investigation by the Israel Securities Authority.	For further information concerning motions filed by Company shareholders to the Tel Aviv District Court (Economics Division) in July 2017, which were consolidated under a single motion for discovery of documents prior to filing a motion for certification of a derivative claim under Section 198A of the Companies Law, against the Company and DBS, and to disclose certain documents relating to an interested party transaction between DBS and Spacecom from 2013, as amended in 2017 (the Spacecom Agreement), see Section **2.18.1**H.	
F.	June 2018		District Court (Economic Department) in Tel Aviv	Motion for discovery and perusal of documents under Section 198A of the Companies Law	For further information regarding a motion for discovery of documents prior to the filing of a motion for certification of a derivative claim pursuant to Section 198A of the Companies Law, which were filed by shareholders against the Company, DBS, the former controlling shareholder of the Company, Mr. Shaul Elovitch, and his son, Mr. Or Elovitch ("Messrs. Elovitz "), for the furnishing of documents and information relating to a breach of the duties of trust, loyalty and fairness by Messrs. Elovitch with regard to the sale of the Company's shares on February 2, 2016 by B Communications, see Section 2.18.1J.	

5.17.2 Legal proceedings which ended during the reporting period or by the date of publication of the report

	Date of filing of the action	Parties	Court	Type of Action	Details	Cumulative amount of claims (NIS million)
A.	June 2014	Customer and apartment building representatives vs. DBS	District (Tel Aviv)	A financial claim filed with a motion (consolidated) to certify it as a class action.	It is claimed that DBS unlawfully charged residents in apartment buildings (subscribers and non-subscribers of DBS) for the electricity consumption for the satellite dishes and/or amplifiers and/or other devices that DBS uses, that are located on these apartment buildings. The applicant has petitioned the court, inter alia, to order DBS to refund to the members of the group, the amount collected for electricity consumption as aforesaid. In June 2019 a ruling was handed certifying a settlement filed with the court by the parties in the amount of NIS 4 million to DBS. The settlement further provided that DBS will take measures to inform the apartment buildings with regard to it bearing the public electricity costs and will allow them to request that the transmission equipment be disconnected from the shared electricity.	An amount of NIS 80 million is for monetary and non-monetary and an injunction ordering DBS to install electricity meters for measuring the electricity consumption of DBS's systems, at a cost estimated in the motion of NIS 44.6 million.
B.	November 2015	Customer v. DBS	District Court (Central)	A financial claim filed with a motion to certify it as a class action.	A claim that DBS and HOT operate illegally by providing their customers with premium content services, (as part of the VOD service of DBS and HOT), that is provided under transactions for fixed periods and automatically renewable, while charging their customers for the service unilaterally, without the clients' consent and in violation of the law. Thus, allegedly, they charge their customers illegal amounts and while enriching themselves unjustly. In April 2019, a judgment was handed, under which the court certified a settlement agreement under which DBS will open a dedicated channel for those eligible for the benefit for three months.	The applicants do not explicitly note the amount of the claim, but believe that the described conduct provides DBS and HOT annual income of tens of millions of shekels.
C.	April 2016	Customer v. DBS	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	A claim that the condition stipulated in DBS's contractual agreement with its customers, which allows a subscription to be put on hold for a limited period thus avoiding the payment of a subscription fee for this period, and provided that the freeze is for a period of at least 30 days ("the Condition") is a discriminatory condition and is unreasonable in a standard contract. Furthermore, the claimants contend that DBS allows customers to have their subscription frozen for shorter periods if they make the request by phone - which the plaintiffs argue misleads consumers and is unfair conduct and, among other things, is in breach of the provisions of the Contracts Law, the consumer protection laws and Unjust Enrichment Law and not in court. In December 2019, the Court approved the applicant's withdrawal of the motion for certification of a class action, the petition was struck, the plaintiff's personal claim were dismissed.	Compensation was requested for the subscribers who are members of the group in the total amount of NIS 736 million.

	Date of filing of the action	Parties	Court	Type of Action	Details	Cumulative amount of claims (NIS million)
D.	December 2017	A claim on behalf of holders of B Communications securities against B Communications and officers of it and against DBS and officers (present and past) or DBS and the Company.	New York State Court	Petition for certification of a class action	The petition alleges false and misleading statements by the defendants with regard to the 2015 transaction under which the Company acquired from Eurocom DBS the balance of DBS shares held by it, including with regard to the second contingent consideration paid by the Company in accordance with the terms of the transaction. On March 28, 2019 the Company was notified of the decision of the US court of the same date, accepting the motions filed by DBS and the officers (current and past) of DBS and the Company were accepted and the claim against them was summarily dismissed on grounds of lack of personal jurisdiction. See Section 2.18.2C.	*

5.18 Goals and Business Strategy

5.18.1 DBS's goals are to retain its market share and customer base, by maintaining DBS's business and competitive position in the market and the status of the yes brand as a leading media brand and to continue implementing the measures for streamlining and synergy with Pelephone and Bezeq International.

5.18.2 To achieve these goals, along with efforts to reduce costs, DBS intends to invest considerable effort in marketing and sales, and in appropriate marketing strategy designed to continue attracting subscribers; and to retain existing customers; continually improve the array of services to subscribers; improving the added value offers to customers; creating differentiation and innovation in its broadcasting content, to increase the amount of content purchased by each subscriber and expand DBS's value-added services, and to invest in the development and integration of advanced technologies and new services. These efforts include DBS's drive to increase the rate of penetration of advanced services among its subscribers as well as to also provide its content on additional platforms, such as yesGo and StingTV (see Sections 5.2.1 and 5.2.2), in a way that will increase DBS revenues and subscriber loyalty to DBS's services (for information regarding the staggered switch to OTT see Section 5.18.3).

5.18.3 Furthermore, in March 2019, the boards of directors of the Company and of DBS approved an outline plan for the migration of DBS from satellite broadcasting to online transmission (OTT) in a gradual, prolonged process, that is expected to be spread over a period of up to seven years. Based on this decision, DBS will routinely monitor market conditions, competition and the technological environment, and will periodically review the feasibility of the outline plan and the need, if any, to make adjustments in it, in the pace of its execution or in the manner of its implementation, taking into account the needs of its customers and DBS’s regulatory obligations, among others.

DBS's and the Company's boards of directors decision was made in light of the television content market trends, including the reduced entry barriers, entry of new players and the establishment of OTT transmission technologies, changes in the value chain and changes in consumption habits. Along with the differences between the old satellite transmission technology and the OTT transmission technology, the inherent advantages have required that DBS examine the need to establish OTT broadcasts. Taking into consideration, among other things, existing obligations regarding all matters relating to satellite technology, the decoder market, licensing under which DBS operates, the rights of available content and t the development of faster internet speeds in the market.

As noted, the outline plan was approved for gradual and ongoing migration, and accordingly there is no certainty at this stage that the process and/or the migration will actually be implemented and that such migration will be carried out and completed. If the transition is carried out, it is expected to save DBS's expenses and for it to better adapt to changing market conditions.

5.18.4 DBS’s foregoing goals and the outline described above are forward-looking information, as defined in the Securities Law, based among other things on assumptions, assessments and forecasts by DBS's management concerning the current trends in the broadcasting market, regarding the competition, business development, consumer behavior, technological environment and regulatory environment, and method of regulation (both on DBS and other entities) in the satellite TV broadcasting sector as well as the OTT market, taking into account the restrictions that apply and will apply to the Company, and which affect DBS. Nonetheless, the forecasts of DBS's management, its preparations and goals may not materialize, or may materialize in a significantly different manner, due to changes in demand in the broadcasting market, fiercer competition in this sector due to the entry of additional providers into the sector or alternative sectors due to technological developments and changes in viewing habits, and the regulatory restrictions which are or will be imposed on DBS or on its partnerships with the Company and other entities in the sector, as well as the way the sector is regulated with regard to license holders and operators that do not hold licenses.

5.19 Discussion of Risk Factors

Following is a list of the threats, weaknesses and other risk factors of DBS (the "Risks”) attributable to the general environment, industry and special nature of its operations.

5.19.1 Macro risks

5.19.1.1 Financial risks – a material part of DBS's expenses and investments are in US dollar (particularly content, satellite segments, purchase of decoders and additional logistics equipment). Consequently, sharp fluctuations in the exchange rate will have an effect on DBS's business results.

5.19.1.2 Recession – an economic recession, increase in unemployment rates and a decrease in disposable income might bring about a decrease in the number of DBS' subscribers, a decrease in DBS' revenues and harm to its business results.

5.19.1.3 Security situation - An ongoing unstable security situation in large areas of Israel, which disrupts the day-to-day lives of the residents, could have an adverse effect on DBS's business results.

5.19.1.4 Pandemic - at the beginning of 2020 a global outbreak of the coronavirus occurred. Subsequently, DBS is monitoring the developments concerning this outbreak and pandemics in general, and is reviewing the potential effects on its business operations, when some of them are already expressed in practice in DBS. These effects could be reflected, and some are already reflected, among other things, in impairment of the supply chain (including of decoders and streamers) and the customer service network. Based on its preliminary assessment, as at Reporting Date, a significant decline in DBS's revenues that can be attributed to the consequences of this outbreak is not expected. Nonetheless, this is a world-changing event that is not in the control of DBS, and therefore the pandemic spreading of the virus, and/or decisions by states and authorities in Israel and around the world, may affect DBS accordingly.

5.19.2 Sector-specific Risks

5.19.2.1 Dependence on licenses - DBS's satellite TV broadcasts are provided under a broadcasting license and other licenses, and are thus dependent on the existence of such licenses and their extension from time to time. Violation of the provisions of the licenses and of the law under which the licenses are issued could bring about, subject to the license conditions, revoking, amendment or suspension of the licenses and consequently material harm to DBS's ability to continue operating.

5.19.2.2 Regulation - the provision of satellite television broadcasts is subject to obligations and restrictions set out in legislation and to a system of licensing, oversight and approvals from various regulatory bodies, and consequently may be affected and restricted due to policy considerations dictated by these entities and by their decisions and changes in communications legislation (see Section 5.15). Regulatory changes could impact DBS operations and could have a material adverse effect on its financial results. OTT services, including those provided by DBS are not supervised as at Reporting Date (for information regarding the possibility of the regulation of these services, see Section 5.15.10). Likewise, the continuing operations of online content providers (and the entry of additional providers), as set out in Section 5.1.1 above, without applicable regulation of their operations and/or without amending the regulations applicable to broadcasting licensees, may significantly affect DBS's financial results. In addition, as a provider of public services, DBS operations are subject, inter alia, to consumer and privacy protection regulation and information security laws (see Section 1.7.4.5).

5.19.2.3 Fierce competition - the sector is fiercely competitive with diverse competitors (see Sections 5.1.7) and consumer preferences requiring DBS to constantly and continually invest in attracting and retaining customers, and dealing with high rates of subscriber churn between the companies. For details regarding competition , see Section 5.6.

5.19.2.4 Technological developments and improvements - technological improvements and development of innovative technologies that render existing technology inferior, could force DBS to invest large amounts for retaining its competitive edge (see Section 5.1.1).

5.19.2.5 Alternative multi-channel broadcasting infrastructures - the DTT system, and particularly its expansion and the expanding penetration of OTT operators, could have an adverse effect on the financial results of DBS (see Section 5.1.1)

5.19.2.6 Piracy – the broadcasting sector is exposed to viewers' pirate connections for receiving broadcasts without paying subscription fees and is exposed to public access to content to which the broadcasting providers have rights.

In January 2019, an amendment to the Copyright Law came into effect, that contains several amendments intended for adapting the legal situation in the sector to developing technologies including amendments regarding the indirect infringement of copyright; regulating judicial orders to restrict access to \content sources; disclosing the identity of persons activating content over an electronic communications network; amendments to the Sections of the Penal Law and defining additional offenses to the provisions of the Law. In addition, the amendment regulates the manner for using orphaned works where the copyrights holder is unknown or not identified.

5.19.2.7 Exposure to class action lawsuits - there is exposure to class action lawsuits in material amounts

5.19.3 DBS specific risks

5.19.3.1 Restrictions resulting from the ownership structure - DBS is restricted in joint ventures with the Company with respect to offering communications service bundles that has a material impact on DBS's business status and competitive ability (see Section 5.15.9).

5.19.3.2 Restrictions due to eligibility conditions - cross-holdings, direct or indirect, of DBS shareholders, as well as a decrease in the rate of holdings in DBS held by Israeli citizens or residents may result in failure to comply with the eligibility conditions of its broadcast license (including in light of the minimum Israeli held holdings requirement (see Section 5.15.2).

5.19.3.3 Existence of sufficient cash flow - DBS is required to maintain a cash flow which is sufficient for compliance with its business plan. The absence of a sufficient cash flow, including through investment or financing from the Company, may impact on the ability of DBS to increase its rate of penetration of advanced services (such as PVR and HDPVR decoders) and to make it more difficult for it to face the competitive threats in view of technological developments and consumption patterns in the field.

DBS believes that it is expected to continue accruing operating losses in the coming years, and therefore without the Company's support, it will be unable to meet its obligations and continue operating as a going concern. DBS believes that the sources of financing available to it, including, inter alia, the working capital deficit and the credit limits and capital investments from the Company as set out in Section 5.13, will be sufficient for the needs of DBS's operations for the coming year.

5.19.3.4 Satellite malfunction, damage or unavailability - DBS broadcasts via space segments on satellites stationed at identical points in space. Malfunction of one of the satellites, damage to one of them or unavailability of space segments on any of the satellites, including unavailability of the new satellite scheduled to replace a previous one that has ceased to broadcast or provide services to DBS, or termination of the leasing of space segments on any of the satellites, could disrupt and materially reduce the volume of DBS satellite broadcasts, unless an alternative is found for the foregoing unavailable space segments, taking into account the time involved until such alternative is implemented. Nonetheless, the duplication of the satellites via which broadcasts are transmitted to subscribers as of reporting date, also in view of the partial backup mechanism prescribed in the Spacecom agreement, significantly reduces the risk entailed by damage, failure or unavailability of one of them, and improves the sustainability of the broadcast. In the event of a satellite being unavailable as aforesaid, it would be possible, through space segments made accessible for DBS on another satellite, to broadcast the major channels broadcast by DBS, but not all of the channels broadcast (for information concerning the Spacecom agreement, including the alternative mechanisms set out in it, see Section 5.16). The foregoing duplication of satellites was intended to take place pursuant to the Spacecom Agreement until the beginning of 2026, but according to DBS's estimate, it is expected to end in early 2022, and as of that time, DBS will operate via a single satellite - see Section 5.16[76.] DBS is not insured against loss of revenues caused by satellite malfunction. Progress or acceleration of the migration to IP broadcasts may reduce the vulnerability involved in malfunction damage or unavailability of the satellites.

DBS's estimate as aforesaid in this paragraph is forward-looking information. This assessment is based on Spacecom providing space segments and Spacecom's assessment with regard to the continuing life of the satellite, the new satellites starting to operate and the end of the operation of the existing satellites and exercising of the agreements with regard thereto, and termination of the option of leasing space segments from Spacecom[77]. This estimate may not materialize or may materialize partially or differently if there will be changes in the life expectancy of the satellites or exercising the option of leasing them or if Spacecom does not provide DBS with alternative segments due to unavailability or malfunction of the space segments or the satellites.

5.19.3.5 Dependence on holders of rights in the space segments - DBS is materially dependent on Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS, and is also responsible for operating the space segments . With regard to Amos 7, availability of space segments is dependent on a third party that owns the satellite and the organization responsible for operating it, and with which Spacecom has an agreement (see Section 5.16) and realization of its agreement with Spacecom regarding this satellite until the end of the period set in a manner that will enable the continued smooth leasing of space segments on this satellite.

5.19.3.6 Dependence on vendors of software, equipment, content, infrastructures and services - DBS is dependent on certain vendors of software and equipment, and providers of certain content (see Section 5.8.2), including broadcast encryption services (see Section 5.8.5). Failure to receive the products or services they provide could harm DBS's ability to function and results. Furthermore, inability to purchase decoders and streamers or to receive support services from the current suppliers, is expected to involve a period of preparation that will require alternative agreements and modifications in the supply chain and its support.

5.19.3.7 Damage to broadcasting centers - damage to a broadcasting center operations may cause a significant difficulty for continuing broadcasts, however, splitting of broadcasts into two broadcasting centers (Kfar Saba and the Ella Valley) reduces the risk involved if one sustains damage and improves the survivability of some of the broadcasts. In the event of damage to one of the broadcasting centers, DBS will be able to continue broadcasting only part of its channels via satellite from the other broadcasting center. This restriction is more significant in the event of damage to the Kfar Saba site, which is the only site with the capacity for broadcasting some of DBS key channels in the current satellite broadcasting format. If the operations at the Kfar Saba site are discontinued, providing of the OTT services will not be possible and if the operations at the secondary site are discontinued, it will be possible to continue most of the OTT services via the Kfar Saba site. All the broadcasting centers have identical encryption systems and therefore backup is also available for the encryption system in the event of damage to one of the broadcasting centers. Damage to DBS's logistics center could also be a cause of disruption of its operations and particularly the installation and maintenance of terminal equipment.

DBS's assessment as set out in this paragraph is forward-looking information. This estimate is based on the provision of services from the supplier that operates the secondary broadcasting site in the event of damage to the Kfar Saba broadcasting center. Malfunction of DBS's computer systems - A significant

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[76] See footnote 73.

[77] See also footnote 73.

malfunction in DBS's central computer systems is liable to wreak havoc with its operational capability.

5.19.3.8 Malfunction of DBS's computer systems - a significant malfunction in DBS's central computer systems is liable to significantly affect its operational capability. DBS has a remote backup site that is primarily designed for storing information and providing limited internal computing services in the event of malfunction, however, the major and significant operational capacities of DBS cannot be sustained without the computer systems at the Kfar Saba site operating properly.

DBS's estimate with respect to its backup capability, as aforesaid in this paragraph, is forward-looking information. This estimate is based on the functioning of the remote backup site. This estimate might not be realized or might be realized to some or other extent if this functioning is not enabled.

5.19.3.9 Cyber risks - DBS is exposed to the risk of actions that are intended to harm the use of computers or material stored on the computers ("cyber attack"). Such attacks may cause interruption of business, theft of information/money, damage to reputation, damage to systems and information leakage. As a leader in the television broadcasting sector, DBS is the target of cyber attacks and experiences attacks that are handled by it.

DBS implements a protection policy that includes layers of protection from a layer of procedures and policies to a physical layer of security systems in a configuration that effectively integrates with DBS's operational needs in order to protect its infrastructures and systems and to reduce the possibility of illegal exploitation of its resources.

Notwithstanding DBS's investments in means for reducing such risks, it can not guarantee that these measures will succeed in preventing damage and/or disruption of the Systems and the information linked to them.

5.19.3.10 Technical inferiority that inhibits offering integrated services - DBS's infrastructures are technologically inferior to HOT's infrastructures. This technical inferiority prevents DBS from providing telephony and internet services, and various interactive services, including VOD, via its satellite infrastructure; and therefore it depends on third parties for providing them.

5.19.3.11 Malfunction of the encryption system or its enforcement – DBS's broadcasts are based on encryption of the broadcasts it transmits to the satellites and encoding of its satellite broadcasts via smart cards that are installed in the decoders in subscribers' homes. Defects in the encryption system or its enforcement or a breach thereof could make it possible to view broadcasts without payment to DBS, thereby causing a reduction in revenues and a breach of the agreements between DBS and its content suppliers.

5.19.3.12 Lack of exclusivity on frequencies - The spectrum of frequencies used by DBS to transmit its broadcasts from the broadcasting satellites to the satellite dishes installed in subscriber homes, and which is allocated in accordance with the license from the Ministry of Communications, is defined as a frequency spectrum with a secondary allocation, such that an Israeli party that is allowed to make authorized primary use the frequency spectrum. If the foregoing owner of the primary allocation uses the frequency spectrum, this may cause adverse impact on the quality and/or availability of DBS broadcasts to its subscribers, which may adversely affect the financial results of DBS. At the date of this report, to the best of DBS's knowledge, the primary allocation holder has not made use of said frequencies in a manner that caused any real and/or lengthy disruptions to DBS broadcasts.

5.19.3.13 Broadcasting interferences - as DBS's broadcasts are wireless transmissions from broadcasting centers to broadcasting satellites and from them to the receiver dishes in subscriber homes, the broadcasting of the wireless signals over the same frequency ranges, whether they originate in Israel or outside of it, as well as extreme weather conditions such as heavy rains, hail or snow, could cause interference of the quality and/or availability of the broadcasts provided by DBS to its subscribers and may cause material harm to its financial results.

5.19.3.14 Labor relations - DBS is party to a collective agreement with the New General Federation of Workers and the workers committee, which could limit its managerial flexibility (see Section 5.11.3). In addition, implementation of workforce programs may cause labor unrest and harm DBS's current operations.

5.19.3.15 Streamlining measures - DBS implementation of its streamlining plans involves, among other things, sharing of management resources, organizational changes and reduction of its workforce, while managing significant infrastructure and other projects. The streamlining procedures, by their nature, involve the risk of loss of knowledge, employee turnover, shifting of management focus and so on.

5.19.3.16 Delay in improving internet speed - as the Company's plans for migrate to OTT broadcasts (see Section 5.18.3) are also based on improving internet speeds, with nationwide deployment, failure to improve internet speeds by deploying optical fiber networks or by implementing another technological solution, by the Company or by other media operators, may delay or impair execution of the outline plan.

DBS estimates that the internet speeds required to enable OTT broadcasts as planned, in a manner that enables the operation of multiple decoders in a customer's home, are forward-looking information. These estimates are based on the expected development of internet speeds, taking into consideration, among other things, the anticipated requirements in the customers' homes and the expected mix of broadcasts. These estimates may not materialize or may materialize differently if there is a delay in improving internet speeds or changes in the needs of the customers or of DBS’s.

Breakdown of risk factors ranked according to their impact, in the opinion of DBS management. It should be noted that DBS's assessments of the extent of the impact of a risk factor reflect the scope of the effect on DBS of such risk factor, on the assumption that it the risk factor will be realized and the foregoing does not express an assessment or give weight to the chances of its realization as aforesaid. Likewise, the order of appearance of the risk factors above and below is not necessarily based on the risk involved in each risk factor, or the probability of its occurrence[78]:

Summary of risk factors - multi-channel television

	Extent of Impact		
	Major	**Moderate**	**Minor**
Macro risk			
Financial risks		X	
Recession / economic downturn			X
Security situation			X
Pandemic		X[79]	
Sector-specific risk			
Dependence on licenses	X		
Changes in regulation	X		
Intense competition	X		
Technological developments and changes		X	
Alternative infrastructures		X	
Unlawful viewing		X	
Exposure to class action lawsuits		X	
Company-specific risk			
Restrictions caused by ownership structure		X	
Restrictions due to eligibility conditions	X		
Need for sufficient cash flow	X		
Satellite malfunction and damage	X		
Dependence on space segment supplier	X		

78 See footnote 39.

79 The effect of this risk factor on DBS’s operations has been classified as moderate on the assumption that the event will be limited in scope and time. If not, the affect could be major.

	Extent of Impact		
	Major	Moderate	Minor
Dependence on suppliers of content, equipment and infrastructure	X		
Damage to broadcasting centers	X		
Malfunction of computer systems	X		
Cyber failures	X		
Technical limitation that prevents offering of integrated services		X	
Malfunction of encryption system	X		
Lack of exclusivity on frequencies		X	
Disturbances in broadcasts	X		
Labor relations			X
Streamlining measures		X	
Delay in improving internet browsing speeds	X		

The information included in this Section 5.19 and the assessments of DBS regarding the impact of the risk factors on DBS's operations and business constitute forward-looking information as defined in the Securities Law. The information and estimates are based on data published by regulatory agencies, DBS assessments of the market situation and the structure of competition, possible developments in the market and the Israeli economy, and the factors mentioned above in this Section. Actual results may differ significantly from these assessments if a change occurs in any of the factors taken into account in the assessments.

March 18, 2020

Date

Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Shlomo Rodav, Chairman of the Board
Dudu Mizrahi, CEO

6. Appendix A - List of Terms

A. Names of laws appearing in the report

Communications Law	-	Communications (Telecommunications and Broadcasts) Law, 1982
Communications Rules	-	Communications (Broadcasting Licensee) Rules, 1987
Companies Law	-	Companies Law, 1999
Consumer Protection Law	-	Consumer Protection Law, 1981
Economic Competition Law	-	Economic Competition Law, 1988
Interconnect Regulations	-	Communications (Telecommunications and Broadcasts) (Payments for Interconnect) Regulations, 2000
Market Concentration Law	-	Law to Promote Competition and Reduce Concentration, 2013
Non-Ionizing Radiation Law	-	Non-Ionizing Radiation law, 2006
Planning & Building (Exempt from Permit) Regulations	-	Planning and Building (Works and Buildings Exempt from Permit), 2014
Planning and Construction Law	-	Planning and Construction Law, 1965
Prospectus Details Regulations	-	The Securities (Details of a Prospectus, Draft Prospectus - Structure and Form) (Amendment) Regulations, 1969
Satellite Broadcasting License Regulations	-	Communications (Telecommunications and Broadcasts) (Proceedings and Conditions for Grant of a Satellite Broadcasts License) Regulations, 1998
Second Authority Law	-	Second Authority for Television and Radio Law, 1990
Securities Law	-	Securities Law, 1968
The Communications Order	-	Communications (Telecommunications and Broadcasts) (Determination of an Essential Service Provided by Bezeq Israel Telecommunication Corp.) Order, 1997
The Telegraph Ordinance	-	Wireless Telegraph Ordinance [New Version], 1972
Use Regulations	-	Communications (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network) Regulations, 2014

B. Other principal technology terms appearing in the report[80]

2019 Financials	-	The consolidated financial statements of the Company for the year ended December 31, 2019
Access point	-	A telecommunications device that operates in the frequencies stipulated in the relevant Wireless Telegraph Ordinance, which enables wireless communications between a user that has a wireless interface operating in those frequencies and the data-communications network, including the Internet.
B Communications	-	B Communications Ltd.
B.I.P.	-	B.I.P. Communications Solutions (Limited Partnership) which is controlled by Bezeq International
Bezeq International	-	Bezeq International Ltd.
Bezeq Online	-	Bezeq Online Ltd.

[80] Please note that the definitions are for reader convenience only, and are not necessarily identical to the definitions in the Communications Law or its Regulations.

Bitstream Access (BSA)	-	Managed broadband access that enables service providers to connect to the network of the infrastructure's owner and offer broadband services to subscribers
Broadcasting license	-	License for satellite television broadcasts
CDMA	-	Code Division Multiple Access – Access technology for cellular communications networks based on separation of subscribers by encoding
Cellcom	-	Cellcom Israel Ltd. and corporations under its control
Cellular (MRT)	-	Mobile radio-telephone; cellular telephony
Cellular license		General license for providing mobile radio-telephone services by the cellular method
Consolidated general broadcasting license / consolidated license	-	A general license which is one of the following or a license that combines several of them: (1) Special general license; (2) General mobile radio telephone license on another network; (3) General license for providing international telecommunications services; (4) Special license for providing NEP services. (5) Special license for providing internet services.
Data communication services	-	Network services for transferring data from point to point, transferring data between computers and between different communications networks, communications network connection services for the Internet, and remote access services for businesses
DBS	-	D.B.S. Satellite Services (1998) Ltd.
Domestic Carrier	-	An entity providing fixed-line domestic telephony services under a general or special domestic carrier license
Domestic carrier license	-	General license or special general license for providing fixed-line domestic telecommunications services
DTT	-	Digital Terrestrial Television – Wireless digital broadcast of television channels by means of terrestrial transmission stations
Eurocom Communications		Eurocom Communications Ltd.
Eurocom D.B.S.	-	Eurocom D.B.S. Ltd.
Golan Telecom	-	Golan Telecom Ltd.
GSM	-	Global System for Mobile Communications – International standard for cellular communications networks ("2nd Generation")
HD	-	High Definition TV - High resolution (separate) TV broadcasts
HDPVR decoders	-	PVR decoders that also enable receipt of HD broadcasts
Histadrut	-	The New General Labor Federation
HOT	-	HOT Communications Systems Ltd. and corporations under its control which operates in broadcasting (multi-channel television)
Hot Mobile	-	Hot Mobile Ltd. (formerly Mirs Communications Ltd.) and corporations under its control
HOT Telecom	-	HOT Telecom Limited Partnership
HOT-Net	-	HOT-Net Internet Services Ltd.
HSPA	-	High Speed Packet Access - cellular technology succeeding the UMTS standard, enabling data transfer at high speeds ("3.5 Generation")
IBC	-	IBC Israel Broadband Company (2013) Ltd.
ILA	-	Israel Land Authority

Interconnect	-	Interconnect enables telecommunications messages to be transferred between subscribers of various license-holders or services to be provided by one license-holder to the subscribers of another license-holder; interconnect is made possible by means of a connection between a public telecommunications network of one license-holder (e.g. the Company) and a public network of another license-holder (e.g. a cellular operator). See also the definition of "interconnect fees".
Interconnect fees	-	Interconnect fees (also called "call completion fees") are paid by one carrier to another for interconnection (see definition below)
Internet Gold	-	Internet Gold Golden Lines
IP	-	Internet Protocol. The protocol enables unity between voice, data and video services using the same network
IPVPN	-	Virtual Private Network based on IP and located on the public network, through which it is possible to (a) enable end users to connect to the organizational network by remote access, and (b) connect between the organization's branches (intranet)
ISP	-	Internet Service Provider – Holder of a special license for providing Internet access services. The Internet access provider is the entity enabling the end user to connect to TCP/IP protocol that links him and the global Internet
LTE		Long Term Evolution - a standard for wireless communication of high-speed data for mobile phones
Mbps	-	Megabits per second; a unit of measure for the speed of data transfer
MVNO	-	Mobile Virtual Network Operator – A virtual cellular operator that uses the existing communications infrastructures of the cellular carriers without need for its own infrastructures
NEP	-	Network End Point – an interface to which a public telecommunications network and terminal equipment or a private network are connected. NEP services include the supply and maintenance of equipment and services on the customer's premises
NGN	-	Next Generation Network – The Company's new communications network, based on IP architecture
Partner	-	Partner Communications Ltd. and corporations under its control
Pelephone	-	Pelephone Communications Ltd.
Public switching	-	In the context of a communications network - a telephony system supporting the connection of installations for passing calls between various end units
PVR decoders	-	Digital decoders enabling viewing of satellite broadcasts, with recording ability on a hard disk (Personal Video Recorder) and enabling other advanced services, including HDPVR decoders
Rami Levy	-	Rami Levy Cellular Communications Ltd.
Roaming	-	Roaming services allow a customer of one communications network to receive services from another communications network which is not his home network, based on roaming agreements between the home network and the host network
Spacecom	-	Space Communications Ltd.
TASE	-	The Tel Aviv Stock Exchange Ltd. (TASE)
Telecommunication Services	-	Performing telecommunication activity (broadcast, transfer or reception of symbols, signs, writing, visual forms, sounds or information by means of wire, wireless, optical system or other electromagnetic systems) for others.
The Council	-	The Cable and Satellite Broadcasting Council

The Report Period	-	The twelve months ended December 31, 2019
The Second Authority	-	The Second Authority for Television and Radio
Transmission services	-	Transmission of electromagnetic signals or series of bits between the telecommunications facilities of a license-holder (excluding terminal equipment)
UHD / 4K	-	Ultra-high Definition TV – a broadcasting technology which is defined in international standards, and based on the size of a picture in pixels. In this method of broadcasting, there are 4 times as many pixels (3840 x 2160) as there are in HD broadcasts (1920 x1080).
UMTS	-	Universal Mobile Telecommunications System - international standard for cellular communications developed from the GSM standard (“3G")
VoB	-	Voice over Broadband – Telephony and associated services in IP technology using fixed-line broadband access services
VoC	-	Voice over Cellular Broadband – Telephony services over a cellular data communications channel ("Mobile VoB Services")
VOD	-	Video on Demand – Television services per customer demand
VoIP	-	Voice over Internet Protocol – Technology enabling the transfer of voice messages (provision of telephony services) by means of IP protocol
Walla	-	Walla! Communications Ltd. and corporations under its control
Wi-Fi	-	Wireless Fidelity – Wireless access to the Internet within a local space
xDSL	-	Digital Subscriber Line Technology that uses the copper wires of telephone lines to transfer data (the Internet) at high speeds by using frequencies higher than the audible frequency and therefore enabling simultaneous call and data transfer

7. Appendix B - Key Performance Indicators

General

The following indicators, which are noted in the chapters of the Company's periodic report are undefined financial indicators or set out in generally accepted accounting principles included in the financial statements. The definition and/or calculation method of the indicators may change from time to time, they do not replace indicators based on generally accepted accounting principles and may not be calculated in the same way as parallel indicators in other companies.

Following are details of these indicators, including according to the revised Israel Securities Authority Resolution 99-6 regarding the use of financial indicators that are not based on generally accepted accounting principles.

Financial indicators

EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. The EBITDA indicator is generally accepted in the Company's area of `operations that counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. The Company's EBITDA is calculated as operating profit before depreciation, amortization and impairment (ongoing losses from the impairment of property, plant and equipment and intangible assets). As of January 1, 2019, and in order to enable the proper presentation of economic activity, the Company presents ongoing losses from the impairment of property, plant and equipment and intangible assets in DBS and Walla under Depreciation and Amortization, and ongoing losses from the impairment of broadcasting rights under Operating and General Expenses (in the Income Statement).

Free Cash Flow (FCF)

The Company's free cash flow is calculated as cash from current activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net, and from 2018, with the application of IFRS 16, payments for leases are also deducted. This indicator is a generally accepted indicator in the Company's area of operation in general and presents the cash that the Company can generate after the investment required to maintain or expand its asset base.

Key Performance Indicators

ARPU (Average Revenue Per User)

The ARPU indicator reflects the average monthly revenue per line/subscriber/household and is calculated as a division of the relevant average total monthly revenues for a period by the average number of active lines/subscribers/households in the same period, as the case may be. It is clarified that the Group has four main areas of operation, which are parallel to the corporate division between the Group Companies and the definition of an active subscriber differs between areas of operation.

Churn rate

The churn rate reflects the ability of the Company to maintain its customer base and is calculated by dividing the number of lines/subscribers/households disconnected from the Company's services in a period by the average number of active lines/subscribers/households in the same period, as the case may be. It is clarified that the Group has four main areas of operation, which are parallel to the corporate division between the Group Companies and the definition of an active subscriber differs between areas of operation.

Chapter B -

Board of Directors' Report on the State of the Company's Affairs for the Year Ended December 31, 2019

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.

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 year ended December 31, 2019.

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.

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

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

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

The Group's results were as follows:

	2019	2018	Increase(decrease)	
	NIS millions	NIS millions	NIS millions	%
Loss	**(1,087)**	(1,066)	(21)	2.0
EBITDA	**2,901**	1,641	1,260	76.8

The above change was due to a NIS 1.5 billion increase in operating profit, mainly due to capital gains on the sale of the Sakia land asset. Results were also affected by impairment losses and expenses for termination of employment by way of early retirement being lower than last year. This increase was offset by DBS's derecognition of the tax asset for losses of NIS 1,166 million, as detailed below.

	2019	2018
EBITDA calculations	NIS millions	NIS millions
Operating profit	**989**	(548)
Depreciation, amortization and impairment	**1,912**	2,189
EBITDA	**2,901**	1,641

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is a common assessment metric in the Group's industry, which neutralizes the effects of differences in capital structure, various tax effects, and amortization methods and periods for fixed and intangible assets. The Group's EBITDA is calculated as operating profit before 'depreciation, amortization and impairments' (continuing losses from impairment of fixed and intangible assets). Starting January 1, 2019, and to adequately present economic activity, the Group presents continuing losses from impairment of fixed and intangible assets in DBS and Walla under the depreciation and amortization item. Furthermore, continuing losses from impairment of broadcasting rights are presented under operating and general expenses (in the income statement). See also Notes 3.11.2 and 11.4 to the financial statements.

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

1.1. Financial position

	December 31, 2019	December 31, 2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Cash and current investments	**1,595**	2,294	(699)	(30.5)	The decrease was mainly recorded in Domestic Fixed-Line Communications, including due to repayment of loans and debentures in 2019. For more information, see Section 1.3 - Cash Flows, below.
Current trade and other receivables and non-current	**2,479**	2,510	(31)	(1.2)	The decrease was mainly due to a decrease in trade receivables in the Cellular Communications segment, mainly due to lower revenues from installment-based handset sales. In the Domestic Fixed-Line Communications segment, current tax assets were also down, offset by an increase in trade receivables from real estate sales.
Inventory	**93**	97	(4)	(4.1)	
Held-for-sale assets	**43**	-	43	-	
Broadcasting rights	**59**	60	(1)	(1.7)	
Right-of-use assets	**1,292**	1,504	(212)	(14.1)	The decrease was attributable to all of the Group's main operating segments. See Note 9.1 to the financial statements.
Property, plant and equipment	**6,096**	6,214	(118)	(1.9)	
Intangible assets	**935**	1,919	(984)	(51.3)	The decrease was mainly due to a NIS 951 million impairment of goodwill attributable to the Cellular Communications segment. See Note 11.2 to the financial statements.
Deferred costs and non-current investments	**386**	462	(76)	(16.5)	The decrease was mainly due to redemption of a deposit used as collateral for hedges in Domestic Fixed-Line Communications operations, and impairment of long-term advances on bandwidth capacity. See Note 11.5 to the financial statements.
Deferred tax assets	**59**	1,205	(1,146)	(95.1)	The decrease was due to a NIS 1,166 million de-recognition of the tax asset for DBS's losses, effected as a change of an accounting estimate. See Note 7.6 to the financial statements.
Investment property	**-**	58	(58)	(100)	The balance was de-recognized after completion of the Sakia land asset's sale and recognition of capital gains (see Note 13 to the financial statements).
Total assets	**13,037**	16,323	(3,286)	(20.1)	

1.1 Financial Position (Contd.)

	December 31, 2019	December 31, 2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Debt to financial institutions and debenture holders	**9,558**	11,179	(1,621)	(14.5)	This decrease in debt balances was due to loan and debenture repayments, including through early repayment. These were offset by debenture issuances and new loans in the Domestic Fixed-Line Communications segment. For more information, see Note 15 to the financial statements.
Liabilities for leases	**1,385**	1,551	(166)	(10.7)	For more information, see Note 9.2 to the financial statements.
Trade and other payables	**1,413**	1,690	(277)	(16.4)	The decrease was mainly due to de-recognition of a liability from the buyer's advance on the Sakia land asset after completion of the asset's sale and recognition of capital gains (see Note 13 to the financial statements). The decrease was further due to a decrease in trade payables in Multi-Channel Television operations.
Employee benefits	**1,010**	1,026	(16)	(1.6)	The change was mainly due to provisions for streamlining plans implemented in all Group segments, offset by retirement payments. For more information, see Note 18 to the financial statements.
Current and deferred tax liabilities	**43**	56	(13)	(23.2)	
Other liabilities	**313**	387	(74)	(19.1)	The decrease was attributable to the Domestic Fixed-Line Communications segment, due to a decrease in provisions for legal actions and derivatives.
Total liabilities	**13,722**	15,889	(2,167)	(13.6)	
Total equity	**(685)**	434	(1,119)	-	The equity deficit comprises 5.3% of the balance sheet total, as compared to equity comprising 2.7% of the balance sheet total on December 31, 2018. The transition to an equity deficit was mainly due to present-year losses, driven mainly by de-recognition of the tax asset for DBS's losses and impairment of goodwill attributable to Cellular Communication operations.

1.2. Results of operations

1.2.1. Highlights

	December 31, 2019	December 31, 2018	Increase (decrease)		Explanation
	NIS millions			%	
Revenues	**8,929**	9,321	(392)	(4.2)	The decrease was due to lower revenues across all of the Group's core segments.
General and operating expenses	**3,263**	3,379	(116)	(3.4)	The decrease was attributable to the Multi-Channel Television, Domestic Fixed-Line Communications and Cellular Communications segments.
Salaries	**1,933**	1,992	(59)	(3.0)	The decrease was mainly attributable to the Internet, International Long-Distance, and NEP Services, and Multi-Channel Television segment, mainly due to a downsizing.
Depreciation, amortization and impairment	**1,912**	2,189	(277)	(12.7)	The decrease in these expenses was mainly due to impairment of depreciable assets and excess acquisition costs in DBS in the fourth quarter of 2018. On the other hand, the item included an ongoing impairment of DBS's assets (property, plant and equipment and intangible assets). See Note 11.4 to the financial statements.
Impairment loss	**1,053**	1,675	(622)	(37.1)	In the present year, the Company recognized a NIS 951 million impairment to goodwill attributable to Cellular Communications operations. For details, see Note 11.2 to the financial statements. The Company also recognized losses of NIS 102 million on impairment of its Internet and International Long-Distance, and NEP Services segment. See Note 11.5 to the financial statements. Last year, the Company recognized a loss on impairment of assets in Multi-Channel Television operations to the amount of NIS 1,638 million (see Note 11.4 to the financial statements), and a NIS 37 million impairment loss in Walla.
Other operating expenses (income), net	**(221)**	634	(855)	-	The transition from expense to income was attributable to the Domestic Fixed Line Communications segment, mainly due to a capital gain of NIS 403 million on the sale of the Sakia land asset (see Note 13 to the financial statements). The change was also due to expenses from termination of employment by way of early retirement being lower, year-on-year. The change was partially offset by expenses from termination of employment by way of early retirement, due to streamlining and synergy-promoting initiatives across the Group's other key segments (see Notes 18.5 and 26 to the financial statements).
Operating profit (loss)	**989**	(548)	1,537	-	
Finance expenses, net	**549**	435	114	26.2	The increase in net finance expenses was mainly attributable to the Domestic Fixed-Line Communications and Multi-Channel Television segments.
Share in losses of investees	**(2)**	(3)	1	(33.3)	
Income tax	**1,525**	80	1,445	-	Taxes were up mainly following reversal of the tax asset recognized on DBS's losses and recognition of NIS 1,166 million in expenses, and an increase in taxable income. See Note 7 to the financial statements.
Loss for the year	**(1,087)**	(1,066)	(21)	2.0	

1.2.2. Operating segments

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

	2019		2018	
	NIS millions	% of total revenues	NIS millions	% of total revenues
Revenues by operating segment				
Domestic Fixed-Line Communications	**4,073**	**45.6**	4,196	45.0
Cellular Communications	**2,362**	**26.5**	2,443	26.2
Internet, ILD, and NEP Services	**1,339**	**15.0**	1,391	14.9
Multi-Channel Television	**1,345**	**15.1**	1,473	15.8
Others and adjustments	**(190)**	**(2.1)**	(182)	(1.9)
Total	**8,929**	**100**	9,321	100

	2019		2018	
	NIS millions	% of segment revenues	NIS millions	% of segment revenues
Operating profit (loss) By operating segment				
Domestic Fixed-Line Communications	**2,142**	**24.0**	1,224	29.2
Cellular Communications*	**(99)**	**(1.2)**	(2)	(0.1)
Internet, ILD, and NEP services	**(57)**	**(0.6)**	116	8.3
Multi-Channel Television	**(135)****	**(1.5)**	(56)**	(3.8)
Others and adjustments	**(862)**	**-**	(1,830)	-
Consolidated operating profit (loss)/ % of Group revenues	**989**	**11.1**	(548)	(5.9)

* **Impairment losses in the Cellular Communications segment, detailed in Note 11.2 to the financial statements, are presented under 'Adjustments' item.**

** **Results for the Multi-Channel Television segment are presented after adjustment for impairment losses, as detailed in Note 11.4 to the financial statements. These impairment losses are presented under the 'Adjustments' item.**

1.2.2. Operating segments

B. Domestic Fixed-Line Communications Segment

	2019	2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Internet - infrastructure	**1,578**	1,596	(18)	(1.1%)	Revenues were down due to a decrease in the number of both retail and wholesale internet subscribers, offset by higher ARPU in the retail segment.
Fixed-line telephony	**1,039**	1,156	(117)	(10.1%)	The decrease was due to a decrease in the subscriber base and lower ARPU on phone lines.
Transmission, data communications and others	**1,182**	1,184	(2)	(0.2%)	The decrease in data communications results was offset by cellular handset sales.
Digital and cloud services	**274**	260	14	5.4%	The increase was attributable, among other things to IP Centrex services.
Total revenues	**4,073**	4,196	(123)	(2.9%)	
General and operating expenses	**565**	596	(31)	(5.2%)	The decrease was mainly due to a decrease in marketing and general expenses, building maintenance costs, and interconnect fees to telecom operators. These were offset by higher terminal equipment and material expenses, mainly through the sale of cellular handsets.
Salaries	**911**	912	(1)	(0.1%)	Salary expenses were down NIS 72 million, mainly due to employee retirements. This decrease was offset by a NIS 42 million increase in salaries, due to wage adjustments dictated by collective labor agreements. In light of the above, gross salary expenses (before discounting salaries for investment) saw a net decrease of NIS 30 million in the present year. This decrease was offset by a NIS 29 million decrease in salaries discounted for investment.
Depreciation and amortization	**861**	850	11	1.3%	
Other operating expenses (income), net	**(406)**	614	(1,020)	-	The change was due to capital gains on real estate sales, primarily NIS 403 million in capital gains on the sale of the Sakia land asset (see Note 13 to the financial statements). Furthermore, expenses recognized in the present year for termination of employment by way of early retirement (see Note 18.5.1 and Note 26 to the financial statements) were significantly lower than those recognized last year. Expenses for legal actions were also down in the present year.
Operating profit	**2,142**	1,224	918	75%	
Finance expenses, net	**569**	470	99	21.1%	This increase in net finance expenses was mainly attributable to finance expenses from employee benefits and costs from the early repayment of loans and debentures (see Note 15.2.2 to the financial statements). These were offset by finance income from debenture swaps, and lower interest costs due to loan repayments. Furthermore, in the corresponding period of last year, finance expenses were recognized from the fair value impairment of the amount expected to be repaid to the Company on DBS's acquisition.
Income tax	**381**	187	194	103.7%	
Segment profit	**1,192**	567	625	110.2%	

1.2.2 Operating segments

C. Cellular Communications segment

	2019	2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Services	**1,709**	1,755	(46)	(2.6)	The decrease was mainly due to lower rates and migration of existing customers to cheaper plans offering greater data volumes at current market prices. This decrease in rates was partially offset by growth in the post-paid customer base, and in roaming plan volumes.
Equipment sales	**653**	688	(35)	(5.1)	The decrease was mainly attributable to a decrease in retail handset sales, partially offset by increased wholesale sales.
Total revenues	**2,362**	2,443	(81)	(3.3)	
General and operating expenses	**1,373**	1,402	(29)	(2.1)	The decrease was mainly due to continued downsizing and streamlining of operating expenses.
Salaries	**373**	379	(6)	(1.6)	The decrease was mainly attributable to a reduction in the workforce.
Depreciation and amortization	**633**	655	(22)	(3.4)	
Other operating expenses	**82**	9	73	-	The increase was due to expenses of NIS 77 million recognized from renewal of the existing collective labor agreement which included streamlining and synergy-promotion initiatives (see Note 18.5.3 to the financial statements).
Operating (loss)	**(99)**	(2)	(97)	-	
Finance income, net	**39**	34	5	14.7	
Income tax	**(13)**	8	(21)	-	
Segment profit (loss)	**(47)**	24	(71)	-	

For information concerning impairment in the Cellular Communications segment, see Note 11.2 to the financial statements.

1.2.2 Operating segments

D. Internet, International Long-Distance, and NEP Services

	2019	2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenues	**1,339**	1,391	(52)	(3.7)	The decrease was mainly due to lower revenues from international calls and internet operations and the sale of outsourcing operations in 2018. This decrease was offset by higher revenues from services and equipment to businesses.
General and operating expenses	**782**	778*	4	0.5	The increase was due to higher local and international bandwidth expenses and higher cost of sales on licensing and equipment to businesses. The increase was mainly offset by lower international call and other expenses.
Salaries	**261**	300*	(39)	(13.0)	The decrease was due to a workforce downsizing and the sale of outsourcing operations in 2018.
Depreciation and amortization	**190**	194	(4)	(2.1)	The decrease was due to a one-time adjustment to ILD capacity depreciation expenses in the corresponding period of last year.
Other operating expenses	**163**	8	155	-	The increase was mainly due to a NIS 102 million loss from impairment of assets (see Note 11.5 to the financial statements), and recognition of NIS 45 million in expenses from a collective labor agreement which includes streamlining and synergy-promoting initiatives (see Note 18.5.3 to the financial statements). Results were also affected by an increase in provisions for legal actions.
Operating profit (loss)	**(57)**	111	(168)	(151.0)	
Finance expenses, net	**6**	10*	(4)	(40.0)	
Share in the earnings of investees	**-**	1	(1)	(100)	
Income tax expenses (income)	**(13)**	25	(38)	(152.0)	
Segment profit (loss)	**(50)**	77	(127)	(165.0)	

* Re-stated to match the Group's method for presenting expenses

1.2.2. Operating segments

E. Multi-Channel Television

	2019	2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenues	**1,345**	1,473	(128)	(8.7)	The decrease was mainly due to a decrease in the customer base and in ARPU.
General and operating expenses	**895**	956	(61)	(6.4)	The decrease was mainly due to lower advertising and marketing expenses, and lower subcontractor and content costs.
Salaries	**209**	233	(24)	(10.3)	The decrease was mainly attributable to a reduction in the workforce.
Depreciation and amortization	**334**	323	11	3.4	The increase was mainly due to the impairment of STB boxes.
Other operating expenses	**42**	17	25	147	The increase was mainly due to NIS 45 million in expenses recognized on an employee retirement arrangement which included streamlining and synergy-promoting initiatives (see Note 18.5.3 to the financial statements), offset by an adjustment to the provision for legal actions.
Operating (loss)	**(135)**	(56)	(79)	141	
Finance expenses (income), net	**12**	(11)	23	-	The change in net finance expenses was mainly due to changes in the fair value of financial assets, offset by lower finance costs following debenture repayments.
Income tax	**2**	3	(1)	(33.3)	
Segment (loss)	**(149)**	(48)	(101)	210	

* Results for the Multi-Channel Television segment are presented after adjustment for impairment losses, as detailed in Note 11.4 to the financial statements. For more information, see Note 29 to the financial statements.

1.3. Highlights from the Group's consolidated quarterly statements of income (NIS millions)

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019	Explanation
Revenues	2,256	2,224	2,247	2,202	**8,929**	
Operating expenses	1,745	2,318	1,788	2,089	**7,940**	The second quarter of 2019 included NIS 951 million in losses on impairment of goodwill attributed to Cellular Communications operations, offset by NIS 403 million in capital gains on the sale of the Sakia land asset. Data for the fourth quarter of 2019 include expenses from termination of employment by way of early retirement in the Domestic Fixed-Line Communications and Cellular Communications segments, to the amount of NIS 137 million and NIS 77 million, respectively (see Note 18.5 to the financial statements). Data also include losses of NIS 102 million on impairment of assets in Internet, International Long-Distance and NEP Services operations. See Note 11.5 to the financial statements.
Operating profit (loss)	511	(94)	459	113	**989**	
Finance expenses, net	99	136	205	109	**549**	Data for the third quarter of 2019 include NIS 73 million in finance costs from early repayment of loans and debentures.
Profit (loss) after finance expenses, net	412	(230)	254	4	**440**	
Share in losses of investees	-	(1)	(1)	-	**(2)**	
Profit (loss) before income tax	412	(231)	253	4	**438**	
Income tax	112	1,342	62	9	**1,525**	Taxes were up in the second quarter of 2019, following reversal of the tax asset recognized on DBS's losses, and derecognition of NIS 1,166 million in tax expenses (see Note 7 to the financial statements).
Profit (loss) for the period	300	(1,573)	191	(5)	**(1,087)**	
Basic earnings (loss) per share (NIS)	0.11	(0.57)	0.07	-	**(0.39)**	

<u>* Fourth quarter 2019 vs. fourth quarter 2018</u>.

Loss in the fourth quarter totaled NIS 5 million, as compared to a loss of NIS 1,755 million in the same quarter last year. This change was mainly due to last year's quarter including losses of NIS 1,638 million on impairment of DBS's assets, as well as NIS 452 million in expenses from termination of employment by way of early retirement.

1.4. Cash Flow

	2019	2018	Change		Explanation
	NIS millions	NIS millions	NIS millions	%	
Net cash from operating activities	**2,924**	3,512	(588)	(16.7)	This decrease in net cash from operating activities was reported across all of the Group's core segments. The decrease was most notable in the Domestic Fixed-Line Communications segment, due to changes in working capital, including employee retirement payments.
Net cash used in investing activities	**(883)**	(2,552)	1,669	(65.4)	The decrease in net cash used in investing activities was mainly due to net proceeds from redemption of bank and other deposits in the Domestic Fixed-Line Communications segment, as compared to net investment (of NIS 1.1 billion) recorded last year. Furthermore, 2019 included greater inflows from the sale of the Sakia property, as compared to betterment tax payments on this sale last year.
Net cash used in financing activities	**(2,531)**	(2,251)	(280)	12.4	Net cash used in financing activities was up due to loan and debenture repayments, partially offset by debenture issuances and receipt of new loans in the Domestic Fixed-Line Communications segment (see Note 15 to the financial statements). However, no dividend was paid out in the present year.
Net increase (decrease) in cash	**(490)**	(1,291)	801	(62.0)	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders - NIS 10,844 million.

Supplier credit: NIS 836 million. Short-term credit to customers: NIS 1,745 million. Long-term credit to customers: NIS 320 million.

1.4 Cash Flows (contd.)

Working Capital

As of December 31, 2019, the Group had a working capital surplus of NIS 118 million, as compared to a working capital deficit of NIS 2 million on December 31, 2018.

According to its separate financial statements, the Company had a working capital deficit of NIS 44 million as of December 31, 2019, as compared to a working capital deficit of NIS 169 million on December 31, 2018.

The change in the Group's and the Company's working capital was due to a decrease in current liabilities, mainly following loan and debenture repayments coupled by the raising of longer-duration debt (see Note 15 to the financial statements). This decrease was mostly offset by a decrease in cash balances and current investments.

The Company's Board of Directors has reviewed, among other things, the Company's cash requirements and resources, both at present and in the foreseeable future, has reviewed the Company's investment needs, the Company's available credit sources, and has conducted sensitivity analysis to unexpected deterioration in the Company business. The Company's Board of Directors has consequently determined that the aforesaid working capital deficit does not indicate any liquidity problem in the Company and that there is no reasonable concern that the Company will fail to meet its existing and foreseeable obligations on time. The Company can meet its cash requirements at present and in the foreseeable future, even in the event of an unexpected deterioration in its business, both through its available cash balances, by generating cash from operations, through sources of liquidity (net) in subsidiaries, and by raising and recycling significant volumes of debt from bank and non-bank sources.

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

1.5. Disclosure on the Company's projected cash flows

According to Regulation 10(b)(14) to the Securities Regulations (Periodic and Immediate Reports), 1970, and given the relevant 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 January 1, 2020 and ending December 31, 2021.

Projected cash flows	**From January 1, 2020 through December 31, 2020**	**From January 1, 2021 through December 31, 2021**
Company - separate	**NIS millions**	**NIS millions**
Cash and cash equivalents at the beginning of the period	**134***	**1,105**
Sources - Company		
Net cash from operating activities	**1,833**	**1,967**
Proceeds from the sale of property, plant and equipment	290	66
Proceeds from redemption of bank and other deposits	1,139	101
Miscellaneous	58	58
Cash flows from investing activities	1,487	225
Debenture issuance and new loans	550**	900**
Cash flows from financing activities	**550**	**900**
Total sources - Company	**3,870**	**3,092**
Sources from investees		
Loans from investees	90	83
Repayment of loans to investees	48	-
Miscellaneous	1	-
Total cash from investees	**139**	**83**
Total sources	**4,009**	**3,175**
Projected liabilities (expected uses) - Company		
Acquisition of fixed assets and investment in intangible assets	(854)	(907)
Investment in bank and other deposits	(100)	-
Cash used in investing activities	**(954)**	**(907)**
Repayment of bank loans	(344)	(762)**
Repayment of debentures (public)	(564)	(570)
Repayment of private debentures and non-bank credit	(562)**	(98)
Principal and interest payments on leases	(112)	(115)
Interest payments and other finance expenses	(355)	(302)
Miscellaneous	(14)	(29)
Cash used in financing activities	**(1,951)**	**(1,876)**
Total uses - Company	**(2,905)**	**(2,783)**

* The Company has NIS 1,139 million invested in deposits and money market funds which can be utilized 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, private debentures and non-bank credit assume that the Company will continue to implement its plan to extend its debt duration in 2020-2021.

1.5 Disclosure on the Company's projected cash flows (contd.)

Projected cash flows	**From January 1, 2020 through December 31, 2020**	**From January 1, 2021 through December 31, 2021**
Company - separate	**NIS millions**	**NIS millions**
Uses for investees		
Investment in a subsidiary	(101)	(180)
Interest payment	**(32)**	**(37)**
Total cash used in investees	**(133)**	**(217)**
Total uses	**(3,038)**	**(3,000)**
Cash and cash equivalents at the end of the period	**1,105**	**1,280**

1.5 Disclosure on the Company's projected cash flows (contd.)

Comparison between the forecast presented in the Board of Directors' Report for the second quarter of 2019, and actual cash flows in the period between July 1, 2019 and December 31, 2019:

Comparison - separate Company cash flows	Actual performance 7-12.2019	Forecast under the Q2/2019 report	Difference	Explanation for difference
	NIS millions	NIS millions	NIS millions	
Cash and cash equivalents at the beginning of the period	**648**	**648**	**-**	
Separate Company sources				
Net cash from operating activities	**960**	**946**	**14**	
Proceeds from the sale of property, plant and equipment	27	53	(26)	
Proceeds from redemption of bank and other deposits	1,059	1,328	(269)	Redemption of short-term investments was less than planned
Miscellaneous	20	1	19	
Cash flows from investing activities	**1,106**	**1,382**	**(276)**	
Debenture issuances and new loans	1,365	1,888	(523)	Debenture swap transaction in lieu of debt-raising, and raising less debt than forecast due to a decrease in debt-raising needs
Cash flows from financing activities	**1,365**	**1,888**	**(523)**	
Total separate Company sources	**3,431**	**4,216**	**(785)**	
Sources from subsidiaries (investing/financing activities)				
Loans from subsidiaries	185	40	145	Increase in debt inflows from subsidiaries exceeded forecasts
Repayment of loans from subsidiaries	57	15	42	
Miscellaneous	2	1	1	
Cash from subsidiaries	**244**	**56**	**188**	
Total sources	**3,675**	**4,272**	**(597)**	

1.5 Disclosure on the Company's projected cash flows (contd.)

Comparison - separate Company cash flows (contd.)	Actual 7-12.2019	Forecast under the Q2/2019 report	Difference	Explanation for difference
	NIS millions	NIS millions	NIS millions	
Projected liabilities (expected uses) - Separate				
Acquisition of fixed assets and investment in intangible assets	(337)	(376)	39	
Investment in bank and other deposits	(287)	(55)	(232)	Short-term investment deposits exceeded forecasts
Cash used in investing activities	**(624)**	**(431)**	**(193)**	
Repayment of bank loans	(796)	(921)	125	Early loan repayments were below forecast
Repayment of debentures (public)	(1,108)	(1,112)	4	
Repayment of private debentures and non-bank credit	(1,167)	(1,167)	-	
Principal and interest payments on leases	(53)	(59)	6	
Interest payments and other finance expenses	(294)	(287)	(7)	
Miscellaneous	(46)	(44)	(2)	
Cash used in financing activities	**(3,463)**	**(3,590)**	**127**	
Total separate Company uses	**(4,088)**	**(4,021)**	**(67)**	
Uses in subsidiaries (investing/financing activities)				
Investment in a subsidiary	(75)	(95)	20	
Interest payment	(28)	(28)	-	
Cash used in subsidiaries	**(103)**	**(123)**	**20**	
Total uses	**(4,191)**	**(4,144)**	**(47)**	
Cash and cash equivalents at the end of the period	**134**	**776**	**(642)**	Cash balances, including short-term investments, as of December 31, 2019, totaled NIS 1,273 million, as compared to a forecast of NIS 1,415 million. A difference of negative 142 million. Cash composition has changed such that the weight of short-term investments is greater, and total cash is correspondingly lower. The balance complies with the Company's balance policy.

1.5 Disclosure on the Company's projected cash flows (contd.)

1. **Assumptions underlying the projected cash flows:**
Company projections concerning cash flows from operating activities and cash flows for investing activities:

   A. The cash flow projections for the Company and its investees for 2020 and 2021 are based on current assessments for said years.

   B. 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 assessments concerning trends expected in the telecom market in the next two years. These include assessments concerning market competition, prices, consumer preferences, regulatory arrangements, technological developments, and the economy at large. Operating, sales and marketing expenses have been adjusted to match the projected scope of operations. As such, the projection includes assumptions concerning streamlining initiatives in the Company's and its investees' workforce and the associated retirement and salary costs.

   C. Effects of the COVID-19 epidemic – The Company's forecast for its sources from operating activities and from investees does not include any possible future effects of the COVID-19 outbreak. For more details in this matter, see Section 3.3.1 below. The epidemic has far-reaching macro-economic effects, including on financial markets. Should markets continue to show increased volatility, the Company's estimates concerning early repayments and raising of funds for such repayments may fail to materialize in part or in full.

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

2. **Material liabilities due for maturity in the first six months of the projected cash flow period**

   Principal repayments in the period between January 1, 2020 and June 30, 2020 according to the Company's amortization schedules:

   May 2020 - a NIS 63 million repayment of bank loans.

   June 2020 - a NIS 160 million repayment of bank loans, and a NIS 40 million repayment of private debentures and non-bank credit.

   Sources for settling liabilities

   The Company has sufficient sources to settle its liabilities, through cash generated from operating activities, cash balances and investments in deposits and money market funds which can be utilized in the short term, and by raising debt from bank and non-bank sources.

3. The Board of Directors has reviewed and approved the sources included in the disclosure concerning projected cash flows, having found the scope of each source and its expected timing to be reasonable. Furthermore, the Board of Directors has reviewed any restrictions on receipt of loans and loan repayments from investees, and is satisfied that they can be expected to be received on time, as planned. The Company's forecast concerning its cash flows from operating activities and from investees does not include the possible impact of the coronavirus outbreak.

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 guarantee 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.

2. Aspects of Corporate Governance

2.1. Community involvement and donations by Group companies

According to the social responsibility policy approved by the Board of Directors, Bezeq contributes to the community out if its profound commitment to social responsibility, through cash donations, by donating services and telecom infrastructure, and encouraging employees to volunteer in a range of community projects.

The bulk of Bezeq's monetary donations focus on education, and on bridging the digital gap in Israel.

In 2019, the Group donated a total of NIS 5.6 million.

Bezeq has also aided non-profit organizations and under-privileged individuals to the amount of NIS 1.3 million through telecom services.

Company donations in excess of NIS 50,000 to charitable organizations with ties to the Company, a director, the CEO, the controlling shareholder or his relatives, were as follows:

Donation recipient	Value of Company donation (NIS)	Ties between the donation recipient and the Company, a director, CEO, controlling shareholder or his relative
Interdisciplinary Center Herzliya	70,000	Mr. Ran Fuhrer, a Company director, holds 100 Taf-class ordinary shares out of a total of 5,000 Taf-class ordinary shares in the Interdisciplinary Center Herzliyah.
Friends of the Shiba Medical Center – Tel Hashomer	70,000	A company controlled by Mr. Shlomo Rodav, Chairman of the Company's Board, donated to the Friends of the Sheba Medical Center – Tel Hashomer.

2.2. Disclosure concerning the auditor's fees

Below are the fees paid to the auditors of the principal consolidated companies in the Group for auditing and audit-related services:

Company	Auditor	Details	2019		2018	
			Fees (NIS Thousands)	Hours	Fees (NIS Thousands)	Hours
Bezeq - The Israel Telecommunications Corp. Ltd.	Somekh Chaikin	Audit and audit-related services	1,700	15,500	2,900	16,000
		Other services[1]	596	1,898	234	720
Pelephone Communications Ltd.	Somekh Chaikin	Audit and audit-related services	670	6,500	1,160	7,500
		Other services[1]	327	778	321	877
Bezeq International Ltd.	Somekh Chaikin	Audit and audit-related services	417	4,630	620	4,700
		Other services[1]	133	423	193	747
D.B.S. Satellite Services (1998) Ltd.	Somekh Chaikin	Audit and audit-related services	580	5,400	1,000	6,700
		Other services[1]	26	66	90	237

The auditors' fees were discussed by the Board of Directors Financial Statements Examination Committee, and approved by the Company's Board of Directors and the boards of each of the Group companies. The fees were determined on the basis of the hours worked and the hourly rate in the previous year, adjusted for changes and events which occurred in the reporting year.

[1] "Other services" rendered to key companies in the Group in 2019 and 2018 included, among other things, tax and accounting consultancy services and special certifications.

2.3. Directors with accounting and financial expertise and independent directors

Information concerning directors with accounting and financial expertise and independent directors is included in Sections 2 and 9 to the corporate governance questionnaire and in Section 14 of Chapter D to the periodic report.

2.4. Disclosure concerning the internal auditor in a reporting company

Details	
Internal auditor	Lior Segal
Start of tenure date	January 24, 2011
Compliance with statutory requirements	The internal auditor complies with the conditions set forth in Section 3(a) and 8 to the Internal Audit Law, and Section 146(b) to the Companies Law.
Employment method	Company employee.
Method of appointment	**Manner of appointment and summary of reasons for approving the appointment:** The appointment was approved by the Board of Directors on January 24, 2011, following the Audit Committee's recommendation. Prior to his appointment, the internal auditor served as manager of internal processes and controls and as corporate governance compliance officer. The appointment was based on his qualifications and professional experience. **Duties, powers, and tasks of the internal auditor:** The powers and responsibilities of the Company's internal auditor are set forth in the Company's internal audit procedure, approved by the Company's Audit Committee. According to the procedure, the internal auditor's responsibilities and powers are as follows: Examining propriety of actions carried out by the Company, its officers and personnel, examining the integrity of financial and operating information, examining financial and liability management, and examining the Company's IT systems and its information security set-up. The internal auditor is also charged with investigating employee complaints according to the arrangements set forth by the Audit Committee pursuant to Section 117(6) to the Companies Law, 1999. The internal auditor is authorized to receive any information, explanation, and document required for the performance of his duties; he has right of access to all regular or computerized data bank, database, and automated or non-automated data processing work plan of the Company and its units; and to be granted entry to all Company property. The internal auditor is also entitled to be invited to all Management, Board of Directors and Board committee meetings.
The internal auditor's organizational supervisor	in 2019 - Chairman of the Board. On March 2, 2020, the Company's Board of Directors decided to change the internal auditor's organizational supervisor, placing him under the supervision of the Company's CEO.
Work plan	In 2019, the internal auditor followed an annual work plan, derived from the work plan for the period 2019-2021. **Considerations in determining the internal audit work plan** The guiding principle underlying the internal audit work plan is the risk inherent in the Company's processes and operations. To assess these risks, the internal audit referred to a Company risk survey conducted by the risk management officer, and to other sources which affected the risk assessment in those processes, such as meetings with Management, findings from previous audits, and other relevant activities. The main considerations taking into account in formulating the work plan are reasonable coverage of most of the Company's operating activities based on exposure to material risks, considering existing controls in the Company's operations and previous audit findings. **Parties involved in formulating the work plan** The internal auditor, Management, the CEO, the Board of Directors' Audit Committee, and the Chairman of the Board.

2.4 Disclosure concerning the internal auditor in a reporting company (contd.)

Details	
Work plan	**<u>The party accepting and approving the work plan</u>** The Board of Directors' Audit Committee. **<u>The auditor's discretion in deviating from the work plan</u>** The Chairman of the Board or the chairman of the Audit Committee may propose topics which urgently require auditing, and may also recommend narrowing or halting an audit approved in the work plan. The internal auditor is granted discretion to deviate from the work plan. **<u>Examination of material transactions</u>** The internal auditor attends discussions at Board meetings where material transactions are approved and reviews the relevant material sent in preparation for these discussions.
Internal audit's review of material investees	The work plan for the Company's internal audit unit does not include an audit of material investees. Until January 7, 2019, the internal auditor also served as internal auditor for Pelephone Communications Ltd. Starting January 7, 2019, one internal auditor oversees the material investees (as an employee of said investees), as part of the efforts to consolidate internal auditing activities in these investees. Investee audit reports are discussed by the boards of these companies, which include directors also serving as Company directors. The internal auditor may, under the Company's internal audit procedure and at his discretion, obtain the audit reports of these subsidiaries and he is obligated to meet with each of the subsidiaries' internal auditors at least once a year, to discuss the audit plan and its implementation in the subsidiary. The internal auditor routinely conducts these meetings and receives audit reports from the subsidiaries' auditor.
Scope of employment	9,500 hours. This includes internal auditing hours worked by third parties and four full-time internal auditors, in addition to the internal auditor. The scope of employment is set according to the audit work plan, formulated in accordance with the scope and complexity of the activities of the various companies. In 2018, the scope of employment was higher, as these hours also included a significant number of hours worked by persons employed by the internal auditor to carry out the works detailed in Chapter E to the periodic report for 2018 and which included a special examination of corporate governance in the Bezeq Group, examining the adequacy of corporate controls, and examination of the Board of Directors' operating procedure. <u>Scope of internal audit activities in material investees in 2019:</u> Pelephone - 3,100 hours; Bezeq International - 2,300 hours; DBS - 2,300 hours.

2.4 Disclosure concerning the internal auditor in a reporting company (contd.)

Details	
Preparation of the audit	The internal audit is conducted in accordance with the Companies Law, 1999, and the Internal Audit Law, 1992, and complies with generally accepted auditing standards set by the Institute of Internal Auditors (IIA). The internal auditor is certified for assurance of internal audit quality (QAR) and as an internal auditor (CIA) by the Institute of Internal Auditors in Israel (IIA). The internal auditor also well familiar with internal audit standards. Internal audit activities are also subject to periodic reviews. The internal auditor has advised the Audit Committee and the Board of Directors on the standards used in internal audit activities.
Access to information.	The internal auditor was supplied with documents and information as stipulated in Section 9 of the Internal Audit Law, and he was granted permanent and direct access to the Company's information systems, including financial data.
Internal auditor's report.	The internal auditor submits audit reports in writing. Audit reports are submitted regularly during the reporting year to the Chairman of the board, the CEO, and to the chairman and members of the Audit Committee. Reports are submitted near the date of discussion by the Committee (usually three days before the said date). The Audit Committee discussed audit reports on the following dates: January 15, 2019; February 10, 2019; February 28, 2019; May 6, 2019; June 17, 2019; September 15, 2019; September 25, 2019; October 28, 2019; and December 22, 2019. In addition to the audit reports, the auditor submitted reviews and reports to the Audit Committee on various matters as requested by the Committee, and briefed the Committee on the implementation of the decisions in the audit reports that were discussed by the Committee (some, in meetings held in addition to the ones noted above). For information concerning the main audit topics, see the corporate governance questionnaire.
The Board of Directors' assessment of the internal auditor's work	The Board of Directors believes that the scope of the Company's audits, the nature and continuity of the internal auditor's activities as well as the audit work plan, are reasonable under the circumstances and can achieve the goals of the audit.
Compensation	The terms of the internal auditor's employment were discussed and approved by the Company's Audit Committee and Board of Directors on March 20, 2017, and March 29, 2017, respectively, and were updated as follows: Total monthly salary of NIS 50,000 and an annual bonus based on pre-determined targets set by the Audit Committee and approved by the Board of Directors, of up to 62.5% of the annual salary excluding ancillary costs. On March 18, 2020, the Company's Board of Directors approved the 2019 bonus for the Company's internal auditor to the amount of NIS 274 thousand (45.6% of his annual fee). The Board of Directors believes that the compensation paid to the internal auditor did not affect his professional judgment.

3. Disclosure Concerning the Company's Financial Reporting

3.1. Disclosure of valuations

Extremely material valuations and a material valuation pursuant to Regulation 8B to the Securities Regulations (Periodic and Immediate Reports), 1970: Pelephone's valuation as of June 30, 2019 is included in these financial statements by way of reference to the Company's financial statements as of June 30, 2019, published on August 29, 2019.

	Pelephone - Extremely material valuation as of Dec. 31, 2019	**Pelephone - Extremely material valuation as of Jun. 30, 2019 (attached to the financial statements as of Jun. 30, 2019). See Section 3.1.1 below.**	**Bezeq Fixed-Line Extremely material valuation as of Dec. 31, 2019**	**DBS - Extremely material valuation (attached to the financial statements as of December 31, 2019) See Section 3.1.2 below.**	**Bezeq International Material valuation as of Dec. 31, 2019**
Subject of valuation	Value in use of Pelephone's operations for test of impairment of goodwill recognized in the Company's financial statements in accordance with IAS 36.	Value in use of Pelephone to test for impairment of goodwill attributed for its operations in the Company's financial statements pursuant to IAS 36.	Value in use of Bezeq Fixed-Line's operations for test of impairment of goodwill recognized in the Company's financial statements in accordance with IAS 36.	Value in use of DBS Satellite Services (1988) Ltd. to test for impairment of the company's assets under IAS 36 requirements, and to assess NAV for DBS's assets to test for impairment of non-current assets.	Value in use of Bezeq International to test for impairment of assets.
Date of valuation	December 31, 2019; the valuation was signed on March 3, 2020.	June 30, 2019; the valuation was signed on August 25, 2019.	December 31, 2019; the valuation was signed on March 16, 2020.	December 31, 2019 the valuation was signed on March 9, 2020.	December 31, 2019 the valuation was signed on March 6, 2020.
Value prior to the valuation	NIS 1,119 million carrying amount of Pelephone's net operating assets* (NIS 76 million - goodwill).	NIS 2,165 million carrying amount of Pelephone's net operating assets* (NIS 1,027 million - goodwill).	NIS 5,293 million carrying amount of net operating assets of Bezeq Fixed-Line (NIS 265 million - goodwill).	Negative amount of NIS (76) million.	NIS 754 million carrying amount of Bezeq International Ltd.'s net operating assets.

	Pelephone - Extremely material valuation as of Dec. 31, 2019	Pelephone - Extremely material valuation as of Jun. 30, 2019 (attached to the financial statements as of Jun. 30, 2019). See Section 3.1.1 below.	Bezeq Fixed-Line Extremely material valuation as of Dec. 31, 2019	DBS - Extremely material valuation (attached to the financial statements as of December 31, 2019) See Section 3.1.2 below.	Bezeq International Material valuation as of Dec. 31, 2019
Value set in the valuation	NIS 1,390 million. The Company concluded that there is no impairment requiring a write-down of goodwill recognized in the Company's books.	NIS 1,214 million. The Company concluded that there is impairment requiring a write-down of NIS 951 million in goodwill recognized in the Company's books.	NIS 13,237 million. The Company concluded that there is no impairment requiring a write-down of goodwill recognized in the Company's books.	The value of the Company's operations is negative, amounting to NIS (581) million. In light of the negative value of these operations, the value of the company's non-current assets was set as the higher of either their fair value or zero. Thus, DBS's equity, as derived from the fair value of balance sheet items revalued under IAS 36 and IFRS 15 requirements, is negative (153) million NIS.	NIS 652 million. The Company recognized asset impairment losses of NIS 102 million (NIS 80 million, post-tax).
Assessor's identity and profile	The valuations were prepared by Prometheus Financial Advisory Ltd. The Valuation 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 valuation, financial statement analysis, preparing expert opinions, and performing various financial advisory studies for companies and businesses. The assessor has no dependence on the Company. The Company has undertaken to indemnify the assessor for damages exceeding three times their fee, unless they acted maliciously or in negligence.				
Valuation model	Discounted Cash Flow method (DCF).	Discounted Cash Flow method (DCF)	Discounted Cash Flow method (DCF).	Initially - Discounted Cash Flow method (DCF). Subsequently - fair value was established for DBS's non-current assets.	Discounted Cash Flow method (DCF).
Assumptions used in the valuation	Discounting rate - 10.3% (post-tax). Terminal growth rate - 2.5%. Scrap value of total value set in valuation - 93%.	Discounting rate - 10.3% Terminal growth rate - 2.5% Scrap value from total appraised value - 96%	Discounting rate - 7.5% (post-tax). Terminal growth rate - 0%. Scrap value of total value set in valuation - 67%.	Discounting rate - 8.5% (post-tax). Terminal growth rate - 0%. Scrap value of total value set - N/A	Discounting rate - 9.7% (post-tax). Terminal growth rate - 0.7%. Scrap value of total value set in valuation - 62%.

(*) Pelephone's net operating assets do not include trade receivable balances from installment-based handset sales presented at present value.

3. Disclosure of valuations (contd)

3.1.1. The period that elapsed between the effective date of Pelephone's valuation as of June 30, 2019 and the approval date of this report exceeds 90 days. As of December 31, 2019, an additional valuation was prepared in accordance with IAS 36, as presented in the table above.

3.1.2. Despite the negative value of DBS's operations, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 14.2.4 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.

3.1.3. In the Company's consolidated financial statements as of December 31, 2019, the value of the Bezeq - The Israel Telecommunications Corporation Ltd.'s segment, the Pelephone Communications Ltd. segment, the DBS Satellite Services (1998) Ltd. segment, and the Bezeq International segment exceeded 25% of the Company's assets. Prometheus Financial Advisory Ltd. thus constitutes an extremely material appraiser under the Israel Securities Authority's Staff Legal Position 105-30 ("the Staff Legal Position"). For disclosure concerning the appraiser in accordance with the Staff Legal Position, see the valuation attached to the financial statements.

3.1.4. Information under Regulation 10(b)(8) to the Securities Regulations (Periodic and Immediate Reports), 1970

As concerns Pelephone's valuation as of December 31, 2019, the Company has studied Pelephone's actual free cash flow data for the second half of 2019[2] as compared to the forecast included in Pelephone's valuation as attached to the report for the second quarter of 2019. This review found that Pelephone's free cash flows, according to its financial statements for the latter two quarters of 2019 were significantly higher than those included in the said valuation. The bulk of this difference was due to lower-than-forecast capital expenses and timing differences in operating working capital.

3.1.5. For more information, see Note 11 to the financial statements.

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

3.3. Material events subsequent to the financial statements' date

3.3.1. Epidemic - Coronavirus outbreak

At the start of 2020, a global outbreak began of the COVID-19 coronavirus, which constitutes an event with numerous effects, including macro-economic impact ("the Event"). In light of this Event, numerous countries, including Israel, are implementing drastic measures to try and prevent the virus's spread. These include restricting freedom of movement, gatherings, restrictions on public transport and transport of goods, border closures, etc. As a result, the Event and the said counter-measures are also having a significant effect on numerous economies and on capital markets worldwide.

As such, Group companies are monitoring the Event's development, and are studying its potential impact on their business. This impact may be expressed (and some are indeed already expressed, as detailed below), among other things, as disruptions to the operations of Group companies, including supply chains, customer service and repair service, employee availability, revenues from handset sales, and revenues from roaming services in Pelephone, as well as a general, country-wide decrease in business activity. This general drop in business activity creates payment problems for certain industries. As concerns the general drop in business activity, it is noted that some of these effects are already being felt by some

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[2] Free cash flows for these purposes are cash flows from operating activities, less capital expenses and less changes in interest-bearing trade receivables from installment-based handset sales (financial instrument).

of the Group's companies. Thus, on the one hand, there is a decrease in segments affected by tourism (including roaming), hospitality, travel, dining, cultural and recreational activity. On the other hand, there is a certain increase in segments affected by government activities, healthcare, people working from home, and households.

As of the reporting date, there has been a certain adverse effect on some of the above operations. However, at this time this effect is not yet material, and the Event has not yet had a material effect on the financial position and state of affairs of the Group's companies. However, naturally, the Event is still developing and is outside the Group companies' control. Thus, wide-spread infection by the virus and/or decisions by the Israeli government and countries and authorities in Israel or abroad may have corresponding effects.

The Group's companies are taking various actions to mitigate the risks and exposures caused by the Event. This includes increasing the number of staff working remotely, providing guidance to public-facing employees, stocking on necessary equipment, and working to increase inventory of equipment purchased from China and expanding supply sources for core products to additional countries.

At this time, the Group's companies cannot reliably estimate the quantitative effect that the Event is expected to have on their business. As concerns Pelephone - should international travel restrictions and disruption to handset supply chains continue for an extended period of time, Pelephone's revenues and profits in 2020 are expected to significantly decrease by tens of millions of NIS.

The assessments presented in this section constitute forward-looking information, as defined in the Securities Law. This information may be affected by various factors, including the continuation and spread of the coronavirus outbreak, measures taken by competent authorities to handle the Event and their effect on Group companies, customer and supplier behavior due to the Event and subsequent measures, the Group companies' ability to conduct their activities as aforesaid, etc.

It is noted that, on March 16, 2020, the CEO of the Ministry of Communications issued a letter concerning "Provision of Services during the Coronavirus Crisis". The letter states, among other things, that following the Knesset's declaration of a national state of emergency, the Group's companies (as well as other telecom organizations to whom the letter was sent) must make the following preparations, in addition to the Ministry of Health directors as issued from time to time: engineering and technician staff – 100%; service staff – 50%; headquarters staff – 30%. The Group's companies are operating accordingly: most of the service and headquarters' staff have been migrated to working from home, and some of the companies' employees have been required to go on leave.

3.3.2. For information on additional material events subsequent to the financial statements' date, see Note 33 to the financial statements.

4. Details of debt certificate series

Data on the Company's debentures in circulation, as of December 31, 2019:

		Debentures (Series 6)	Debentures (Series 7)	Debentures (Series 9)	Debentures (Series 10)
a.	Issue date (excluding expansions)	July 3, 2011	July 3, 2011	October 15, 2015	October 15, 2015
b	Total par value upon issue (including expansions)	NIS 2,999,981,609	NIS 733,759,000	NIS 2,144,968,000	NIS 881,683,808
c	Par value	NIS 1,499,988,965	NIS 107,123,690	NIS 2,144,968,000	NIS 881,683,808
d	Par value revalued to the reporting date (CPI-linked)	NIS 1,564,308,492	NIS 107,123,690	NIS 2,144,968,000	NIS 888,639,412
e	Accrued interest, revalued to the reporting date	NIS 4,838,028	NIS 136,761	NIS 6,524,278	NIS 1,629,172
f	Fair value as included in the financial statements	NIS 1,686,737,592	NIS 108,591,285	NIS 2,335,012,165	NIS 959,889,162
g	Stock exchange value	NIS 1,686,737,592	NIS 108,591,285	NIS 2,335,012,165	NIS 959,889,162
h	Type of interest	Fixed, 3.7%	Variable - STL for one year plus 1.4% margin	Fixed, 3.65%	Fixed, 2.2%
i	Principal repayment dates	December 1 every year from 2018 through 2022	December 1 every year from 2018 through 2022	December 1 every year from 2022 through 2025	December 1 every year from 2022 through 2025
j	Interest repayment dates	June 1 and December 1 every year, from Dec. 1, 2011 through Dec. 1, 2022	On March 1, June 1, September 1, and December 1 every year, from Sept. 1, 2011 through Dec. 1, 2022	June 1 and December 1 every year, from Dec. 1, 2015 through Dec. 1, 2025	June 1 and December 1 every year, from Dec. 1, 2015 through Dec. 1, 2025

4. Details of debt certificate series (contd.)

Data on the Company's debentures in circulation, as of December 31, 2019:

		Debentures (Series 6)	Debentures (Series 7)	Debentures (Series 9)	Debentures (Series 10)
k	Linkage	Principal and interest linked to increases in the CPI (base index - May 2011)	Unlinked	Unlinked	Principal and interest linked to increases in the CPI (base index - August 2015)
l	Liability in relation to Company's total liabilities	Material	Immaterial	Material	Material
m	Trustee	Reznik Paz Nevo Trusts Ltd. Contact - Yossi Reznik, CPA Email - yossi@rpn.co.il, Phone: 03-6389200, Fax: 03-6389222 Address - 14 Yad Harutzim St., Tel Aviv			
n	Rating	Debentures (Series 6, 7, 9, 10) are rated ilAA-/Negative by Standard&Poor's Maalot Ltd., and Aa2/Negative by Midroog Ltd. For current and historical rating reports for these debentures, see the Company's immediate reports (Midroog) of December 10, 2109 (ref. no. 2019-01-119932) and November 25, 2019 (ref. no. 2019-01-114685), as well as the Company's immediate reports (Maalot) of December 10, 2019 (ref. no. 2019-01-119938) and November 25, 2019 (ref. no. 2019-01-114592). The rating reports are included in this Board of Directors' Report by way of reference.			
o	Compliance with the deeds of trust	On December 31, 2019, the Company issued to the trustees of Debentures (Series 6, 7, 9, and 10) confirmations of its compliance with the deeds of trust for 2019.			
p	Pledges	As concerns Debentures (Series 6, 7, 9, and 10), the Company has undertaken not to create additional pledges on its assets unless it simultaneously create pledges toward the debenture holders and the lending banks (negative pledges) and subject to such exceptions as detailed in Note 15.4 to the financial statements.			

5. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of December 31, 2019, see the Company's reporting form on the MAGNA system, dated March 19, 2020.

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

Shlomo Rodav Chairman of the Board	Dudu Mizrahi CEO

Signed: March 18, 2020

Part C:

Consolidated Financial Statements for the Year Ended December 31, 2019

The information contained in these financial statements constitutes a translation of the financial statements published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Auditors' Report to the Shareholders of
"Bezeq" the Israeli Telecommunication Corporation Ltd.

We have audited the accompanying consolidated statements of financial position of "Bezeq" the Israeli Telecommunication Corporation Ltd. (hereinafter "the Company") as of December 31, 2019 and 2018 and the consolidated income statements, statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows, for each of the three years, in the period ended December 31, 2019. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries whose assets constitute approximately 1% of the total consolidated assets as of December 31, 2019 and 2018, and whose revenues constitute approximately 1% of the total consolidated revenues for the years ended December 31, 2019, 2018 and 2017. The financial statements of those companies were audited by other auditors, whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of December 31, 2019 and 2018 and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2019, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2019, and our report dated March 18, 2020 included an unqualified opinion on the effective maintenance of those components.

Without qualifying our abovementioned opinion, we draw attention to Note 1.3 regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in 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.

In addition, without qualifying our abovementioned opinion, we draw attention to lawsuits filed against the Company and its Subsidiaries which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 19.

Somekh Chaikin

Certified Public Accountants (Isr.)

March 18, 2020

Somekh Chaikin
KPMG Millennium Tower
17 Ha’arba’a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Auditors' Report to the Shareholders of

"Bezeq" the Israeli Telecommunication Corporation Ltd.

Regarding the Audit of Internal Control Components over Financial Reporting in accordance with paragraph 9b(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of “Bezeq" the Israeli Telecommunication Corporation Ltd. and its subsidiaries (hereinafter “the Company”) as of December 31, 2019. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company’s internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company’s internal control components over financial reporting based on our audit.

Audited Internal control components over financial reporting were determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel “Audit of Internal Control Components over Financial Reporting”, and its amendments (hereinafter “Auditing Standard (Israel) 911”). These components are:

(1) Entity level controls, including controls over the preparation and closure of the financial reporting process and general information technology controls;

(2) Controls over the revenue process;

(3) Controls over the salary process;

(4) Controls over the fixed assets process;

(5) Controls over the procurement process;

We conducted our audit in accordance with Auditing Standard (Israel) 911. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non-audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2019.

As described in the report on the effectiveness of internal controls over financial reporting and disclosures for the year ended December 31, 2019 of "Bezeq" the Israeli Telecommunication Corporation Ltd. (hereinafter “the Corporation”), regarding investigations conducted by the Israel Securities Authority and the Israel Police as detailed in section 1.1.5 of chapter A, description of the company operations. The Corporation does not have complete information concerning these investigations, their content, the materials and evidence in the possession of the legal authorities on this matter. Accordingly, the Corporation is unable to assess the impact of the investigations, their findings and their results on the Company, and on the financial statements of the Company and the estimates used in preparing these statements, if at all.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company’s consolidated financial statements as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and our report dated March 18, 2020 expressed an unqualified opinion on those financial statements, as well as references to Note 1.3 regarding the Israel Securities Authority’s (ISA) investigation of the suspicion of committing offenses under the Israel Securities’ Law and Penal Law, in 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.

In addition, references to Note 19 regarding lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated.

Somekh Chaikin

Certified Public Accountants (Isr.)

March 18, 2020

Consolidated Statements of Financial Position as at December 31

		2019	2018
Assets	**Note**	**NIS million**	**NIS million**
Cash and cash equivalents	4,3.3	**400**	890
Investments	5,3.3	**1,195**	1,404
Trade receivables	3.3, 6	**1,689**	1,773
Other receivables	3.3, 6	**313**	267
Inventory	3.10	**93**	97
Assets held for sale		**43**	-
Total current assets		**3,733**	4,431
Trade and other receivables	3.3, 6	**477**	470
Broadcasting rights, net of rights exercised	3.4, 8	**59**	60
Right-of-use assets	3.7, 9	**1,292**	1,504
Fixed assets	3.5, 10	**6,096**	6,214
Intangible assets	3.6, 11	**935**	1,919
Deferred expenses and non-current investments	12	**386**	462
Deferred tax assets	3.16, 7	**59**	1,205
Investment property	3.8, 13	**-**	58
Total non-current assets		**9,304**	11,892
Total assets		**13,037**	16,323

The attached notes are an integral part of the consolidated financial statements

Consolidated Statements of Financial Position as at December 31 (Contd.)

		2019	2018
	Note	NIS million	NIS million
Debentures, loans and borrowings	3.3, 15	**1,007**	1,542
Current maturities of liabilities for leases	3.7, 9	**416**	445
Trade and other payables	16	**1,413**	1,690
Employee benefits	3.12, 18	**654**	581
Provisions	3.13, 17	**125**	175
Total current liabilities		**3,615**	4,433
Loans and debentures	3.3, 15	**8,551**	9,637
Liability for leases	3.7, 9	**969**	1,106
Employee benefits	3.12, 18	**356**	445
Derivatives and other liabilities		**139**	174
Deferred tax liabilities	3.16, 7	**43**	56
Provisions	3.13, 17	**49**	38
Total non-current liabilities		**10,107**	11,456
Total liabilities		**13,722**	15,889
Total equity (deficit)	22	**(685)**	434
Total liabilities and equity		**13,037**	16,323

Shlomo Rodav	**Dudu Mizrahi**	**Yali Rothenberg**
Chairman of the Board of Directors	CEO	Bezeq Group CFO

Date of approval of the financial statements: March 18, 2020

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The attached notes are an integral part of the consolidated financial statements

Consolidated Statements of Income for the Year Ended December 31

	Note	2019 NIS million	2018 NIS million	2017 NIS million
Revenues	3.14, 23	**8,929**	9,321	9,789
Costs of activity				
General and operating expenses	24	**3,263**	3,379	3,891
Salaries	25	**1,933**	1,992	2,005
Depreciation, amortization, and impairment losses	9,10,11,12	**1,912**	2,189	1,715
Impairment loss	11	**1,053**	1,675	87
Other operating expenses (income), net	26	**(221)**	634	(19)
		7,940	9,869	7,679
Operating profit (loss)		**989**	(548)	2,110
Financing expenses	3.15, 27			
Financing expenses		**624**	516	477
Financing income		**(75)**	(81)	(60)
Financing expenses, net		**549**	435	417
Profit (loss) after financing expenses, net		**440**	(983)	1,693
Share in losses of equity-accounted investees		**(2)**	(3)	(5)
Profit (loss) before income tax		**438**	(986)	1,688
Income tax	3.16, 7	**1,525**	80	453
Profit (loss) for the year attributable to shareholders of the Company		**(1,087)**	(1,066)	1,235
Earnings (loss) per share (NIS)	28			
Basic and diluted earnings (loss) per share		**(0.39)**	(0.39)	0.45

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	2019 NIS million	2018 NIS million	2017 NIS million
Profit (loss) for the year	**(1,087)**	(1,066)	1,235
Remeasurement of a defined benefit plan, net	**(33)**	16	(11)
Additional items of other comprehensive income (net of tax)	**1**	26	3
Total comprehensive income (loss) for the year attributable to shareholders of the Company	**(1,119)**	(1,024)	1,227

The attached notes are an integral part of the consolidated financial statements

Comprehensive Statements of Changes in Equity for the Year Ended December 31

	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
Balance as at January 1, 2017	3,878	384	390	(88)	(2,361)	2,203
Profit for 2017	-	-	-	-	1,235	1,235
Other comprehensive income (loss) for the year, net of tax	-	-	-	3	(11)	(8)
Total comprehensive income for 2017	-	-	-	3	1,224	1,227
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders (Note 22)	-	-	-	-	(1,286)	(1,286)
Balance as at December 31, 2017	3,878	384	390	(85)	(2,423)	2,144
Loss in 2018	-	-	-	-	(1,066)	(1,066)
Other comprehensive income for the year, net of tax	-	-	-	26	16	42
Total comprehensive loss for 2018	-	-	-	26	(1,050)	(1,024)
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders (Note 22)	-	-	-	-	(686)	(686)
Balance as at December 31, 2018	**3,878**	**384**	**390**	**(59)**	**(4,159)**	**434**
Loss in 2019	**-**	**-**	**-**	**-**	**(1,087)**	**(1,087)**
Other comprehensive income (loss) for the year, net of tax	**-**	**-**	**-**	**1**	**(33)**	**(32)**
Total comprehensive loss for 2019	**-**	**-**	**-**	**1**	**(1,120)**	**(1,119)**
Balance as at December 31, 2019	**3,878**	**384**	**390**	**(58)**	**(5,279)**	**(685)**

The attached notes are an integral part of the consolidated financial statements

Consolidated Statements of Cash Flows for the Year Ended December 31

		2019	2018	2017
	Note	NIS million	NIS million	NIS million
Cash flows from operating activities				
Profit (loss) for the year		**(1,087)**	(1,066)	1,235
Adjustments:				
Depreciation and amortization	9,10,11,12	**1,912**	2,189	1,715
Impairment loss of assets	11	**1,053**	1,675	87
Capital gain, net	26	**(508)**	(15)	(66)
Share in losses of equity-accounted investees		**2**	3	5
Financing expenses, net	27	**497**	445	426
Income tax expenses	7	**1,525**	80	453
Change in trade and other receivables	6	**91**	241	193
Change in inventory		**(16)**	(5)	(35)
Change in trade and other payables	16	**(113)**	(138)	10
Change in provisions	17	**(49)**	81	15
Change in employee benefits	18	**(50)**	489	(33)
Change in other liabilities		**(8)**	-	(34)
Net income tax paid		**(325)**	(467)	(446)
Net cash from operating activities		**2,924**	3,512	3,525
Cash flow used for investing activities				
Purchase of fixed assets	10	**(1,095)**	(1,216)	(1,131)
Investment in intangible assets and deferred expenses	11,12	**(382)**	(390)	(399)
Investment in deposits with banks and others		**(2,067)**	(2,338)	(276)
Proceeds from bank deposits and others		**2,297**	1,244	564
Proceeds from the sale of fixed assets		**76**	160	98
Receipts from the sale of the Sakia property	13	**328**	155	-
Payment of permit fees, betterment tax, and purchase tax*	13	**(74)**	(121)	-
Receipt (payment) of betterment tax*	13	**5**	(80)	-
Miscellaneous		**29**	34	(4)
Net cash used in investing activities		**(883)**	(2,552)	(1,148)
Cash flow from financing activities				
Issue of debentures and receipt of loans	15	**1,865**	891	2,517
Repayment of debentures and loans	15	**(3,447)**	(1,567)	(1,587)
Payments of principal and interest for leases	9	**(414)**	(422)	-
Dividends paid	22	**-**	(686)	(1,286)
Interest paid	15	**(392)**	(421)	(415)
Costs for early repayment of loans and debentures	15.2	**(93)**	-	-
Miscellaneous		**(50)**	(46)	(12)
Payment to Eurocom DBS for acquisition of shares and DBS loan		**-**	-	(61)
Net cash used for financing activities		**(2,531)**	(2,251)	(844)
Increase (decrease) in cash and cash equivalents, net		**(490)**	(1,291)	1,533
Cash and cash equivalents as at January 1		**890**	2,181	648
Cash and cash equivalents as at the end of the year		**400**	890	2,181

* For the sale of the Sakia property, see Note 13

The attached notes are an integral part of the consolidated financial statements

1. General

1.1 Reporting Entity

Bezeq – The Israel Telecommunication Corporation Limited ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Group as at December 31, 2019 include the statements of the Company and its subsidiaries ("the Group") and the Group's interests in associates. The Group is a principal provider of communication services in Israel (see also Note – Segment Reporting).

1.2 Control in the Company

As from April 14, 2010, the controlling shareholder in the Company is B Communications Ltd. ("B Communications") which was under the indirect control of Eurocom Communications Ltd.

B Communications is an Israeli public company and its shares are traded through dual listing on the TASE and Nasdaq.

On December 2, 2019, the Company received notice from B Communications on the completion of the transaction with Searchlight II BZQ LP and a company controlled by the Fuhrer family (TNR Investments Ltd.). In the transaction, control of B Communications and the Company was transferred to these entities, after the liquidation of Eurocom Communications Ltd, under which the holdings in its subsidiary Internet Gold were sold.

1.3 Investigation of the Israel Securities Authority and the Police Force

1.3.1 On June 20, 2017, the Israel Securities Authority ("the ISA") began an open investigation ("the Investigation"), which included searches and seizure of documents at the offices of the Company and DBS).

As part of the Investigation, the former chairman of the Company's Board of Directors, the former CEO of the Company, the former CEO and CFO of DBS, and to the best of the Company's knowledge, other senior officers and officers in the Group were questioned ("the Parties under Investigation").

On November 6, 2017, the ISA issued a press release regarding the completion of the Investigation and the transfer of the Investigation file to the Tel-Aviv District Attorney (Taxation and Economics). In accordance with the notice, the ISA concluded that there is prima facie evidence establishing the involvement of the main suspects in the case in a number of offenses. It should be noted that in this context, on November 20, 2017, the Company and DBS received a "letter of notice to the suspect" according to which the investigation file for investigating the Company and DBS as suspects was transferred to the Prosecutor's Office for review.

On September 1, 2019, the Taxation and Economic Division of the Prosecutor's Office announced that it had notified the former controlling shareholder of the Company, and other senior officers of the Company and of DBS in the relevant period, that it was considering filing an indictment against them subject to a hearing, on suspicion of offenses of serious fraud, breach of trust, and reporting offenses under the Israel Securities Law ("the Prosecutor's Notice"). According to the Prosecutor's Notice, the hearing letter refers to suspicions in various cases, including impairing the work of the independent committee of the Company's Board of Directors that was addressing the Company's acquisition of DBS shares (for information about the transaction, see Note 14.2.1), fraud related to the receipt of compensation in the Company's acquisition of DBS, and impairing the work of the independent committee of the Company's Board of Directors that was addressing the agreement between DBS and Spacecom Ltd. ("Spacecom").

In addition, according to the Prosecutor's Notice, the latter informed the Company's former CEO and the former adviser to Bezeq Group that it is considering bringing charges against them, subject to a hearing, for offenses of fraud and breach of trust in their dealings with the former Director General of the Ministry of Communications. In this connection, the former CEO is also suspected of a reporting offense under the Israel Securities Law and obstruction of justice. In addition, according to the Prosecutor's Notice, the former CEO and former controlling shareholder are also accused of reporting offenses under the Israel Securities Law, and of obstruction of justice.

In addition, on February 18, 2018, a joint press release by the ISA and the Israel Police stated that in view of the evidence the ISA found in its investigation, which raised suspicions of additional offenses, a new joint investigation was opened on that date by investigators of the ISA and the Unit for Combating Economic Crime at Lahav 433 ("the New Investigation"), and a number of suspects were arrested, including senior officers of the Group (including the Company's controlling shareholder in the period relevant to the investigation, and the former CEO of the Company), who were released under restrictive conditions. On December 2, 2018, a spokesperson for the Israel Police and the ISA announced that the Investigation had been concluded ("the Announcement"). According to the Announcement, the Investigation case refers mainly to the alleged suspicion of bribery, fraud, and breach of trust by the controlling shareholder (at the times relevant to the Investigation) in Bezeq Group and the Walla! website. With the conclusion of the Investigation, the Israel Police and the ISA Authority believe that there is sufficient evidence in the case to substantiate the suspicions against the main parties involved in the affair, some of whom are former officers of the Company (the former controlling shareholder of the Company, the former CEO of the Company, a former director in the Company, and the former VP of strategy and business development of the Group). It should be noted that on February 28, 2019, suspicions against Prime Minister Benjamin Netanyahu were published. The suspicions include reference to the matters investigated in the New Investigation, including suspicions of exercising authority by Benjamin Netanyahu to promote matters relating to the business of a former controlling shareholder in the Company and to his economic interests and the economic interests of Bezeq Group. In addition, as the Attorney General's decision shows, he is considering charging the former controlling shareholder with criminal charges for bribery, offenses of obstruction of justice and coerced testimony, money laundering offenses and reporting violations under the Israel Securities Law.

On January 28, 2020, an indictment was filed at the Jerusalem district court against the former controlling shareholder in the Company, for various offenses, including bribery and misleading information in an immediate report.

1.3.2 Following the opening of the investigation, several civil legal proceedings were opened against the Company, former officers of the Company, and companies in the group of the former controlling shareholder in the Company, including motions for certification of a class action and petitions for disclosure prior to filing a motion for certification of a derivative claim. For further information, see Note 19.1(2).

1.3.3 The Company does not have full information about the investigations, their content, the materials and the evidence in the possession of the legal authorities. Accordingly, 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. 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 in the Investigations will be completed as required.

1.4 Definitions

In these financial statements:

<u>The Company</u>: Bezeq The Israel Telecommunication Corporation Limited

<u>The Group</u>: Bezeq The Israel Telecommunication Corporation Limited and its subsidiaries, as follows:

<u>Subsidiaries</u>: Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company, as set out in Note 14.

<u>Associates</u>: Companies, including a partnership, in which the Group's investment is included, directly or indirectly, in the consolidated financial statements on the equity basis.

<u>Investees</u>: Subsidiaries or associates

<u>Related parties</u>: As defined in IAS 24, Related Party Disclosures

<u>Interested parties</u>: As defined in paragraph (1) of the definition of an "interested party" in section 1 of the Securities Law, 1968

2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the Securities Regulations (Annual Financial Statements), 2010

The consolidated financial statements were approved by the Board of Directors on March 16, 2020

2.2 Functional currency and presentation currency

The consolidated financial statements are presented in NIS, which is the Group's functional currency, and have been rounded to the nearest million. NIS is the currency that represents the principal economic environment in which the Group operates.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

* Derivative financial instruments, including financial derivatives, at fair value through profit or loss
* Inventories measured at the lower of cost and net realizable value
* Deferred tax assets and liabilities
* Provisions
* Assets and liabilities for employee benefits

For further information about the measurement of these assets and liabilities see Note 3, Significant Accounting Policies.

2.4 Operating cycle

The Group's operating cycle is up to one year. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year from the date of the financial statements.

2.5 Classification of expenses recognized in the statement of income

Costs and expenses in the statement of income are presented and analyzed on the basis of the function of the expenses. The classification is compatible with the understanding of the Group's businesses, which address a wide range of services using common infrastructure. All of the costs and expenses are used to provide services.

2.6 Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant estimates and judgments, for which changes in the assessments and assumptions could potentially have a material effect on the financial statements:

Subject	Key assumptions	Possible effects	Reference
Measurement of recoverable amounts of cash-generating units	Assumption of expected cash flows from cash-generating units	Recognition of impairment loss	Note 11
Deferred taxes	Assumption of anticipated future realization of the tax benefit, including assumption that it is more likely than not that the carryforward losses in DBS will not be utilized.	Recognition of a deferred tax asset	Note 7
Useful life and expected operation of fixed assets, intangible assets, and other long-term assets	Assumptions of the useful life of groups of fixed assets, intangible assets, and additional assets	Change in the value of fixed assets, intangible assets, additional assets, and depreciation and amortization expenses	Notes 10, 11, 12
Uncertain tax positions	The extent of the certainty that the Group's tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience	Recognition or reversal of income tax expenses	Note 7
Provisions and contingent liabilities, including levies	Assessment of the likelihood of claims against Group companies and measuring potential liabilities attributable to claims	Reversal or creation of a provision for a claim, recognition of income/expenses and recognition of profit or loss for such change, respectively	Note 17 and Note 19
	The Company's assessments of the estimated payment to the authorities for the levies on the real estate asset in the Sakia property	Change in capital gain for the sale of a real estate asset in the Sakia property.	Note 13
Employee benefits	Actuarial assumptions such as discount rate, future salary increases and churn rate	An increase or decrease in liabilities for employee benefits and a liability for early retirement	Note 18
Unavoidable costs of a contract	Assuming that the economic benefits will exceed the unavoidable costs of the contract	Recognition of a provision for an onerous contract	NOTE 3.13.3

2.7 Determining fair value

When preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities. Further information about the assumptions made in determining fair values is disclosed in Note 31.7 regarding fair value.

2.8 Initial application of new standards

IFRIC 23, Uncertainty Over Income Tax Treatments

As from January 1, 2019, the Group applies the interpretation of IFRIC 23, Uncertainty Over Income Tax Treatments. IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Application of IFRIC 23 did not have a material effect on the Group's financial statements.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in Note 2, Basis of Preparation, under section 2.8, Initial application of accounting standards.

In this Note, where the Group has chosen accounting alternatives permitted in accounting standards and/or in accounting policy where there is no explicit provision in accounting standards, such disclosure is presented in bold. This does not attribute greater importance compared to other accounting policies that are not presented in bold.

3.1 Consolidation of the financial statements

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date of loss of control.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taking into account when assessing control.

3.1.2 Transactions eliminated on consolidation

Intra-group balances and income and expenses arising from intra-group transactions, are eliminated in the consolidated statements.

3.1.3 Contingent consideration for business combinations

Subsequent to the acquisition date, the Group recognizes changes in fair value of contingent consideration recognized under business combinations, classified as a financial liability in the statement of income under financing expenses.

3.2 Foreign currency transactions

Transactions in foreign currency are translated into the functional currency of the Group at the exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate at that date.

3.3 Financial instruments

3.3.1 As from January 1, 2018, the Group applies IFRS 9, Financial Instruments ("IFRS 9"). Application of IFRS 9 did not have a material effect on the measurement of the Group's financial instruments in 2018, compared to the provisions in the previous standard, and the main effect of application of IFRS 9 in the Group is the use of the expected credit loss model.

3.3.2 Non-derivative financial assets

Non-derivative financial assets comprise mainly investments in deposits, trade and other receivables, and cash and cash equivalents.

The Group initially recognizes financial assets at the date at which the Group becomes a party to contractual provisions of the instrument, meaning the date that the Group undertakes to buy or sell the asset.

A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Classification of financial assets into categories and the accounting treatment in each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost; or fair value through profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

A. It is held within a business model whose objective is to hold assets so as to collect contractual cash flows.

B. The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets of the Group that are not classified as measured at amortized cost are measured at fair value through profit or loss.

The Group classifies its financial assets as follows:

Cash and cash equivalents

Cash comprises cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

Trade and other receivables and deposits

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and gains and losses

Financial assets at amortized cost are measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss.

3.3.3 Non-derivative financial liabilities

Non-derivative financial liabilities include debentures issued by the Group, loans and borrowings from banks and other credit providers, and trade and other payables.

The Group initially recognizes debt instruments as they are incurred. Other financial liabilities are recognized at the time of the transaction. Financial liabilities are recognized initially at fair value less any attributable transactions costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Modification in terms of debt instruments

An exchange of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, among other things, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

In a non-substantial modification in terms (or exchange) of a debt instruments at fixed interest, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit or loss under **financing expenses (income).**

According to the accounting policy applied by the Group, when the portfolio of the financial liabilities with similar characteristics is repaid/exchanged, the profit/loss from the derecognition/exchange is based on the FIFO method.

3.3.4 CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period according to the actual increase in the CPI.

3.3.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.3.6 A. Hedge accounting

The Group holds derivative financial instruments to hedge cash flows for risks to future changes in the CPI in respect of the debentures issued by the Group.

At the inception of the hedging relationship, the Group documents its risk management objective and its hedging strategy. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and the hedging instrument are expected to offset each other.

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and the effective portion of changes in fair value of the hedging instrument is recognized in a hedge reserve under other comprehensive income. The effective portion of changes in fair value of a derivative, recognized in other comprehensive income, is limited to the cumulative change in fair value of the hedged item (based on present value), from inception of the hedge. The change in fair value in respect of the ineffective portion is recognized immediately in profit or loss.

B. Economic hedges

In addition, the Group holds derivative financial instruments to hedge cash flows for foreign currency risks. Hedge accounting is not applied for these instruments. The derivative instruments are recognized at fair value; changes in fair value are recognized in profit and loss as incurred, **as a financing income or expense**.

3.4 Broadcasting rights

Broadcasting rights are stated at cost, net of rights exercised and impairment losses.

The costs of broadcasting rights acquired for the broadcasting of content include the amounts paid to the rights provider, plus direct costs for adjusting the rights to the broadcast.

Broadcasting rights are assessed for impairment as part of the cash-generating unit to which the broadcasting rights are attributed (see Note 11.4).

The net adjustment of the broadcasting rights is presented as an adjustment of earnings as part of the ongoing operations in the statements of cash flows.

3.5 Fixed assets

3.5.1 Recognition and measurement

The Group elected to measure items of fixed assets at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and financing costs as well as any other cost directly attributable to bringing the asset to the condition for its use intended by the management, and the estimated costs of dismantling and removing the items and restoring the site on which they are located when the Group has an obligation to vacate and restore the site. The cost of purchased software that is integral to the functionality of the related equipment is recognized as part of the cost of the equipment.

Spare parts, servicing equipment and stand-by equipment are classified as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

When major parts of the fixed assets have different useful lives, they are accounted for as separate items (major components) of the fixed assets.

Gain or loss from the disposal of a fixed asset item is determined by comparing the proceeds from disposal of the asset with its carrying amount. **Gain or loss from the sale of fixed assets is recognized under other income or other expenses, as the case may be, in the statement of income.**

3.5.2 Subsequent expenditure

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied in the new item will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing are recognized in the statement of income as incurred.

3.5.3 Depreciation

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of a fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Right of use assets under a finance lease are depreciated over the shorter of the lease term and their useful lives.

An asset is depreciated when it is ready for use, meaning when it reaches the location and condition necessary for it to be capable of operating in the manner intended by management.

Leasehold improvements are generally depreciated over the shorter of the lease term, including the extension option held by the Group and intended to be exercised and the useful life of the leasehold improvements.

The estimated useful lives for the current period are as follows:

	Years
Fixed line and international network equipment (switches, transmission, power)	4-12
Network	12-33
Equipment and infrastructure for multichannel television	3-15
Subscriber equipment and installations	4-8
Vehicles	6-7
Office and general equipment	5-10
Electronic equipment, computers and internal communication systems	3-7
Cellular network	4-10
Passive radio equipment at cellular network sites	Up to December 31, 2037
Buildings	25
Seabed cable	4-25 (mainly 25)

Depreciation methods, useful lives and residual values are reviewed at least in each reporting year and adjusted as required.

3.6 Intangible assets

3.6.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is measured at least once a year to assess impairment. See also Note 11.

3.6.2 Software development costs

Software development costs are recognized as an intangible asset only if the development costs can be measured reliably; the software is technically and commercially applicable; and the Group has sufficient resources to complete the development and intends to use the software. The costs recognized as an intangible asset include the cost of the materials, direct labor and overhead expenses directly attributable to preparation of the asset for its intended use. Other development costs are recognized in the statement of income as incurred.

Capitalized development costs are measured at cost less amortization and accumulated impairment losses.

3.6.3 Software

Software that is an integral part of the hardware, which cannot function without the programs installed on it, is classified as fixed assets. However, licenses for stand-alone software which add functionality to the hardware, are classified as intangible assets.

3.6.4 Rights to frequencies

Rights to frequencies refer to frequencies assigned to Pelephone for cellular activities, after it won the dedicated tenders of the Ministry of Communications. Depreciation of the asset is recognized in the statement of income **on the straight line method** over the term of the allocation of frequencies, which started from the use of the frequencies. The 4G frequencies (LTE) and 3G frequencies (UMTS/HSEA) are amortized until August 22, 2028.

3.6.5 Other intangible assets

Other intangible assets acquired by the Group, which have a definite useful life, are measured at cost less amortization and accumulated impairment losses.

3.6.6 Subsequent expenditure

Subsequent expenditure is recognized as an intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure relating to generated goodwill and brands, is recognized in the statement of income as incurred.

3.6.7 Amortization

Amortization of intangible assets is recognized in the statement of income on a straight-line basis (other than as set out below regarding amortization of customer relations), over the estimated useful life of the intangible assets, from the date on which the assets are available for use. Goodwill is not systematically amortized but is tested for impairment at least once a year.

Estimated useful lives for the current period are as follows:

Type of asset	Amortization period
Frequency usage right	Over the license period up to 2028
Computer programs and software licenses	3-10 years depending on the term of the license period or the estimated time of use of the software

Amortization methods and useful lives are reviewed at least at each reporting year and adjusted if appropriate.

3.7 Leased assets

3.7.1 As from January 1, 2018, the Group applies IFRS 16, Leases.

3.7.2 Accounting policy applied in the periods prior to January 1.1, 2018

Leases, including leases of land from the Israel Land Administration, where the Group assumes substantially all the risks and rewards of ownership, were classified as finance leases. Upon initial recognition, the leased assets were measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, **the assets were measured at cost less accumulated amortization and impairment losses**.

Other leases were classified as operating leases and the leased assets were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

At inception or upon reassessment of an arrangement, the Group determined whether such an arrangement is or contains a lease. An arrangement was a lease or contained a lease if the following two criteria were met:

A. The fulfillment of the arrangement was dependent on the use of a specific asset or asset.

B. The arrangement contained rights to use the asset.

If, in accordance with these terms, the Group determines that the agreement does not contain a lease, the agreement is accounted for as a service agreement and payments for the service are recognized in profit or loss on a straight line basis, over the service period.

3.7.3 Accounting policy applied as from January 1.1, 2018

Presented below are the principal accounting policies for leases in which the Group is the lessee, which were applied as from January 1, 2018 following the application of the Standard:

Determining whether an arrangement contains a lease

At the inception of the arrangement, the Group determines whether the arrangement is or contains a lease, and examines whether the arrangement transfers the right to control the use of an identifiable asset for a period of time in return for payment. When assessing whether the arrangement transfers control over the use of an identifiable asset, the Group estimates, over the lease term, whether it has both rights set out below:

A. The right to essentially obtain all the economic rewards associated with the use of the identifiable asset

B. The right to direct the use of the identifiable asset

For lease contracts that include non-lease components, such as services or maintenance, which are related to a lease component, **the Group elected to account for the contract as a single lease component without separating the components**.

Leased assets and lease liability

Contracts that award the Group the right to control the use of an identifiable asset over a period of time for a consideration are accounted for as leases. At initial recognition, the Group recognizes a liability at the present value of the future minimum lease payments (these payments do not include variable lease payments that are not linked to the CPI, or to any change in the rate of interest, or any change in the exchange rate), and concurrently, the Group recognizes a right-of-use asset at the amount of the liability, adjusted for lease payments paid in advance or accrued, plus direct costs incurred in the lease.

Since the interest rate implicit in the lease is not readily determinable, the incremental borrowing rate of the Group is used (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral).

Subsequent to initial recognition, the asset is accounted for using the cost model and it is amortized over the lease term or the useful life of the asset (whichever is earlier).

The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the Group will exercise or not exercise the option.

Variable lease payments

Variable lease payments that are linked to the CPI are initially measured using the index or currency rate at the inception of the lease and are included in the measurement of the lease liability. When there is a change in the cash flows of the future lease payments arising from the change in the index, the liability is adjusted against the right-of-use asset.

Depreciation of a right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

Type of asset	Weighted average of the agreement period as at December 31, 2019 (years)
Cellular communications sites	6.6
Buildings	6
Vehicles	2

Subleases

In leases in which the Company sublets the underlying asset, the Company assesses the classification of the sublease as a finance or operating lease, for the right-of-use received in the primary lease. The Company assessed the existing subleases on the initial application date, in accordance with the balance of their contractual terms as at that date.

3.8 Investment property

Investment property **is measured at cost**. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

3.9 Right of use of capacities

Transactions for acquiring an indefeasible right of use (IRU) of seabed cable capacities are accounted for as service transactions. The prepaid expense is amortized on a straight-line basis as stated in the agreement and no more than the expected estimated useful life of those capacities.

Identifiable capacities which serve the Group exclusively were recognized under fixed assets. The asset is depreciated on a straight-line basis as stated in the agreement and no more than the expected estimated useful life of those capacities.

3.10 Inventory

The cost of inventories includes the cost of purchase and cost incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value. **The Group elected to base the cost of inventories on the moving average principle**.

The inventories include terminal equipment and accessories intended for sale and service, as well as spare parts used for repairs in the repair service provided to its customers.

Slow-moving inventory of terminal equipment, accessories and spare parts are stated net of the provision for impairment.

3.11 Impairment

3.11.1 <u>Non-derivative financial assets</u>

As from January 1, 2018, the Group applies IFRS 9, Financial Instruments (“IFRS 9”) and performs an assessment for any indications of impairment in accordance with IFRS 9. In practice, application of the New Standard did not have a material effect on the measurement of impairment of the Group’s financial assets in 2019 and 2018 compared with the previous standard.

The Group has elected to measure the provision for expected credit losses in respect of trade receivables at an amount equal to the full lifetime credit losses of the instrument.

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial instrument.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive and are discounted at the effective interest rate of the financial asset.

Expected credit losses for receivables in significant amounts are tested individually. Other financial assets are assessed for expected credit losses collectively in groups that share similar credit risk characteristics, taking into account past experience.

The provision for expected credit losses is recognized net of the gross carrying amount of the receivables.

For bank deposits, for which the credit risk did not increase significantly from the date of initial recognition, the Group measures the provision for expected credit losses in an amount equal to the expected credit losses for an event of default in a 12 month period .

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group’s past experience and informed credit assessment, and it includes forward looking information.

3.11.2 <u>Non-financial assets</u>

<u>Timing of impairment testing</u>

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated.

The Group assesses the recoverable amount of goodwill once a year, or more frequently if there are indications of impairment.

<u>Measurement of recoverable amount</u>

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash generating unit (for which future cash flows were not adjusted).

Determining cash-generating units

For the purpose of impairment testing, the assets are grouped together into the smallest group of assets that generates cash from continuing use that are largely independent of other assets or groups of assets (cash-generating unit). See Note 11.

Allocation of goodwill to cash-generating units

For purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes, but in any event is not larger than an operating segment. Goodwill acquired in a business combination is allocated for the purpose of impairment testing to cash-generating units that are expected to generate benefits from the synergies of the combination.

Recognition of impairment loss

An impairment loss of cash generating units is recognized when the carrying amount of the cash generating unit, including goodwill, where relevant, exceeds its recoverable amount and is recognized in the statement of income. An impairment loss recognized in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the cash-generating unit. To allocate an impairment loss, the assets are not impaired below the higher of their fair value less exercise costs and their value in use (if determinable) or zero.

An impairment loss arising from a non-recurring adjustment of forecasts for the coming years is classified under operating expenses (income) in the statement of income. On the other hand, an impairment loss of assets arising from the continuous adjustment of non-current assets of the Group companies to their fair value, less disposal costs (arising due to the expected negative cash flow and negative operating value of those companies) is classified in the statement of income under the same items as the current expenses for these assets. This classification is more consistent with the presentation method based on the nature of the expense and is more suitable for understanding the Group's business.

Accordingly, in the statement of income, the continuing impairment of the broadcasting rights in DBS and Walla is presented under "operating and general expenses", while the continuing impairment of fixed assets and intangible assets is presented under "depreciation, amortization and impairment". See also Note 11.

3.12 Employee benefits

3.12.1 Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies and they are classified as defined contribution plans and defined benefit plans.

A. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

The Group’s obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of income in the periods during which services are rendered by employees.

B. Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is presented at its present value, and the fair value of any plan assets is deducted. The calculation is performed annually by a qualified actuary. The discount rate is the yield on high-quality corporate debentures at the reporting date , denominated in or linked to the currency of the paid benefit, with maturity dates approximating the terms of the Group's obligations.

Net interest costs on a defined benefit plan are calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability.

The Group elected to recognize the interest costs that were recognized in profit or loss under financing expenses.

Remeasurement of the net defined benefit liability comprises actuarial gains and losses and the return on plan assets (excluding interest). Remeasurements are recognized immediately directly in retained earnings through **other comprehensive income**.

When the benefits of a plan are improved or curtailed, the portion of the increased or curtailed benefit relating to past service by employees is recognized immediately in profit or loss when the plan improvement or curtailment occurs.

3.12.2 Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits (such as an obligation for accumulated vacation days and sick leave) other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The amount of these benefits is stated at its present value. The discount rate is the yield at the reporting date on high-quality linked corporate debentures denominated in NIS, with maturity dates approximating the terms of the Group's obligations. Actuarial changes are recognized in the statement of income in the period in which they arise. **Any actuarial changes arising from a change in the discount rate are recognized in the financing expenses item, while the other differences are recognized in salary expenses**.

3.12.3 Early retirement and termination benefits

3.12.4 Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Expenses for early retirement and termination recognized in the statement of income are presented under other operating expenses (income). The actuarial changes arising from a change in the discount rate, long-term benefits for early retirement and termination, are recognized under financing expenses, while the other actuarial changes are recognized under other operating expenses (income).

3.12.5 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on the date when the benefits are expected to be to be wholly settled,

In the statement of financial position, the employee benefits are classified as current benefits or as non-current benefits according to the time the liability is due to be settled.

3.13 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.13.1 Legal claims

Contingent liabilities are accounted for according to IAS 37 and its related provisions. Accordingly, the claims are classified by likelihood of realization of the exposure to risk, as follows:

A. More likely than not – more than 50% probability

B. Likely – probability higher than unlikely and less than 50%

C. Unlikely – probability of 10% or less

For claims which the Group has a legal or constructive obligation as a result of a past event, which are more likely than not to be realized, the financial statements include provisions which, in the opinion of the Group, based, among other things, on the opinions of its legal advisers retained in respect of those claims, are appropriate to the circumstances of each case, despite the claims being denied by the Group companies. There are also a small number of legal proceedings, most of which were received recently, for which the risks cannot be assessed at this stage, therefore no provisions have been made.

Note 19 describes the amount of additional exposure due to contingent liabilities that are likely to be realized.

3.13.2 Site dismantling and clearing costs

The provision in respect of an obligation to dismantle and clear sites is recognized for those rental agreements where Pelephone has an undertaking to restore the rental property to its original state at the end of the rental period, after dismantling and transferring the site, and restoring the site when required. The provision is measured by discounting the future cash flows by risk-free discounted interest reflecting the time until the expected termination of the contract for dismantling of the site by Pelephone. The carrying amount of the provision is adjusted in each period to reflect the time that has passed and is recognized as a financing expense.

3.13.3 Onerous contracts

A provision for onerous contracts is recognized when the unavoidable costs of a contract exceed the benefits expected to be received from the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the unavoidable costs (net of the revenues) of continuing with the contract. **Unavoidable costs are costs that the Group cannot avoid as they are subject to a contract (such as incremental costs)**.

3.14 Revenues

3.14.1 The Group recognizes revenues when the customer gains control over the goods or services. The income is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties.

The model for recognizing revenues from contracts with customers includes five steps for analyzing transactions so as to determine when to recognize revenues and in what amount:

A. Identifying the contract with the customer.

B. Identifying separate performance obligations in the contract.

C. Determining the transaction price.

D. Allocating the transaction price to separate performance obligations.

E. Recognizing revenues when the performance obligations are satisfied.

3.14.2 Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

1. The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them.
2. The Group can identify the rights of each party in relation to the goods or services that will be transferred.
3. The Group can identify the payment terms for the goods or services that will be transferred.
4. The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract).
5. It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

3.14.3 Identifying performance obligations

On the inception date of the contract, the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

(1) Goods or services (or a bundle of goods or services) that are distinct; or

(2) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

3.14.4 Determining the transaction price.

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties. When determining the transaction price, the Group takes into account the effects of all the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration to be paid to the customer.

3.14.5 Existence of a significant financing component

In order to measure the transaction price, the Group adjusts the amount of the promised consideration in respect of the effects of the time value of money if the timing of the payments agreed between the parties provides to the customer or the Group a significant financing benefit. In these cases, the contract contains a significant financing component. When assessing whether a contract includes a significant financing component, the Group examines, among other things, the expected length of time between the date the Group transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

When the contract contains a significant financing component, **the Group recognizes the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the inception date of the contract**. The financing component is recognized as interest income or expenses over the period, which are calculated according to the effective interest method.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less**, the Group applies the practical expedient included in the standard and does not separate a significant financing component**.

3.14.6 Existence of performance obligations

Revenues are recognized when the Group satisfies a performance obligation by transferring to the customer control over promised goods or services.

3.14.7 Contract costs

Incremental costs of obtaining a contract with a customer such as sales fees to agents, are recognized as an asset when the Group is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

Capitalized costs are amortized in the income statement on a systematic basis that is consistent with the expected average duration of subscribers and with their average projected churn rate based on the type of subscriber and the service received (mainly over a period of one to four years).

Every reporting period the Group examines whether the carrying amount of the asset recognized as aforesaid exceeds the consideration the entity expects to receive in exchange for the goods or services to which the asset relates, less the costs directly attributable to the provision of these goods or services that were not recognized as expenses, and if necessary an impairment loss is recognized in profit or loss

3.14.8 Principal supplier or agent

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services itself, which means the Group is a principal and therefore recognizes revenues in the gross amount of the consideration, or to arrange that another party provide the goods or services which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include the following: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

3.15 Financing income and expenses

Financing income comprises mainly interest income accrued using the effective interest method in respect of the sale of terminal equipment in installments, interest income from deposits and changes in the fair value of financial assets at fair value through profit or loss.

Financing expenses include mainly interest and linkage expenses on borrowings received and debentures issued, expenses for early repayment of the debt, and financing expenses for employee benefits.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. The Group elected to present interest and linkage differences paid for loans and debentures under cash flows used for financing activities.

3.16 Income tax expenses

Income tax expenses include current and deferred taxes and are recognized in the statement of income or in other comprehensive income to the extent that the expenses relate to items recognized in other comprehensive income.

Current taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more likely than not that the Group will have to use its economic resources to pay the obligation

Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred taxes for the following temporary differences:

1. Initial recognition of goodwill
2. Differences arising from investment in subsidiaries and associates, if it is probable that they will not reverse in the foreseeable future and if the Group controls the date of reversal.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for carryforward losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized (see also Note 7.6).

Offsetting deferred tax assets and liabilities

The Group sets off deferred tax assets and liabilities if there is a legally enforceable right to offset deferred tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, and they intend to settle deferred tax liabilities and assets on a net basis or their deferred tax assets and liabilities will be realized simultaneously.

Presentation of tax expenses in the statement of cash flows

Cash flows arising from taxes on income are classified in the statement of cash flows as cash flows from operating activities, unless they can be specifically identified with investing and financing activities.

3.17 Dividends

An obligation relating to a dividend proposed or declared subsequent to the reporting date is recognized only in the period in which the declaration was made (approval of the general meeting). In the statements of cash flows, **a dividend that has been paid is recognized under financing activities**.

3.18 New standards not yet adopted: Amendment to IAS 1:" Presentation of Financial Statements: Classification of Liabilities as Current or Non-current:

The amendment replaces certain classification requirements of liabilities as current or non-current. The amendment is effective for reporting periods beginning on January 1, 2022. Earlier application is permitted. The amendment is effective retrospectively, including reconciliation of comparative information. The Group has not yet commenced examining the effects of the application of the standard on the financial statements.

4. Cash and Cash Equivalents

As at December 31, 2019, cash and cash equivalents include mainly bank deposits for an average period of 90 days and current account balances.

5. Investments

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Bank deposits	**842**	1,366
Investment in monetary funds and other marketable securities at fair value through profit or loss and other	**312**	20
Deposit used as collateral against hedging transactions	**41**	18
	1,195	1,404

Bank deposits are repayable until December 2020 and the investments in monetary funds and marketable securities can be disposed of immediately. A deposit used as collateral for hedging transactions is payable in December 2020.

6. Trade and Other Receivables

6.1 Composition of trade and other receivables

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Trade receivables*		
Open accounts and checks receivable	**741**	709
Credit cards	**415**	396
Revenues receivable	**146**	237
Current maturities of long-term receivables	**382**	420
Related and interested parties	**5**	11
	1,689	1,773
Other receivables and current tax assets		
Current tax assets	**39**	104
Other receivables and authorities (mainly from real estate sales)	**247**	131
Prepaid expenses	**27**	32
	313	267
Long-term trade and other receivables		
Trade receivables – open debts	**304**	339
Other long-term receivables and authorities (for sales of real estate)	**173**	131
	477	470
	2,479	2,510

* The amount of trade and other receivables is stated net of the provision for doubtful debts

6.2 Discounted interest rates for long-term trade payables are based the estimated credit risk of trade payables. The discounted interest rates used by the Group in 2019 are 3.5%-5.6% (in 2018: 3.4%-4.6%).

6.3 Expected payment dates for long-term trade and other receivables:

Expected payment dates	December 31, 2019
	NIS million
2021	**217**
2022	**83**
2023 onwards	**177**
	477

6.4 Aging of trade receivables at the reporting date:

	December 31, 2019		December 31, 2018	
	Trade receivables, gross	Provision for doubtful debts	Trade receivables, gross	Provision for doubtful debts
	NIS million	NIS million	NIS million	NIS million
Not past due	**1,812**	**(5)**	1,971	(5)
Past due up to one year	**185**	**(32)**	151	(34)
Past due one to two years	**34**	**(14)**	38	(16)
Past due more than two years	**42**	**(29)**	39	(32)
	2,073	**(80)**	2,199	(87)

6.5 Change in provision for doubtful debts in the year:

	2019	2018
	NIS million	NIS million
Balance as at January 1	**87**	92
Impairment loss recognized	**13**	23
Bad debts	**(20)**	(28)
Balance as at December 31	**80**	87

7. Income Tax

7.1 Corporate tax rate

Current taxes for the reported periods are calculated at the tax rates applicable to the Group as follows:

2019	23%
2018	23%
2017	24%

Deferred tax balances as at December 31, 2019 were calculated according to the rates expected to apply on the date of reversal. The current taxes for the reported periods are calculated according to the actual tax rates as set out above.

7.2 Final tax assessments

7.2.1 The Company has final tax assessments up to and including 2014.

On September 15, 2016, parallel to signing the assessment agreement ending the disputes between the Company and the tax assessor that ended the dispute between the Company regarding the financing income for the shareholder loans to DBS, the Tax Authority granted approval for tax purposes for the merger of DBS with and into the Company, in accordance with section 103(B) of the Income Tax Ordinance. According to the approval, the losses of DBS as at the merger date may be offset against the profits of the absorbing company, provided that in each tax year, it will not be permitted to offset an amount exceeding 12.5% (spread over eight years) of the total losses of the transferring company and the absorbing company, or 50% of the taxable income of the absorbing company in that tax year prior to offsetting the loss from previous years, whichever is lower.

The Approval was granted in accordance with the applicable tax laws in effect at the time. Without derogating from the amount of the losses set out in the Assessment Agreement, if there is any change in the applicable tax laws, the Income Tax Authority will reconsider the taxation decision in accordance with the tax laws applicable at the merger date. However, it is clarified that the Approval is effective until December 31, 2019. The Income Tax Authority will extend the date of the Approval each year by an additional year, subject to the declaration of the Company and DBS that there has been no material change in their business affairs and subject to the terms of the taxation decision, and subject to the interpretation given to the tax laws, provided that such interpretation is published in writing. Any change in the tax laws that does not require a change in the Approval will not result in any such change.

On October 2, 2019, the Company received a letter from the Tax Authority ("the Approval") extending, at the Company's request, the validity of the tax decision for one year (until December 31, 2020). In the Approval, the Tax Authority clarifies, among other things, that the Tax Authority has full authority to revoke the Approval if it emerges that as from the signing date of the Approval until December 31, 2019, there has been a material change in the business of the Company and DBS, that the extension of the validity of the tax decision refers to the tax decision of September 15, 2016 in the outline set out in the tax decision only, that it does not derogate from the Tax Authority's authority not to extend the validity of the tax decision beyond December 31, 2020, and that it does not contain any confirmation that the companies are in compliance with the terms of the tax decision.

The tax losses of DBS as at December 31, 2019 amount to NIS 5 billion.

7.2.2 Pelephone has received final tax assessments up to and including 2014.

7.2.3 Bezeq International has received final tax assessments up to and including 2015.

7.2.4 DBS has received final tax assessments up to and including 2014.

7.2.5 Walla has received final tax assessments up to and including 2014.

7.3 Components of income tax expenses

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Current tax expenses			
Expenses for the current year	**401**	311	438
Adjustments for prior years	**(11)**	(24)	54
Total current tax expenses	**390**	287	492
Deferred tax expenses			
Write-off of the carryforward deferred tax asset for the losses in DBS (see Note 7.6 below)	**1,166**	-	-
Creation and reversal of other temporary differences [(1)]	**(31)**	(93)	(6)
Write-off of a provision for tax due to impairment	**-**	(114)	-
Adjustments for prior years according to an assessment agreement	**-**	-	(54)
Reversal of temporary differences according to an assessment agreement	**-**	-	21
Total deferred tax expenses (income)	**1,135**	(207)	(39)
Income tax expenses	**1,525**	80	453
(1) Of which, the amount of the benefit arising from initial recognition of a deferred tax asset from a prior period not previously recognized	**3**	-	-

7.4 Reconciliation between the theoretical tax on the pre-tax profit and the tax expense

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Profit (loss) before income tax	**438**	(986)	1,688
Statutory tax rate	**23%**	23%	24%
Income tax at the statutory tax rate	**101**	(227)	405
Write-off of the carryforward deferred tax asset for the losses in DBS (see Note 7.6 below)	**1,166**	-	-
Impairment of cellular communications goodwill for which no deferred tax assets were created (see Note 11.2)	**219**	-	-
Expenses not recognized for tax purposes and others and losses for which no deferred tax assets have been created, net	**42**	54	48
Generation of deferred taxes for losses and benefits from prior years for which deferred taxes were not recorded in the past	**(3)**	-	-
Temporary differences for impairment of assets for which no deferred tax assets were created (Note 11.4)	**-**	253	-
Income tax expenses	**1,525**	80	453

7.5 Recognized tax assets and deferred tax liabilities and their changes

	Deferred tax asset for the losses in DBS	Deferred tax asset for employee benefit plans	Deferred tax liabilities for fixed assets and intangible assets	Deferred tax liabilities for excess costs recognized in a business combination	Other deferred taxes	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2018	1,166	165	(290)	(150)	55	946
Changes recognized in the statement of income						
Creation and reversal of temporary differences	-	101	(22)	36	(22)	93
Write-off of a provision for tax due to impairment (see Note 11.4)	-	-	-	114	-	114
Changes recognized in equity	-	2	-	-	(6)	(4)
Balance as at December 31, 2018	1,166	268	(312)	-	27	1,149
Changes recognized in the statement of income						
Creation and reversal of temporary differences	**-**	**28**	**13**	**-**	**(10)**	**31**
Write-off of the tax asset (Note 7.6)	**(1,166)**	**-**	**-**	**-**	**-**	**(1,166)**
Changes recognized in equity	**-**	**2**	**-**	**-**	**-**	**2**
Balance as at December 31, 2019	**-**	**298**	**(299)**	**-**	**17**	**16**

Carrying amount	**December 31**	
	2019	**2018**
	NIS million	**NIS million**
Deferred tax assets	**59**	**1,205**
Deferred tax liabilities	**(43)**	**(56)**
Balance as at December 31	**16**	**1,149**

7.6 Unrecognized deferred tax assets and liabilities

Following the acquisition of control in DBS by the Company in 2015 (as set out in Note 14.2.1 below), the Company recognized a deferred tax asset for carryforward losses for tax purposes in DBS, amounting to NIS 1,166 as at December 31, 2018. The approval from the Tax Authority for the utilization of the carryforward tax losses is subject to approval from the Ministry of Communications for cancellation of the structural separation between the two companies, and requires the extension from the Tax Authority for an additional year as from 2020 every year until the actual merger (see Note 7.2.1 above).

In the financial statements as at June 30, 2019, the Company wrote off the tax asset by way of revising the estimate and recognized tax expenses in the amount of NIS 1,166 million in the income statement, after the Company's assessment of the probability of using the tax asset was no longer more likely than not. For the purpose of assessing the probability of utilization of the tax asset as at June 30, 2019, the Company considered, among other things, the absence of developments in its discussions with authorities and government agencies, various developments in recent months, and the effect of the passage of time.

Accordingly, as at December 31, 2019, deferred taxes for carryforward losses for tax purposes of DBS in the amount of NIS 5 billion were not recognized. In addition, deferred taxes of NIS 216 million for an impairment loss in DBS are not taken into account (see Note 11.4), since their utilization is not expected.

In addition, the calculation of deferred taxes does not take into account the taxes that would be applicable in the case of disposal of investments in subsidiaries and associates, since the Group intends and is able to retain these investment. Deferred taxes in respect of a distribution of profit in subsidiaries and associates were also not taken into account since the dividends are not taxable.

8. Broadcasting Rights, Net of Rights Exercised

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Cost	1,242	1,010
Less rights exercised	(578)	(547)
Impairment loss (Note 11.4)	(605)	(403)
	59	60

For further information about the Group’s agreements for acquisition of broadcasting rights, see Note 20, Agreements.

9. Leases

Under the lease agreements, the Group leases mainly cellular communications sites, structures (including offices, warehouses, communication rooms, and points of sale), and vehicles.

9.1 Right-of-use assets

	Communications sites	Buildings	Vehicles	Total
	NIS million	NIS million	NIS million	NIS million
Cost				
Balance as at January 1, 2018	**809**	**538**	**173**	**1,520**
Additions*	**202**	**96**	**124**	**422**
Derecognition for terminated agreements	**(45)**	**(9)**	**(11)**	**(65)**
Balance as at December 31, 2018	**966**	**625**	**286**	**1,877**
Additions*	**146**	**34**	**28**	**208**
Derecognition for terminated agreements	**(71)**	**(13)**	**(27)**	**(111)**
Balance as at December 31, 2019	**1,041**	**646**	**287**	**1,974**
Amortization and impairment losses				
Balance as at January 1, 2018	-	-	-	-
Amortization for the year	190	120	113	423
Derecognition for terminated agreements	(18)	(4)	(9)	(31)
Changes in agreements and other	(3)	(1)	(18)	(22)
Impairment loss	-	-	3	3
Balance as at December 31, 2018	169	115	89	373
Amortization for the year	**185**	**120**	**110**	**415**
Derecognition for terminated agreements	**(65)**	**(5)**	**(25)**	**(95)**
Changes in agreements and other	**(4)**	**(2)**	**(21)**	**(27)**
Impairment loss (see Note 11)	**-**	**17**	**(1)**	**16**
Balance as at December 31, 2019	**285**	**245**	**152**	**682**
Carrying amount				
January 1, 2018	809	538	173	1,520
December 31, 2018	797	510	197	1,504
December 31, 2019	**756**	**401**	**135**	**1,292**

* Additions for new agreements and amendments to existing agreements

9.2 Liability for leases

	Communications sites	Buildings	Vehicles	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2018	809	538	188	1,535
Additions*	204	101	141	446
Disposals	(27)	(5)	(2)	(34)
Financing expenses for employee benefits	14	9	3	26
Payments for a lease	(190)	(124)	(108)	(422)
Balance as at December 31, 2018	810	519	222	1,551
Additions*	**150**	**32**	**53**	**235**
Disposals	**(6)**	**(8)**	**(2)**	**(16)**
Financing expenses for employee benefits	**16**	**9**	**4**	**29**
Payments for a lease	**(180)**	**(124)**	**(110)**	**(414)**
Balance as at December 31, 2019	**790**	**428**	**167**	**1,385**

Carrying amount as at December 31, 2018				
Current maturities of a lease liability	203	124	118	445
Long-term liabilities for a lease	607	395	104	1,106
Total balance as at December 31, 2018	810	519	222	1,551

Carrying amount as at December 31, 2019				
Current maturities of a lease liability	**197**	**123**	**96**	**416**
Long-term liabilities for a lease	**593**	**305**	**71**	**969**
Total balance as at December 31, 2019	**790**	**428**	**167**	**1,385**

* Additions for new agreements and amendments to existing agreements

9.3 Analysis of repayment dates of liabilities for the Group's lease (including principal and interest to be paid)

Expected payment dates	December 31, 2019
	NIS million
Up to one year	**419**
1-5 years	**743**
More than five years	**320**
Total	**1,482**

9.4 Options to terminate or extend a lease

In most of its leases, the Group assumed that it is reasonably certain that the extension option in the agreements will be exercised, therefore there are no material liabilities in respect of leases that were not presented in the financial statements.

Most of the lease agreements include an option to cancel the agreement with notice and/or payment of a penalty as set out in the agreements. The Group assumed that it is reasonably certain that the cancellation options will not be exercised.

9.5 Information about material lease agreements not yet included in measurement of the lease liability

In December 2018, the Company entered into an agreement to lease part of an office and commercial building. The agreement is for ten years and includes three option periods up to 24 years and 8 months, as from January 1, 2021. The annual rent amounts to NIS 20 million.

The right-of-use asset and liability for the lease will be recognized in the financial statements at the date ownership of the asset is transferred, which is expected to be at the end of 2020. Under the agreement, there will be an option of bringing forward the beginning of the lease up to three months before this date.

10. Fixed Assets

	Land and buildings	Fixed line and international network equipment (switches, transmission, power)	Cables and fixed line and international network infrastructure	Cellular network	Equipment and infrastructure for multichannel television	Subscriber equipment	Office equipment, computers and vehicles	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost								
Balance as at January 1, 2018	1,461	2,775	11,737	2,791	1,193	1,174	799	21,930
Additions	22	240	213	156	247	311	86	1,275
Disposals	(17)	(215)	(151)	(18)	(11)	(119)	(88)	(619)
Transfer to investment property	(17)	-	-	-	-	-	-	(17)
Balance as at December 31, 2018	1,449	2,800	11,799	2,929	1,429	1,366	797	22,569
Additions	**63**	**186**	**202**	**173**	**147**	**322**	**63**	**1,156**
Disposals	**(119)**	**(169)**	**(159)**	**(6)**	**(42)**	**(113)**	**(51)**	**(659)**
Transfer to assets held for sale	**(113)**	**-**	**-**	**-**	**-**	**-**	**-**	**(113)**
Balance as at December 31, 2019	**1,280**	**2,817**	**11,842**	**3,096**	**1,534**	**1,575**	**809**	**22,953**
Depreciation and impairment losses								
Balance as at January 1, 2018	1,054	1,438	8,921	2,004	584	576	555	15,132
Depreciation for the year	37	256	210	225	214	215	84	1,241
Impairment loss	22	-	-	-	526	-	28	576
Disposals	(17)	(215)	(151)	(18)	(10)	(104)	(79)	(594)
Balance as at December 31, 2018	1,096	1,479	8,980	2,211	1,314	687	588	16,355
Depreciation for the year	**35**	**231**	**201**	**202**	**26**	**249**	**65**	**1,009**
Disposals	**(59)**	**(169)**	**(159)**	**(3)**	**(39)**	**(106)**	**(50)**	**(585)**
Impairment loss (see Note 11)	**11**	**-**	**21**	**-**	**106**	**-**	**10**	**148**
Transfer to assets held for sale	**(70)**	**-**	**-**	**-**	**-**	**-**	**-**	**(70)**
Balance as at December 31, 2019	**1,013**	**1,541**	**9,043**	**2,410**	**1,407**	**830**	**613**	**16,857**
Carrying amount								
January 1, 2018	407	1,337	2,816	787	609	598	244	6,798
December 31, 2018	353	1,321	2,819	718	115	679	209	6,214
December 31, 2019	**267**	**1,276**	**2,799**	**686**	**127**	**745**	**196**	**6,096**

10.1 The residual value of the Group's copper cables is assessed at the end of each quarter. The residual value is NIS 159 million as at December 31, 2019 and NIS 168 million as at December 31, 2018.

10.2 Fixed assets in the Group are derecognized at the end of each year upon reaching full depreciation, except for land, buildings, vehicles, copper cables and specific components for Pelephone's UMTS network,, which are derecognized upon their sale. In 2019, the Group derecognized fully depreciated property at a cost of NIS 481 million (in 2018, NIS 537 million).

10.3 The Group companies reviewed the useful life of the fixed assets through the depreciation committee, in order to determine the estimated useful life of their equipment. The change is not expected to have a material effect on the depreciation expenses of the Group. Following the findings of the depreciation committees, minor changes were made in the estimated useful life of certain assets.

10.4 Most of the real estate assets used by the Company are leased under a capitalized lease from the Israel Lands Administration as from 1993 for 49 years, with an option for an extension of another 49 years. Lease rights are amortized over the term of the lease period.

10.5 In 2013, the Company started to deploy a fiber optic network that will reach the subscriber's home, as a basis for future supply of advanced communications and broader bandwidths than those currently provided. In 2017, deployment of the fibers reached the state required for operation when a decision is made on the technology to be used, and the Company began to amortize the network. Commercial operation of the network is expected in the future.

10.6 In accordance with the Telecommunications Order (Telecommunications and Broadcasts) (Determination of Essential Service Provided by Bezeq The Israel Telecommunication Corp. Ltd.), 1997, approval from the Prime Minister and Minister of Communications is required to confer rights in some of the Company's assets (including switches, cable network, transmission network, and information and databases).

10.7 For information about liens for loans and borrowings, see Note 15.

10.8 For information about agreements for the purchase of fixed assets, see Note 20.

10.9 See Note 21 for liens.

11. Intangible Assets

	Goodwill	Software and licenses	Cellular communication usage rights	Customer relations and brand - multichannel television	Other	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost						
Balance as at January 1, 2018	1,431	1,902	480	1,137	140	5,090
Acquisitions or additions from in-house development	-	220	-	-	-	220
Disposals	-	(62)	-	-	-	(62)
Balance as at December 31, 2018	1,431	2,060	480	1,137	140	5,248
Acquisitions or additions from in-house development	**-**	**234**	**-**	**-**	**-**	**234**
Disposals	**-**	**(39)**	**-**	**-**	**(21)**	**(60)**
Balance as at December 31, 2019	**1,431**	**2,255**	**480**	**1,137**	**119**	**5,422**
Amortization and impairment losses						
Balance as at January 1, 2018	93	1,354	271	485	119	2,322
Amortization for the year	-	226	20	147	6	399
Impairment loss	40	104	-	505	11	660
Disposals	-	(52)	-	-	-	(52)
Balance as at December 31, 2018	133	1,632	291	1,137	136	3,329
Amortization for the year	**-**	**175**	**19**	**-**	**2**	**196**
Impairment loss (see Note 11.2, 11.4, and 11.5 below)	**957**	**65**	**-**	**-**	**-**	**1,022**
Disposals	**-**	**(39)**	**-**	**-**	**(21)**	**(60)**
Balance as at December 31, 2019	**1,090**	**1,833**	**310**	**1,137**	**117**	**4,487**
Carrying amount						
January 1, 2018	1,338	548	209	652	21	2,768
December 31, 2018	1,298	428	189	-	4	1,919
December 31, 2019	**341**	**422**	**170**	**-**	**2**	**935**

11.1 Assessment of impairment of cash-generating units

To assess impairment, goodwill was attributed to the Group's operating segments as follows:

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Cellular communications (Pelephone) (11.2)	**76**	1,027
Domestic fixed-line communication (Bezeq) (11.3)	**265**	265
Other (11.5)	**-**	6
	341	1,298

11.2 Assessment of cellular communications goodwill (Pelephone)

11.2.1 As at the date of the financial statements for the second quarter of 2019, Pelephone has updated its forecasts for the coming years. At the same time, Pelephone identified indications of a possible impairment, partially due to its performance in the first half of 2019 and in view of the decrease in expectations for market recovery (based on a sixth operator). As a result, the Company estimated the recoverable amount of the cash-generating cellular communications unit as at June 30, 2019.

The value in use of the cellular communications cash-generating unit for Bezeq Group was calculated by discounting future cash flows (DCF) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value. The cash flow forecast is based, among other things, on Pelephone's performance in recent years and assessments regarding the expected trends in the cellular market in the coming years (competitive dynamics, price level, regulation, and technological developments).

The main assumption underlying the forecast is that competition in the market will continue with high intensity in the short term and that a stable and certain gradual increase in prices will occur in the medium to long term. The revenues forecast is based on assumptions regarding the number of Pelephone subscribers, average revenue per user, and sales of terminal equipment. The expense forecast is based, among other things, on streamlining of fixed expenses (which does not result in restructuring) and, in particular, on assumptions regarding the extent of the decrease in the number of Pelephone employees and the related salary expenses. The other operating expenses and level of investments were adjusted to the forecasted scope of Pelephone’s operations.

The nominal capital price taken into account for the valuation is 10.3% (after tax) (in 2018, 10.3%). In addition, a permanent growth rate of 2.5% was assumed (in 2018, 2.5%). The valuation is sensitive to changes in the permanent growth rate and the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to the average revenue per user (ARPU) and number of users at the end of the range of the forecast in particular (a change of NIS 1 in ARPU results in a change in the value of operations amounting to NIS 285 million).

It should be noted that Pelephone has operating losses, therefore the value in use of the cellular communications cash-generating unit is based entirely on Pelephone's projections for improved profitability in the coming years.

The valuation was prepared by an external appraiser. Based on the valuation as described above, the value of Pelephone’s operations amounted to NIS 1,214 million, compared with the value in the Company’s financial statements in the amount of NIS 2,165 million. Accordingly, in the second quarter of 2019, the Company recognized a loss from impairment of goodwill attributable to the cellular communications cash-generating unit in the amount of NIS 951 million.

11.2.2 The balance of goodwill attributable to the cash-generating cellular communications unit after recognition of impairment as set out in section 11.2.1 above is NIS 76 million. Accordingly, the Company assessed the recoverable amount of the cash-generating cellular communications unit as at December 31, 2019.

The value in use of the cellular communications cash-generating unit for Bezeq Group as at December 31, 2019 was calculated by discounting future cash flows (DCF) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value. The cash flow forecast is based, among other things, on Pelephone's performance in recent years and assessments regarding the expected trends in the cellular market in the coming years (the level of competition, price level, regulation, and technological developments). The main assumption underlying the forecast is that competition in the market will continue with high intensity in the short term and that stability and a certain increase will occur in the medium to long term. The revenues forecast is based on assumptions regarding the number of Pelephone subscribers, average revenue per user, and sales of terminal equipment. The forecast of expenses and investments is based, among other things, on assumptions regarding the number of Pelephone employees and the resulting salary expenses, while the other operating expenses and investments were adjusted to the projected volume of operations of Pelephone.

Moreover, in November 2019, Pelephone signed a streamlining and synergy agreement for the period from November 2019 until June 2022, and as a result, the valuation as at December 31, 2019 includes recognition of streamlining measures that were not taken into account in the previous valuation as at June 30, 2019, as described in section 11.2.1 (since they were restructured).

The nominal capital price taken into account for the valuation is 10.3% (after tax) (in 2018, 10.3%). In addition, a permanent growth rate of 2.5% was assumed (in 2018, 2.5%).

The valuation is sensitive to changes in the permanent growth rate and the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to the average revenue per user (ARPU) and number of users at the end of the range of the forecast in particular (a change of NIS 1 in ARPU results in a change in the value of operations amounting to NIS 309 million).

The valuation was prepared by an external appraiser. Based on the valuation as explained above, the value of Pelephone’s operations amounted to NIS 1,390 million, compared with the value in the Company’s financial statements in the amount of NIS 1,119 million. Accordingly, the Group was not required to record amortization for impairment of a cellular communication cash-generating unit.

11.3 Assessment of goodwill impairment in domestic fixed-line communications (Bezeq)

The balance of goodwill attributable to the domestic fixed line cash-generating unit is NIS 265 million. Accordingly, the Company assessed the recoverable amount of the domestic fixed-line cash-generating unit as at December 31, 2019.

The value in use of the domestic fixed line cash-generating unit for Bezeq Group was calculated by discounting future cash flows (DCF) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value.

The cash flow forecast is based, among other things, on the Company’s performance in recent years and assessments regarding the expected trends in the fixed-line market in the coming years (the level of competition, retail and wholesale price levels, regulation aspects, and technological developments).

Main assumptions underlying the forecast: the continued decrease in revenues from telephony (the decrease in the number of lines and erosion of average revenue per line), the erosion in short- and medium-term revenue from internet, and the return to a direction of long-term growth (supported by market growth and based on internet services over a fiber network), and increase in revenue from data communication and transmission, cloud and digital. Operating expenses, sales, marketing, and investments were adjusted to the scope of activity in the segment and in general, this includes discount forecasts regarding a gradual reduction in the Company’s human resources and termination expenses and the resulting salary expenses and assumptions regarding the timing of the launch of the services based on the fiber network and regarding the deployment rate of the fiber infrastructure.

The nominal capital price taken into account for the valuation is 7.5% (after tax) (in 2018, 7.5%). In addition, a permanent growth rate of 0% was assumed (in 2018, 0%).

The valuation was prepared by an external appraiser. Based on the valuation described above, the Group was not required to record amortization for impairment of a domestic fixed-line communications cash-generating unit.

11.4 Assessment of goodwill impairment for multichannel television (DBS)

The results of the valuation of the multi-channel television cash-generating unit as at December 31, 2018 using the future discounted cash flow method (DCF) presented a value in use that is significantly lower than its carrying amount. Accordingly, the Group recognized an impairment loss of NIS 1,638 million in the multi-channel cash-generating unit, and in view of the negative value of the operations, the value of the non-current assets of DBS as at December 31, 2018 was determined as the higher of their fair value and zero.

The value in use of the multi-channel television cash-generating unit for Bezeq Group as at December 31, 2019 was calculated by discounting future cash flows (DCF) based on the seven-year cash flow forecast of DBS as at the end of the current period with the addition of the salvage value. The forecast period was chosen so that the representative year is the year following the estimated date for completion of the outline for the planned migration to internet-based broadcasting instead of satellite broadcasting, as set out below. The nominal capital price taken into account for the valuation is 8.5% (after tax) (in 2018, 8.5%). In addition, a permanent growth rate of 0% was assumed (in 2018, 0%).

The cash flow forecast was based, among other things, on the performance of DBS in recent years and assessments of the expected trends in the television market for the years ahead, including technology development, consumer preferences, competitors and the level of competition, price levels and regulatory obligations.

The main assumption underlying the forecast is that the relevant future technology will be interactive and two-way, and that a satellite product will be replaced by the IP product (television broadcasts over the internet) gradually, due to the growing gap in customer experience. As a result, the multi-year forecast reflects a plan for gradual migration (from satellite broadcasts to OTT internet streaming), and accordingly, assumptions include a gradual replacement of satellite converters with IP converters, upgrade of the broadcasting infrastructure, construction of a support system for customer service, and adaptation of content contracts for OTT broadcasts . As set out above, the forecast period reflects the period of migration from satellite broadcasts to OTT broadcasts, until complete discontinuation of satellite broadcasts. These circumstances, together with expectations for the continuation of intense competition throughout the forecast period and the relatively rigid expenditure structure, resulted in a forecast of significant operational losses and a significant negative cash flow in the coming years, and a low negative cash flow, close to a balance, is expected at the end of the forecast period in the technology and business model of DBS. It should be noted that the plan will be implemented together with an ongoing assessment of market conditions, competition, and the technological environment, and the adjustments that will be required as a result.

The valuation was prepared by an external appraiser. Based on the valuation as described above, the total value of the operations of DBS is negative, amounting to NIS 581 million (as at December 31, 2018, a negative value of operations amounting to NIS 871 million). In view of the negative value of the operations, as at December 31, 2019, the value of the non-current assets of DBS was determined as the higher of their fair value and zero, the same as at the end of 2018.

Accordingly, the Group recognized an impairment loss of NIS 362 million in 2019. The impairment loss was attributed to the assets of DBS, as set out below, and was included in depreciation, amortization, and impairment expenses and in operating and general expenses in the statement of income, as set out in Note 3.11.2 above.

Attribution of impairment loss to Group assets recognized in the financial statements for 2019:

	2019
	NIS million
Broadcasting rights - less rights utilized (the expense was presented under operating and general expenses)	**202**
Fixed assets (the expense was presented under depreciation and impairment expenses)	**117**
Intangible assets (the expense was presented under depreciation and impairment expenses)	**44**
Rights of use in leased property (reduced expense presented as depreciation, amortization, and impairment expenses)	**(1)**
Total impairment recognized	**362**

Attribution of impairment loss to Group assets recognized in the financial statements for 2018:

	2018
	Impairment loss
	NIS million
Broadcasting rights, net of rights exercised	403
Fixed assets	559
Intangible assets	106
Subscriber acquisition (assessed under IFRS 15)	29
Rights of use for leased assets	3
Total impairment recognized in the statements of DBS	**1,100**
Customer relations and branding	505
Goodwill	33
Total impairment loss of assets	**1,638**
Write-off of tax reserve attributed to customer relations and branding	(114)
Total impairment loss of multi-channel television cash-generating unit after tax	**1,524**

Below is information about the Group's method for measuring the fair value of the assets of DBS, which were impaired as set out above:

Broadcasting rights: Measurement of the fair value of broadcasting rights took into account legal restrictions on their sale and based on the production stage, the probability of sale, and the expected rate of return on the investment in them.

Fixed assets: The fair value of fixed asset items that are available for sale to a market participant (mainly converters) is based on their estimated selling value on the valuation date less selling costs.

Intangible assets: Material fair value was not attributed to the intangible assets of DBS, since most of the software and licenses of DBS were uniquely adapted to DBS, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

Rights of use for leased assets: The fair value of right-of-use assets is affected by the ability to lease the asset underlying the lease to a third party, the lease fees of the property on the market, and the exit penalties in the lease contract.

11.5 Assessment of impairment of Bezeq International Ltd. ("Bezeq International")

At the end of 2019, Bezeq International revised its forecasts for the coming years, taking into account trends and changes in its operating environment. Therefore, noting the low gap measured on December 31, 2018 between the value of Bezeq International's operations and the carrying amount of its operating assets (net), the Group estimated the recoverable amount of the ISP, international communications, and NEP services cash-generating unit as at December 31, 2019.

The value in use of the ISP, international communications, and NEP services cash-generating unit was calculated by discounting future cash flows (DCF) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value.

The cash flow forecast was based, among other things, on Bezeq International's performance in recent years and assessments regarding the expected trends in the markets in which it operates in future years (the level of competition, price level, regulation, and technological developments). The revenue forecast is based on assumptions regarding the number of Bezeq International internet subscribers and the average revenue per subscriber, Bezeq International's operations in the international communications market, and its development in communications services for businesses. The expense forecast is based, among other things, on assumptions regarding the extent of the decrease in the number of Bezeq International employees and the related salary expenses and the assumptions regarding the development of internet traffic costs (retail and wholesale prices and development of television broadcasts over the internet in general, and the expected migration of DBS from satellite television broadcasts to television broadcasts over the internet in particular). The other operating expenses and level of investments were adjusted to the forecasted scope of Bezeq International's operations

The nominal capital price taken into account for the valuation is 9.7% (after tax) (in 2018, 9.7%). In addition, a permanent growth rate of 0.7% was assumed (in 2018, 0.4%).

The valuation is sensitive to changes in the permanent growth rate and the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to changes in internet activity in particular (users, ARPU, and traffic costs). An increase (decrease) of 1% in the discount rate leads to an increase (decrease) of between NIS 49 million and NIS 96 million in the enterprise value of Bezeq International. Likewise, an increase (decrease) of 0.5% in the permanent growth rate leads to an increase (decrease) in the range of NIS 19 million to NIS 27 million in value.

The valuation was prepared by an external appraiser. Based on the valuation as described above, the value of Bezeq Internationals' operations amounted to NIS 652 million, compared with the value in the Group's financial statements in the amount of NIS 754 million. Accordingly, the Group recognized goodwill impairment loss attributable to the ISP, international communications, and NEP services cash-generating unit in the amount of NIS 102 million. In addition, a deferred tax asset for impairment of NIS 22 million was recognized.

Allocation of the impairment loss to assets of Bezeq International as at December 31, 2019:

	2019
	NIS million
Fixed assets	**29**
Intangible assets	**24**
Long-term prepaid expenses for cable capacities	**32**
Rights of use for leased assets	**17**
Total impairment recognized	**102**

Bezeq International allocated the impairment loss first to goodwill and then to the other unit assets proportionately, based on the carrying amount of each group of assets with similar characteristics, other than for assets for which the estimated fair value is higher than or the same as the carrying amount.

12. Deferred Expenses and Non-current Investments

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Deferred expenses (see Note 12.1 below)	**175**	223
Net subscriber acquisition asset (see Note 12.3 below)	**160**	142
Bank deposit for loans to Company employees (see Note 12.2 below)	**45**	48
Investments in equity-accounted investees	**6**	8
Deposit used as collateral against hedging transactions	**-**	41
	386	462

12.1 For its operations, Bezeq International acquires indefeasible rights of use ("IRU") from Mediterranean Nautilus (Israel) Ltd. for the acquisition of seabed cable capacities, which are accounted for as service transactions.

Under the contract, Bezeq International has the right of use for cable capacities until 2022 with an option for an extension until 2027, which Bezeq International is expected to exercise. The value of the service is amortized on a straight line until 2027. The balance of the right of use of capacities is recognized net of impairment of assets in the amount of NIS 32 million (see Note 11.5 for information about impairment of Bezeq International's assets). The balance of Bezeq International's liability for the agreement is USD 8.4 million.

12.2 A bank deposit for loans to Company employees without a repayment date.

12.3 Subscriber acquisition assets:

	Subscriber acquisition assets
	NIS million
Cost	
Balance as at January 1, 2018	196
Additions	164
Disposals	(27)
Balance as at January 31, 2018	333
Additions	**130**
Disposals	**(25)**
Balance as at December 31, 2019	**438**
Amortization and impairment losses	
Balance as at January 1, 2018	81
Depreciation	108
Disposals	(27)
Impairment loss	29
Balance as at December 31, 2018	191
Depreciation	**112**
Disposals	**(25)**
Balance as at December 31, 2019	**278**
Carrying amount	
January 1, 2018	115
December 31, 2018	142
December 31, 2019	**160**

13. Disposal of Investment Property

On January 21, 2018, the Company signed an agreement for the sale of a real estate asset in the Sakia property and on May 5, 2019, the transaction was completed. The total consideration received by the Company for the asset (including linkage differences and interest under the provisions of the agreement) amounted to NIS 511 million plus VAT.

On May 21, 2018, the Company received a demand from the Israel Lands Authority ("the ILA") for payment of a permit fee in the amount of NIS 148 million plus VAT, for the asset betterment plan approved prior to signing the agreement ("the Demand"). The Company filed an objection on the legal argument of the Demand. On January 20, 2019, the ILA dismissed all of the Company's claims in the legal objection, however, the parties are currently negotiating within the mechanism to settle disputes set out in the settlement agreement (the agreement of 2003 between the Company and the ILA and the State regarding most of the real estate assets, including the real estate in the Sakia property, which was transferred to the Company under the asset transfer agreement signed before beginning the Company's business operations). If this mechanism does not bring the dispute to an end, the Company will file a monetary claim petitioning the court to order the ILA to refund the permit fees paid by the Company and to order the ILA to pay the demand for the betterment tax. At the same time, the Company filed an assessment objection on the Demand.

On August 5, 2018, the Company received a demand for payment from the local planning and building committee in Or Yehuda, for betterment tax in the amount of NIS 143.5 million for disposal of the property by way of a sale ("the Demand for Betterment Tax"). On September 17, 2018, the Company filed an appeal on the Demand for Betterment Tax, and sent the ILA a demand for full payment of the betterment tax according to the ILA's undertaking in the settlement agreement. On January 2019, the ILA dismissed the Company's Demand for Betterment Tax. On completion of the transaction as aforesaid and the receipt of the full consideration, the Company paid half of the betterment tax in the amount of NIS 75 million and provided a bank guarantee for the other half of the tax, without this derogating from or impairing the steps taken by or to be taken by the Company to cancel or reduce this tax. It should be noted that the amount for the permit fee to be determined at the end of the proceedings may also affect the amount of the betterment tax the Company will be required to pay to the Planning Committee. The Company believes that the amount of the permit fee and the betterment tax that it will be required to pay is expected to be low and possibly even significantly lower than the total amount of the demands.

The Company recognized a capital gain of NIS 403 million in its financial statements for 2019. Recognition of the capital gain is based on the Company's estimates of the final amount to be paid to the authorities. It should be noted that if the Company's estimates do not materialize, the amounts of the final capital gain will be between NIS 250 million and NIS 450 million.

14. Investees

14.1 Subsidiaries:

14.1.1 The place of incorporation of the companies held directly by the Company is Israel. Information about companies and partnerships held directly by the Company:

Pelephone Communications Ltd. (see Note 14.3 below)

Bezeq International Ltd.

DBS Satellite Services (1998) Ltd. (see Note 14.2 below)

Bezeq Online Ltd.

Walla! Communications Ltd.

As at December 31, 2019 and December 31, 2018, the Company holds 100% in the shareholders' rights in the subsidiaries listed above. The Company's subsidiaries have investments in other subsidiaries that are not material.

14.1.2 On February 13, 2019, the Company's Board of Directors approved the request of each of the subsidiaries Pelephone, Bezeq International and DBS to apply to the Ministry of Communications for approval to change the corporate structures according to which the full operations and assets of each of the subsidiaries will be transferred to a separate limited partnership, wholly-owned by the Company (the Company as a limited partnership and a company (separate and different in each partnership), wholly owned by the Company as a general partner).

On January 28, 2020, the Company received a letter from the Ministry of Communications that at this time it was not possible to approve the application. This was for the reasons that the Company believes are mistaken including because there is no room to take interim decisions that might affect the issue of structural separation in the Group and change the existing range of incentives, while the obligation of structural separation applied to the Group is currently being examined by a special team at the Ministry of Communications. As part of its examination, a broad range of alternatives are being assessed - from cancellation of the obligation of separation to strengthening the separation. In addition, in the Ministry's opinion, this is a material change in the Group's operations and not a technical change of the corporate structure.

14.2 DBS Satellite Services (1998) Ltd.

14.2.1 Up to March 25, 2015, the Company held 49.78% of the share capital of DBS and it held options that confer the right to 8.6% in DBS shares, which the Company was prohibited to exercise. The balance of DBS shares was held by Eurocom DBS Ltd. (a company that was controlled (indirectly) by the controlling shareholder in the company at that time). On March 25, 2015, the Company exercised the options that were allotted, for no consideration, and on June 24, 2015, the Company completed a transaction for the acquisition of the entire holdings of Eurocom DBS in DBS, and all of the owners loans provided by Eurocom to DBS ("the Acquisition Transaction").

On the completion date, the Company transferred the cash consideration of NIS 680 million to Eurocom DBS for the Acquisition Transaction.

Under the terms of the Acquisition Transaction, in addition to the cash consideration of NIS 680 million, the consideration included two additional contingent considerations, as follows: one additional consideration of up to NIS 200 million, which will be paid in accordance with the tax synergy according to the terms defined in the acquisition agreement ("the First Contingent Consideration"); and another additional consideration of up to NIS 170 million, which will be paid in accordance with the business results of DBS in the 2015-2017 ("the Second Contingent Consideration").

On completion of the Acquisition Transaction, DBS became a wholly owned subsidiary (100%) of the Company. The Company consolidates the financial statements of DBS as from March 23, 2015.

Most of the First Contingent Consideration was paid after the Company signed an assessment agreement and the taxation decision of the Tax Authority regarding financing income, shareholder loans, the losses of DBS, and its merger (see also Note 7.2.1).

The Company paid an advance of NIS 119 million on account of the second contingent consideration. In accordance with the financial results of DBS for 2017, and since the final amount of the Second Contingent Consideration was lower than the amount of advances that the Company paid Eurocom DBS for the consideration, Eurocom DBS is required to return the difference to the Company. In this context, the Company joined the proceedings as creditor for liquidation of Eurocom Communications. In addition, following the Company's demand for Eurocom DBS to pay the Company the amount of the down payment on account of the Second Contingent Consideration plus interest as set out in the agreement, after the goals entitling Eurocom DBS to this consideration were not achieved, on April 22, 2018, the Tel Aviv District Court, at the Company's request, handed down a liquidation order for Eurocom DBS and the Company's legal counsel was appointed as the liquidator for Eurocom DBS. According to the Company's estimate of December 31, 2019, taking into consideration the solvency of Eurocom DBS, no repayment of the advances is expected.

14.2.2 On March 13, 2019, Bezeq's Board of Directors approved a resolution of the Board of Directors of DBS to approve a plan for migration from satellite broadcasts to broadcasts over the internet (OTT), in a gradual, long-term process that expected to spread over seven years. As from December 2019, alongside its satellite services, DBS offers the yes+ service, which includes linear TV channels, as well as VOD content and an advanced technological interface.

14.2.3 In 2018, the Company converted the balance of DBS debentures in the amount of NIS 422 million, which it held, to DBS capital, converted the shareholders' loan to DBS in the amount of NIS 97 million to DBS capital, and invested an additional NIS 100 million in DBS.

14.2.4 As at December 31, 2019, DBS has an equity deficit in the amount of NIS 105 million and a working capital deficit in the amount of NIS 282 million. According to the forecasts of DBS, it expects to continue to accumulate operational losses in the coming years and therefore will be unable to meet its obligations and continue operating as a going concern without the Company's support.

On February 13, 2019, the Company provided DBS with a letter of undertaking for a credit facility or capital investments in the amount of NIS 250 million, which DBS can withdraw for a period of 15 months from that date. Insofar as the support is provided by way of credit, the repayment date of the credit will not be earlier than the end of the term of the credit facility. The letter of undertaking was replaced by new letters of undertaking in a total amount of NIS 250 million in May, August, and November 2019, with each letter of undertaking replacing the preceding one (and not in addition to). The last letter of undertaking is valid for 15 months as from October 1, 2019 and until December 31, 2020.

In 2019, the Company invested NIS 145 million in DBS, in accordance with the letters of undertaking as aforesaid.

On February 27, 2020, the Company's Board of Directors approved an irrevocable undertaking of the Company to DBS to provide a credit facility or a capital investment of NIS 250 million for 15 months, as from January 1, 2020 and until March 31, 2021, instead of the undertaking of November 2019.

14.2.5 The management of DBS believes that the financial resources at its disposal, which include the working capital deficit, the credit facility, and the Company's capital investments, as set out in section 14.2.4 above, will be adequate for the operations of DBS for the coming year.

15. Debentures, Loans and Borrowings

15.1 Composition:

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Current liabilities		
Current maturities of debentures	**590**	921
Current maturities of loans	**417**	621
	1,007	1,542
Non-current liabilities		
Debentures	**5,582**	5,537
Loans	**2,969**	4,100
	8,551	9,637
Total debentures, loans and borrowings	**9,558**	11,179

15.2 Changes in the debt composition in 2019

15.2.1 Raising debt

In 2019, the Company raised debt in the amount of NIS 800 million through private loans from an institutional entity and from a bank, and completed a private placement of Debentures (Series 11 and 12) to institutional investors for a total consideration of NIS 1,068 million.

15.2.2 Early repayments and debt exchange

In 2019, the Company completed the early repayment of a number of loans from financial institutions and banks in the total amount of NIS 1.83 billion (principal). In addition, in September 2019, the Company completed a tender offer for NIS 444 million par value Debentures (Series 7) according to a specification at a price of 101.50 agorot per NIS 1 par value debenture.

In December 2019, the Company completed a private exchange of NIS 300,000,000 par value Debentures (Series 6) of the Company for an allocation of NIS 337,500,000 par value Debentures (Series 12) of the Company by way of expanding Debentures (Series 12), reflecting an exchange ratio of NIS 1.125 par value of the Debentures (Series 12) which are traded on the TACT Institutional System of the TASE, for each NIS 1 par value Debentures (Series 6).

As a result of the early repayments, the Company recognized financing costs in the amount of NIS 93 million and also recognized financing income in the amount of NIS 14 million for the exchange of Debentures (Series 6) with Debentures (Series 12).

15.3 Debentures and loan terms

	December 31, 2019		December 31, 2018		
	Carrying amount	Nominal value	Carrying amount	Nominal value	Interest rate range
	NIS million	NIS million	NIS million	NIS million	
Bank loans:					
Unlinked loans at fixed interest	**1,593**	**1,580**	1,740	1,721	4.3% - 3.2%
Unlinked loans at fixed interest	**243**	**243**	417	417	5% - 6.85%
Unlinked loans at variable interest	**-**	**-**	500	500	Prime -0.33% to prime +0.2%
Total bank loans	**1,836**	**1,823**	2,657	2,638	
Loan from financial institutions:					
Unlinked loans at fixed interest	**1,517**	**1,520**	2,014	2,020	4% - 3.22%
Unlinked loans at fixed interest	**33**	**33**	50	50	5.25%
Total loans from financial institutions	**1,550**	**1,553**	2,064	2,070	
Total loans	**3,386**	**3,376**	4,721	4,708	
Debentures issued to the public					
Series 6 - linked to the CPI, at fixed interest	**1,600**	**1,500**	2,553	2,400	3.7%
Series 7 - unlinked loans at variable interest	**107**	**107**	586	587	Makam for one year +1.4%
Series 9 - unlinked loans at fixed interest	**2,197**	**2,145**	2,208	2,145	3.65%
Series 10 - linked to the CPI, at fixed interest	**902**	**882**	903	882	2.2%
Total debentures issued to the public	**4,806**	**4,634**	6,250	6,014	
Debentures traded on the TACT-Institutional system:					
Series 11 - unlinked loans at fixed interest	**605**	**603**	-	-	3.6%*
Series 12 - linked to the CPI, at fixed interest	**761**	**799**	-	-	2.1%*
Total debentures traded on the TACT-Institutional system	**1,366**	**1,402**	-	-	
Non-marketable debentures issued to financial institutions:					
Debentures issued by DBS and held by the public - linked to the CPI, at fixed interest	**-**	**-**	8	8	5.35%
Unlinked debentures at fixed interest	**-**	**-**	200	200	6.65%
Total non-marketable debentures	**-**	**-**	208	208	
Total debentures	**6,172**	**6,036**	6,458	6,222	
Total loans and debentures	**9,558**	**9,412**	11,179	10,930	

If the Debentures (Series 11 and 12) will be registered for the trading on the main list of the TASE, the interest rate payable on the principle of the debentures as from their listing date on the main list, will decrease by 0.4%.

15.4 Loans and debentures issued by the Company

Below are details of the terms that the Company undertook for the loans that were received and the debentures that were issued:

15.4.1 For the Company’s overall debt, standard grounds were included for immediate repayment of the debentures and loans, including breach events, insolvency, dissolution procedures or receivership. In addition, a right was determined to call for immediate repayment if a third party lender calls for immediate repayment of the Company's debts in an amount exceeding the amount determined.

In addition, the Company has undertaken not to create additional liens on its assets unless liens are created at the same time in favor of the debenture holders and the lending banks (negative lien). The lien includes exceptions, including regarding a lien on assets that will be purchased or expanded by the Company, if the undertakings underlying the lien are created for the purchase or expansion of those assets and for the matter of a token lien.

15.4.2 For the Company’s public debentures, the debentures traded on the TACT-Institutional system in the amount of NIS 1.4 billion as at December 31, 2019, bank loans in the amount of NIS 1.8 billion as at December 31, 2019, and for loans from financial institutions in the amount of NIS 1.5 billion as at December 31, 2019, the Company has undertaken that if it the Company makes an undertaking towards any entity in respect of compliance with financial covenants, the Company will also provide the same undertaking to these lenders (subject to certain exceptions).

15.4.3 For the Company’s public debentures, debentures traded on the TACT-Institutional system in the amount of NIS 1.4 billion, and for loans from financial institutions amounting to NIS 1.5 billion, grounds were included for immediate repayment, if telecommunication ceases to be the Group's core activity.

15.4.4 For the Company’s public debentures, debentures traded on the TACT-Institutional system in the amount of NIS 1.4 billion, and for loans from financial institutions amounting to NIS 1.5 billion, the Company has undertaken to the lenders to take steps so that, to the extent under its control, the debentures will be rated by at least one rating agency, so long as there are debentures of the relevant series in circulation or a balance in loans, as the case may be.

15.4.5 For Debentures (Series 9-10), debentures traded on the TACT-Institutional system in the amount of NIS 1.4 billion, and for loans from financial institutions in the amount of NIS 1.5 billion, grounds for the immediate repayment of the loans in the event of a change in control were included, following which the controlling shareholders in the Company (as defined in the agreements) will cease to be controlling shareholders and control will be transferred to a third party (“the Transferee”), with the exception of: (1) transfer of control to a transferee that received approval for control in the Company in accordance with the provisions of the Telecommunications Law and/or the Telecommunications Order; or (2) transfer of control in which the Transferee holds control together with the controlling shareholders in the Company, provided that the holding rate of the controlling shareholders in the Company in the shares of the Company does not fall below 50.01% of the total shares of the Company held by the controlling shareholders together; or (3) a change in control to be approved by a meeting of the debenture holders/lenders.

15.4.6 In addition, for Debentures (Series 9 and 10), debentures traded on the TACT-Institutional system in the amount of NIS 1.4 billion, and for loans from financial institutions in the amount of NIS 1.5 billion, grounds were included for immediate repayment of the debentures in the event of the recording of a going concern qualification in the Company's financial statements for two consecutive quarters, in the event of a material deterioration in the Company's business compared with the situation at the time of the issue, and there is real concern that the Company will not be able to repay the debentures/loans on time on time (as set out in section 35(I)1a1 of the Israel Securities Law).

As at December 31, 2019 and the approval date of the financial statements, the Company was in compliance with all its liabilities, there were no grounds to call for immediate repayment, and financial covenants were not set out as described above.

15.5 Reportable credit

Below is information about the Group's reportable credit, in accordance with Legal Bulletin No. 104-15: A reportable credit event, issued by the ISA on December 30, 2011 and amended on March 19, 2017 (according to Group's information, debentures series and loans amount to more than NIS 1 billion). The debentures were issued by the Group without a specific purpose. The debenture principal is repayable in equal payments with the interest payable on the outstanding loan principal, as set out in the table below.

	Debentures (Series 6)	Debentures (Series 9)
Date of loan	3.7.2011	15.10.2015
Date of final repayment	1.12.2022	1.12.2025
Type of loan	CPI-linked fixed interest	Unlinked fixed interest NIS
Amount of the original loan or par value (NIS million)	3,000	2,145
Balance of revalued principal (plus interest payable) as at December 31, 2019 (NIS millions)	1,569	2,151
Number of principal payments in the year	1	1
Principal payments as from	2018	2022
Number of interest payments in the year	2	2
Interest rate as at December 31, 2019	3.7%	3.65%
Fair value of the liability as at December 31, 2019 (NIS millions)	1,687	2,335
Imputed effective interest at fair value as at December 31, 2019	(0.21%)	1.75%
Imputed effective interest at fair value as at December 31, 2018	0.63%	3.11%
Special conditions	See Notes 15.4.1 to 15.4.4	See Note 15.4.
Right to early repayment	None	None

15.6 Movement in liabilities arising from financing activities

	Debentures (including accrued interest)	Loans (including accrued interest)	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2018	6,787	5,114	11,901
Changes due to cash flows from financing activities			
Consideration from the issue of debentures and receipt of loans, less transaction fees.	571	320	891
Repayment of debentures and loans	(881)	(686)	(1,567)
Interest paid	(223)	(198)	(421)
Total net cash from finance activities	(533)	(564)	(1,097)
Financing expenses recognized in the statement of income	222	188	410
Balance as at December 31, 2018	6,476	4,738	11,214
Changes due to cash flows from financing activities			
Consideration from the issue of debentures and receipt of loans, less transaction fees.	**1,065**	**800**	**1,865**
Repayment of debentures and loans	**(1,316)**	**(2,131)**	**(3,447)**
Interest paid	**(220)**	**(172)**	**(392)**
Total net cash from finance activities	**(471)**	**(1,503)**	**(1,974)**
Financing expenses recognized in the statement of income	**182**	**166**	**348**
Balance as at December 31, 2019	**6,187**	**3,401**	**9,588**

16. Trade and Other Payables

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Open accounts and expenses payable *	**755**	862
Notes payable	**2**	21
Total trade payables	**757**	883
Other payables, including derivatives		
Liabilities to employees and other liabilities for salaries	**368**	352
Advance payment for the Sakia property	**-**	155
Deferred income	**101**	103
Institutions	**63**	82
Derivative instruments	**55**	43
Accrued interest	**30**	35
Other	**39**	37
Total other payables	**656**	807
Total trade payables and other payables	**1,413**	1,690

* Of which, the carrying amount of trade payables that are related parties and interested parties as at December 31, 2019 amounts to NIS 2 million (as at December 31, 2018 – NIS 2 million).

17. Provisions

	Customer claims	Additional legal claims	Dismantling and clearing of cellular and other sites	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2019	**134**	**35**	**44**	**213**
Provisions created	**22**	**7**	**11**	**40**
Provisions used	**(31)**	**(26)**	**-**	**(57)**
Provisions canceled	**(14)**	**(7)**	**(1)**	**(22)**
Balance as at December 31, 2019	**111**	**9**	**54**	**174**
Presented in the statement of financial position as:				
Current provisions	**111**	**9**	**5**	**125**
Non-current provisions	**-**	**-**	**49**	**49**
	111	**9**	**54**	**174**

* For further information about legal claims, see Note 19.

18. Employee Benefits

Employee benefits include termination benefits, post-employment benefits, other long-term benefits and short-term benefits.

18.1 Liabilities for employee benefits

	Note	2019 NIS million	2018 NIS million
Current liabilities for:			
Holiday		**120**	112
Sick pay	18.4	**152**	133
Provision for the early retirement plan at Bezeq	18.5.1	**139**	276
Provision for early retirement for employees transferred from the civil service at Bezeq	18.5.2	**170**	53
Provision for the streamlining plan in Pelephone, Bezeq International, and DBS	18.5.3	**66**	-
Current maturities of pensioner benefits	18.3.3	**7**	7
Total current liability for employee benefits		**654**	581
Non-current liabilities for:			
Liability for pensioner benefits	18.3.3	**137**	115
Provision for early retirement for employees transferred from civil service	18.5.2	**94**	241
Termination compensation (net) (see composition below)	18.3.1	**65**	54
Provision for the streamlining plan in Pelephone, Bezeq International, and DBS	18.5.3	**31**	-
Early notice and pension	18.3.2	**29**	35
Total non-current liabilities for employee benefits		**356**	445
Total liabilities for employee benefits		**1,010**	1,026
Composition of liabilities for severance pay:			
Liabilities for severance pay		**230**	218
Fair value of plan assets		**(165)**	(164)
		65	54

18.2 Defined contribution plans

18.2.1 Liabilities for employee benefits at retirement age in respect of the period of their service in the Company and its subsidiaries, and for employees to which Section 14 of the Severance Pay Law – 1963 (“the Severance Pay Law) applies, are covered in full by regular payments to pension funds and insurance companies

	2019 NIS million	2018 NIS million	2017 NIS million
Deposits recognized as an expense for a defined contribution plan	**223**	232	228

18.2.2 The pension rights of Company employees for the period of their employment in the civil service through January 31, 1985, are covered by a pension fund ("the Makefet Fund"), which assumed the State's obligation following an agreement between the Government of Israel, the Company, the Histadrut Federation of Labor and the Makefet Fund.

18.2.3 The obligation for severance pay for employees who leave their employment on terms entitling them to compensation is covered, for the period from February 1, 1985, by regular contributions to such pension funds and insurance companies (in accordance with Section 14 of the Severance Pay Law).

18.2.4 Severance pay for the period of employment in the civil service through January 31, 1985, is paid by the Company, and the monies accumulated in the Makefet Fund for that period are kept in a fund that will be used for the employees' rights.

18.2.5 For certain employees, the Group has an obligation to pay severance in excess of the amount accumulated in the compensation fund which is in the employees' names. See section 18.3.1 below.

18.3 Defined benefit plans

Obligations for defined benefit plans in the Group include the following:

18.3.1 The severance pay obligation for the balance of the obligation not covered by contributions and/or insurance policies in accordance with the existing labor agreements and the Severance Pay Law. For this part of the obligation, there are deposits in the name of Group companies in pension funds and insurance companies. The deposits in pension funds and insurance companies include accrued linkage differences and interest. Withdrawal of the reserve monies is contingent upon fulfillment of the provisions in the Severance Pay Law.

18.3.2 An obligation in accordance with the employment agreements of some of the senior employees in the Group for payment of a benefit for notice upon severance. The Company also has an obligation to a number of senior employees who are entitled to early retirement terms (pension and retirement grants) which are not dependent on the existing retirement agreements for all employees

18.3.3 Company retirees receive, in addition to pension payments, benefits which consist mainly of a holiday gift (linked to the dollar exchange rate), financing for the upkeep of retiree clubs and social activities The Company's liability for these costs accumulates in the employment period. The Company's financial statements include the liabilities for expected costs in the severance period.

18.4 Provision for sick leave

The financial statements include a provision in respect of redemption and use of sick leave. The right to accumulate sick leave was taken into account for all employees in the Group. Only employees eligible under the terms of the employment agreement may redeem sick leave. The provision was computed on the basis of an actuarial calculation, including the assumption of positive accumulation of days by most of the employees and use of days by the last in first out (LIFO) method.

18.5 Early retirement and termination benefits

18.5.1 According to the collective agreement of December 2006, between the Company and the employees union and the New General Federation of Labor, and according to the amendment to the agreement of August 2015, the Company may, at its discretion, terminate the employment of 163 long-standing permanent employees in each of the years 2015-2021 (the Company's right is accumulated over the years).

The Company recognizes expenses for early retirement when the Company is committed demonstrably, without realistic possibility of withdrawal, to a defined plan to terminate employment before the defined date, according to a defined plan. The collective agreement allows the Company to dismiss employees, but does not create a demonstrable commitment without realistic possibility of withdrawal. Accordingly, the expenses for early retirement are recognized in the Company's financial statements at the approval date of the plan.

On November 6, 2019, as part of its streamlining plan, the Company's Board of Directors approved the retirement of 140 permanent employees (permanent and new permanent) and the termination of employment of another 60 employees with flexible employment status. In view of the above, in its financial statements for the fourth quarter of 2019, the Company recognized an expense for severance pay in early retirement in the amount of NIS 137 million. Total expenses for early retirement in the Company in 2019 amounted to NIS 109 million, and included a decrease in the provision for retirement for previous plans.

18.5.2 On December 16, 2018, an early retirement plan was decided on, by the end of the collective agreement period (the end of 2021) for all employees of the Company who were transferred to the Company from the Ministry of Communications (94 employees). The balance of the unpaid provision for the retirement liability as at December 31, 2019 is NIS 264 million.

18.5.3 Pelephone, Bezeq International, and DBS have collective agreements with the Labor Unions and the employees' committees as follows:

A. On March 14, 2019, DBS signed a collective arrangement with the National Federation of Labor and the employees' representatives regarding streamlining and synergy processes, commencing on June 1, 2019 until December 31, 2021 ("the Arrangement"). According to the arrangement, in the Arrangement years, DBS will be entitled to terminate the employment of up to 325 employees, and employees who are not included in the retirement plan will receive a one-time grant. In addition, according to the Arrangement, DBS may also retrench by not recruiting employees to replace employees whose employment was terminated. Following the Arrangement and the submission of the efficiency plan outline to the employees' representatives, DBS recognized expenses, mainly due to termination benefits amounting to NIS 45 million.

On November 17, 2019, DBS signed an extension to its collective agreement with the National Federation of Labor and the employees’ committee, with certain revisions, until December 31, 2021.

B. On July 11, 2019, Bezeq International signed a collective agreement with the New General Federation of Labor and the employees’ committee at Bezeq International. The Agreement includes streamlining and synergy processes for the period from July 11, 2019 to December 31, 2021. Pursuant to the agreement, Bezeq International will be entitled to terminate the employment of up to 325 employees (of which 150 are permanent employees, some as part of voluntary early retirement), in addition to the option of not hiring employees to replace the employees whose employment was terminated. The agreement also includes a one-time bonus for employees who are not included in the retirement plan. Following the agreement and the submission of the streamlining plan outline to the employees' representatives, Bezeq International recognized expenses of NIS 45 million, mainly termination benefits and other employee benefits.

C. On November 13, 2019, Pelephone signed a renewal of the existing collective agreement with the New General Federation of Labor - Cellular, Internet, and High Tech Workers Union ("the Histadrut") and the employees’ representatives, which includes streamlining and synergy processes for the period from November 12, 2019 until June 30, 2022 (“the Agreement”). Under the agreement, Pelephone will be able, among other things, to terminate the employment of 210 permanent employees during the agreement period, some as part of a voluntary retirement plan. In addition, according to its plan, Pelephone will terminate the employment of another 190 non-permanent employees, and employees will not be hired to replace those whose employment is terminated. The agreement also includes a one-time bonus for employees who are not included in the retirement plan. Following the agreement and the submission of the efficiency plan outline to the employees' representatives, Pelephone recognized expenses of NIS 77 million, mainly termination benefits and other employee benefits.

18.6 Actuarial assumptions

The main actuarial assumptions for defined benefit plans at the reporting date are as follows:

18.6.1 Mortality rates are based on the rates published in Pension Circular 2017-3-6 of the Capital Market Authority. Future declines in mortality rates are based on rates published in Circular 2019-1-10.

18.6.2 Churn rates were determined on the basis of the past experience of the Company and the subsidiaries, distinguishing between different employee populations and taking into account the number of years of employment. The churn rates include a distinction between severance with entitlement to full termination compensation and severance without entitlement to full termination compensation.

18.6.3 The discount rate (nominal) is based on the yield on linked high-quality corporate debentures with maturity dates approximating those of the gross obligation.

The main discount rates are as follows:

	December 31, 2019	December 31, 2018
	Average discount rate	**Average discount rate**
Termination compensation	**2.4%**	3.73%
Retirement benefits	**2.9%**	4.1%

18.6.4 Assumptions regarding salary increments for calculation of the liabilities were made on the basis of the management's assessments, distinguishing between the groups of employees. The main assumptions (in nominal terms) regarding salary increases of the main employee groups are as follows:

	Annual salary increase assumptions
Permanent employees in the Company	The calculation was based on individual assumptions regarding an expected salary increase for 2020 through to 2026, arising from the collective agreement signed in August 2015.
New Permanent employees in the Company	Average adjustment of 3.2% for young employees, decreasing gradually to 1.4% at the age of 66.
Company's employees that are not permanent	6.4% for young employees decreasing gradually to 0.1%, 2% (in real terms) for senior employees
Pelephone employees	Salary increases were based on the collective agreements signed by Pelephone. The annual salary increase for Pelephone employees is 3% in 2020 and 2% thereafter.
Bezeq International employees	Assumptions about salary increases were based on the collective agreement signed in 2019. The average salary increase for Bezeq International employees is 2.95% in 2020 and 2% thereafter.
DBS employees	Rate of increase of 3.5%.

18.6.5 Average weighted useful life of liabilities for the main post-employment benefits:

	December 31, 2019	December 31, 2018
	Years	**Years**
Termination compensation	**10.8**	9.9
Retirement benefits	**16.6**	13.6

18.7 Sensitivity analysis for key actuarial assumptions

Analysis of the possible effect of changes in the main actuarial assumptions on liabilities for employee benefits: The calculation was for each separate assumption, assuming that the other assumptions remained unchanged.

	December 31, 2019	December 31, 2018
	NIS million	**NIS million**
Discount rate, addition of 0,5%	**(42)**	(37)
Rate of future salary increases, addition of 0.5%	**35**	27
Employee churn rate, addition of 5%	**(25)**	(12)
Mortality rate assumption, addition of 5%	**(4)**	(2)

19. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, among other things, on legal opinions as to the likelihood of success of the claims, the financial statements include adequate provisions (as described in Note 17), where provisions are required to cover the exposure resulting from such claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at December 31, 2019 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 5.1 billion. There is also additional exposure of NIS 3.3 billion for claims, the chances of which cannot yet be assessed.

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

The amounts of the additional exposure in this Note are linked to the CPI and are stated net of interest.

For updates subsequent to the reporting date, see section 19.2 below.

19.1 Following is a detailed description of the Group's contingent liabilities as at December 31, 2019, 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 concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	**111**	**3,864**	**1,440**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.		**1,100**(1)	**1,828**(2)
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	**-**	**3**	**-**
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the Authorities (including property taxes). See also Note 13.	**9**	**9**	**-**
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	**-**	**63**	**18**
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	**-**	**58**	**-**
Total legal claims against the Company and subsidiaries		**120**	**5,097**	**3,286**

(1) Exposure for a motion for certification of a class action filed by a shareholder against the Company and officers in the Company, referring to alleged reporting omissions by the Company regarding the wholesale market and the reduction of interconnect fees. The plaintiff estimated the original amount of the claim as NIS 2 billion (based on the out-of-pocket method) and, alternatively, as NIS 1.1 billion (based on the approximate out-of-pocket method). This amount is expected to decrease because the lawsuit has not yet been amended following the court ruling to dismiss the motion for certification for some of the grounds.

(2) Two motions for certification of a class action amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers in the Group and companies in the group of the Company's controlling shareholders regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint motion is expected to be filed instead of these two motions. The proceedings are stayed until March 31, 2020, at this stage, due to the investigation (as described in Note 1.3) and at the request of the Attorney General.

19.2 Subsequent to the date of the financial statements, a claim was filed against the Group companies without an exact amount. As at the approval date of the financial statements, the chances of the claim cannot yet be assessed. In addition, claims with exposure of NIS 172 million came to an end and a claim with an undefined amount came to an end.

20. Agreements

20.1 DBS has agreements for the acquisition of space segments, content, and copyrights, up to the end of 2025. The amounts of future agreements for these contracts as at December 31, 2019 are as follows:

Year ended December 31	Space segments (see Note 20.2 below)	Content and copyright	Total
	NIS million	NIS million	NIS million
2020	**78**	**471**	**549**
2021	**78**	**280**	**358**
2022	**75**	**236**	**311**
2023	**75**	**79**	**154**
2024	**75**	**8**	**83**
2025	**75**	**-**	**75**
2026	**12**	**-**	**12**
	468	**1,074**	**1,542**

20.2 In accordance with the agreement with Space Communications Ltd. ("Spacecom") of 2013, as amended, DBS leases space segments in the Amos satellites ("the Spacecom Agreement"). In accordance with the Spacecom Agreement, DBS leases space segments on the Amos 3 satellite (which is expected to end its service at the beginning of 2026), as well as on the Amos 7 satellite, in which Spacecom has the right to lease space segments under an agreement with the holder of rights in this satellite, which was leased to DBS until February 2021. In February 2020, Spacecom exercised the option granted to it by the holder of the satellite rights to extend the lease of Amos 7 for an additional year, and it extended the lease period of DBS accordingly until February 2022.

Under the Spacecom Agreement, Spacecom has undertaken to make the most reasonable efforts to install the new satellite, Amos 8, by February 2021, and in this case, DBS will lease space segments from that date in Amos 3 and in Amos 8, and from the end of life of Amos 3, in Amos 8 only. If Amos 8 is not deployed by February 2022, DBS will lease space segments in Amos 3 until the end of its life, and will have the right, if it so chooses, to lease space segments in Amos 8, to the extent it is deployed at a later stage. DBS believes, taking into consideration, among other things, that Spacecom did not announce the agreement to construct Amos 8 and according to information received from Spacecom (according to Spacecom reports, the agreement for construction of Amos 8 was cancelled by Spacecom in 2018), Amos 8 is not expected to be in place before February 2022, if at all. Therefore, although the term of the original Spacecom Agreement is until 2028, in accordance with the Spacecom Agreement, the agreement will terminate prematurely at the end life of the Amos 3 satellite, which, to the best of DBS' knowledge, is expected to be at the beginning of 2026, without compensation and under the terms set out in the agreement (subject to additional premature termination options).

Leased space segments: Under the Spacecom Agreement, in the agreement period (and subject to unavailability events), DBS will lease 12 space segments from Spacecom, according to the distribution among the relevant satellites set out in the agreement for the different periods, and as from the end of the lease of the Amos 7 satellite, DBS is expected to lease ten space segments in Amos 3. The agreement also establishes the positioning of the leased backup space segments in the agreement period, under the terms and within the limitations in the agreement.

Early termination of the agreement: The Spacecom Agreement stipulates the right to early termination without cause, subject to advance notice of 12 months and payment of the consideration in accordance with the prescribed mechanism. The Spacecom Agreement also stipulates the right of DBS for premature termination of the agreement in February 2021 due to a delay in the effective date of the Amos 8 construction agreement. DBS informed Spacecom that it would not exercise this right.

20.3 The cellular infrastructure equipment in the UMTS/HSPA and LTE networks is manufactured by LM Ericsson Israel Ltd. ("Ericsson"), which serves as a supplier of Pelephone for the deployment of a fourth generation radio network (LTE). Ericsson is also a material supplier of Pelephone for microwave transmission. Pelephone has multi-year agreements for maintenance, support and upgrade of software for the UMTS/HSPA network and an agreement for acquisition of 4G network (LTE) equipment with Ericsson, and Pelephone believes that it could be dependent on Ericsson for network support and its expansion. As at December 31, 2019, Pelephone has agreements with Ericsson for the acquisition of terminal equipment and the receipt of services, in a total amount of NIS 6 million.

20.4 As at December 31, 2019, the Group companies have agreements for the acquisition of terminal equipment, fixed assets, intangible assets, and other assets amounting to NIS 309 million and other agreements for the receipt of various services in the future amounting to NIS 93 million.

20.5 For information about transactions with related parties, see Note 30.3.2.

21. Securities, Liens and Guarantees

The Group's policy is to supply tender, performance and legal guarantees. In addition, the Company provides bank guarantees, where necessary, for banking obligations of subsidiaries.

21.1 The Group companies provided guarantees of NIS 165 million in favor of the Ministry of Communications to secure the terms of their licenses (of which an amount of NIS 41 million is linked to the CPI and NIS 35 million to the USD exchange rate).

21.2 The Group companies provided bank guarantees totaling NIS 176 million in favor of third parties.

21.3 In accordance with its cellular license, Pelephone is not permitted to sell, lease or pledge any of its assets used for the implementation of the license, without the consent of the Minister of Communications, except for:

A. A pledge on one of the license assets in favor of a bank operating lawfully in Israel, to receive bank credit, provided that it submitted notice to the Ministry of Communications regarding the pledge it intends to register, noting that the pledge agreement includes a clause ensuring that in any event, exercise of the rights by the bank will not impair, in any way, the services provided under the license.

B. Sale of items of equipment when implementing an upgrade, including sale of equipment by the trade-in method.

21.4 For information about the conditions that the Company undertook for loans and borrowings, see Note 15.

22. Equity

22.1 Share capital

	Registered share capital	**Issued and paid up share capital**
	Number of shares	**Number of shares**
	Balance as at December 31, 2019 and 2018	**Balance as at December 31, 2019 and 2018**
Ordinary shares of NIS 1 par value	**2,825,000,000**	**2,765,485,753**

22.2 Dividends

22.2.1 Dividend distribution policy

Up to March 6, 2018, the Company's policy was to distribute a dividend to the shareholders amounting to 100% of the semi-annual profit (after tax) (profit for the period attributable to the shareholders of the Company), in accordance with the consolidated financial statements of the Company. On March 6, 2018, the Board of Directors resolved to revise the dividend distribution policy, such that the Company will distribute a dividend to its shareholders, twice a year, of 70% of the semi-annual profit (after tax) in accordance with the consolidated financial statements of the Company, as from the distribution following the resolution.

On March 27, 2019, the Company's Board of Directors resolved to cancel the Company's dividend distribution policy. The resolution was passed after a presenting a clear and transparent position with the shareholders and under the circumstances that arose due to the inability to distribute a dividend due to the expected failure to meet the profit test in the next two years. Accordingly, the Board of Directors resolved that it would not be appropriate to maintain a dividend policy when in practice it is not effective.

The cancellation of the policy will not prevent the Company's Board of Directors from assessing, from time to time, the distribution of dividends to the Company's shareholders, taking into consideration, among other things, the provisions of the law, the state of the Company's business and its capital structure, while maintaining a balance between ensuring the Company's financial strength and stability, including its debt level and credit rating, and the continued attribution of value to the shareholders of the Company through ongoing distribution of a dividend, all subject to the approval of the general meeting of the Company's shareholders regarding each specific distribution, as set out in the Company's articles of association.

22.2.2 Distributions made by the Company in 2017-2019:

Distribution date	Distributed amount per share (NIS)	2019	2018	2017
		NIS million	NIS million	NIS million
10.5.2018	0.133	-	368	-
10.10.2018	0.115	-	318	-
29.5.2017	0.209	-	-	578
16.10.2017	0.256	-	-	708
		-	686	1,286

23. Revenues

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Domestic fixed-line communication (Bezeq Fixed-Line)			
Internet – infrastructure	**1,497**	1,525	1,488
Fixed-line telephony	**1,017**	1,130	1,255
Transmission and data communication	**745**	769	775
Cloud and digital services	**273**	260	230
Other services	**225**	199	205
	3,757	3,883	3,953
Cellular communications - Pelephone			
Cellular services and terminal equipment	**1,674**	1,713	1,743
Sale of terminal equipment	**642**	688	757
	2,316	2,401	2,500
Multichannel television - DBS	**1,344**	1,473	1,650
Internet services (ISP), international communications, and NEP services - Bezeq International	**1,283**	1,338	1,467
Other	**229**	226	219
	8,929	9,321	9,789

24. General and Operating Expenses

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Interconnectivity and payments to domestic and international operators	**757**	789	805
Terminal equipment and materials	**761**	737	855
Content costs	**644**	653	636
Marketing and general	**489**	555	595
Maintenance of buildings and sites	**271**	286	584
Services and maintenance by sub-contractors	**270**	277	260
Vehicle maintenance*	**71**	82	156
	3,263	3,379	3,891

* Operating and general expenses are presented net of expenses of NIS 43 million recognized in 2019 for investments in fixed assets and intangible assets (in 2018, NIS 46 million and in 2017, NIS 65 million).

25. Salaries

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Total salaries and incidentals	**2,472**	2,571	2,576
Less salaries recognized in investments in fixed assets and intangible assets	**(539)**	(579)	(571)
	1,933	1,992	2,005

26. Other Operating Expenses (Income), Net

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Capital gain (mainly from the sale of real estate, see Note 13)	**(508)**	(1)	(66)
Expenses for severance pay in early retirement and the streamlining agreement in Pelephone, Bezeq International, and DBS (see Note 18.5.3)	**167**	12	3
Expense for severance pay in early retirement (see Note 18.5)	**109**	547	23
Provision for claims	**10**	91	19
Other expenses	**1**	(1)	2
Profit from sale of an associate	**-**	(14)	-
Other operating expenses (income), net	**(221)**	634	(19)

27. Financing Expenses (Income), Net

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**349**	370	341
Financing expenses for employee benefits	**89**	9	35
Costs for early repayment of loans and debentures (see Note 15.2.2)	**93**	-	-
Linkage and exchange rate differences	**43**	63	46
Financing expenses for lease commitments	**29**	26	-
Other financing expenses	**12**	5	33
Change in fair value of financial assets at fair value through profit or loss	**9**	-	36
Changes in liability for contingent consideration for a business combination	**-**	43	(14)
Total financing expenses	**624**	516	477
Income for credit in sales	**29**	30	35
Revenues for debenture exchange (see Note 15.2.2)	**14**	-	-
Other financing income	**32**	27	25
Change in fair value of financial assets at fair value through profit or loss	**-**	24	-
Total financing income	**75**	81	60
Financing expenses, net	**549**	435	417

28. Earnings Per Share

	2019	2018	2017
Net profit (loss) (NIS millions)	**(1,087)**	(1,066)	1,235
No. of shares (millions of shares)	**2,765**	2,765	2,765
Earnings (loss) per share (NIS)	**(0.39)**	(0.39)	0.45

29. Segment Reporting

29.1 The Group operates in four segments in the communications sector, so that every company in the Group operates in one separate business segment. The primary reporting format, by business segments, is based on the Group's management and internal reporting structure.

Each company provides services in the segment in which it operates, using the fixed assets and the infrastructure it owns (see also Note 23). The infrastructure of each company is used only for providing its services. Some of the Group companies use infrastructure owned by other companies in the Group. Each of the companies in the Group is exposed to different risks and yield expectations, mainly in the matter of the technology and competition in the segment in which it operates. Accordingly, the separable component in the Group is each company in the Group.

Based on the above, the business segments of the Group are as follows:

1. Bezeq The Israel Telecommunication Corp. Ltd.: fixed line domestic communications
2. Pelephone Communications Ltd.: cellular communications
3. Bezeq International Ltd.: internet services, international communications, and NEP services
4. DBS Satellite Services (1998) Ltd.: multichannel television

The other companies in the Group are presented under the "Other" item. Other operations include call center services (Bezeq Online) and online content services (through Walla). These operations are not reported as reporting segments as they do not fulfill the quantitative thresholds in the reported years.

Inter-segment pricing is set at the price determined in transactions in the ordinary course of business.

The results, assets and liabilities of a segment include items directly attributable to that segment, as well as those that can be allocated on a reasonable basis. The results of the cellular and multichannel TV segment are presented net of the impairment losses described in Notes 11.2 and 11.4, respectively. This is in accordance with the manner in which the Group’s chief operating decision maker evaluates the performance of the segments and makes decisions regarding the allocation of resources to the segment.

Segment capital expenditure is the total cost incurred in the period for acquisition of fixed assets and intangible assets.

29.2 Operating segments

	Year ended December 31, 2019						
	Domestic fixed-line communication	Cellular communications*	ISP and international communications	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
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 and amortization	861	633	190	219	14	(5)	1,912
Segment results – operating profit (loss)	2,142	(99)	(57)	(135)	1	(863)	989
Financing expenses	608	23	8	17	1	(33)	624
Financing income	(39)	(62)	(2)	(5)	-	33	(75)
Total financing expenses (income), net	569	(39)	6	12	1	-	549
Segment profit (loss) after financing expenses, net	1,573	(60)	(63)	(147)	-	(863)	440
Share in profits (losses) of associates	-	-	-	-	(2)	-	(2)
Segment profit (loss) before income tax	1,573	(60)	(63)	(147)	(2)	(863)	438
Income tax **	381	(13)	(13)	2	-	1,168	1,525
Segment results – net profit (loss)	1,192	(47)	(50)	(149)	(2)	(2,031)	(1,087)
Segment assets	8,091	4,088	1,126	1,491	149	(2,255)	12,690
Investment in associates	-	-	4	-	2	-	6
Goodwill	-	-	-	-	-	341	341
Segment liabilities	12,466	1,434	414	576	79	(1,247)	13,722
Investments in fixed assets and intangible assets	914	335	110	222	9	-	1,590

* Impairment losses in the cellular communications and multichannel television segments as described in Note 11 are presented under adjustments. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segments and makes decisions regarding the allocation of resources to the segments. In addition, see Note 32 for condensed selected information from the financial statements of Pelephone and DBS.

** See Note 7.6 for information about the write-off of the tax assets for the losses in DBS.

	Year ended December 31, 2018						
	Domestic fixed-line communication	Cellular communications	ISP and international communications	Multi-channel television*	Other	Adjustments*	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,883	2,401	1,338	1,473	226	-	9,321
Inter-segment revenues	313	42	53	-	15	(423)	-
Total revenues	4,196	2,443	1,391	1,473	241	(423)	9,321
Depreciation and amortization	850	655	194	323	21	146	2,189
Segment results – operating profit (loss)	1,224	(2)	111	(56)	(36)	(1,789)	(548)
Financing expenses	502	22	11	16	-	(35)	516
Financing income	(32)	(56)	(1)	(27)	-	35	(81)
Total financing expenses (income), net	470	(34)	10	(11)	-	-	435
Segment profit (loss) after financing expenses, net	754	32	101	(45)	(36)	(1,789)	(983)
Share in profits (losses) of associates	-	-	1	-	(4)	-	(3)
Segment profit (loss) before income tax	754	32	102	(45)	(40)	(1,789)	(986)
Income tax	187	8	25	3	-	(143)	80
Segment results – net profit (loss)	567	24	77	(48)	(40)	(1,646)	(1,066)
Segment assets	8,896	4,124	1,332	1,606	157	(1,098)	15,017
Investment in associates	-	-	6	-	2	-	8
Goodwill	-	-	6	-	-	1,292	1,298
Segment liabilities	14,284	1,425	567	687	84	(1,158)	15,889
Investments in fixed assets and intangible assets	902	346	137	318	13	-	1,716

* Results of the multi-channel television segment are presented net of the impairment loss set out in Note 11.4. The impairment loss is presented as part of the adjustments. 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 32.3 for condensed selected information from the financial statements of DBS.

	Year ended December 31, 2017						
	Domestic fixed-line communication	Cellular communications	ISP and international communications	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,953	2,500	1,466	1,650	220	-	9,789
Inter-segment revenues	291	46	71	-	17	(425)	-
Total revenues	4,244	2,546	1,537	1,650	237	(425)	9,789
Depreciation and amortization	728	383	135	285	20	164	1,715
Segment results – operating profit (loss)	1,971	72	168	163	(20)	(244)	2,110
Financing expenses	439	3	6	81	-	(52)	477
Financing income	(36)	(54)	(4)	(10)	(5)	49	(60)
Total financing expenses (income), net	403	(51)	2	71	(5)	(3)	417
Segment profit (loss) after financing expenses, net	1,568	123	166	92	(15)	(241)	1,693
Share in losses of associates	-	-	-	-	(4)	(1)	(5)
Segment profit (loss) before income tax	1,568	123	166	92	(19)	(242)	1,688
Income tax	396	28	39	336	-	(346)	453
Segment results – net profit (loss)	1,172	95	127	(244)	(19)	104	1,235

29.3 Adjustments for segment reporting of revenues, profit or loss, assets and liabilities

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Revenues			
Revenues from reporting segments	**9,119**	9,503	9,977
Revenues from other segments	**238**	241	237
Cancellation of revenues from inter-segment sales	**(428)**	(423)	(425)
Consolidated revenues	**8,929**	9,321	9,789

Profit or loss			
Operating profit for reporting segments	**1,851**	1,277	2,374
Loss from impairment of assets (see Note 11.2)	**(951)**	(1,638)	-
Financing expenses, net	**(549)**	(435)	(417)
Adjustments for the multi-channel television segment	**80**	-	-
Share in losses of associates	**(2)**	(3)	(5)
Loss for operations classified in other categories and other adjustments	**9**	(31)	(14)
Amortization of excess cost	**-**	(156)	(250)
Consolidated profit (loss) before income tax	**438**	(986)	1,688

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Assets		
Assets from reporting segments	**14,800**	15,970
Assets attributable to operations in other categories	**151**	159
Goodwill not attributable to an operating segment	**341**	1,292
Cumulative loss from impairment of assets (see Note 11)	**(2,131)**	(1,638)
Less inter-segment assets and other adjustments	**(124)**	(626)
Surplus cost not attributable to an operating segment	**-**	1,166
Consolidated assets	**13,037**	16,323

Liabilities		
Liabilities from reporting segments	**14,890**	16,963
Liabilities attributable to operations in other categories	**79**	84
Less inter-segment liabilities	**(1,247)**	(1,158)
Consolidated liabilities	**13,722**	15,889

30. Transactions with Interested and Related Parties

30.1 Identity of interested and related parties

The Company's interested and related parties as defined in the Securities Law and in IAS 24 – Related Party Disclosures include mainly B Communications and related parties of B Communications (including parties that were related parties of B Communications in the reporting period, but are not related parties of B Communications as at the reporting date), affiliated companies, directors and key management personnel in the Company or B Communications and a person who is close to a family member of any of the above parties.

It should be noted that the transactions described below with interested and related parties do not include reference to Note 1.3 regarding the investigations of the Israel Securities Authority and the Israel Police or its possible implications.

30.2 Balances with interested and related parties

	December 31	
	2019	**2018**
	NIS million	**NIS million**
Trade and other receivables - associates	**5**	7
Related parties, net	**(1)**	5
Eurocom DBS Ltd. for excess advance payments fir contingent consideration (not including interest) (see Note 14.2.1)	**99**	99

30.3 Transactions with interested and related parties

	Year ended December 31		
	2019	**2018**	**2017**
	NIS million	**NIS million**	**NIS million**
Revenues			
From related parties	**13**	31	23
From associates	**1**	6	8
Expenses			
To related parties	**20**	54*	122
To associates	**-**	5	5
Fixed assets			
Related parties	**-**	1	28
Acquisition of Eurocom DBS holdings in DBS (see Note 14.2.1)	**-**	-	(70)**
Revised balance of the excess advance payments for acquisition of DBS (see Note 14.2.1)	**-**	43**	56**

* Related-party expenses include amounts paid by DBS to Spacecom up to May 3, 2018. It should be noted subsequent to this date, the Company believes, based on information it received, that Spacecom ceased to be a related party. For further information, see section 30.3.2 below. In 2018, DBS paid a total of NIS 74 million to Spacecom.

** Adjustment of the liability for contingent consideration for a business combination with DBS and adjustment of the fair value estimate of the amount expected to be returned to the Company from the excess of the advance payments that it paid, recognized as financing income, net.

Transactions with interested and related parties

30.3.1 Negligible transactions

On March 7, 2011, the Company's Board of Directors resolved to adopt guidelines and regulations to classify a transaction of the Company or its subsidiary with an interested party as a negligible transaction, which is not an extraordinary transaction, as set out in Article 41(A3) of the Securities Regulations (Financial Statements Regulations), 2010 ("the Financial Statements Regulations"). These guidelines and regulations, as revised from time to time, are also used to assess the scope of disclosure in the periodic report and prospectus (including shelf offering reports) regarding a transaction of the Company, a company under its control and a subsidiary or associate with a controlling shareholder or in which the controlling shareholder has a personal interest as set out in Article 22 of the Securities Law (Periodic and Immediate Reports), 1970 ("the Periodic Reports Regulations") and Article 54 of the Securities Regulations (Prospectus Details and Draft Prospectus – Structure and Form), 1969. The types of transactions set out in the Financial Statements Regulations, the Periodic Report Regulations, and Prospectus Details Regulations will be referred to hereunder as "Interested Party Transactions". The Company will also use these guidelines to assess whether an Interested Party Transaction is a "non-negligible transaction" within the meaning of section 117(2A) of the Companies Law, 1999.

In the reporting year and/or in comparative periods, the Company and its subsidiaries entered into negligible transactions, which are not extraordinary transactions, with interested parties in the Company (or in which the controlling shareholder has a personal interest), of the types and nature set out below:

1. Sales of communications services and products by Group companies, including: basic communication services (telephony, transmission and PRI) and hosting at server farms; cellular services, value added services and sales and upgrading of cellular end equipment; web browsing services, international telephony services, hosting services and data communication services; television services
2. Purchase of devices from Eurocom Group companies (companies owned by the former controlling shareholder of the Company or companies controlled by the former controlling shareholder at the approval date of the agreement), including acquisition of electronic equipment, terminal equipment, communication equipment, and pit covers
3. Acquisition of maintenance and development services from companies in the Eurocom Group, including maintenance, development and upgrading services for systems used in the Group companies, maintenance and spare parts for exchanges, content development services and communication applications.
4. Sales of maintenance, upgrading and development services by Group companies, including: maintenance of equipment, content development services and communication applications
5. Sale of user rights in communication infrastructure, call transfer, including sale of user rights in international communication infrastructure and supply of a local segment in Israel, hosting services at server farms, and reciprocal call transfer and completion agreements with Eurocom Group companies.
6. Placement and outsourcing services
7. Rental, management and real estate acquisition agreements, including rental of areas used for communication facilities and warehouses; and rental of areas to Eurocom Group companies in properties owned by the Company
8. Acquisition of advertising and content services, including agreements to acquire media slots from media companies in the Eurocom Group; agreement for to use content on Pelephone's cellular portal; acquisition of portals from Eurocom Group companies; media content management services by Eurocom Group companies.
9. Transactions relating to joint marketing, advertising, discounts and sponsorship with Eurocom Group companies or related to products of Eurocom Group companies, including distribution agreements (dealer) for marketing Company services, joint marketing campaigns, consignment agreements for the sale of

Eurocom Digital Communications equipment, and technological sponsorship at exhibitions organized by the Company.

10. Contribution to the community together with Eurocom Group companies and contribution to organizations/projects in which the controlling shareholder of the Company or his relative volunteers as an officer. These contributions are part of the Company's contribution policy.

In the absence of special qualitative considerations all the circumstances, a transaction that is in the Company’s regular course of business, is carried out in market conditions and has no material effect on the Company, shall be deemed negligible if all the following parameters exist:

A. The amount of the transaction does not exceed NIS 10 million.

B. The Company is not required to issue an immediate report for the transaction under Article 36 of the periodic reports regulations or any other law.

C. The transaction does not include the terms of the office and employment (as defined in the Companies Law, 1999, ("the Companies Law") of an interested party or his relative, and does not constitute a transaction as set out in section 270(4) of the Companies Law (transaction of a public company with a holder of control therein, directly or indirectly, including through a company he controls, in respect of receiving services from it by the Company and if such person is also an officer - as to the conditions of his office and employment, and if he is an employee of the Company but not an officer, as to his employment by the Company).

According to the provisions of the Companies Law, as amended from time to time, once a year, before publication of the annual financial statements, the audit committee will review the parameters set out above, and whether they require updating. In general, each transaction will be tested separately for negligibility. Notwithstanding the aforesaid, separate transactions that are part of the same continuing transaction or very similar transactions that are carried out routinely and repeatedly, will be tested as one transaction on an annual basis for negligibility, provided the scope of the transaction does not exceed NIS 10 million, as set out above.

The Board of Directors may, from time to time and at its discretion, amend the parameters for a negligible transaction. This amendment will be duly reported. On February 27, 2020, the Company's audit committee revised the list of types of transactions set out above in accordance with the relevant types of transactions, since the Eurocom Group was no longer the controlling shareholder of B Communications.

30.3.2 Below are transactions listed in section 270(4) of the Companies Law, which are not considered as negligible transactions

	Approval date of the general meeting (after approval of the Company's audit/compensation committee and Board of Directors), unless otherwise stated.	**Nature of the transaction**	**Amount of the transaction**	**Nature of the personal interest**
	April 3, 2017	Approval of the Company's vote at the general meeting of DBS in favor of the agreement between DBS and Space Communications Ltd. ("Spacecom" and "the Parties" respectively) with an amendment/addendum to the existing agreement between the parties dated November 4, 2013, for the lease of satellite segments in Spacecom’s satellites ("the Agreement"), including in favor of implementation of the Agreement.	A total nominal cost of up to USD 263 million for the entire term of the Agreement (until December 31, 2028), reflecting an average annual cost of USD 21.9 million. For further information about the Spacecom agreement, see Note 20.1 and 20.2.	Section A below

A. B Communications had a personal interest in the transaction as at the date of its approval, since, as at the date of the transaction, Spacecom was controlled by Eurocom Communications, which as the controlling shareholder (indirectly) in B Communications at that time. To the best of the Company's knowledge and in accordance with information provided to the Company by Eurocom Communications, as from May 3, 2018, the connection between Eurocom Communications and Spacecom was severed and the Company ceased to regard Spacecom as a related party.

For further information about the transactions included in section 270(4) of the Companies Law, regarding D&O insurance and indemnity, see Note 30.6 below.

30.4 Benefits for key officers

Benefits for employment of key officers in 2017-2019, including:

	Year ended December 31		
	2019	2018	2017
	NIS thousands	NIS thousands	NIS thousands
Number of key officers *	**3**	7	5
Salary **	**5,485**	7,568	8,877
Bonus	**3,834**	5,453	6,791
Management fees for the chairman of the Board of Directors ***	**2,400**	2,508	-
Compensation for the former interim chairman of the Board of Directors	**-**	372	414
	11,719	15,901	16,082

* Key officers in the Group in the reporting year include the chairman of the Board of Directors, whose remuneration for his service is paid to the management company, of which he holds 50% of the means of control, the CEO of the Company and the CEO of Pelephone, Bezeq International, and DBS.

** In 2019, the changes in other provisions (which are included in the total salary) include mainly an increase in the provision for early notice, leave, and sick leave for the Company’s CEO in the amount of about NIS 0.6 million.

In 2018, the changes in other provisions (which are included in the total salary and management fees) include a decrease in the provision, mainly due to the early notice payment and leave for the former CEO of the Company, in the amount of NIS 1.2 million, and for the former CEO of DBS, in the amount of NIS 2.1 million, against an increase for creation of a provision for early notice and leave for the Company’s CEO in the amount of NIS 0.5 million and the chairman of the Board of Directors in the amount of NIS 0.5 million.

*** On May 3, 2019, the Chairman of the Board of Directors notified the Company of a 20% reduction in management fees for the whole of 2019.

30.5 Benefits for directors

	Year ended December 31		
	2019	2018	2017
	NIS thousands	NIS thousands	NIS thousands
Remuneration for directors who are not employed by the Company, see section 30.5.1	**2,890**	5,689	2,404
Number of directors receiving remuneration	**13**	13	6
Salary of employee-directors, see 30.5.2	**626**	641	642
Number of directors receiving a salary, see 30.5.2	**1**	1	1
Management fees to the former controlling shareholder (see section 30.3.2)	**-**	800	5,648

30.5.1 The management fees for the services of the chairman of the Board of Directors are not included in this section and are included in section 30.4 above since the chairman of the Board of Directors is a key officer.

30.5.2 The salary is paid to an employee-director for his work in the Company and he does not receive any additional pay for his service as a director in the Company.

30.6 Additional benefits for directors and officers

Approval date of the general meeting (after approval of the Company's Board of Directors), unless otherwise stated.	Nature of the transaction	Amount of the transaction
June 13, 2019 Approval of the compensation committee in accordance with Article 1B1 of the Relief Regulations.	Approval of the Company's insurance policy for directors and officers liability in the Company and its subsidiaries, in accordance with the Company's compensation policy, for the period up to June 14, 2020 (inclusive).	A liability limit of up to USD 160 million per claim and in total for the entire insurance year plus reasonable legal expenses. The annual premium is USD 928,000. The Company's deductible is up to USD 150,000 per claim.
January 17, 2007	Undertaking to indemnify officers in the Company, in accordance with the letters of indemnity, as amended on October 26, 2011 and May 3, 2016.	Up to 25% of the Company's equity, according to the Company's last financial statements published prior to actual granting of indemnity.
February 6, 2020	Amendment of the undertaking to indemnify and exemption for directors and officers in the Company for the maximum amount of indemnity, effective as from June 30, 2019.	Up to 25% of the Company's equity, according to the Company's last financial statements published prior to granting indemnity in practice or NIS 400 million, whichever is higher.

31. Financial Instruments

31.1 General

The Group is exposed to the following risks, arising from the use of financial instruments:

A. Credit risk

B. Liquidity risk

C. Market risk (which includes currency, interest, CPI risks and other price risks)

This Note provides qualitative and quantitative information about the Group's exposure to each of the above risks, an explanation as to how the risks are managed, and the measurement processes. .

31.2 Framework for financial risk management

The Board of Directors has overall responsibility for the Group's financial risk management. The purpose of financial risk management in the Group is to define and monitor those risks constantly, and to minimize their possible effects arising from the exposure on the basis of assessments and expectations of the Board of Directors for parameters that affect the risks.

The Group's policy is to manage, in accordance with the rules determined by the Board of Directors, the exposure arising from fluctuations in foreign exchange rates, interest rates and the CPI.

31.3 Credit risk

Management monitors the Group's exposure to credit risks on a regular basis. Cash and investments in deposits and securities are deposited in highly-rated banks.

Trade and other receivables

The Group's management regularly monitors customer debts, and the financial statements include provisions for doubtful debts which properly reflect, in the management's estimation, the loss inherent in doubtful debts. In addition, the balances of the trade receivables are widely spread.

Investments in financial assets

Any investments in securities are made in liquid, marketable and low-risk securities. Transactions involving derivatives are made with entities that have a high credit rating.

As at the reporting date, there is no material concentration of credit risks.

31.4 Liquidity risk

The Group's liquidity management policy is to ensure, to the extent possible, adequate liquidity to meet its existing and expected liabilities when they fall due, in a normal business scenario and under stress conditions, without causing undesirable losses or impairment to goodwill. The cash balances held by the Group are mainly managed in liquid investment channels, subject to the financing requirements of operating activities and the debt service. The Group routinely assesses the existing and expected cash requirements in the foreseeable future, also in the scenario of an unexpected deterioration in its business. These forecasts take into account, among other things, raising and refinancing of debt from banking and non-banking sources. In accordance with the conclusions, active measures are being employed to minimize the risk.

For information about the terms of the debentures issued by Group companies and the loans received, see Note 15 above.

The Group has a contractual obligation for acquisitions, fixed assets, terminal equipment, and other current services. For further information about agreements, see Note 20.

The following are the contractual maturities of financial liabilities received in practice up to December 31, 2019, including estimated interest payments (based on known CPI and interest rates on December 31, 2019):

	December 31, 2019						
	Carrying amount	Contractual cash flow	First half 2020	Second half 2020	2021	2022 to 2024	2025 and thereafter
	NIS million						
Non-derivative financial liabilities							
Trade and other payables	**1,256**	**1,256**	**1,195**	**61**	**-**	**-**	**-**
Loans	**3,386**	**3,942**	**316**	**204**	**448**	**1,341**	**1,633**
Debentures	**6,172**	**7,007**	**82**	**655**	**733**	**3,061**	**2,476**
	10,814	**12,205**	**1,593**	**920**	**1,181**	**4,402**	**4,109**
Financial liabilities for derivative instruments	**122**	**122**	**4**	**53**	**29**	**34**	**2**

The Group expects that it will not be required to repay the above obligations earlier or in substantially different amounts.

31.5 Market risks

The purpose of market risk management is to manage and oversee the exposure to market risks within accepted parameters to prevent significant exposures to market risks that will influence the Group's results, liabilities and cash flow.

As part of the Group's exposure management policy, a decision was made to establish a mix of exposure of the debt to interest and linkage and to reduce foreign currency exposure. Accordingly, during the normal course of its business, the Group takes full or partial hedging action and takes into account the effects of the exposure in its considerations for determining the type of loans it takes and in managing its investment portfolio.

31.5.1 Exposure to CPI, interest rate, and foreign currency risks

CPI risk

Changes in the rate of inflation affect the Group's profitability and its future cash flows, mainly due to its CPI-linked liabilities. In applying a policy of minimizing the exposure to the CPI, the Group makes forward contracts against the CPI. Hedging transactions are performed against the hedged debt repayment schedules. The Company applies hedge accounting for these forward contracts.

A considerable part of these cash balances is invested in shekel deposits, which are exposed to changes in their real value as a result of a change in the rate of the CPI.

Interest rate risk

In an attempt to meet targets for allocation of debt to interest exposure components, the Group will enter into interest rate swap transactions as required.

Foreign currency risk

The Group is exposed to foreign currency risks mainly due to payments for purchases of terminal equipment and fixed assets, some of which are denominated in or linked to the USD or EUR. In addition, the Group provides services for customers and receives services from suppliers worldwide for which it is paid and it pays in foreign currency, mainly the dollar. The Group's policy is to reduce, to the extent possible, foreign currency acquisition agreements, and to partially hedge USD exposure through forward transactions against the USD and management of USD deposits.

Statement of financial position in accordance with linkage basis as at December 31, 2019:

	December 31, 2019				
	Unlinked	CPI-linked	In or linked to foreign currency (mainly USD)	Non-monetary balances	Total balances
	NIS million	NIS million	NIS million	NIS million	NIS million
Current assets					
Cash and cash equivalents	392	-	8	-	400
Investments	1,154	-	41	-	1,195
Trade receivables	1,648	20	21	-	1,689
Other receivables	44	236	-	33	313
Inventory	-	-	-	93	93
Assets held for sale	-	-	-	43	43
Non-current assets					
Trade and other receivables	304	173	-	-	477
Broadcasting rights, net of rights exercised	-	-	-	59	59
Fixed assets	-	-	-	6,096	6,096
Intangible assets	-	-	-	935	935
Right-of-use assets	-	-	-	1,292	1,292
Deferred tax assets	-	-	-	59	59
Deferred expenses and non-current investments	45	-	-	341	386
Total assets	3,587	429	70	8,951	13,037
Current liabilities					
Debentures, loans and borrowings	486	521	-	-	1,007
Current maturities of liabilities for leases	21	395	-	-	416
Trade and other payables	1,088	65	159	101	1,413
Employee benefits	651	-	3	-	654
Provisions	33	92	-	-	125
Non-current liabilities					
Loans and debentures	5,820	2,731	-	-	8,551
Liability for leases	6	962	1	-	969
Employee benefits	307	-	49	-	356
Derivatives and other liabilities	-	66	-	73	139
Deferred tax liabilities	-	-	-	43	43
Provisions	49	-	-	-	49
Total liabilities	8,461	4,832	212	217	13,722
Total exposure in the statement of financial position	(4,871)	(4,403)	(142)	8,734	(685)
Forward contracts	(1,745)	1,555	190	-	-

Statement of financial position in accordance with linkage basis as at December 31, 2018:

	December 31, 2018				
	Unlinked	CPI-linked	In or linked to foreign currency (mainly USD)	Non-monetary balances	Total balances
	NIS million	NIS million	NIS million	NIS million	NIS million
Current assets					
Cash and cash equivalents	878	-	12	-	890
Investments	1,383	-	21	-	1,404
Trade receivables	1,732	22	19	-	1,773
Other receivables	90	136	-	41	267
Inventory	-	-	-	97	97
Non-current assets					
Trade and other receivables	365	105	-	-	470
Broadcasting rights, net of rights exercised	-	-	-	60	60
Fixed assets	-	-	-	6,214	6,214
Intangible assets	-	-	-	1,919	1,919
Right-of-use assets	-	-	-	1,504	1,504
Deferred tax assets	-	-	-	1,205	1,205
Deferred expenses and non-current investments	49	-	41	372	462
Investment property	-	-		58	58
Total assets	4,497	263	93	11,470	16,323
Current liabilities					
Debentures, loans and borrowings	910	632	-	-	1,542
Current maturities of liabilities for leases	21	424	-	-	445
Trade and other payables	1,370	53	166	101	1,690
Employee benefits	578	-	3	-	581
Provisions	51	124	-	-	175
Non-current liabilities					
Loans and debentures	6,879	2,758	-	-	9,637
Liability for leases	5	1,100	1	-	1,106
Employee benefits	400	-	45	-	445
Derivatives and other liabilities	-	95	5	74	174
Deferred tax liabilities	-	-	-	56	56
Provisions	38	-	-	-	38
Total liabilities	10,252	5,186	220	231	15,889
Total exposure in the statement of financial position	(5,755)	(4,923)	(127)	11,239	434
Forward contracts	(1,520)	1,350	170	-	-

31.5.2 CPI

In 2019, the known CPI increased by 0.3% (in 2018, an increase of 1.2%; in 2017, an increase of 0.3%)

31.5.3 Sensitivity analysis for the change in the CPI to the change in the USD exchange rate.
An increase/decrease of 1% in the CPI at the reporting date did not have a material effect on the net profit and capital.

An increase/decrease of 10% in the USD exchange rate at the reporting date would not have a material effect on profit and on capital.

31.5.4 Interest rate risk

Group is exposed to interest rate risk due to its liabilities for debt instruments bearing variable interest.

A. Type of interest

The interest rate for the Group's interest-bearing financial instruments at the reporting date is as follows:

	Carrying amount	
	2019	**2018**
	NIS million	**NIS million**
Fixed-interest instruments		
Financial assets (mainly deposits and trade receivables)	**1,786**	2,378
Financial liabilities (loans and debentures)	**(9,451)**	(10,092)
	(7,665)	(7,714)
Variable-interest instruments		
Financial liabilities (loans and debentures)	**(107)**	(1,086)

B. Fair value sensitivity analysis for fixed rate instruments

The Group's assets and liabilities at fixed interest are not measured at fair value through profit or loss. Accordingly, a change in interest rates at the reporting date will not affect profit or loss.

C. Sensitivity analysis of cash flow for instruments at variable interest

An increase/decrease of 1% in the interest rates at the reporting date would not have a material effect on profit and on capital.

31.6 Cash flow hedge accounting

31.6.1 The Company entered into several forward contracts, as described in the table below, to reduce exposure to changes in the CPI for CPI-linked debentures. These transactions hedge specific cash flows of some of the debentures and are recognized as cash flow hedge accounting. The expiry date of these transactions complies with the repayment schedule of the relevant debentures. The fair value of the forward contracts is based on available market information (tier 2 in the fair value hierarchy)

Hedged item	Repayment dates	Number Transactions	Nominal value NIS million	Fair value NIS million	Capital reserve NIS million
December 31, 2019					
Debentures (Series 6)	**December 2020 to December 2022**	**4**	**1,005**	**(112)**	**(10)**
Debentures (Series 10)	**December 2022 to December 2025**	**4**	**300**	**(5)**	**(2)**
Debentures (Series 12)	**June 2026 to June 2030**	**5**	**250**	**(1)**	**(1)**
		13	**1,555**	**(118)**	**(13)**
December 31, 2018					
Debentures (Series 6)	December 2019 to December 2022	6	1,350	(138)	(12)

31.6.2 DBS has forward transactions to reduce exposure to changes in the USD exchange rate. As at December 31, 2019, the net fair value of these transactions is a liability of NIS 4 million (as at December 31, 2018, an asset of NIS 3 million).

31.7 Financial instruments measured at fair value

31.7.1 The table below presents an analysis of the financial instruments measured at fair value.

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Level 1: investment in marketable securities at fair value through profit or loss (see Note 31.7.2)	**312**	18
Level 2: forward contracts (see Note 31.7.3)	**(122)**	(135)

31.7.2 The fair value of marketable securities is determined by reference to their average quoted selling price at the reporting date (level 1).

31.7.3 The fair value of forward contracts on the CPI or foreign currency is based on discounting the difference between the price in the forward contact and the price of the present forward contact for the balance of the contract term until redemption, at an appropriate interest rate (level 2). The estimate is made under the assumption that a market participant takes into account the credit risks of the parties when pricing such contracts.

31.8 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 fair value of debentures issued to the public is based on their quoted closing price at the reporting date (Level 1).

The fair value of the loans and non-marketable debentures is based on the present value of future principal and interest cash flows, discounted at the rate of market interest for similar liabilities, plus the required adjustments for a risk premium or non-marketability, as at the reporting date (Level 2).

	December 31, 2019			December 31, 2018		
	Carrying amount (including accrued interest)	Fair value	Discount rate (weighted average)	Carrying amount	Fair value	Discount rate (weighted average)
	NIS million		%	NIS million		%
Loans from banks and institutions (unlinked)	**3,401**	**3,561**	**2.39**	4,235	4,324	3.09
Debentures issued to the public (CPI-linked)	**2,508**	**2,647**	**0.05**	3,464	3,602	0.88
Debentures issued to the public (unlinked)	**2,204**	**2,335**	**1.75**	2,215	2,214	3.11
Debentures issued to financial institutions (CPI-linked)	**762**	**855**	**1.24**	8	8	0.55
Debentures issued to financial institutions (unlinked)	**607**	**646**	**2.69**	202	211	3.11
	9,482	**10,044**		10,124	10,359	

31.9 Offset of financial assets and liabilities

The Group has agreements with various communication companies to supply and receive communication services. In accordance with the agreements, each party has the right to offset the amounts due by each party. The table below presents the carrying amount of the offset balances as stated in the statement of financial position:

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Trade and other receivables, gross	**90**	94
Offset amounts	**(81)**	(83)
Trade and other receivables presented in the statement of financial position	**9**	11
Trade payables, gross	**100**	121
Offset amounts	**(81)**	(83)
Trade and other payables presented in the statement of financial position	**19**	38

32. Selected Condensed Data from the Financial Statements of Pelephone Communications Ltd., Bezeq International Ltd., and DBS Satellite Services (1998) Ltd.

32.1 Pelephone Communications Ltd.

Data from the statement of financial position

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Current assets	**843**	913
Non-current assets	**3,245**	3,211
	4,088	4,124
Current liabilities	**667**	619
Non-current liabilities	**767**	806
Total liabilities	**1,434**	1,425
Equity	**2,654**	2,699
	4,088	4,124

Selected data from the statement of income

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Revenues			
Revenues from services	**1,709**	1,755	1,782
Revenues from sales of terminal equipment	**653**	688	764
Total revenues from services and sales	**2,362**	2,443	2,546
Costs of activity			
General and operating expenses	**1,373**	1,402	1,698
Salaries	**373**	379	384
Depreciation and amortization	**633**	655	383
Total operating expenses	**2,379**	2,436	2,465
Other operating expenses, net	**82**	9	9
Operating profit (loss)	**(99)**	(2)	72
Financing expenses (income)			
Financing expenses	**23**	22	3
Financing income	**(62)**	(56)	(54)
Financing income, net	**(39)**	(34)	(51)
Profit (loss) before income tax	**(60)**	32	123
Income tax (income) expenses	**(13)**	8	28
Profit (loss) for the year	**(47)**	24	95

32.2 Bezeq International Ltd.

Data from the statement of financial position

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Current assets	**462**	513
Non-current assets	**668**	831
	1,130	1,344
Current liabilities	**260**	345
Non-current liabilities	**143**	222
Total liabilities	**403**	567
Equity	**727**	777
	1,130	1,344

Selected data from the statement of income

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Revenues	**1,339**	1,391	1,537
Costs of activity			
General and operating expenses	**782**	778*	903*
Salaries	**261**	300*	328*
Depreciation and amortization	**190**	194	135
Other operating expenses, net	**163**	8	3
Total operating expenses	**1,396**	1,280	1,369
Operating profit (loss)	**(57)**	111	168
Financing expenses (income)			
Financing expenses	**8**	11*	6*
Financing income	**(2)**	(1)	(4)
Financing expenses, net	**6**	10	2
Share in profits of equity accounted investees	**-**	1	-
Profit (loss) before taxes on income	**(63)**	102	166
Income tax (income) expenses	**(13)**	25	39
Profit (loss) for the year	**(50)**	77	127

* Reclassified for reconciliation with the Group's policy for presenting expenses

32.3 DBS Satellite Services (1998) Ltd.

Data from the statement of financial position

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Current assets	**203**	220
Non-current assets	**268**	286
	471	506
Current liabilities	**485**	575
Non-current liabilities	**91**	112
Total liabilities	**576**	687
Capital deficit	**(105)**	(181)
	471	506

Selected data from the statement of income

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Revenues	**1,345**	1,473	1,650
Costs of activity			
General and operating expenses	**923**	956	957
Salaries	**216**	233	245
Depreciation, amortization, and impairment losses	**219**	323	285
Impairment loss	**-**	1,100	-
Other operating expenses (income), net	**42**	17	-
Total operating expenses	**1,400**	2,629	1,487
Operating profit (loss)	**(55)**	(1,156)	163
Financing expenses (income)			
Financing expenses	**17**	16	81
Financing income	**(5)**	(27)	(10)
Financing expenses, net	**12**	(11)	71
Profit (loss) before taxes on income	**(67)**	(1,145)	92
Income tax (income) expenses	**2**	3	336
Loss for the year	**(69)**	(1,148)	(244)

33. Subsequent Events

33.1 Epidemic - outbreak of the coronavirus

At the beginning of 2020, the coronavirus (COVID 19) broke out globally, which is an event with many implications, including macroeconomic implications (“the Event"). Due to the Event, many countries, including Israel, are taking significant steps in an attempt to contain the virus, such as restrictions on civilian movements, gatherings, restrictions on transportation of passengers and goods, and closing of borders. As a result, the Event and the actions set out above have significant implications for many economies as well as global capital markets.

Subsequently, the Group companies are monitoring developments in connection with the Event and assessing potential implications on their business operations. These implications can be reflected (and some have already been reflected as set out below), among other things, in impairment to the activities of the Group companies, including the supply chain, customer service system, and repair of malfunctions, employee availability, revenues from the sale of terminal equipment, and revenues from roaming services at Pelephone, as well as a general decline in business activity, resulting in payment problems in some sectors. Regarding the decline in business activity in Israel, it should be noted that some of the implications have already been reflected in some of the Group companies. On the one hand - there is a decline in segments related to tourism (including roaming), hotels, travel, catering, culture and entertainment, and on the other - there is an increase in segments related to government, health, work from home, and households.

As at the approval date of the financial statements, there has been some impairment to these activities, however, at this stage, the impairment is not significant and the Event has not yet affected the financial position and business position of the Group companies. However, by nature, this is a fluid Event, which is not under the control of the Group companies, therefore extensive transmission of the virus and/or the decisions of the State of Israel and authorities in Israel and worldwide may affect the activities accordingly.

The Group companies are implementing various measures to address the risks and exposures arising from the implications of the Event, including increasing the number of employees who work from home, training employees who need to be in contact with the public, stocking the required accessories, as well as increasing the stock of equipment purchased in China and expanding sources of supply of core products to other countries.

At this stage, the Group companies cannot reliably estimate the expected quantitative effect of the Event on the business activities of the Group companies. Regarding Pelephone, if the overseas travel restrictions and the damage to the supply chain of terminal equipment continues for a prolonged period, then Pelephone's revenues and profit in 2020 are expected to decrease significantly by tens of millions of NIS.

The extent of the Event’s effect may be affected by various factors, including the continuation of the outbreak of the coronavirus and the degree of the outbreak, the measures taken by the authorities to address the Event and their effect on the Group companies, the behavior of customers and suppliers of the Group companies due to the Event and the consequent measures, the ability to perform the activities of the Group companies described above, and more.

It should be noted that on March 16, 2020, the Director General of the Ministry of Communications sent a letter on "Providing services during the coronavirus crisis" according to which, among other things, following the Knesset's declaration of an emergency, the Group companies (as well as other communication entities who received the letter) are required to prepare themselves according to the principles listed below, as well as according to the directives of the Ministry of Health that are issued from time to time: engineering and technicians – 100%, services – 50%, headquarters – 30%. The Group companies are operating accordingly: most of the services and headquarters employees work from home and some of employees of the Group companies are required to take leave.

33.2 On March 18, 2020, the Company’s Board of Directors approved the submission of an application to publish a prospectus for Debentures (Series 11 and 12) that were listed on the TACT-Institutional system and a shelf prospectus based on its financial statements as at December 31, 2019 together with an initial draft of the prospectus. It should be emphasized that as at this date, publication of the prospectus has not yet been approved, and as at the approval date of this report, a decision has not been made to raise funds through the shelf prospectus.

Separate Financial Information for Year ended December 31, 2019

The information contained in this financial information constitutes a translation of the financial information published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

To:

The Shareholders of "Bezeq" the Israeli Telecommunication Corporation Ltd.
Dear Sirs,

Subject: Special auditors' report on separate financial data according to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have audited the separate financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of "Bezeq" the Israeli Telecommunication Corporation Ltd. (hereinafter – "the Company") as of December 31, 2019 and 2018 and for each of the three years, the last of which ended December 31, 2019. The separate financial data are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on the separate financial data based on our audit.

We did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 20 million and NIS 34 million as of December 31, 2019 and 2018, respectively, and the Company's share in their losses amounted to approximately NIS (14) million, NIS (44) million and NIS (18) million for the years ended December 31, 2019, 2018 and 2017, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such investees, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial data are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes assessing the accounting principles that were used in preparing the separate financial data and the significant estimates made by the Board of Directors and by Management of the Company, as well as evaluating the separate financial data presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the separate financial data has been prepared, in all material respects, in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Without qualifying our abovementioned opinion, we draw attention to Note 12, which refers to Note 1.3 to the consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in 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.

In addition, without qualifying our abovementioned opinion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 11.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 18, 2020

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

Information pertaining to the Financial Position as at December 31

	Note	2019 NIS million	2018 NIS million
Assets			
Cash and cash equivalents		**134**	527
Investments	3.1	**1,180**	1,384
Trade receivables	3.3	**671**	699
Other receivables and debit balances	3.3	**238**	201
Assets held for sale		**43**	-
Loans granted to investees	10.2.2	**17**	100
Total current assets		**2,283**	2,911
Trade and other receivables	3.3	**200**	152
Fixed assets	5	**4,962**	4,993
Intangible assets		**233**	227
Goodwill	12.2	**265**	265
Investment in investees	9.2	**3,425**	5,557
Loans granted to investees	10.2.2	**32**	90
Right-of-use assets		**236**	294
Non-current investments and other	3.2	**92**	126
Deferred taxes	4.2	**53**	45
Investment property	12.4	**-**	58
Total non-current assets		**9,498**	11,807

Total assets		**11,781**	**14,718**

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

	Note	2019 NIS million	2018 NIS million
Liabilities			
Debentures, loans and borrowings	3.5	**1,000**	1,520
Trade and other payables	3.4	**603**	788
Employee benefits		**532**	524
Current maturities of liabilities for leases		**106**	116
Provisions	11	**86**	132
Total current liabilities		**2,327**	3,080
Debentures and loans	3.5	**8,551**	9,630
Loan from an investee	10.2.1	**1,020**	815
Employee benefits		**288**	404
Liability for lease		**146**	192
Derivatives and other liabilities		**134**	163
Total non-current liabilities		**10,139**	11,204
Total liabilities		**12,466**	14,284
Equity			
Share capital		**3,878**	3,878
Share premium		**384**	384
Reserves		**332**	331
Deficit		**(5,279)**	(4,159)
Total equity		**(685)**	434
Total liabilities and equity		**11,781**	14,718

Shlomo Rodav	**Dudu Mizrachi**	**Yali Rothenberg**
Chairman of the Board of Directors	CEO	Bezeq Group CFO

Date of approval of the financial statements: March 18, 2020

.

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

Information pertaining to Profit or Loss for the year ended December 31

	Note	2019 NIS million	2018 NIS million	2017 NIS million
Revenues	6	**4,073**	4,196	4,244
Costs of activity				
Payroll		**911**	912	891
Depreciation and amortization		**861**	850	728
General and operating expenses	7	**565**	596	677
Other operating expenses (income), net	8	**(406)**	614	(23)
Total operating expenses		**1,931**	2,972	2,273
Operating profit		**2,142**	1,224	1,971
Finance expenses (income)				
Financing expenses		**608**	502	439
Financing income		**(39)**	(32)	(36)
Financing expenses, net		**569**	470	403
Profit after financing expenses, net		**1,573**	754	1,568
Share in profits (losses) of investees, net		**(2,279)**	(1,633)	63
Profit (loss) before income tax		**(706)**	(879)	1,631
Income tax	4.1	**381**	187	396
Profit (loss) for the period attributable to the owners of the Company		**(1,087)**	(1,066)	1,235

Information pertaining to Comprehensive Income for the year ended December 31

	2019 NIS million	2018 NIS million	2017 NIS million
Profit (loss) for the year	**(1,087)**	(1,066)	1,235
Items of other comprehensive income (loss), net of tax	**(32)**	42	(8)
Total comprehensive income (loss) for the period attributable to equity holders of the Company	**(1,119)**	(1,024)	1,227

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

Information pertaining to Cash Flows for the years ended December 31

	2019	2018	2017
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit (loss) for the year	**(1,087)**	(1,066)	1,235
Adjustments:			
Depreciation and amortization	**861**	850	728
Share in losses (profits) of investees, net	**2,279**	1,633	(63)
Financing expenses, net	**462**	447	358
Capital gain, net	**(513)**	(11)	(65)
Income tax expenses	**381**	187	396
Change in trade and other receivables	**20**	(16)	61
Change in trade and other payables	**(44)**	30	2
Change in provisions	**(45)**	73	11
Change in employee benefits	**(144)**	487	(37)
Miscellaneous	**(9)**	5	6
Net cash (used in) from operating activities due to transactions with subsidiaries	**4**	19	(39)
Net income tax paid	**(318)**	(432)	(368)
Net cash from operating activities	**1,847**	2,206	2,225
Cash flows from investment activities			
Investment in intangible assets and other investments	**(123)**	(113)	(110)
Advance payments on account of fixed asset sales	**74**	152	94
Proceeds from sale of the Sakia complex	**328**	155	-
Investment in bank and other deposits	**(2,067)**	(2,324)	(276)
Proceeds from bank deposits and others	**2,295**	1,233	547
Purchase of fixed assets	**(684)**	(742)	(715)
Payment of permit fees and purchase tax for the Sakia complex	**(74)**	(121)	-
Payment of betterment tax for the sale of the Sakia property	**5**	(80)	-
Investments in a subsidiary - see Note 12.3	**(145)**	(100)	-
Miscellaneous	**29**	20	(12)
Net cash from the investment activities with subsidiaries	**149**	146	5
Investment in DBS debentures	**-**	-	(20)
Proceeds from investment in DBS debentures	**-**	-	194
Net cash used in investing activities	**(213)**	(1,774)	(293)

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

Information pertaining to Cash Flows for the years ended December 31 (contd.)

	2019	2018	2017
	NIS million	NIS million	NIS million
Cash flow from financing operations			
Issue of debentures and receipt of loans	**1,865**	891	2,517
Repayment of debentures and loans	**(3,425)**	(1,544)	(1,363)
Payment of early repayment fees	**(93)**	-	-
Dividends paid	**-**	(686)	(1,286)
Interest paid	**(419)**	(419)	(381)
Payment of principal and interest for lease	**(114)**	(99)	-
Miscellaneous	**(46)**	(37)	-
Net cash (used in) from financing activities due to transactions with subsidiaries	**205**	220	229
Payment to Eurocom DBS for acquisition of DBS shares and loans	**-**	-	(61)
Net cash used for financing activities	**(2,027)**	(1,674)	(345)
Increase (decrease) in cash and cash equivalents, net	**(393)**	(1,242)	1,587
Cash and cash equivalents at January 1	**527**	1,769	182
Cash and cash equivalents at the end of the year	**134**	527	1,769

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

1. General

Below is a breakdown of financial information from the Group's consolidated financial statements as at December 31, 2019 ("the Consolidated Financial Statements"), published under the Periodic Report, pertaining to the Company itself ("the Separate Financial Information"), which is presented pursuant to Regulation 9C ("the Regulation") and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Tenth Addendum") with respect to the separate financial information of the corporation.

The separate financial information should be read in conjunction with the consolidated statements.

In this Separate Financial Information -

"The Company" - Bezeq The Israel Telecommunication Corporation Limited

"Investee", "Group", "Subsidiary", "Interested Party" - as these terms are defined in the Group's Consolidated Financial Statements for 2019.

2. Significant Accounting Standards applied in the Separate Financial Information

The accounting policies specified in the Consolidated Statements were consistently applied by the Company for all the periods presented in this Separate Financial Information, including the method for classifying financial information in the consolidated statements, with the required changes:

2.1. Presentation of the financial information

The information pertaining to the financial position, profit or loss, comprehensive income and cash flows include information included in the Consolidated Statements, which refer to the Company separately. The investment balances and results of the operations of investees are accounted using the equity method. Cash flows for ongoing activities, investment activities and financing for transactions with investees are presented separately, in net figures, under the relevant item based on the nature of the transaction.

2.2. Transactions between the Company and investees

2.2.1 Presentation

Intra-group balances and income and expenses arising from intra-group transactions, which were derecognized in the preparation of the Consolidated Statements, are presented separately from the balance for investees and the profit relating to investees, together with similar third party balances.

2.2.2 Measurement

Transactions carried out between the Company and its subsidiaries are measured in accordance with the recognition and measurement principles set out in the International Financial Reporting Standards ("IFRS"). These principles outline the accounting treatment for third party transactions.

2.3. First-time Application of Accounting Standards

For information concerning first time application of accounting standards see Note 2.8 to the Consolidated Financial Statements.

2.4. New standards not yet adopted

For information regarding the new regulations that have not yet been adopted, see Note 3.18 to the Consolidated Financial Statements.

3. Financial Instruments

3.1. Investments

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Bank deposits (1)	**842**	1,366
Investments in marketable securities	**297**	-
Deposit used as collateral for hedging transactions (2)	**41**	18
	1,180	1,384

(1) The deposits mature by December 2020

(2) The deposit used as collateral for hedging transactions matures in December 2020

3.2. Non-current and other investments and other

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Bank deposit used for providing loans to the Company's employees (1)	**44**	48
Acquisition of customers asset, net	**48**	37
Deposit used as collateral for hedging transactions	**-**	41
	92	126

(1) The bank deposit for providing loans to Company employees has no maturity date.

3.3. Trade and other receivables and debit balances

	Maturity dates	Unlinked	Israeli CPI linked	Total
		NIS million	NIS million	NIS million
December 31, 2019				
Current assets				
Trade receivables	**2020**	**671**	**-**	**671**
Other receivables and debit balances	**2020**	**31**	**207**	**238**
Total current assets		702	207	909
Non-current assets				
Other receivables	**2021-2022**	**45**	**155**	**200**
December 31, 2018				
Current assets				
Trade receivables	2019	699	-	699
Other receivables and debit balances	2019	80	121	201
Total current assets		779	121	900
Non-current assets				
Trade and other receivables	2020-2021	70	82	152

3.4. Other payables, including derivatives

	Unlinked (including non-financial items)	Israeli CPI linked	In foreign currency or linked thereto (primarily USD)	Total
	NIS million	NIS million	NIS million	NIS million
December 31, 2019				
Trade and other payables	**538**	**60**	**5**	**603**
December 31, 2018				
Trade and other payables	729	53	6	788

3.5. Debentures and loans

3.5.1 Composition:

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Current liabilities		
Current maturities of debentures	**590**	913
Current maturities of bank loans	**410**	607
	1,000	1,520
Non-current liabilities		
Debentures	**5,582**	5,537
Loans	**2,969**	4,093
	8,551	9,630
	9,551	11,150

3.5.2 Terms and debt repayment schedule

	December 31, 2019		December 31, 2018	
	Carrying amount	Par value	Carrying amount	Par value
	NIS million	NIS million	NIS million	NIS million
Total unlinked bank loans at variable interest	**-**	**-**	500	500
Total unlinked bank loans at fixed interest	**1,829**	**1,816**	2,136	2,117
Total unlinked bank loans at fixed interest	**1,550**	**1,553**	2,064	2,070
Total loans	**3,379**	**3,369**	4,700	4,687
Debentures issued to the public				
Total Debentures Series 6-10 issued to the public	**4,806**	**4,634**	6,250	6,014
Debentures listed on the TACT-Institutional system				
Total Debentures Series 11-12 listed on the TACT-Institutional system	**1,366**	**1,402**	-	-
Debentures issued to financial institutes:				
Total unlinked debentures bearing fixed interest that were issued to financial institutions	**-**	**-**	200	200
Total debentures	**6,172**	**6,036**	6,450	6,214
Total interest-bearing liabilities	**9,551**	**9,405**	11,150	10,901

For further information see Note 15 to the Consolidated Statements - Debentures, Loans and Borrowings.

3.6. Liquidity Risk

Breakdown of contractual maturities of financial liabilities, including estimated interest payments (based on known CPI and interest rates at December 31, 2019):

	As of December 31, 2019						
	Carrying amount	Contractual cash flows	First half of 2020	Second half of 2020	2021	2022-2024	2025 onwards
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Non-derivative financial liabilities							
Trade and other payables	**487**	**487**	**453**	**34**	**-**	**-**	**-**
Loan from an investee	**1,020**	**1,208**	**3**	**26**	**35**	**675**	**469**
Loans	**3,379**	**3,935**	**309**	**204**	**448**	**1,341**	**1,633**
Debentures	**6,171**	**7,007**	**82**	**655**	**733**	**3,061**	**2,476**
Total	**11,057**	**12,637**	**847**	**919**	**1,216**	**5,077**	**4,578**
Financial liabilities - derivatives							
Forward contracts (on the consumer price index)	**118**	**118**	**-**	**53**	**29**	**34**	**2**

3.7. Currency and CPI risks

For information regarding CPI hedging transactions that the Company carried out during 2019, see Note 31.6 to the Consolidated Statements. These transactions were recognized in the financial statements as cash flow hedges.

4. Income tax

4.1. General

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Current tax liabilities			
Expenses for the current year	**386**	275	366
Adjustments in respect of previous years based on an assessment agreement	**-**	-	54
Total current tax expenses	**386**	275	420
Deferred tax expense			
Creation and reversal of temporary provisions	**(5)**	(88)	9
Adjustments in respect of previous years based on an assessment agreement	**-**	-	(54)
Reversal of temporary provisions according to an assessment agreement	**-**	-	21
Total deferred tax income	**(5)**	(88)	(24)
Income tax expenses	**381**	187	396

4.2. Changes in recognized deferred tax assets and tax liabilities during the year

Composition of and changes in deferred tax assets and tax liabilities during the year:

	Balance at January 1, 2018	Total recognized in profit or loss	Recognized in equity	Balance as at December 31, 2018	Total recognized in profit or loss	Recognized in equity	Balance as at December 31, 2019
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Employee benefit plan	143	102	1	246	**17**	**2**	**265**
Fixed assets	(205)	(9)	-	(214)	**(5)**	**-**	**(219)**
Provisions and others	26	(5)	(8)	13	**(7)**	**1**	**7**
	(36)	88	(7)	45	**5**	**3**	**53**

5. Property, Plant and Equipment

	2019	2018
	NIS million	NIS million
Cost		
Balance as of January 1	**16,628**	16,394
Additions	**741**	746
Reclassified to investment property	**-**	(17)
Reclassified to assets held for sale	**(113)**	-
Disposals	**(559)**	(495)
Balance as of December 31	**16,697**	16,628
Depreciation		
Balance as of January 1	**11,635**	11,461
Depreciation for the year	**669**	669
Reclassified to assets held for sale	**(70)**	-
Disposals	**(499)**	(495)
Balance as of December 31	**11,735**	11,635
Amortized cost as at December 31	**4,962**	4,993

For further information see Note 10 to the Consolidated Statements - Property, Plant and Equipment

6. Revenues

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Internet infrastructure	**1,578**	1,596	1,544
Fixed-line telephony	**1,039**	1,156	1,281
Transmission and data communication	**948**	977	975
Cloud and digital services	**274**	260	230
Other services	**234**	207	214
	4,073	4,196	4,244

7. Operating and general expenses

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**132**	143	185
Marketing and general	**146**	183	188
Interconnectivity and payments to communications operators	**97**	108	118
Services and maintenance by sub-contractors	**82**	83	73
Vehicle maintenance	**35**	37	69
Terminal equipment and materials	**73**	42	44
	565	596	677

8. Other operating expenses (income), net

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Gain from disposal of property, plant and equipment (mainly real estate)	**(513)**	(11)	(65)
Provision for severance pay in voluntary redundancy	**109**	547	23
Other expenses (income) (mainly provision for claims)	**(2)**	78	19
Other operating expenses (income), net	**(406)**	614	(23)

9. Subsidiaries

9.1 For information concerning the Company's investment in DBS, see Note 14.2 to the Consolidated Financial Statements.

9.2 Investees held directly by the Company:

	Company's interest in equity at	Investment in investees (equity-accounted) at	
		December 31, 2019	December 31, 2018
		NIS million	NIS million
Pelephone Communications Ltd.	**100 %**	**2,723**	3,719
Bezeq International Ltd.	**100 %**	**733**	777
Bezeq Online Ltd.	**100 %**	**51**	39
Walla! Communications Ltd.	**100 %**	**20**	34
DBS Satellite Services (1998) Ltd.	**100 %**	**(102)**	988 *
		3,425	5,557

* The amount includes the tax asset for carryforward losses of DBS, as described in Note 7.6 to the Consolidated Financial Statements.

With regard to recording of impairment of investment in DBS, see Notes 11.2-11.5 to the Consolidated Financial Statements

For the Company's subsidiaries, investments in other investees are not material.

For information concerning the loans provided to investees, see Note 10.2 below

10. Substantial Agreements and Transactions with Investees

10.1. Guarantees

10.1.1 The Company provided a guarantee in favor of banks for credit to Bezeq International of up to NIS 65 million if it will be granted.

10.1.2 The Company provided a bank guarantee for DBS, which DBS had provided in favor of the State of Israel, in accordance with the terms of DBS's license. The guarantee is based on the current rate of holdings in DBS (100%), up to an amount of NIS 32 million (linked to the Consumer Price Index).

10.1.3 For information pertaining to guarantees provided by the Company to various entities, see Note 21 to the Consolidated Statements - Securities, Liens and Guarantees.

10.1.4 For further information regarding lines of credit or capital investments provided by the Company for a total amount of NIS 250 million that may be withdrawn by DBS for a period of 15 months, see Note 12.3 below.

10.2. Loans

10.2.1 Loans from investees

Description of the terms of the loans received from investees (as presented in the Statement of Financial Position):

	Carrying			
	NIS million	Payment Dates	Number of installments	Interest rate spread
Pelephone				
	815	2022-2025	4	3.47 %
	20	2026-2030	5	3.62 %
	185	2026-2030	5	3.41 %
	1,020			

10.2.2 Loans to investees

Breakdown of balances of loans provided to investees:

	December 31, 2019	December 31, 2018
	NIS million	NIS million
Short-term loans and current maturities		
Bezeq International	**17**	100
	17	100
Non-current liabilities		
Bezeq International	**32**	90
	32	90
	49	190

Description of the terms of the loans provided to investees (as presented in the Statement of Financial Position):

	Carrying			
	NIS million	Payment Dates	Number of installments	Interest rate spread
Bezeq International				
	49	2020-2021	2	2.61 %
	49			

10.3. Service provision agreements

As the Company and its investees are communications providers, they are engaged in agreements and arrangements for providing and receiving various services in the communications sector, such as

transmission agreements, interconnectivity arrangements, billing agreements, various agreements regulating the communications services jointly provided by two companies, communications equipment maintenance, dealer agreements, agreements for the purchase of communications equipment, rental agreements (primarily for communications installations), collaboration agreements and publication in websites of investees, etc.

The terms of the foregoing service agreements were set according to generally accepted tariffs for this type of service.

Breakdown of the volume of transactions and carrying balances:

	Year ended December 31		
	2019	**2018**	**2017**
	NIS million	**NIS million**	**NIS million**
Transactions			
Revenues			
Pelephone	**81**	81	79
Bezeq International	**230**	225	206
DBS	**3**	4	3
Others	**2**	3	2
Total	**316**	313	290
Expenses			
Pelephone	**30**	33	39
Bezeq International	**18**	21	34
Others	**-**	3	3
Total	**48**	57	76

	December 31	December 31
	2019	**2018**
	NIS million	**NIS million**
Balances due to the Company		
Pelephone	**8**	9
Bezeq International	**73**	50
DBS	**1**	1
Total	**82**	60

For further information, see Note 30 to the Consolidated Statements - Transactions with Interested and Related Parties

10.4. Dividends

Breakdown of dividends received from investees:

	Year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Pelephone Communications Ltd.	-	61	84
Bezeq International Ltd.	-	102	133
	-	163	217

11. Contingent Liabilities

11.1 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 these litigations, the financial statements include appropriate provisions in the amount of NIS 86 million, where provisions are required to cover the exposure arising from such litigation.

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

At December 31, 2019:

Provision	Amount of additional exposure for which probability of realization cannot be foreseen*	Amount of exposure for Claims that cannot yet be assessed*
NIS million		
86	**1,796** (1)	**2,670** (2)

* CPI-linked and prior to addition of interest.

(1) Includes exposure with regard to a motion for certification as class action filed by a shareholder against the Company and officers of the Company, referring to alleged reporting omissions by the Company regarding the wholesale market and the reduction of interconnect fees. The original amount of the claim was estimated by the plaintiff at NIS 2 billion (based on the Out of Pocket rule), or alternatively at NIS 1.1 billion (based on the adjusted Out of Pocket loss method). This amount is expected to decrease as the claim is yet to be reduced in view of the court’s decision to dismiss the motion for certification with respect to part of the costs.

(2) Including two motions to certify class action suits, amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group that is the controlling shareholder of the Company, concerning the transaction for the Company’s acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint 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, at this stage, until March 31, 2020. At this stage until March 31, 2020.

11.2 Subsequent to the date of the financial statements, a claim has been filed against the Company, without a precise amount. At the date of approval of the financial statements, the chances of these claims succeeding cannot as yet be assessed. Furthermore, claims for which the Company's exposure was NIS 58 million, were ended.

For further information concerning contingent liabilities see Note 19 to the Consolidated Financial Statements.

12. Events in and subsequent to the Reporting Period

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

12.2 With regard to impairment loss with respect to Pelephone and DBS and assessment of the signs of impairment in the international telecommunications and internet services sector and Bezeq’s fixed-line sector, see Note 11 to the consolidated financial statements.

12.3 On February 13, 2019, the Company provided, by way of a memorandum of undertaking, DBS with a credit facility or capital investments for a total amount of NIS 250 million, which DBS may withdraw over a period of 15 months from said date. If such support is provided by way of credit, the repayment date of the said credit will not be earlier than the end of the credit facility period. This undertaking was replaced by new memoranda of undertaking, for a total amount of NIS 250 million, in May 2019, August 2019 and November 2019, where each memorandum of undertaking replaces an earlier one (and is not in addition thereto), the last of which is valid for a period of 15 months as of October 1, 2019 through December 31, 2020.

On February 27, 2020, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment in the amount of NIS 250 million, for a period of 15 months, as of January 1, 2020 through December 31, 2021, thereby replacing the undertaking given in November 2019.

In 2019, the Company invested NIS 145 million in DBS capital, based on the foregoing letter of undertaking.

12.4 For further information concerning the Company’s engagement in an agreement for the sale of the Sakia property, see Note 13 to the consolidated financial statements.

12.5 For further information concerning the writing off of the tax asset with respect to DBS losses, by altering the estimate, see Note 7.6 to the consolidated financial statements.

12.6 For further information concerning employee retirement see Note 18.5 to the consolidated financial statements.

12.7 Subsequent to Reporting Date, the Board of Directors of Bezeq and the board of directors of Bezeq On-Line approved the repayment of a capital note in the amount of NIS 10 million that Bezeq On-Line received from Bezeq.

12.8 For further information concerning the effects of the outbreak of the COVID-19 coronavirus, see Note 33.1 to the consolidated financial statements.

12.9 For further information concerning application for approval to issue a prospectus, see Note 33.2 in the consolidated financial statements.

Chapter D

Additional Information about the Company
Corporate Governance Questionnaire
Year ended December 31, 2019

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.

1. Standard 10A: Summary of the Company's consolidated statements of income for each of the quarters of the reporting year

See section 1.3 to the Director's Report, attached to the second part of this report.

2. Regulation 10C: Use of proceeds for securities

In the Reporting Period the Company did not offer securities under a prospectus.

3. Regulation 11: Breakdown of investments in subsidiaries as of the date of the statements of financial position[1]

Company name:	Name of holder	Class of share	Number of shares	Total par value	Rate of holding in the issued equity and in the voting rights	Rate of holdings in rights to appoint directors	Company's separate balance sheet value[2] (NIS millions)
Pelephone Communications Ltd. ("Pelephone")	The Company	Ordinary NIS 1 shares	302,460,000	302,460,000	100 %	100 %	2,723
Bezeq International Ltd. ("Bezeq International")	The Company	Ordinary NIS 0.1 shares	1,136,986,301	113,698,630	100 %	100 %	782
DBS Satellite Services (1998) Ltd. ("DBS")	The Company	Ordinary NIS 1 shares	36,117	36,117	100 %	100 %	(102)
Walla Communications Ltd. ("Walla")	The Company	Ordinary shares without nominal value	47,340,970	-	100 %	100 %	20
Bezeq Online Ltd. ("Bezeq Online")	The Company	Ordinary shares without nominal value	1,170,000	-	100 %	100 %	51

1 For details relating to other investees held directly or indirectly by the Company, see Note 9 to the consolidated financial statements.

2 The enclosed valuations include loans provided to Bezeq International of NIS 49 million. For further information pertaining to the loans, their terms, maturity dates as well as capital and loans provided to other investees, see Note 10 to the separate financial information attached to the Periodic Report.

4. Regulation 12: Changes in investments in subsidiaries in the reporting period[3]:

Date of change	Nature of change[4]	Company name:	Reported amounts (NIS thousands)
March 3, 2019	Investment in DBS equity	DBS[5]	70
July 22, 2019	Investment in DBS equity	DBS	50
October 30, 2019	Investment in DBS equity	DBS	25
February 5 , 2019	Repayment of loans provided by the Company to Bezeq International	Bezeq International	10
February 6, 2019	Provision of a loan	Bezeq International	15
Feb 10, 2019	Repayment of loan provided by the Company to Bezeq International	Bezeq International	42
February 12, 2019	Repayment of loans provided by the Company to Bezeq International	Bezeq International	32
May 10, 2019	Repayment of loans provided by the Company to Bezeq International	Bezeq International	16
December 15, 2019	Repayment of loans provided by the Company to Bezeq International	Bezeq International	15
December 30, 2019	Repayment of loans provided by the Company to Bezeq International	Bezeq International	41

5. Regulation 13: Revenues of subsidiaries and the Company's revenues from them as at the date of the statement of financial position (in NIS millions)

Company name:	Profit (loss) for the period	Comprehensive income (loss) for the period	Dividends	Management fees]	Interest income
Pelephone	(47)	(45)	-	0.32	-
Bezeq International	(50)	(50)	-	0.24	3
DBS	(69)	(69)	-	0.23	-
Walla	(14)	(15)	-	-	-
Bezeq Online	12	12	-	-	-

6. Regulation 20: Stock Exchange Trading

A. In the reporting period, no securities of the Company were listed for trading on the TASE. For information concerning the Company's debentures that were issued and listed for trading on the TACT-Institutional system of the TASE, see Note 15 to the Consolidated Financial Statements.

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3 For information with regard to recording of impairment of investments in subsidiaries, see Notes 11.1 through 11.5 to the Consolidated Financial Statements
For further information concerning the writing off of a tax asset with respect to carry-forward losses of DBS, see Note 7.6 to the Consolidated Financial Statements.

4 Repayment amounts set out in this Regulation refer to principal amounts only.

5 For further information concerning the investment in DBS, see Note 14.2.4 to the Consolidated Financial Statements

B. To the best of the Company's knowledge, during the reporting period, there was no interruption in trade of the Company's securities listed for trading, other than for regular trading breaks due to the publication of material reports, and the interruption of trade of the Company's securities on January 16, 2019 was due to the announcement by the controlling shareholder of its intention to publish a material report.

7. Regulation 21: Remuneration of interested parties and executive officers

Below is a breakdown of the remunerations paid in 2019, as recognized in the financial statements for 2019, to each of the five highest-paid executive officers in the Company or in a company under its control, and which were paid to them in lieu of their service in the Company or a company under its control, (employer's cost and on annual basis): It should be emphasized that the amounts stated in the table are the amounts recognized in the financial statements for 2019, but some of the actual payments to some of the officers include amounts recognized in previous financial statements, part of which are subject to the conditions set out below.

Recipient					Remuneration (in NIS thousands)				Total (NIS thousands)	Section below
Name	**Position**	**Sex**	**Scope of position**	**% of holding in Company's equity**	**Salary[6]**	**Bonus[7]**	**Share-based payment**	**Other (management fees)**	**Total**	
Dudu Mizrahi	CEO of the Company	Male	Full-time	-	3,028	1,967	-	-	4,995	A
Ran Guron:	CEO of Pelephone, DBS, and Bezeq International	Male	Full-time	-	2,457	1,867	-	-	4,323	B.
Ilan Yeshua	Former CEO of Walla	Male	Full-time	-	1,455	1,442	-	-	2,897	C.
Israel Lighterage & Supply Co. Ltd.	Management services, including the provision of the services of the Chairman of the Board of Directors by Mr. Shlomo Rodav	Corporation	75 %	-	-	-	-	2,400	2,400	D.
The late Yaakov Paz	VP Business Division	Male	Full-time	-	1,561	485	-	-	2,046	E.

6 The remuneration amounts include the cost of salaries (employee costs) and ancillary salary costs, including perks and social benefits such as telephone expenses, customary type of company car (cost of leasing or vehicle depreciation costs, and reimbursement of costs in return for use of a company car), study fund (for some of the managers), provisions for pension fund and for termination of the employer-employee relations (for employees subject to section 14 of the Severance Law), reimbursement of expenses and leave pay, sick leave and customary annual convalescence days, expenses for employee holiday gift (included amount), membership fees for companies in professional associations that were paid for the employee (not as part of the employee's employment) and if a loan was provided to an employee, the value of the benefit in the interest on the loan.

7 The amounts of the bonus that appear in the table are as recognized in the 2019 financial statements and include a performance based bonus and special bonuses (for information concerning each of the officers, see sections A-G below the following table), all in accordance with the Company's Compensations Policy. The performance based bonus that appears in the table is for 2019 (at Reporting Date, it is yet to be paid to executive officers) and includes a contingent portion that will be paid to these officers by way of the distribution described in the notes to the table. In 2019, bonuses were paid to the some of the foregoing officers for 2018, the amount of which (including the contingent portion that was not actually paid in 2019, but will be paid in 2020, if at all) is included in the corresponding table in the Company's annual report for 2018 (published on March 29, 2019).

Breakdown of the terms of employment of the interested parties and senior officers who appear in the foregoing table:

A. Dudu Mizrahi

Employed as CEO of the Company, since September 1, 2018 under a personal employment agreement dated October 4, 2018 (in this section: the "Employment Agreement"). His gross monthly salary amounts to NIS 150 thousand. The agreement is for an unlimited period, and may be terminated by either party with 6 months prior notice[8] by either party.

Dudu Mizrahi's bonus goals for 2019 as CEO of the Company, were preset by the Company's Board of Directors in December 2018, following approval by the Company's compensations committee and included: a goal based on the adjusted EBITDA[9] for the Company (separate), representing 30% of the bonus calculation; a goal based on the Company's (separate) operating profit, representing 20% of the bonus; a goal based on the Company's (separate) free cash flow (FCF)[10], representing 20% of the bonus calculation; and a goal based on performance assessment by the chairman of the board representing 10% of the bonus calculation. The precondition for receiving the bonus was that Company's FFO[11] result for 2019 (NIS 2,000 million) would not fall by more than 20% below the goal set in the Company's budget for 2019 (NIS 2,172 million). This precondition was met. The rate of compliance of the Company's CEO with the bonus goals for 2019, was 109.3%. Accordingly, the bonus granted to the CEO of the Company for 2019 is 109.3 % of his annual salary. It should be noted that for purposes of calculating compliance with the goals for 2019, provisions for employee retirement expenses that were not taken into account in the Company's budget for 2019 were not included in the calculation for compliance with the set goals. Dudu Mizrahi will be eligible for 40% of his bonus for complying with the adjusted EBITDA goal for 2019 will only be paid in 2021 (after approval of the financial statements for 2020 and only if the minimum adjusted EBITDA goal set by the Board of Directors for 2020 is achieved.

B. Ran Guron:

As of January 1, 2019, his total gross monthly salary for his service as CEO of the three material subsidiaries Pelephone, Bezeq International and DBS (collectively below: the "Material Subsidiaries"), amounted to NIS 150 thousand. The agreement is for an unlimited period, and may be terminated by either party with 6 months prior notice by either party.

Ran Guron's bonus goals for 2019 are:

A. With regard to Pelephone - as CEO of Pelephone, Ran Guron's bonus goals were preset by the Company's Board of Directors in December 2018, subsequent to approval by the board of directors of Pelephone and of the Company's Compensations Committee, and include: an goal based on the adjusted EBITDA[12] for Pelephone. representing 85% of the bonus calculation; a goal based on the streamlining measures and organizational changes, representing 5% of the bonus calculation; and a goal based on the assessment of the chairman of Pelephone's of board of directors of the CEO's performance, representing 10%. The precondition for receiving the bonus was that Pelephone's adjusted EBITDA result for 2019 (NIS 354 million) would not fall more than 40% below Pelephone's adjusted EBITDA for 2018 (NIS 399 million). This precondition was met. The rate of compliance of the CEO of Pelephone with the bonus goals for 2019, was 85.6 %.

B. With regard to Bezeq International - as CEO of Bezeq International, Ran Guron's bonus goals were preset by the Company's Board of Directors in December 2018, subsequent to approval by the board of directors of Bezeq International and of the Company's Compensations Committee,

8 In 2019 the provision for early notice was revised to 6 months in accordance with the employment contract, which is attributed to salary costs.

9 Adjusted EBITDA – calculated as operating profit before depreciation and amortization costs, as defined in the chapter on the description of the Company's business in the Company's annual periodic reports, less other income/expenses, net.

10 Adjusted FCF - cash flows arising from ongoing operations as defined in the Company's financial statements, less net investments in fixed assets and intangible assets, including payments for leases, and excluding betterment taxes for Sakia and credit for surplus fees.

11 Funds from operations (FFO) – calculated as cash flows from ongoing operations before changes in working capital and before changes in other asset and liability items.

12 See footnote 9 above.

and include: an goal based on the adjusted EBITDA[13] for Bezeq International. representing 85% of the bonus calculation; a goal based on the streamlining measures and organizational changes, representing 5% of the bonus calculation; and a goal based on the assessment of the chairman of Bezeq International's of board of directors of the CEO's performance, representing 10%. The precondition for receiving the bonus was that Bezeq International's FFO[14] results for 2019 (less the effect of IFRS 16) (NIS 187 million) would not fall by more than 20% below the goal set in Bezeq International's budget for 2019 (NIS 208 million). This precondition was met. The rate of compliance of the CEO of Bezeq International with the bonus goals for 2019, was 116.9%[15].

C. With regard to DBS - as CEO of DBS, Ran Guron's bonus goals were preset by the Company's Board of Directors in December 2018, subsequent to approval by the board of directors of DBS and of the Company's Compensations Committee, and include: an goal based on the adjusted EBITDA[16] for DBS. representing 85% of the bonus calculation; a goal based on the streamlining measures and organizational changes, representing 5% of the bonus calculation; and a goal based on the assessment of the chairman of BDS's of board of directors, representing 10%. The precondition for receiving the bonus was that DBS's FFO[17] results for 2019 (less the effect of IFRS 16) (NIS 169 million) would not fall by more than 25 % below the goal set in DBS budget for 2019 (NIS 146 million). This precondition was met. The rate of compliance of the DBS's CEO with the bonus goals for 2019, was 121.3%.

The calculation of Ran Guron's compliance with all the bonus goals set for 2019 for the three Material Subsidiaries was weighted, pro rata to distribution of management resources among the Material Subsidiaries (compared to the turnover of the companies in 2018) - a mechanism that was preset by the Company's Board of Directors, following approval of the boards of directors of Pelephone, Bezeq International and DBS, and approval of the Company's compensations committee, and came to 103.7%. Accordingly, the bonus granted to Ran Guron for his service as CEO of the three Material Subsidiaries for 2019 is 103.7% of his annual salary. Ran Guron will be eligible for 40% of his bonus for complying with the weighted adjusted EBITDA goal for 2019 will only be paid in 2021 (after approval of the financial statements for 2020 and only if the minimum adjusted EBITDA goal set by the Board of Directors for 2020 is achieved.

C. Ilan Yeshua

Was employed as CEO of the subsidiary, Walla, since October 29, 2006 under a personal employment agreement from October 29, 2006 (in this section: the "Employment Agreement") through October 2, 2019 ("Date of Termination of Employment"). Since January 1, 2016, the gross monthly salary of the former CEO of Walla amounted to NIS 95 thousand, linked to the Consumer Price Index.

Ilan Yeshua's bonus goals for 2019 as CEO of Walla were preset by the Walla board of directors in December 2018 and included: a goal based on the adjusted EBITDA[18], representing 90 %; and a goal based on the assessment of the chairman of the board of directors of Walla, representing 10 %. The rate of compliance of the company's CEO with the bonus goals for 2019, was 122.5%. Accordingly, based on Walla's remuneration policy and the termination of employment agreement of the former Walla CEO, the bonus granted to the former Walla CEO for the months during which he actually worked in 2019 is 74% of his annual salary.

It should be noted that, in the reporting year, based on the terms of the former Walla CEO's termination of employment agreement and Walla's remuneration policy, a full 6 month adjustment period and full terms of employment for a 4 month prior notice period were approved for the former Walla CEO, as well as a special bonus and a retirement bonus of a full salary for 6 months, without ancillary terms. The payment for the adjustment period is not included in the table above and was recognized in the Company's financial statements for 2018.

It should be noted that the Company's remuneration policy is applicable based on the provisions relating to the CEOs of the Company and its material subsidiaries (as defined in the compensations

[13] See footnote 9 above.

[14] See footnote 11 above.

[15] Including an amount of NIS 11.5 thousand granted by way of discretional bonus, in addition to the foregoing Chairman of the Board's assessment goal.

[16] See footnote 9 above.

[17] See footnote 11 above.

[18] See footnote 9 above.

policy) and to the Company's VPs. Walla is not defined as a material subsidiary, and therefore the former Walla CEO's remuneration is not subject to the Company's compensations policy and was granted to him based on the compensation principles approved by the Walla board of directors.

D. Israel Lighterage & Supply Co. Ltd. (management services provided by Mr. Shlomo Rodav)

Israel Lighterage & Supply Co. Ltd. ("Israel Lighterage"), in which Mr. Shlomo Rodav holds 50% of the controlling interests, provides the Company with management services, through Mr. Shlomo Rodav ("Shlomo Rodav"), as of April 30, 2018, for an unlimited period. The parties may terminate the management agreement by prior written notice of 60 days. Notwithstanding the foregoing, if Shlomo Rodav ceases to serve as a director, including in the event that his appointment is not renewed by the general meeting of the shareholders of the Company, the Company will be entitled to terminate the management agreement immediately and Mr. Rodav will not provide customary overlap period for the next chairman of the Board. Pursuant to the terms of the management agreement between Israel Lighterage and the Company, Israel Lighterage will provide the Company with services under which Shlomo Rodav will serve as Chairman of the Board of Directors in a 75% capacity, and as such (1) the management services will include directing the Company and its operating strategy, by implementing the strategy set by the Company's Board of Directors; (2) the management services will include the promotion and development of the Company; and (3) Shlomo Rodav will perform, among other things, the functions required of the Chairman of the Board of Directors pursuant to the provisions of the law (the "Management Services"). It is hereby clarified that the services will be provided by Shlomo Rodav alone, and that there will be no employer-employee relations between Shlomo Rodav and the Company. With regard to provision of the Management Services as aforesaid, the Company will pay Israel Lighterage management fees in an amount equal to NIS 3 (three) million per year (as noted, for a 75% position), with the addition of duly required VAT. It is clarified that the management fee is not linked to the CPI, and Israel Lighterage and/or Shlomo Rodav will also not receive directors' compensation from the Company and/or its subsidiaries or sub-subsidiaries. In addition, Israel Lighterage is entitled to reimbursement of current expenses incurred during the term of the Agreement by it and/or by Shlomo Rodav on its behalf as part of his position, against presentation of an invoice for the expense, while the amount for expenses will be reviewed once a year by the Company's compensations committee. On May 3, 2019 the chairman of the Board of Directors, Shlomo Rodav, notified the Company of his request and the request of Israel Lighterage, to reduce the amount of management fees due to Israel Lighterage in view of the foregoing agreement by a rage of 20% for 2019 (i.e. Retroactively from the fee for January 2019).

E. The late Yaakov Paz

Was employed as VP for the Company's Corporate Division since November 1, 2007, under a personal employment agreement. The gross monthly salary of the VP amounted to NIS 92,000 in the reporting year. Yaakov Paz was employed in the Company until his death on February 27, 2020.

The VP's bonus goals were preset by the Company's Board of Directors in December 2018, following approval by the Company's compensations committee and included: a goal based on the adjusted EBITDA[19], representing 50% in the bonus calculation; a goal based on the income of the business sector, excluding wholesale (excluding leasing fees, sales from the warehouse, and net of transfers to the private division), representing 20%; a goal based on net integration, representing 20%; and a goal based on the assessment of the CEO, representing 10%. The rate of Yaakov Paz's compliance with all the bonus goals for 2019, was 87.8 %. Accordingly, the bonus that will be granted to the estate of the late Yaakov Paz for 2019 is 43.9 % of his annual salary.

F. Pursuant to the provisions of section 7.2.1.6.3 of the Company's compensations policy, below is a breakdown of the preconditions for receiving an annual performance based bonus for the CEO of the Company and the CEO of the Material Subsidiaries, as approved by the the Company's Compensations Committee and Board of Directors:

the precondition for the CEO of the Company, Dudu Mizrachi, receiving a bonus for 2020 is that the FFO[20] results of the Company for 2020 will not fall more than 20% below the goal set in the Company's budget for 2020, which is NIS 2,029 million (and up to NIS 1,942 million, less leasing payments).

[19] See footnote 9 above.

[20] See footnote 11 above.

The preconditions for the CEO of the Material Subsidiaries, Ran Guron, receiving a bonus for 2020 is that the aggregate adjusted EBITDA results for the Material Subsidiaries for 2020 will not fall more than 40% below the aggregate adjusted EBITDA results for the Material Subsidiaries for 2019, which was NIS 830 million. The adjusted EBITDA calculation for calculating the bonus for 2020 will not include, among others, the following events: expenses for employee retirement that exceed that planned in the budget; the effects of certain regulatory matters that were not taken into account in the budget; and the effects of winning a particular tender.

Other interested parties who receive remuneration from the Company

G. Rami Nomkin, served in the reporting year and until January 12, 2020 as a director from among the employees (elected to serve as a director by the general meeting from January 17, 2009). He was employed by the Company in the reporting year to deal with its community contribution and in the resource management division He transferred from the Ministry of Communications in 1966. Rami Nomkin's total salary for 2019 amounts to NIS 600 thousand and is linked to the professional salary tables. This salary does not include a bonus for 2019 in the amount of NIS 28 thousand, which as at Reporting Date has not yet been paid and which was set in accordance with the criteria for all the Company's employees, based on the Company's adjusted EBITDA[21] results. All the remunerations paid to Rami Nomkin are due to his being an employee of the Company and not for his service as a Company director.

H. Remuneration for external directors and independent directors and directors who are not external directors nor independent directors (while with regard to the latter, distinguishing between an expert director and non-expert director) is based on the maximum rates fixed in the Fourth Schedule to the Companies Regulations (Rules Concerning Remuneration and Expenses for an External Director), 2000 ("Remunerations Regulations"), with regard to an expert external director, linked to the CPI as set out in the Regulations. The total remuneration paid to external directors and independent directors in respect of their service on the Board of Directors, Board Committees and boards of directors of subsidiaries (as the case may be) in 2019 is NIS 2,864 thousand (not including VAT).

8. Regulation 21A: The controlling shareholder of the Company

The holder of the control permit of the Company is B Communications, an Israeli public company whose shares are traded by way of dual listing on the Tel Aviv Stock Exchange Ltd. and the Nasdaq.

To the best of the Company knowledge, 714,169,560 of the Company's shares are held by B Communications (SP2) Ltd. ("B Communications 2"), a private company incorporated in Israel, which is wholly owned and controlled by B Communications (SP1) Ltd. ("B Communications 1"), a private company incorporated in Israel. B Communications 1 is owned and fully controlled by B Communications. Further to the foregoing, 14,204,153 shares of the Company are directly held by B Communications. To the best of the Company's knowledge, as of December 2, 2019, the controlling shareholder of B Communications is Searchlight II BZQ L.P. Limited Partnership ("Searchlight"), which was incorporated in the Cayman Islands, and T.N.R. Investments Ltd. (TNR), a private company incorporated in Israel. The end general partner of Searchlight is Searchlight Capital Partners II GP LLC, a limited liability company incorporated in the State of Delaware, that is owned by a number of individuals, among them, Messrs. Erol Uzumeri, Eric Zinterhofer and Oliver Haarmenn, who are among the individuals who received the control permit for the Company from the Ministry of Communications, as set out below. TNR is wholly owned and controlled by Mr. David Fuhrer (50%) and Mrs. Michal Fuhrer (50%). As the Company was informed, in accordance with the definition of the term "controlling shareholder" in Section 268 of the Companies Law, Searchlight and TNR are deemed the controlling shareholders of B Communications under the control permit dated November 11, 2019 and the voting agreement between them that grants them cumulative holdings, as at Reporting Date, of 72% of the voting rights in B Communications. Furthermore, TNR Real Estate Properties Ltd., which to the best of the Company's knowledge is controlled by Mr. David Fuhrer (50%) and Mrs. Michal Fuhrer (50%), holds 2,546,320 shares of the Company.

[21] See footnote 9 above.

Control permit under the Communications Law and the Communications Ordinance

On November 11, 2019, the Minister of Communications, by virtue of the power of the Prime Minister transferred to him, (the "Ministers") granted the control permit for control of the Company, pursuant to section 4D of the Communications Law and section 3 of the Communications Ordinance[22], as follows:

A. A control permit to B Communications 2, B Communications 1, B Communications Ltd. ("B Communications"), TNR Investments Ltd. ("TNR") To Searchlight and Searchlight Group companies[23] (the "Permit for Companies").

B. A permit to hold means of control in the Company and to control it to Messrs. Michal Fuhrer, David Furher, Oliver Harmaann, Erol Uzumeri, Eric Zinterhofer, and Darren Glatt[24] ("Permit for Individuals"). The Permit for Companies and the Permit for Individuals will jointly be called the "Control Permits". The entities to which the Permits were granted will be called the "Permit Holders".

The Control Permits are for the control and holding of the means of control of the Company by B Communications 2, B Communications 1 and B Communications, with holdings that will not fall below 25% (the "Minimum Holdings")[25]. The Control Permits permit the Permit Holders to be the controlling shareholders of the Company, directly and indirectly (according to the approved structure of holdings) and they permit Searchlight and TNR to appoint "joint appointments" as defined in the Communications Ordinance, in the Company and in B Communications.

The Control Permits regulate, among other things, the transfer of means of control among the Permit Holders themselves (subject to the restrictions set therein), and also prohibit the transfer of means of control to entities that do not belong to the Permit Holders without the Minister's approval.

In addition, the Control Permits impose on the Permit Holders the duty of reporting to the Ministers regarding the issues specified therein. The Control Permits further stipulate provisions concerning the rate of Minimum Holdings in the Company by an "Israeli Entity" (as defined in the Communications Ordinance)[26]. For further information concerning the hearing on March 8, 2020 with respect to the required changes to the minium rate of holdings of the means of control of a general license holder by an Israeli entity, see section 2.16.3.6 in Chapter A to the Board of Directors Report.

Furthermore, the Control Permit for Companies sets out provisions concerning the revision of the Articles of Association of the Company, B Communications and the Company's subsidiaries that are licensees under the Communications Law (in this section: the "Subsidiaries"), as follows: (1) The Articles of Association of the Company, B Communications and the Subsidiaries must contain provisions stating: (a) the method for appointing directors will not be changed without the prior written consent of the Minister of Communications; (b) the Company will report to the Ministers regarding a holder of means of control that holds irregular holdings as soon as it becomes aware of the existence of such irregular holdings; (c) the Company will report to the Ministers regarding a shareholder that becomes an interested party in the Company, within 48 hours from the date on which the Company becomes aware

[22] For a description of additional provisions in the Communications Ordinance that are applicable to the Company, see Section 2.16.3 of Chapter A of the Periodic Report.

[23] Searchlight II BZQ, L.P. (Cayman ELP) ("**Aggregator LP**"), Searchlight II BZQ GP, Ltd (Cayman) ("**Aggregator GP**"), SC II BZQ, L.P. (Cayman ELP) ("**Main fund Splitter**"), SC II PV BZQ L.P. (Cayman ELP) ("**PV Fund Splitter**"),SC II BZQ Holdings, Ltd. (Cayman Corp.) ("**Main Fund Blocker**"), SC II PV BZQ Holdings L.P. (Cayman ELP) ("**PV Fund Blocker GP**"), SC II PV BZQ Holdings GP, Ltd. (Cayman Corp.) ("**PV Fund Blocker GP**"), Searchlight Capital II, L.P. (Cayman ELP) ("**Main Fund**"),Searchlight Capital II, PV L.P. (Cayman ELP) ("**PV Fund**"),Searchlight Capital Partners II GP, L.P. (Cayman ELP) ("**General Partner**"),Searchlight Capital Partners II GP, LLC (DE LLC) ("**Upper GP**")

[24] Darren Glatt is a director of the Company. As the Company was informed by B Communications, Darren Glatt is not considered to be a controlling shareholder of the Company, as this term is defined in the Securities Law and the Companies Law.

[25] The Minimum Holdings is defined as 25% of any type of means of control in the Company, or a lower holding as approved by the Ministers under section 3 (a2) of the Communications Ordinance. It should be noted that the Minimum Holdings may change if it is proven to the satisfaction of the Minister of Communications that the conditions set out in section 3 (a3) of the Communication Ordinance are met.

[26] The Control Permits were granted subject to the fact that Messrs. David and Michal Fuhrer are citizens and residents of Israel, and provided that, as long as the Communication Ordinance requires the means of control in the Company of an Israeli Entity, as defined in the Communication Ordinance, TNR and/or Messrs. Michal Fuhrer and David Fuhrer may not transfer the means of control in the Company without prior written approval of the Ministers if such transfer will diminish their holdings, as the case may be, in any means of control whatsoever to a lower holding that the Minimum Holdings pursuant to the Communications Ordinance. It is also provided that any change in the citizenship and residency in Israel of Messrs. Michal Fuhrer and David Fuhrer, will be grounds for rescinding the Control Permit.

of such change; (2) The Articles of Association of the Subsidiaries must contain provisions regarding the rights of the Israeli Entity, as defined in the Communications Ordinance, to appoint directors of the Company, in accordance with section 4(a)(2)(b)(2) of the Communications Ordinance (see section 2.16.3 of Chapter A of the Report Periodic); (3) Provisions were provided that the Articles of Association of B Communications were required to include , in accordance with the provisions of the Control Permit and the Communications Ordinance. The Control Permit states that if the Articles of Association of B Communications, the Company and the Subsidiaries do not include such provisions at the time the Permit is granted, they must be instituted within 60 days of the granting of the Permit and that failure to institute such required provisions within 60 days of the granting of the Control Permit or amendment of the provisions of the said Articles, will constitute grounds for rescinding the Control Permit.

In this regard, on February 25, 2020, the Company received a request from the B Communications to add to the agenda of the Company's Annual Meeting a proposal to revise the Company's Articles of Association regarding the issues noted in subsection (1) above. B. Communications informed the Company that the request was made with the knowledge of the Ministry of Communications and that the wording of the proposed amendment to the Articles of Association was approved by the Ministry of Communications. In order to review the request, the Company’s Board of Directors set up an ad hoc committee consisting of the three external directors of the Company. As at the date of publication of the Report, this committee is yet to formulate its recommendations and hand them to the Board of Directors.

The Permit was granted to the Permit Holders based on the composition of their means of control[27]. In addition, the Control Permits do not include a permit to issue a tender offer for the acquisition of the Company's total shares.

According to the Control Permits, if the Ministers become aware that changes were made compared to the factual circumstances before them when they reviewed the permit applications, which they believe may be detrimental to the security of the State, including the ability to maintain its security, essential public needs or the provision of essential services by the Company, the Ministers may, after consulting the Minister of Defense, rescind the Permit.

Additional cases[28] were defined in the Permits where, if the Ministers believe that there are real concerns of the impairment of the provision of the Company's essential services, or grounds for determining the service as an essential service, the Ministers have the power to act as set out in the Communications Ordinance, including with regard to issuing orders and rescinding the Permit. From the date of rescinding of Control Permits, all holdings acquired pursuant to the Control Permits will become irregular holdings as defined in the Communications Ordinance.

With regard to grounds for calling for the immediate repayment as set for the Company’s debentures and for the loans from financial institutions in the event of changes in the control of the Company (as this term is defined there), see Note 15 to the 2019 finanacial statements.

Permit Bond

On November 11, 2019, Resnick Paz Nevo Trusts Ltd., as trustee for holders of debentures issued by B Communications (the “Trustee”) was awarded a permit by the Ministers, to hold the means of control of the Company by way of a bond on all the shares of the Company held by B Communications, directly or indirectly, pursuant to section 4D of the Communications Law and section 3 of the Communications Ordinance ("Permit Bond").

The Permit Bond states that it does not constitute a permit for holding or operating means of control in the Company, but rather by way of lien, and does not constitute a permit for control or transfer of control in the Company. In addition, it provides that the rights vested in the Trustee and any debenture holder under which means of control in the Company were endorsed in favor of the Trustee, should not be deemed as constituting the transfer of title in the means of control in the Company, but rather as collateral only.

Moreover, the Permit Bond includes restrictions on the exercise of the bond, among others, under the provisions of the Communications Ordinance, including provisions whereby exercising of the bond will

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[27] The Permits allow, under certain conditions, transfer of the means of control in the Company between and among the Permit Holders.

[28] These include: incorrect information in the application for a permit, failure of the Permit Holders to file a report as required, or a material change in the information provided by the Permit Holders, failure to prescribe provisions or amendments in the Articles of association, contrary to the provisions of the Permit, and filing insolvency proceedings pursuant to the Insolvency Law or initiating proceedings pursuant to the Companies Ordinance.

only be effected by appointment of a receiver and a trustee whose identities have been approved by the Ministers based on various parameters specified in the Permit. Furthermore, similar to the foregoing Control Permits and required changes, the Permit Bond also includes provisions permitting the Ministry of Communications to rescind it, including in circumstances of concern for harm to State security or essential public needs, as well as other events[29] in which, if the Ministers believe that there is a real concern of harm to the essential services that the Company provides, or grounds for determining such services to be essential services, the Ministers are authorized to act as set out in the Communications Ordinance, including with regard to giving orders and rescinding the Permit.

9. Regulation 22: Transactions with the controlling shareholder

Below are particulars, to the best of the Company's knowledge, concerning all transactions with the controlling shareholders of the Company, or in which the controlling shareholders have a personal interest, which the Company, its subsidiaries or its related companies engaged in during the reporting year or subsequent to the end of the reporting year and until the date on which this report is submitted, or which is still valid at the Reporting Date, and for further information regarding negligible procedures in the Company see Note 30 to the financial statements.

10. Regulation 24: Holdings of interested parties and executive officers in the Company:

Details of holdings of interested parties and executive officers of the Company are presented in this report by way of reference to the immediate report regarding the holdings of the Company's interested parties and executive officers dated February 11, 2020 (Ref. No.: 2020-01-012646).

11. Regulation 24 A: Registered capital, issued capital, and convertible securities

The Company's registered equity as at the publication date of the periodic report is 2,825,000,000 ordinary shares of NIS 1 par value each (the "Ordinary Shares").

The Company's issued and paid up share capital as at the publication date of the periodic report is 2,765,485,753 ordinary shares.

As at the date of publication of this report, the Company has no tradable securities.

12. Regulation 24B: Register of Shareholders

The Company's Register of Shareholders is presented in this report by way of reference to the Company's statement of equity and the inventory of registered securities of the Company and adjustments made thereto on January 6, 2020 (Ref. No.: 2020-01-002422).

13. Regulation 25A: Registered Address of the Company

Address: 132 Menachem Begin Avenue, 27th Floor, Azrieli Center, (Triangle Tower), Tel Aviv

Telephone 1: 03-6262200; Telephone 2: 972-3-6262201 Fax: 03-6262209

Email: Shelly.Bainhoren@bezeq.co.il (Group Secretary and Supervisor of Internal Enforcement)

14. Regulation 26: Directors of the company

The table below presents a breakdown of the directors who serve on the Company’s Board of Directors as at Reporting Date, followed by particulars of directors who served in the reporting year, but whose term of office ended prior to date of publication of the report.

A. Directors who serve as at date of publication of the report

[29] These include: incorrect information in the application for a permit, failure of the Permit Holders to file a report as required, or a material change in the information provided by the Permit, failure to report as required by the Trustee or material changes in the information provided by the Trustee, and failure to request that the Trustee, in the name of the debenture holders, appoint a receiver and trustee at the dates fixed in the Permit.

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on Board of Directors Committees: Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (other than serving as a director of the subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Shlomo Rodav 030596860 October 27, 1949 Israeli	5 Kerem Hazeitim St., Savion	Chairman of the Board of Directors of the Company Security Committee The director is not an external director	No	Date of commencement of term of office as a director: March 6, 2018 Date of commencement of term of office as chairman of the Board of Directors: April 30, 2018	Education: BA (Economics), Tel Aviv University; MBA, Columbia University Occupation during past five years: Director of the Environmental Services Company Ltd.; Chairman of the boards of directors, director or CEO of various companies in the Israel Lighterage, Kerur, Yap-Ora and Tapugan Group; Chairman of the board of directors of Partner.	No	Yes
Darren Glatt 549871770 November 18, 1975 US Citizen	16 Abba Hillel St., Ramat Gan (at the offices of the law firm, Meitar, Liquornik, Geva, Leshem, Tal & Co.)	No The director is not an external director	Yes, see details of employment during past five years	December 1, 2019	Education: BACCY, George Washington University MBA, Harvard University School of Business Administration Occupation during past five years: Partner in the private capital fund, Searchlight Capital Partners, and head of the Investments in Infrastructures, Telecommunications, Media and Technology Division Director in PatientPoint, Rackspace and MediaMath Chairman of the Board of directors of B Communications, as of December 2019. Served in the past as a board member of: Charter Communications, Ocean Outdoor, 160over90, PlayPower, Veritable Maritime and Core Media	No	Yes
David Granot 045333739 January 30, 1947 Israeli	26 Hashomer Street, Raanana, 60850	Security Committee; Committee for Reviewing Financial Statements; Audit Committee; Compensations Committee The director is not an external director The director is an independent director	No	May 9, 2017	Education: B.Com Economics, Hebrew University of Jerusalem; MBA, Hebrew University of Jerusalem Occupation during past five years: Interim acting Chairman of the Board of Directors of Bezeq, from June 2017 through April 2018; member of the board of directors of Harel Insurance and Harel Investments; Chairman of the investments committee of Harel Insurance Investments and Financial Services Ltd.; Financial advisor for Scorpio Ltd.; Member of the board of directors of the Agnes and Beni Steinmetz Foundation Ltd. and of Alrov Ltd. and Industrial Buildings Ltd.; member of the Board of Friends of Meir Medical Center; Chairman of the loans committee of Credito Ltd.; Chairman of the investments committee of the Tel Aviv University; Director of the following companies: Chairman of the board of directors of Melran Ltd. External director of Tempo Beverages Ltd., Ormat Technologies, Protalix Director of Sonol and G.D. Goren.	No	Yes

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on Board of Directors Committees: Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (other than serving as a director of the subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Amnon Dick 051770568 November 20, 1952 Israeli	84 Ahad Ha'am st., Tel Aviv	Chairman of the Communications Committee; Committee for Reviewing Financial Statements; Audit Committee; The director is an external director	No	April 26, 2018	Education: BA in Economics, Tel Aviv University; MBA, Tel Aviv University; MA in Philosophy, Digital Science and Culture, Tel Aviv University Occupation during past five years: Director of Bank Hapoalim; CEO of Adsensori Ltd.; Partner and Director of a group of radio stations 103FM, ECO, 99 FM; Partner and Director of Hot Mobile; Director of the following companies: Chairman of the Friends of Tel Aviv University and the Business Academic Club; Member of the Board of Trustees of Tel Aviv University.	No	Yes. The Company considers the director as an external expert director
Zeev Vurmbrand 050772672 June 19, 1951 Israeli	5 Kalman Magen St., Tel Aviv 6107077	Chairman of the Committee for Reviewing Financial Statements; Audit Committee; Compensations Committee The director is an external director.	No	September 3, 2017	Education: B.Sc (Cum laude) in Industrial and Management Engineering, The Israel Institute of Technology Occupation during past five years: From May 2013 through February 9, 2010 as CEO of the Meuhedet Health Fund. Member of the Board of Trustees of Bar Ilan University (Chairman of the IT Committee). The companies in which he serves as a director: Director of Ya'alon (Extension1983) Ltd. (subsidiary of Meuhedet); external director and Chairman of the audit committee of Isras Investment Company Ltd. Chairman of the board of directors of Lageen Ltd.	No	Yes. The Company considers the director as an external expert director
Edith Lusky 50163567 August 16, 1950 Israeli	6 Kehilat Kubana St., Tel Aviv, 6940065	Chairperson of the Audit Committee; Committee for Reviewing Financial Statements; Compensation Committee, Security Committee The director is an external director.	No	April 26, 2018	Education: Ba in Economics and Statistics, Tel Aviv University; MA in Economics, Tel Aviv University Occupation during past five years: External director of Discount Bank; external director of Israel Railways; director of Cellcom; member of Board of Trustees of Machshava Tova Association The companies in which she serves as a director – External director of Mivtach Shamir Holdings Ltd. Director of Rafael Advanced Defense Systems	No	Yes. The Company considers the director as an external expert director

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on Board of Directors Committees: Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (other than serving as a director of the subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Ran Fuhrer 066522772 September 2, 1984 Israeli	2 Hayesur Street, Ramat Gan, 4703012	No The director is not an external director	Yes CFO of the Neopharm Group, whose controlling shareholders, David and Michal Fuhrer, are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the parent company of the Company	December 1, 2019	Education: LL.B, Interdisciplinary Center, Herzliya BA Business Administration, Interdisciplinary Center, Herzliya LL.M. in Commercial Law (cum laude), Tel Aviv University; M.Sc. General Management, Graduate School of Business Administration at the University Stanford, California, USA; Semester at Berkeley University Law School, California, USA. Member of the Israel Bar Association (Certified Attorney). Occupation during past five years: VP of Business Development at Neopram Group, Member of the Board of Directors ADO Group; Business Assistant to the Chairman of the Neopharm Group; Manager of Business Development at Celgene Corporation.	CFO and officer of the Neopharm Group. Ran Fuhrer'sparents, David and Michal Fuhrer, are the controlling shareholders of Neopharm Group and TNR Investments Ltd., which is part of the controlling core of B Communications, the parent company of the Company	Yes
Joseph Abergel 027045863 July 15, 1958 Israeli	13 Eitam St., Rishon Lezion 7568313	No The director is not an external director	Yes, Head of the Maintenance and Service Quality Department - Bezeq National Operations Division	January 14, 2020[30]	Education: MBA, Ben Gurion University B.Sc Electrical and Computer Engineering, Ben Gurion University Occupation during past five years: Head of the Maintenance and Service Quality Department - Bezeq National Operations Division	No	Yes
Philip Bacal[31] HP037044 September 13, 1985 Canadian	16 Abba Hillel St., Ramat Gan (at the offices of the law firm, Meitar, Liquornik, Geva, Leshem, Tal & Co.)	No The director is not an external director	Yes, see details of employment during past five years	December 1, 2019	Education: HBA from the Richard Ivey School of Business at the University of Western Ontario Occupation during past five years: Director of Roots Corporation; director of the Octave Group; Managing Director and limited partner of Searchlight Capital Partners Chairman of the Board of Directors of B Communications, as of December 2019	No	Yes

30 Joseph Abergel was appointed for the first time by the Company's Board of Directors as director on behalf of the employees, on January 14, 2020. In accordance with the Company's Articles of Association, such director will serve for a term of no longer than 6 months from the date of appointment or until the forthcoming general meeting, so that he can be elected, at the earlier of these dates. On February 6, 2020, a general meeting of the shareholders of the Company was convened, however the appointment of Joseph Abergelas a director of the Company was not on the agenda, and subsequently his appointment expired. On February 13, 2020, the Company's Board of Directors reappointed Joseph Abergelas a director on behalf of the employees. As aforesaid, in accordance with the Company's Articles of Association, this appointment will be for a period of no longer than 6 months from the date of appointment or until the next general meeting, when he can elected, at the earlier of these dates. On March 18, 2020, the Board of Directors approved notice of convening of the annual general meeting of the shareholders of the Company at which, among other things, the appointment of Joseph Abergelas a director on the Company's board of directors will be brought for the approval of the general meeting

31 Philip Bacal was appointed as substitute director replacing Darren Glatt at the board meetings that Darren Glatt will be unable to attend, as of the date of the foregoing appointment until announced otherwise

Name **I.D.:** **Date of birth:** **Citizenship:**	**Address for delivery of court notices:**	**Membership on Board of Directors Committees:** **Serves as an external or independent director**	**Employee of the Company, a subsidiary, related company or interested party: (other than serving as a director of the subsidiaries)**	**Date of commencement of term of office:**	**Education and employment during the past five years and details of the companies in which he serves as a director (other than the Company):**	**Related to other interested parties in the Company:**	**Does the Company consider the director as having accounting and financial expertise**
Tal Fuhrer[32] 034521344 December 15, 1977 Israeli	15 Lehi Street, Ramat Hasharon, 4704114	No The director is not an external director	VP Development of the Neopharm Group, controlled by David and Michal Fuhrer, who are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, a controlling shareholder the Company Serves in the Company as substitute director replacing his brother, Ran Fuhrer	December 1, 2019	Education: MBA Finance and Accounting, Strategy and Entrepreneurship, Tel Aviv University M.Sc. in Biotechnology, Tel Aviv University. BSc. Management and Biology, Tel Aviv University. Occupation during past five years: Manager / officer of 103W COOP LLC; Chairman of the board of directors of Mivne Group Properties (CD) Ltd.; Director of Birad - Bar Ilan R&D Company Ltd.; Director of Jerusalem Economic Ltd.; Director of Simplexis Ltd.; Director of Duplex Real Estate Development (CA) Ltd.; VP for Business and Corporate Development of Neopharm Group Ltd., Director of ABAA Investment Ltd.;	Serves as VP Development of the Neopharm Group. Tal Fuhrer's parents, David and Michal Fuhrer, who are the controlling shareholders of Neopharm Group and TNR Investments Ltd., which is part of the controlling core of B Communications, a controlling shareholder of the Company Also serves in the Company as substitute director for his brother, Ran Fuhrer, who serves as a regular director of the Company	Yes

A. Directors who served in the Reporting Year, but whose Term of Office Ended Prior to Date of Publication of the Report

During the reporting year, external director Tali Simon served until January 20, 2019; external director Mordechai Keret and directors Orly Guy and Ilan Biran served until February 3, 2019; independent director Dov Kotler served until September 30, 2019 and directors Ami Barlev and Doron Turgeman served until December 1, 2019.

15. <u>Regulation 26A Senior office holders:</u>

The table below presents a breakdown of the senior officers who serve in the Company as at date of publication of this Report, followed by particulars of executive officers who served in the Company during the reporting year, but whose term of office ended prior to date of publication of the Report.

A. Senior officers who served during the reporting year and as at the date of publication of the Report

[32] Tal Fuhrer was appointed as substitute director replacing Ran Fuhrer at the board meetings that Ran Fuhrer will be unable to attend, as of the date of the foregoing appointment until announced otherwise

Name	I.D.:	Date of birth:	Date of commencement of term of office:	The office he holds in the Company:	Is he and interested party in the Company or a family member of another senior officer or of an interested party:	Education and business experience over the past five years:
Dudu Mizrahi	024810368	January 28, 1970	September 1, 2018	CEO	Yes. Interested party in the Company due to his office as Company CEO	BA in Economics from the Hebrew University in Jerusalem
Yali Rothenberg	017332271	October 18, 1974	September 10, 2017	VP Finance of the Company and CFO of the Group	No	MBA Specialization in Finance, Bar-Ilan University; B.Com Economics, Touro University, New York Certified Public Accountant 2012 - 2017 Senior Deputy to Chief Accountant; Head of Finance and Credit Division 2014-2016 Director of Ashdod Port Ltd.
Guy Hadass	029654472	September 8, 1972	December 9, 2007	VP, Corporate Communications	No	BA in Economics and Media, Tel Aviv University MBA, Tel Aviv University Directors Course - Interdisciplinary Center in Herzliya
Udi Atar	033287541	September 1, 1976	October 15, 2018	VP, Private Division	No	Software Engineering, The College of Management Academic Studies; MBA, Tel Aviv University; Directors and Executive Management Course - Coller Faculty of Management, Tel Aviv University
Nir David	024226474	February 14, 1969	March 18, 2020	VP, Business Division	No	BA Social Sciences, majoring in Management, Open University Teacher's Diploma in technological subjects, Government Institute for Techology and Science, Electrical Engineering, Technion, Haifa; 2019 – 2020 – acting Head of Business Division and Head of Integration and Customer Relations Division at Bezeq Israel Telecommunications Corp. Ltd. 2011 – 2018 – Head of Customer Relations Division at Bezeq Israel Telecommunications Corp. Ltd.
Shelly Bainhoren	066240045	November 14, 1982	February 18, 2018	Group Secretary and Supervisor of Internal Enforcement	No	LLB, Bar Ilan University (cum laude); BA Political Science and Communications (cum laude), Bar Ilan University; Certified Attorney June 2017 - February 2018 - Deputy Secretary of Bezeq Group - The Israel Telecommunications Corp. Ltd. June 2013 - June 2017 - Deputy Secretary of Bezeq – The Israel Telecommunication Corp. Ltd.
Ehud Mezuman	052176336	February 17, 1954	October 25, 2007	VP Human Resources	No	3 years studies at Tel Aviv University – Social Sciences (no degree)
Amir Nachlieli	23012313	May 30, 1967	January 1, 2009	Legal Counsel	No	MBA (expanded major in Finance), Tel Aviv University BA Economics, Hebrew University LL.B, Hebrew University

Name	I.D.:	Date of birth:	Date of commencement of term of office:	The office he holds in the Company:	Is he and interested party in the Company or a family member of another senior officer or of an interested party:	Education and business experience over the past five years:
Amit Kurland	028044204	January 17, 1971	July 16, 2019	Chief Accountant	No	BA in Economics and Accounting, Tel Aviv University. Certified Public Accountant since 2000 Member of the Executive Committee and of the Audit Committee - Eurocom Retirees Association (voluntary position) 2017 - 2019 CFO of Yail Noa Group 2009 - 2016 CFO VP Finance Procurement and Transportation of Neviot - Nature of Galilee Ltd.
Itzik Ben-Eliezer	028059202	September 25, 1970	October 1, 2018	VP IT and Network Division	No	BA in Economics and Business Administration, Hebrew University; MBA Specializing in Finance, Hebrew University; Graduate of Bezeq College, Jerusalem - Certified Electronic and Communications Technician;
Eyal Kamil	057248999	August 30, 1961	December 5, 2006	VP Operations & Logistics	No	BA, Industrial Engineering & Management, Tel Aviv University; MBA, Tel Aviv University
Lior Segal	025695701	September 9, 1973	January 24, 2011	Internal Auditor	No	MBA Finance and Accounting, Strategy and Entrepreneurship; LLB, BA Accounting and Diploma in Accounting- all from the Tel Aviv University; Diploma in internal and public auditing on behalf of the IMC; Certified attorney and CPA in Israel Certified Auditor Assurance of Quality of the Internal Audit System (QAR) and as certified internal auditor (CIA) from the Global Institute of Internal Auditors Director of the Institute of Internal Auditors in Israel ILA, which was established in 2020 by consolidation of two organizations of auditors, one of which was the ILA, he served as a director until 2019 (he served in both organizations voluntarily); Member of the Audit Committee of Akim Guardianship Association (volunteer)
Keren Leizerowicz	031583156	October 9, 1978	December 1, 2018	VP Marketing and Innovation	No	BA in Communications and Psychology, University of Haifa (cum laude); MBA Specialization in Marketing and Strategy, Tel Aviv University
Erez Hasdai	022760599	May 21, 1967	February 15, 2019	VP Economics and Regulation	No	BA in Economics, Tel Aviv University; MBA - Specialized in Finance, Florida International University 2011 - February 14, 2019 – Deputy CFO of Bezeq Group
Ran Guron	024113268	December 25, 1968	November 8, 2015	CEO of the subsidiaries, Pelephone, Bezeq International and DBS	No	BA Economics and Business Administration, Hebrew University MBA, Hebrew University Deputy CEO and VP Marketing of the Company Jan 1, 2006 - Nov 8, 2015

B. Officers who served in the Reporting Year, but whose Term of Office Ended Prior to Date of Publication of the Report

During the reporting year, Sharon Fleischer Ben-Yehuda served in the position of VP for Regulation until February 15, 2019; Danny Oz served as Accountant and Deputy CFO until July 1, 2019; and the late Kobi Paz served as VP, Director of Business Division until his death on February 27, 2020.

16. Regulation 27: The Auditors of the Company

Somekh Chaikin, Certified Public Accountants
Address: KPMG 17 Ha'arba'a St., Millennium Tower, Tel Aviv 6473917
Tel: 03-6848000

17. Standard 29 (A) Recommendations and Resolutions of the Board of Directors before the General Meeting and their Resolutions which are not subject to the approval of the General Meeting for the issues prescribed in Regulation 29(A)

A. For information pertaining to extraordinary transactions see Note 30.3.2 to the financial statements.

B. Resolution of March 27, 2019 - cancellation of the dividend distribution policy of the Company, as updated by the Company's Board of Directors on March 6, 2018, resolved that it would be improper to retain a dividend policy that is, in practice, ineffective. Nonetheless, it is clarified that the cancellation of the policy does not prevent the Company's Board of Directors to review, from time to time, a dividend distribution to shareholders of the Company, as set out in the immediate report issued by the Company on March 28, 2019 (Ref. No.: 2019-01-026535), presented herein by way of reference.

C. Resolution of April 8, 2010 - further to the Board of Directors' resolution of February 27, 2019 regarding its recommendation to the general meeting of the Company's shareholders to approve raising the Company's registered share capital from NIS 2,825,000,000, made up of 2,825,000,000 nominally registered ordinary shares of NIS 1 par value each, so that it will amount to NIS 3,825,000,000, made up of 3,825,000,000 nominally registered ordinary shares of NIS 1 par value each; and to accordingly revise the wording of Article 8 of the Company's Articles of Association and Section 2B of the Company's Memorandum of Association; in view of the discussions with the shareholders and in response to their queries, the Company's Board of Directors resolved that the issue of raising the Company's registered share capital and revising its Articles of Association and Memorandum of Association, as aforesaid, will be removed from the agenda of the general meeting of the Company's shareholders.

D. Resolution of November 17, 2019 - recommendation to amend the Company's Articles of Association, as set out in section 18(G) below.

18. Regulation 29 (C): Resolutions adopted at an Extraordinary General Meeting

A. Approval of the composition of the Company's Board of Directors, as of February 4, 2019 until the date of the next annual general meeting, to be made up of nine Board members as follows: three external directors (currently serving and are not up for election at this meeting); two independent directors; one director on behalf of the employees; three ordinary directors. This decision supersedes the resolution adopted by the Company's special general meeting of April 26, 2018 (Ref. No.: 2018-01-033582), which is presented here by way of reference (Resolution dated February 3, 2019).

B. Approval of the re-appointment of the following directors, as of February 4, 2019 and until the date of the next annual general meeting: Ordinary directors - Mr. Shlomo Rodav, Mr. Doron Turgeman and Mr. Ami Barlev; Director from among the Employees - Mr. Rami Nomkin; Independent directors - Mr. David Granot and Mr. Dov Kotler (Resolution adopted on February 3, 2019).

C. Approval of the appointment of Somekh Chaikin KPMG accounting firm as the Company's auditors for 2019 and until the next annual general meeting, and the Board of Directors authority to determine their fee for 2019 (Resolution adopted on February 3, 2019).

D. The reaffirmation of the Company's compensation policy, including its revision, for a three-year period beginning January 1, 2019, worded as per the appendix attached to the notice of the convening of the general meeting dated March 28, 2019 (Resolution dated May 23, 2019).

E. Approval of an amendment to the to letters of undertaking of indemnification and exemption granted to the acting directors of the Company at the date of the notice for convening of the special general meeting of the shareholders of the Company dated January 2, 2020 and/or will serve in the

Company from time to time (including those appointed by the controlling shareholder of the Company and/or his relatives and/or officers of the controlling shareholder companies), effective as of June 30, 2019, as set out in the foregoing report for convening of the general meeting (Resolution dated February 6, 2020).

F. Approval of the amendment of section 2.2 of the to letters of undertaking of indemnification and exemption granted to the acting CEO of the Company at the date of the notice for convening of the special general meeting of the shareholders of the Company dated January 2, 2020 and/or will serve in the Company from time to time (including those appointed by the controlling shareholder of the Company and/or his relatives and/or officers of the controlling shareholder companies), effective as of June 30, 2019, as set out in the foregoing report for convening of the general meeting (Resolution dated February 6, 2020).

G. Approval of an amendment to the Company's Articles of Association, effective as of June 30, 2019, as per the wording set out in the notice for convening of the general meeting dated January 2, 2020 (Resolution dated February 6, 2020).

H. Approval of the amendment to section 8.2 of the Company's compensations policy for officers of the Company, effective as of June 30, 2019, and approval of various other amendments to the Company's compensations policy for officers of the Company, effective as of December 16, 2020, as per the wording set out in the notice for convening of the general meeting dated January 2, 2020 (Resolution dated February 6, 2020).

I. Approval of re-appointment of Messrs. Darren Glatt and Ran Furher as directors of the Company, commencing February 6, 2020 until the date of the next annual general meeting (Resolution dated February 6, 2020).

J. Approval of the letter of indemnification and exemption, in the customary wording in the Company, including the revision as specified in section 18 above, granted to the directors, Darren Glatt and Ran Fuhrer, as of December 1, 2019, the date of commencement of their term in office as directors of the Company (Resolution dated February 6, 2020).

19. <u>Regulation 29A (4): Exemption, insurance and obligation of indemnification of officers</u>

For further information regarding exemption, insurance and obligation of indemnification for officers see Note 30.6 to the Consolidated Financial Statements.

March 18, 2020	
Date	Bezeq – The Israel Telecommunication Corp. Ltd.

Signatories and their positions:
Shlomo Rodav, Chairman of the Board of directors
Dudu Mizrahi, CEO

Chapter E:

Report on the effectiveness of internal control over financial reporting and disclosure for the year ended December 31, 2019

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.

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

Annual report on the effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9(B)a of the Securities Regulations (Periodic and Immediate Reports), 1970:

Management, under the supervision of the Board of Directors of “Bezeq” The Israel Telecommunication Corp Limited, ("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 Private Division;
4. Eyal Kamil, VP Operations and Logistics Division;
5. Itzik Ben Eliezer, VP Technologies & Network Division;
6. Amir Nachlieli, Legal Counsel;
7. Erez Hasdai, VP Economics & Regulation;
8. Guy Hadass, VP Corporate Communications;
9. Yali Rothenberg, Bezeq Group CFO;
10. Nir David, Interim VP Commercial Division;
11. Keren Laizerovitz, VP Marketing & 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 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 laid down in 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 requirement.

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.

Management, under the supervision of the Board of Directors, has carried out a review and an assessment of the internal controls over financial reporting and disclosure within the Company and their effectiveness.

Assessment of the effectiveness of the internal controls over financial reporting and disclosure that Management carried out under the supervision of the Board included:

1. Mapping and identification of the relevant business segments, accounts and processes the Company deems very material for financial reporting and disclosure;
2. Examination and update of risks of reporting and disclosure;
3. Update of documentation of the controls that provide a response to risks identified and documentation of new controls;
4. Review and assessment of effectiveness of the said controls;
5. Overall assessment of the effectiveness of the internal controls;

Model assessment of the effectiveness of the internal controls over financial reporting and disclosure to be based on the following four components:

1. Entity level controls;
2. Process of preparing and closing the financial statements;
3. IT general controls (ITGC);
4. Very material processes for financial reporting and disclosure: revenues, purchasing, fixed assets and payroll.

Based upon the assessment of the effectiveness carried out by Management under the Board's supervision as detailed above, the Board and Management of the Company reached the conclusion that the internal controls over financial reporting and disclosure in the Company as of December 31, 2019 are effective.

Concerning the investigations of the Israel Securities Authority and the Israel Police, see section 1.1.5 of the Chapter, Description of Company Operations in this report, the Company does not have complete information about the investigations and 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 results on the Company and on the financial statements as well as on the estimates used in the preparation of these financial statements, if any. With the removal of the constraints to carrying out checks and controls related to matters that arose in the investigations, the checks will be completed as required for all the matters that arose in those investigations.

2. Declaration of Executives:

A. Declaration of the CEO in accordance with Regulation 9(B)(d)(1) of the Securities Regulations (Periodic and Immediate Reports), 1970:

I, Dudu Mizrahi, declare that:

(1) I have reviewed the periodic report of “Bezeq” The Israel Telecommunication Corp Limited, ("the Company") for 2019 ("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 reporting period.

(3) To the best of my knowledge, the financial statements and other financial information in the Reports fairly present in all material respects, the financial condition, 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 to the auditor of the Company, to the Board of Directors, to the Audit and the Financial Statements 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 record, process, summarize and 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 involve 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 accepted accounting principles

C. Assessed the effectiveness of internal controls over financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and Management in respect of the effectiveness of the said internal controls as of the reporting date.

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

Date: March 18, 2020

Dudu Mizrahi, CEO;

B. Declaration of the CFO of the Bezeq Group in accordance with Regulation 9(B)(d)(2) of the Securities Regulations (Periodic and Immediate Reports), 1970:

I, Yali Rothenberg, declare that:

(1) I have reviewed the financial statements and other financial information included in the reports of "Bezeq" The Israel Telecommunication Corp Limited, ("the Company") for 2019 ("the Reports").

(2) To the best of my knowledge, the financial statements and other financial information included in the Reports 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 covered by the Reports;

(3) To the best of my knowledge, the financial statements and other financial information in the Reports fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the dates and periods presented in the Reports:

(4) I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, to the Audit and the Financial Statements 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 financial statements and other financial information included in the Reports, which are reasonably likely to adversely affect the Company's ability to record, 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 involve 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, insofar as it is relevant to the financial statements and other financial information included in the Reports, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports; and -

B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under our 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 accepted accounting principles;

C. Assessed the effectiveness of the internal control over financial reporting and disclosure, insofar as they refer to the financial statements and other financial information included in the Reports as of the reporting date. My conclusions regarding my assessment were presented to the Board of Directors and Management and are integrated in this Report.

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

Date: March 18, 2020

Yali Rothenberg,
Bezeq Group CFO

CORPORATE GOVERNANCE QUESTIONNAIRE[1]

BOARD OF DIRECTORS AUTONOMY			True	False
			True	False
1.		During the reporting year, did two or more external directors hold their positions in the Company? This question can be answered True, if the period during which two external directors did not hold office does not exceed 90 days, as provided in section 363a (B) (10) of the Companies Law. Nonetheless, for any (True/False) answer, the period (in days) during which two or more external directors did not hold office in any reporting year, should be indicated (including a term of office approved retroactively, while differentiating between the various external directors): **Director A:** **<u>0</u>** **Director B:** **<u>0</u>** Number of external directors who held positions in the Company as at the date of publication of this questionnaire: <u>3</u>	√	
2.		Number[2] of independent directors[3] who held positions in the Company as at the date of publication of this questionnaire: <u>4/8.</u> Number of independent directors as defined in the articles of association[4] of the corporation[5]: ________ ☒ Not relevant (there are no provisions the memorandum of association).	_____	_____
3.		A survey conducted among the external directors (and the independent directors) during the reporting year found that they are in compliance with the provisions of Sections 240 (b) and (f) of the Companies Law regarding the absence of a relationship between the external directors (and independent directors) who held office in the Company, and they are in compliance with the conditions required for holding office as an external director (or independent director). <u>See note at the end of the questionnaire.</u>	√	

1 Published as part of legislative proposals to improve the financial reports dated March 16, 2014.

2 In this questionnaire, Number or Rate means a specific number out of a total; for example, 3/8.

3 Including “External Directors” as defined in the Companies Law.

4 In this respect, 'articles of association' including specific legal directives applied to the Company (for example, in a banking corporation - directives of the Supervisor of Banks).

5 A debentures company is not required to respond to this question.

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 AUTONOMY				
			True	**False**
4.		None of the directors who held positions in the Company during the reporting year is subordinate[6] to the CEO, directly or indirectly (other than a director who represents the employees, if the Company has employee representation). See note at the end of the questionnaire. If your answer is False (i.e., a director is subordinate to the CEO as aforesaid), please indicate the number of directors who do not comply with the foregoing restriction: _____.	√	
5.		All the directors who notified about their personal interest in any approval of transaction on the agenda of the meeting, did not participate in the discussion regarding this transaction and did not participate in the vote on this transaction, as set forth in Section 278 (b) to the Companies Law: If your answer is False: Was the director present to exhibit a specific topic as set forth in the last clause of Section 278(a)? ☐ Yes ☐ No (select the appropriate checkbox) Indicate the percentage of meetings in which such directors were present and/or participated in the vote, except for the circumstances described in Subsection (a) above	√	
6.		The controlling shareholder (including a relative and/or representative acting on his/her behalf), who is not a director or other senior executive officer in the Company, did not participate in the Board of Directors' meetings held during the reporting year. If your answer is False (i.e., a controlling shareholder and/or his/her relative and/or representative who is not a board member and/or senior executive officer in the Company participated in Board of Directors' meetings, as aforesaid), indicate the following details concerning the participation of any additional person in the meetings, as aforesaid: Identity: _____. Position in the corporation: _____ (if any). Details of the relationship to the Controlling Shareholder (if the individual who participated is not the Controlling Shareholder): _____. Was this due to the presentation of a specific topic: ☐ Yes ☐ No (select the appropriate checkbox). The extent of his/her participation[7] in Board of Directors' meetings held during the reporting year: _____ Other participation: ______ ☐ Not applicable (the Company has no controlling shareholders).	√	

[6] In this question, holding office as a director in an investee that is controlled by the Company will not be deemed as being "subordinate". On the other hand, a director that holds office as an officer of the Company (except for director) and/or an employee in a company that is controlled by the Company will be considered "subordination" in the matter of this question.

[7] Distinguishing between a controlling shareholder and his/her relative and/or any person representing him/her.

DIRECTORS' QUALIFICATIONS AND SKILLS

				True	False
7.			The Company's Articles of Association do not include a provision restricting the option of immediately terminating the office of all the Company's directors who are not external directors (in this matter - an ordinary majority decision is not considered a restriction)[8]. If your response is False (i.e., there is such restriction), please indicate -		√
		A.	The term of office set in the Articles of Association for a director: With regard to a director who is not an external director - from the date of appointment until the date of the following general meeting; with regard to an external director - pursuant to the provisions of the Companies Law.		
		B.	The requisite quorum prescribed in the Articles of Association for terminating the term of office of directors: Extraordinary majority (the majority required to approve an extraordinary transaction with a controlling shareholder, pursuant to the provisions of the Companies Law).		
		C.	The requisite quorum prescribed in the Articles of Association for a general meeting convened to terminate the term of office of directors: Ordinary quorum - two members holding together or representing at least 25% and above of the company's voting power.		
		D.	The majority required to change these provisions in the Articles of Association: Regular majority.		
8.			The Company has a training program for new directors, regarding the Company's area of business and the laws applicable to the Company and its directors, as well as a plan for further training the directors in office, which is adapted, inter alia, to the director's position in the Company. If your response is True - indicate whether the program was implemented during the reporting year: ☒ Yes ☐ No (select the appropriate checkbox).	√	
9.		A.	The Company set a minimum number of directors for the Board of Directors who are required to have accounting and financial expertise. If your response is True - indicate the minimum number set: At least a third of the members of the Board of Directors (including at least one external director).	√	
		B.	The number of the directors who served in the Company during the reporting year: Directors with accounting and financial expertise[9]: 6. Directors with professional qualifications[10]: 2. If there were changes in the number of directors during the reporting year, please provide information of the lowest number (other than during a period of 60 days from the change) of each class of directors who held office during the reporting year.	____	____

[8] A debentures company is not required to respond to this question.

[9] Following the Board of Director's assessment, in compliance with the provisions of the Companies Regulation (Conditions and Criteria for a Director with Accounting and Financial Expertise and for a Director with Professional Qualifications) 2005.

[10] See Footnote 9.

DIRECTORS' QUALIFICATIONS AND SKILLS

				True	False
10.		A.	Throughout the reporting year, the Board of Directors was composed of both men and women. If your answer is False - indicate the period (in days) during which this did not occur: _____. You may answer True for this question if the period during which the board did not include both men and women did not exceed 60 days, nonetheless if your answer is (True/False), please indicate the period (in days) during which the board did not include both men and women: _______.	√	
		B.	The number of the directors of each gender serving on the Company's Board of Directors as of the date of publication of this questionnaire:: Men: 7; Women; 1.	_____	_____

BOARD MEETINGS (AND CONVENING OF THE GENERAL MEETING)

		True	False
11. A.	Number of Board of Directors' meetings held during each quarter in the reporting year: Q1 (2019) 4 Q2 4 Q3 5 Q4 6	_____	_____
B.	Indicate, alongside the names of the Company's directors who served during the reporting year, their rate[11] of participation in the meetings of the Board of Directors (in this subsection, including meetings of the Board of Directors' committees to which they belong, as noted below), during the reporting year (and with regard to their term position): See note at the end of the questionnaire. (Please insert additional lines according to the number of directors)	_____	_____

Director's Name	Participation in Board of Directors Meetings	Participation in Audit Committee meetings[12]	Participation in meetings of the Financial Statements Review Committee[13]	Participation in meetings of the Compensation Committee[14]	Participation in meetings of other Board of Directors' committees on which he/she serves (by indicating the name of the committee)		
Shlomo Rodav	19/19				Security Committee - 1/1		
Ilan Biran	1/1	1/1					
Ami Barlev	17/17						
Orly Guy	1/1	1/1					
Darren Glatt	2/2						
David Granot	17/19	15/16	10/10	7/7	Security Committee 1/1		
Amnon Dick	18/19	16/16	8/10	13/13			
Zeev Vurembrand	19/19	16/16	10/10	13/13			
Edith Lusky	19/19	16/16	10/10	13/13	Security Committee 1/1		
Rami Nomkin	19/19						

[11] See Footnote 9.

[12] With regard to a company director serving on this committee.

[13] With regard to a company director serving on this committee.

[14] With regard to a company director serving on this committee.

BOARD MEETINGS (AND CONVENING OF THE GENERAL MEETING)										
									True	False
			Tali Simon	1/1	1/1					
			Ran Fuhrer	2/2						
			Dov Kotler	11/12			8/9			
			Mordechai Keret	1/1	1/1					
			Doron Turgeman	16/17						
12.		During the reporting year, the Board of Directors held at least one discussion concerning the management of the Company's businesses by the CEO and his subordinate officers, at which they were not present, and they were given the opportunity of expressing their position. <u>See note at the end of the questionnaire.</u>								√

SEPARATION OF THE ROLES OF THE CEO AND BOARD CHAIR					
				True	**False**
13.			Throughout the reporting year, a Chairman of the Board of Directors was in office in the Company. You may answer True for this question if the period during which the board was not chaired by a chairperson did not exceed 60 days (as set forth in section 363A(2) of the Companies Law) nonetheless if your answer is (True/False), please indicate the period (in days) during which the board was not chaired by a chairperson: 0.	√	
14.			Throughout the reporting year, the Company was managed by a CEO. You may answer True for this question if the period during which the Company was not managed by a CEO did not exceed 90 days (as set forth in section 363A(6) of the Companies Law) nonetheless if your answer is (True/False), please indicate the period (in days) during which the Company was not managed by a CEO: 0.	√	
15.			In a company in which the Chair of the Board of Directors also acts as the CEO and/or exercises his/her authority, the CEO/Chair duality was approved in accordance with the provisions of Section 121(C) of the Companies Law[15]. ☒ Not applicable (since such duality does not exist in the Company).		
16.			The CEO is not a relative of the Chairman of the Board of Directors. If your response is False (i.e., the CEO is related to the board chair) -	√	
		A.	Please indicate the relationship between the parties: _____.	_____	_____
		B.	The office was approved in accordance with Section 121(C) of the Companies Law[16]: ☐ Yes ☐ No (Select the appropriate checkbox).	_____	_____
17.			The Controlling Shareholder or its relatives do not serve as CEO or as other senior officers in the Company, other than as directors. ☐ Not applicable (the Company has no controlling shareholders).	√	

15 In a debentures company, approval in accordance with Section 121(D) of the Companies Law.

16 In a debentures company, approval in accordance with Section 121(D) to the Companies Law.

AUDIT COMMITTEE

			True	False
18.		The following persons did not serve on the Audit Committee during the reporting year:	_____	_____
	A.	Controlling Shareholder or their relative. □ Not applicable (the Company has no controlling shareholders).	√	
	B.	Chairman of the Board of Directors.	√	
	C.	A director employed by the Company or by the Company's Controlling Shareholder, or by another company controlled by them.	√	
	D.	A director who regularly provides services to the Company, or to the Company's Controlling Shareholder, or to a company controlled by them.	√	
	E.	A director whose primary source of income is from the Controlling Shareholder. □ Not applicable (the Company has no controlling shareholders).	√	
19.		Persons who are not eligible to be a member of the Audit Committee, including the Controlling Shareholder or their relatives, did not participate in Audit Committee meetings during the reporting year, other than pursuant to the provisions of Section 115(E) of the Companies Law.	√	
20.		A quorum for discussion and decision-making at all Audit Committee meetings held during the reporting year was a majority of the committee members, when most of whom were independent directors and at least one was an external director. If your response is False - please indicate the number of meetings at which this requirement was not met: _____.	√	
21.		The Audit Committee held at least one meeting during the reporting year with the participation of the Internal Auditor and the external Auditor, as the case may be, and in the absence of Company officers who are not members of the Audit Committee, concerning flaws in the management of the Company's business.	√	
22.		Every Audit Committee meeting with the participation of persons who are not eligible to serve as members of the Committee, was with the approval of the Committee Chair and/or at the request of the Committee (with respect to the Company's legal counsel and secretary, who are not a Controlling Shareholder or his/her relative).	√	
23.		In the reporting year, arrangements were in effect as set forth by the Audit Committee in respect of the manner of handling complaints by Company employees about defects in the administration of its business, and about the defense that will be provided to employees who made such complaints.	√	
24.		The Audit Committee (and/or the Financial Statements Review Committee) was convinced that the scope of the Auditor's work and their fees for the reporting year were appropriate for carrying out a proper audit and review.	√	

DUTIES OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE ("THE COMMITTEE") PRIOR TO THE APPROVAL OF THE FINANCIAL STATEMENTS				
			True	**False**
25.	A.	Indicate the time (in days) set by the Board of Directors as reasonable time for providing recommendations prior to the Board of Directors' meeting at which periodic or quarterly statements will be approved: 3 days when approving periodic reports, and 2 days when approving quarterly reports.	____	____
	B.	Actual number of days that elapsed between the date on which the recommendations were sent to the Board of Directors and the date on which the financial statements were approved: Q1 Report (2019): 3 days Q2 Report: 3 days Q3 Report: 3 days Annual Report: 4 days	____	____
	C.	Number of days that elapsed between the date on which the draft of the financial statements was sent to the directors and the date on which the financial statements were approved: Q1 Report (2019): 5 days Q2 Report: 6 days Q3 Report: 3 days Annual Report: 4 days		
26.	The Company's Auditor was invited to all meetings of the Committee and of the Board of Directors at which the Company's financial statements for the quarters of the reporting year were discussed. If your response is False, please indicate the rate of participation: _____.		√	
27.	During the reporting year, the Committee was in compliance with all the conditions as set forth below:		_____	_____
	A.	The number of Committee members was not less than three (during the Committee's discussion and approval of said reports).	√	
	B.	All the conditions pursuant to Section 115(b) and (c) of the Companies Law were met (with regard to the office of the members of the Audit Committee).	√	
	C.	The Audit Committee's Chair is an external director.	√	
	D.	All the Committee's members are directors and the majority are independent directors.	√	
	E.	All the members of the Committee can read and understand financial statements, and at least one of the independent directors has accounting and financial expertise	√	
	F.	The Committee members provided declarations prior to their appointment.	√	
	G.	The requisite quorum for the Committee's discussions and decisions was a majority of its members, provided that the majority of the participants consisted of independent directors and at least one was an external director.	√	
	It is noted, that over the entire period, seven additional directors served in the committee and were present in all its meetings, who comply with all the conditions. Furthermore, as at the date of the report, the conditions are fully met.		_____	_____

COMPENSATION COMMITTEE

			True	False
28.	In the reporting year, the committee comprised at least three members, and the external directors constituted the majority (on the date of the meetings of the committee). □ Not relevant (no meetings were held).		√	
29.	The conditions of service and employment of all members of the Compensation Committee in the reporting year comply with the Companies Regulations (Rules Concerning Remuneration and Expenses of External Directors) 2000.		√	
30.	In the reporting year, the following persons did not serve in the Compensations Committee:		√	
	A.	The Controlling Shareholder or its relative. □ Not applicable (the Company has no controlling shareholders).	√	
	B.	The Chairman of the Board of Directors.	√	
	C.	A director who was employed by the Company or by the Company's Controlling Shareholder, or by another company controlled by them.	√	
	D.	A director who regularly provides services to the Company, or to the Company's Controlling Shareholder, or to a company controlled by them.	√	
	E.	A director whose primary source of income is from the Controlling Shareholder. □ Not applicable (the Company has no controlling shareholders).	√	
31.	In the reporting year, the Controlling Shareholder or their relatives were not present at the meetings of the Compensation Committee, except if the Chairman of the committee determined that one of them was required to present a specific topic.		√	
32.	The Compensation Committee and the Board of Directors did not exercise their authority pursuant to the provisions of Sections 267A(C), 272(C)(3) and 272(C1)(1)(C) to approve a transaction or compensation policy, despite the objection of the General Meeting. If your response is Incorrect, indicate ______ Type of transaction approved: ________ Number of times their authority was exercised in the reporting year: ____		√	

INTERNAL AUDITOR

		True	False
33.	The Chairman of the Board of Directors or the CEO of the Company is responsible within the Company for the Internal Auditor.	√	
34.	In the reporting year, the Chairman of the Board of Directors or the Chairman of the Audit Committee approved the work plan. Furthermore, indicate the audit subjects covered by the Internal Auditor in the reporting year: Enforcement and Compliance, Payment Methods, Security, Call Centers, Inventory, Procurement, etc. (Select the appropriate checkbox).	√	
35.	Scope of employment of the Internal Auditor in the Company in the reporting year (in hours[17]): Approximately 9,500 hours [see note at the end of the questionnaire]. Scope of activities of the Internal Audit in subsidiaries Pelephone, DBS and Bezeq International (Significant Subsidiaries) in 2019: Pelephone, 3,100 hours; Bezeq International, 2,300 hours; DBS, 2,300 hours.	√	
	In the reporting year, there was a meeting (of the Audit Committee or of the Board of Directors) in which the findings of the Internal Auditor were discussed.	√	
36.	The Internal Auditor, his/her relatives, accountant or any person on his/her behalf do not have any interest in the Company, and do not have material business relationships with the Company, a controlling shareholder, their relatives or companies under their control.	√	

[17] Including working hours invested in companies held by the Company and conducting audits outside Israel, as the case may be, both by the Internal Auditor and by the internal auditors of the Company's subsidiaries.

TRANSACTIONS WITH INTERESTED PARTIES

		True	False
37.	The Controlling Shareholder or its relative (including a company under its control) <u>are not</u> employed by the Company and do not provide it with management services. If your response is False (i.e., the Controlling Shareholder or a relative are employed by the Company or provide it with management services) please indicate - – Number of relatives (including the controlling shareholder) employed by the Company (including controlled companies and/or via management companies): – Were the employment agreements and/or management services approved by the legal organizations? ☐ Yes ☐ No (Select the appropriate checkbox) ☐ Not applicable (the Company has no controlling shareholder) _____.	√	
38.	To the best of the Company's knowledge, the Controlling Shareholder does not have other businesses in the Company's area of operations (in one or more areas). <u>See note at the end of the questionnaire</u>. If your response is False, please indicate whether an arrangement has been made between the Company and its Controlling Shareholder for delimiting the operations: ☐ Yes ☐ No (Select the appropriate checkbox) ☐ Not applicable (the Company has no controlling shareholders).	√	

Concluding Notes to the Questionnaire

1. Board of Directors Autonomy

Section 3 – With reference to the classification by the Audit Committee of the business relationship of an independent director as negligible and the Company's position about engagements that do not constitute a business relationship in terms of the definition of 'relationship', Topic 7, Section 2.4 of the immediate (complementary) report of the assembly of the general meeting of the Company's shareholders of January 23, 2019.

Section 4 - It is noted that in the reporting period, Director Rami Nomkin served as Director from among Company employees until January 12, 2020 (for additional details, see the Immediate Report dated January 12, 2020, Ref. No. 2020-01-004330). On January 14, 2020, the Company's Board of Directors appointed Mr. Joseph Abargil as Director from among Company employees (for additional details, see the Immediate Report dated January 14, 2020, Ref. No. 2020-01-005335). As per the Company's bylaws, a director so appointed will serve for a period that will not exceed six months from the date of the appointment, or until the next general assembly, when they will be able to be elected, the earlier of the two. On February 6, 2020, a general meeting of the Company's shareholders was held whose agenda did not include the appointment of Mr. Abargil as director in the Company, and thus his tenure concluded (for additional details, see the Immediate Report dated February 7, 2020, Ref. No. 2020-01-011962). On February 13, 2020, the Company's Board of Directors reappointed Mr. Abargil as Director from among the employees. As aforementioned, according to the Company's bylaws, said appointment is for a period that will not exceed six months from the date of the appointment or until the next general assembly, when they will be able to be elected, the earlier of the two (for additional details, see the Immediate Report dated February 13, 2020, Ref. No. 2020-01-013492).

Board Meetings (and Convening of the General Meeting)

Section 11B – It is noted that in the column 'Participation in meetings of other Board of Directors' committees' refers to permanent committees of the Board only and does not include ad-hoc meetings convened for specific topics, and their activities were completed. It is noted that on January 20, 2019, external director Tali Simon concluded her service in the Company, on February 3, 2019, external director Mr. Mordechai Keret and regular directors Mr. Ilan Biran and Ms. Orly Guy concluded their service as directors in the Company. On September 30, 2019, independent director Mr. Dov Kotler concluded his service in the Company, on December 1, 2019, ordinary directors Mr. Ami Barlev and Mr. Doron Turgeman concluded their service as directors in the Company, and on the same date Mr. Darren Glatt and Mr. Ran Fuhrer were appointed ordinary directors in the Company and began serving in the Company (on the same date, substitute directors were appointed for them, Mr. Philip Bacal and Mr. Tal Fuhrer, respectively). Mr. Bacal and Mr. Fuhrer did not participate in any of the meetings of the Board of Directors in 2019 as substitute directors of Mr. Glatt and Mr. Ran Fuhrer. It is noted that in the number of meetings of the Board of Directors and its committees, the meetings held in the reporting year were taken into consideration in respect of the period of service of each of the directors in the Board of Directors and in each of the committees, as applicable.

Section 12 - It is noted that, in the reporting year, the Board of Directors held a meeting in which each of the members of management presented their activities managing the Company. It is also noted that in the first quarter of 2020, a meeting was held as stipulated in Section 12 of the questionnaire, without the participation of the CEO and his subordinate officers.

2. Internal Auditor

Section 35 - Regarding internal audit hours in the company, it should be noted that these hours include internal audit hours by outside agencies and four full-time internal auditors, in addition to the internal auditor. The scope of the employment is determined in accordance with the audit work plan, which is set according to the scope and complexity of the various company activities. The internal auditor has also served as the internal auditor of the subsidiary Pelephone Communications Ltd. until January 7, 2019. As of January 7, 2019, there is one internal auditor operating in the material subsidiaries (and is the employee of the material subsidiaries), as part of the consolidation of the internal audit processes of the material subsidiaries. Internal audit hours at the material subsidiaries include three additional employees, in addition to the internal auditor of the material subsidiaries.

Section 38 - As disclosed to the Company, B Communications has no additional activities in the Company's operations or in any other area and its only activity is its holding in Bezeq shares. The Searchlight Group, which owns B Communications, has holdings in many telecommunications companies around the world (especially in the US). As stated in section 1.8 of Chapter A of this report, the Bezeq Group strategy as of this date is to focus on the local market in Israel.

Chairman of the Board of Directors	Chairman of the Audit Committee	Chairman of the Financial Statements Review Committee

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D.B.S. Satellite Services (1998) Ltd.

Goodwill Impairment Test, as of December 31, 2019

March 2020

The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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Prometheus
Financial Advisory

Disclaimer

yes.

- 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 DBS Satellite Services (1998) Ltd. ("**yes**" or "**the Company**") to prepare an impairment test report as of December 31, 2019, in accordance with IAS 36 ("**the Valuation**" or "**the Report**").
- The Report intended solely for the internal use of the Client. This Report may not be reproduced, in whole or in part, and the findings of this Report may not be used by a third party for any purpose, without our expressed written consent. Notwithstanding any of the above, this Report may be included in the Client's financial statements of as of Dec. 31, 2019.
- For the purpose of preparing this Report, we relied upon financial and other information including prospective financial information obtained from the Company and/or the Client and/or anyone on their behalf (the "**Information**"). We assumed that the Information is credible and therefore did not perform an independent audit of the information. In addition, nothing suggesting that the Information may be unreasonable has come to our attention. The Information has not been examined in an independent manner, and therefore this Report does not constitute a verification of the Information's correctness, completeness and accuracy. If the case that the Information is not complete nor accurate or credible, the results of this valuation might change. We reserve the right to update this Report in light of new information which might have not been known to us. We shall not be liable for the manner of the Client's and/or the Company's presentation of any financial data quoted in the Report in terms of its accuracy, completeness, accounting compliance and implications of its accounting presentation, as far as any such implications exist.
- This Report includes prospective information, as defined in the Securities Law, 5728-1968, obtained, among others from the Company. The realization of this information is not certain. The information is based in part on data that was known by the Company prior to preparing this Report, as well as on various assumptions and forecasts as well as many external factors; including the state of the relevant markets, potential competitors and the general state of the economy. There is no certainty that such assumptions or forecasts will be realized, in whole or in part.
- Economic evaluations reflect in a reasonable and fair manner a given state of being at a given time, based on known information, while considering the basic assumptions and estimated forecasts. To remove all doubt, this Report is valid only for its preparation date.
- This Report does not constitute a due diligence review and is not meant to replace such a review. In addition, this Report is not intended to determine value for a specific investor, and there is nothing in this Report to constitute a legal advice or opinion.
- This Report does not include any accounting audit regarding the compliance with accounting rules. We are not liable for the manner in which the Client's and/or the Company's financial statements are prepared and audited in connection with the accuracy and completeness of the data presented in these statements and the implications of their accounting presentation, as far as such exist.
- This Report includes a description of the methodology and main assumptions and analyses used by us. The description does not purport to provide a full and detailed breakdown of all the procedures that we applied in formulating the Report.
- We hereby confirm that we are an independent expert, with no personal interest in the Company and/or the Client, and/or their controlling stakeholders, and/or the outcome of this Report. Our fee for preparing this Report is not contingent on the outcome of our work.
- We hereby confirm that we have no personal stake in the Company and/or the Client and/or their controlling stakeholders.
- Calculations and figures presented herein have generally been rounded. As the underlying calculations were performed on the exact figures, adding or multiplying table values may result in minor differences compared to the presented figures.

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- Nothing in this Report constitutes an offer or recommendation or opinion regarding making or avoiding making any transaction
- The Client shall not be entitled to receive from us, whether due to contract or damages, in accordance with the law or otherwise, any sum due to loss of profits, data or reputation, or due to any consequential damage, random or indirect, or as special or punitive damages regarding any lawsuits resulting from services provided within this report or which are related in any other way with the services provided by us within this report. All, whether the likeliness of such loss or damage has been expected or not, in the case where we have not acted with malice.
- In addition, and without detracting from the generality of the aforementioned, as far as we shall be obligated to pay any sum to any third party regarding the execution of the services detailed in this report, in any legal or other obligating procedures, the Client undertakes to indemnify us for any sum as aforesaid paid by us, immediately upon our first request.
- Notwithstanding any of the above, we shall cover if the total indemnification amount shall be less than three times our fees under this engagement letter, we shall not be entitled to any indemnification.
- The provided final and executed version of our work (the "**Report**"). Shall be the only binding document. No other document shall be considered binding.

Sources of Information and Previous Valuations

Previous Valuations:

We note that we have performed an impairment test for the Company as of Dec.31, 2019. Following are the main assumptions used in our previous Report, in comparison to this report:

Valuations	EV (NIS millions)	Discounting rate (post-tax)	Terminal growth rate	Value in use (NIS millions)
Multi-Channel Television CGU - impairment test as of Dec. 31, 2017 (value in use)	1,346	8.5%	1.0%	1,346
Multi-Channel Television CGU - impairment test as of Dec. 31, 2018 (NAV)	(229)	8.5%	0%	(871)
Multi-Channel Television CGU - impairment test as of Mar. 31, 2019 (NAV)	(232)	NA	NA	NA
Multi-Channel Television CGU - impairment test as of Jun. 30, 2019 (NAV)	(199)	NA	NA	NA
Multi-Channel Television CGU - impairment test as of Sept. 30, 2019 (NAV)	(148)	NA	NA	NA
Multi-Channel Television CGU - impairment test as of Dec. 31, 2019 (NAV)	(153)	8.5%	0%	(581)

Sources of Information and Previous Valuations

The main sources of information which have been used in preparing the report are detailed as follows:

- Yes's audited financial statements for 2016-2018 and the draft financial statements as of December 31, 2019
- Long-term forecast prepared by the Company's management for 2020-2026.
- Company valuation as of December 31, 2015
- Company valuation as of December 31, 2016
- Company valuations as of June 30, 2017; September 30, 2017; December 31, 2017; December 31, 2018; March 31, 2019; June 30, 2019; and September 30, 2019.
- Purchase Price Allocation (PPA) for Yes as of March 23, 2015.
- Additional data provided to us by the Company at our request
- Background information and market data, obtained from publically available sources
- Israel Central Bureau of Statistics and Bank of Israel data
- The Capital IQ system
- Discussions and meetings with Company staff

Profile of the Appraising Firm and the Appraisers

Prometheus Financial Advisory Ltd.

Prometheus Financial Advisory specializes in providing clients with financial and economic advisory services as well as expert opinions. The Firm is led by Yuval Zilberstein (APC), Eyal Szewach (B.Sc, MBA), Eli Makla (CPA), Ben Orion (CPA) and Gideon Peltz (CPA).

The Firm is committed to personal service, while providing clients with in-depth, value added, advisory services. The Firm's executives were involved in many of the major transactions in Israel in recent years and have decades of experience in providing expert opinions for boards of directors, tax and securities authorities, and courts.

This report was prepared by a team headed by Gideon Peltz, CPA, Partner and the head of the expert opinion and valuations. Mr. Peltz has vast expertise in providing business consulting, valuations, transaction services consultation as well as preparing expert opinions.

Sincerely,

Prometheus Financial Advisory Ltd.

Signed March 9, 2020

Gideon Peltz

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Executive Summary

Executive Summary

Company overview

General

DBS Satellite Services (1998) Ltd. ("Yes" or "Multi-Channel Television Operations") was incorporated in Israel in 1998. Yes holds a Ministry of Communications license for satellite-based television broadcasts.

Until March 25, 2015, Bezeq held 49.78% of Yes's issued capital, and warrants to an additional 8.6%. Yes's remaining share capital was held by Eurocom D.B.S. Ltd. On March 25, 2015, Bezeq exercised its warrants, without payment, and on June 24, 2015, it bought all of Eurocom D.B.S.'s holdings in Yes along with the shareholder loans which Eurocom Communications Ltd. (the controlling shareholder in Bezeq) had extended to Yes.

As of the end of the third quarter of 2019, Yes's market share went down[1] to 32%, from 34% at the end of 2018. This decrease was mainly due to the entry of new OTT competitors - Cellcom, Partner, Netflix, and others.

HOT is the company with the largest share of the multi-channel television market - 42% as of the third quarter of 2019.[1] Together with Cellcom and Partner's 26% share, they are Yes's main competitors in this market.

1. Based Bezeq, Partner, and Cellcom's Q3/2019 financial statements. Since Q2/2018, details on HOT data are not presented in Altice's statements. Figures for HOT are based on a study of market developments and Company assessments.

Yes's revenues are derived from the following services:

Multi-channel television - Yes offers a broad range of 150 different channels including 30 high-definition (HD) channels, radio channels, and interactive services.

yes+ - IP-based television service, including all linear television channels included in the multi-channel television offering, VOD content, and a state-of-the-art tech platform.

Sting TV - OTT television services offering a selection of plans and VOD services, connected through a streamer. Sting competes in the lower end of the price spectrum.

Advanced services - Yes offers various advanced satellite STBs, which allow, among other things, pre-recording content and high-definition broadcasts.

Furthermore, Yes offers a multi-room service, which allows content recorded on a recording STB to be viewed on non-recording STB over the home network. Yes's customers also have free access to the yesGo application, Primetime services, and Start Over services (on smart STBs).

VOD - Yes offers video on demand content through internet-connected STBs.

Valuation Summary

Valuation under the DCF model

A key assumption of the forecast is that future technology will be interactive and bi-directional*, and that satellite products cannot compete with IP products in the long term due to the growing gap in customer experience. This assumption is reflected in the long-term forecast as a gradual migration from satellite broadcast to internet-based broadcast. Thus, we assumed a gradual replacement of satellite STBs with IP STBs, upgrades to broadcasting infrastructure, buildout of a matching customer service infrastructure, and adjustment of content to OTT broadcasting. These conditions, coupled with expectations of intense competition throughout the forecast period and an inelastic cost structure result in the significant expected operating losses and negative cash flows in the coming years, until the Company completes the shift in its technological and business model.

* Personalized services, based on user preference, served via the service itself and/or integration with additional services.

After migrating from satellite to IP-based transmission, Yes's satellite segment costs will be replaced with transmission costs inside the Group. Thus, cash flows will increase at the Group level, as compared to continued reliance on satellite infrastructure. Therefore, in terms of its consolidated financial statements, Bezeq views Yes as having value beyond it's stand-alone share value.

Results of valuation	NIS millions
Enterprise value based on the model years	(530)
Enterprise value based on the terminal year	(51)
Total enterprise value	**(581)**

As of December 31, 2019, the DCF model yields a negative value for the Company's operations, of NIS 581 million, with a Company book value of NIS (28) million after impairment as of September 30, 2019.

In light of the negative value of the operations, accounting standards mandate that Yes be valued using the net asset value (NAV) method.

Executive Summary

yes.

Valuation Summary

Valuation results under NAV requirements

Under this method, the net realizable value (NRV) of the Company's assets was valued as follows:

Details / NIS millions	Balance sheet value as of Dec. 31, 2019 before Dec. 31, 2019 impairment	Write-down	NRV	NAV
Cash and cash equivalents	73	-	73	-
Trade receivables	124	-	124	124
Other receivables	6	-	6	6
Broadcasting rights	261	(202)	59	59
Property, plant and equipment	239	(117)	122	122
Intangible assets	46	(44)	2	2
Customer relations	-	-	-	-
Real estate right-of-use assets	72	-	72	72
Vehicle operating lease right-of-use assets*	12	1	13	13
Total assets	**833**	**(362)**	**471**	**398**
Bank credit	(7)	-	(7)	-
Current maturities on debentures	-	-	-	-
Trade payables	(373)	-	(373)	(373)
Other payables	(53)	-	(53)	(53)
Provisions	(6)	-	(6)	(6)
Bank loans	-	-	-	-
Other liabilities	(3)	-	(3)	(3)
Short-term employee benefits	(24)	-	(24)	(24)
Long-term employee benefits	(18)	-	(18)	-
Real estate lease liabilities	(74)	-	(74)	(74)
Vehicle operating lease liabilities	(18)	-	(18)	(18)
Total liabilities	**(576)**	**-**	**(576)**	**(551)**
Equity	**257**	**(362)**	**(105)**	**(153)**

Thus, Yes's EV, as derived from the fair value of balance sheet items revalued under IAS 36 requirements, is negative 153 million NIS.

* The asset's presentation method was provided by the Company.

Prometheus Financial Advisory

Executive Summary

yes.

Valuation Summary

Valuation results under NAV requirements

Under this method, the net realizable value (NRV) of the Company's assets were valued as follows:

Details / NIS millions	Balance sheet value as of Dec. 31, 2019 before Q4/2019 impairment	Write-down	NRV	NAV
Cash and cash equivalents	73	-	73	-
Trade receivables	124	-	124	124
Other receivables	6	-	6	6
Broadcasting rights	107	(48)	59	59
Property, plant and equipment	143	(21)	122	122
Intangible assets	10	(8)	2	2
Customer relations	-	-	-	-
Real estate right-of-use assets	72	-	72	72
Vehicle operating lease right-of-use assets*	13	-	13	13
Total assets	**548**	**(77)**	**471**	**398**
Bank credit	(7)	-	(7)	-
Current maturities on debentures	-	-	-	-
Trade payables	(373)	-	(373)	(373)
Other payables	(77)	-	(77)	(77)
Provisions	(6)	-	(6)	(6)
Bank loans	-	-	-	-
Other liabilities	(3)	-	(3)	(3)
Employee benefits	(18)	-	(18)	-
Real estate lease liabilities	(74)	-	(74)	(74)
Vehicle operating lease liabilities	(18)	-	(18)	(18)
Total liabilities	**(576)**	**-**	**(576)**	**(551)**
Equity	**(28)**	**(77)**	**(105)**	**(153)**

Thus, Yes's EV, as derived from the fair value of balance sheet items revalued under IAS 36 requirements, is negative 153 million NIS.

* The asset's presentation method was provided by the Company.

Executive Summary

Valuation Summary

Previous Valuations

Presented are the previous valuations performed for Yes.

Details	NIS millions	Details
Yes valuation as of Dec. 31, 2017	1,346	Prometheus valuation (value in use) from Mar. 28, 2018
% Change	(24%)	
Yes valuation as of Dec. 31, 2018	(229)	Prometheus valuation (NAV) from Mar. 18, 2019
% Change	(117%)	
Yes valuation as of Mar. 31, 2019	(232)	Prometheus valuation (NAV) from May 13, 2019
% Change	(7%)	
Yes valuation as of Jun. 30, 2019	(199)	Prometheus valuation (NAV) from Aug. 25, 2019
% Change	14%	
Yes valuation as of Sept. 30, 2019	(148)	Prometheus valuation (NAV) from Nov. 10, 2019
% Change	36%	
Yes valuation as of Dec. 31, 2019	(153)	Prometheus valuation (NAV) from Mar. 9, 2020
% Change	(3%)	

Explanation: The Company is characterized by high inelastic costs of it's content obligations and the significant investments in fixed assets (mainly DTT and OTT STB installations). The Company was unable to adjust its costs to changing market conditions, and as a result the subscriber attrition and the decreasing ARPU, coupled with the heavy investments and significant content expenses, directly translate into negative cash flows resulting in an impairment of assets.

Executive Summary

Forecast Comparison (Previous and Current) – Final Year Projections

Details / NIS millions	2026 forecast* (Dec. 31, 2018)	2026 forecast (current forecast)	Difference
Total revenues	**1,270**	**1,116**	**(153)**
Total operating expenses	**1,338**	**1,150**	**(188)**
% of revenues	105%	103%	
Other income (expenses), net	-	(1)	(1)
Operating profit	**(68)**	**(35)**	**33**
% of revenues	(5%)	(3%)	
Depreciation and amortization	225	188	(38)
EBITDA	**157**	**153**	**(4)**
% of revenues	12%	14%	
CAPEX	178	160	(17)
% of revenues	14%	14%	
EBITDA-CAPEX	**(20)**	**(7)**	**13**
% of revenues	(2%)	(1%)	

* Based on Yes's management's forecast used in the valuation as of Dec. 31, 2018

The table presents Yes's management's forecast for 2026 used in the valuation as of Dec. 31, 2018, compared with the current forecast used in the valuation as of Dec. 31, 2019.

The differences in the forecast are mainly due to the increasing domestic competition, and the migration of premium customers to cheaper OTT services. The forecast assumes a plan to gradually migrate to IP technologies, which is expected to end in 2025. Implementing this plan requires replacement of most of the Company STBs, while maintaining operating expenses during the transition period for both broadcasting technologies (satellite and IP).

Analysis of the differences between the forecasts:

- **Revenues:** Despite the projected increase in Sting revenues, increased competition and use of streaming as a supplementary service to discount services reduced the subscriber base by 67,000, and lowered ARPU. As such, the Company's revenues under the updated forecast are lower than those under the previous forecast, by NIS 153 million (a 12% change).

Executive Summary

yes.

Forecast Comparison (Previous and Current) – Final Year Projections

Details / NIS millions	2026 forecast* (Dec. 31, 2018)	2026 forecast (current forecast)	Difference
Total revenues	**1,270**	**1,116**	**(153)**
Total operating expenses	**1,338**	**1,150**	**(188)**
% of revenues	105%	103%	
Other income (expenses), net	-	(1)	(1)
Operating profit	**(68)**	**(35)**	**33**
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% of revenues	12%	14%	
CAPEX	178	160	(17)
% of revenues	14%	14%	
EBITDA-CAPEX	**(20)**	**(7)**	**13**
% of revenues	(2%)	(1%)	

* Based on Yes's management's forecast used in the valuation as of Dec. 31, 2018

- **Operating expenses:** Operating results in the current forecast are NIS 188 million lower than those in the previous forecast (14% difference). One reason are lower content costs. This decrease is mainly driven by expected streamlining of content procurement operations and purchased channel costs. Another material driver is lower transmission costs, due to the smaller subscriber base, projected improvements in compression capabilities in the late model years, and the effect of the Ministry of Communications' regulations of Feb. 19, 2020.
- **EBITDA:** EBITDA decreased by NIS 4 million (2.5% difference), as a result of a smaller decrease in revenues than the decrease in operating expenses.
- **CAPEX:** The Company's migration to cheaper STBs and lower engineering costs yielded a NIS 17 million saving in CAPEX investment.
- **Operating cash flow:** Operating cash flow (before changes in operating working capital and tax expenses), expressed as **EBITDA less CAPEX**, grew NIS 13 million, due to said decrease in operating expenses and investments.

Prometheus Financial Advisory

Chapter 1 – Description of the Company's Business

Description of the Company's business

General

DBS Satellite Services (1998) Ltd. ("Yes" or "Multi-Channel Television Operations") was incorporated in Israel in 1998. Yes holds a Ministry of Communications license for satellite-based television broadcasts.

Until March 25, 2015, Bezeq held 49.78% of Yes's outstanding shares, and warrants of an additional 8.6%. The remaining shares were held by Eurocom D.B.S. Ltd. On March 25, 2015, Bezeq exercised its warrants, without consideration, and on June 24, 2015, it bought all of Eurocom D.B.S.'s holdings in Yes, bearing all shareholder loans which Eurocom Communications Ltd. (the controlling shareholder in Bezeq) had extended to Yes.

At the end of the third quarter of 2019, Yes's market share decreased[1] to 32%, from 34% at the end of 2018. The decrease was primarily due to entry of new OTT competitors - Cellcom, Partner, Netflix, and others.

HOT is the company with the largest share of the multi-channel television market - 42% as of third quarter 2019.[1] Together with Cellcom and Partner's 26% share, they compose Yes's main competitors in this market.

Yes's revenues are derived from the following services:

- **Multi-channel television** - Yes offers a broad range of 150 channels, such as: sports, nature, science and history, movies, series, kids and teens, music, recreation and lifestyle, foreign language channels, etc. Yes also offers some 30 high-definition (HD) channels, radio channels, and interactive services. Some of these channels are included in basic bundles, and some are purchased by customers specifically in addition to the basic bundles. In January 2018, Yes launched a new service - Yes Ultimate - a bundle comprising most content channels, premium channels, an enhanced STB, VOD, and additional services, for NIS 199 a month, including VAT. It is noted that Yes's current plans charge additional fees above the basic plan price for additional STBs installed in the client's house, and for additional, off-plan channels.

1. Based on Bezeq, Partner, and Cellcom's Q3/2019 financial statements. Since Q2/2018, details for HOT are not presented in Altice's statements. Figures for HOT are based on market developments and Company assessments.

Description of the Company's business

- **Advanced services** - Yes offers various PVR satellite STBs, which allow pre-recording of content. Yes also offers HD Zapper boxes (yesHD), which support HD broadcasting; HDPVR boxes, which support both recording and HD broadcasting; and 4K boxes (yes Ultra), which support 4K broadcasting and recording. Furthermore, Yes offers a multi-room service, which allows content recorded on a recording STB to be viewed on non-recording STB over the home network. Some customers also receive free use of the yesGo app, which delivers a range of television channels for viewing on smartphones, tablets, and various computers. Finally, Yes offers Primetime and Start Over services (on supported STBs).
- **VOD** - Yes offers video on demand content through internet-connected STBs.
- **yes+** - IP-based television service, including all linear television channels included in the multi-channel television offering, VOD content, and a state-of-the-art tech platform.
- **Sting TV** - OTT television services offering a selection of linear and VOD services, connected through a streamer. Sting TV competes at a lower price point and is the Company's response to other streaming services.

Key Performance Indicators (KPIs):

Exhibit 1: Yes - KPIs

Figure	Note	2017	2018	2019
Subscribers (thousands)	1	587	574	555
%Change		(4.4%)	(2.3%)	(3.3%)
ARPU	2	228	211	199
%Change		(2.2%)	(7.5%)	(5.9%)

1. The number of Yes multi-channel television subscribers is shrinking, due to new competitors and substitute services such as Cellcom TV, Partner TV, traditional competition from HOT, competition from streaming services (Netflix and others) and pirated content.
2. Increasing competition has been driving down ARPU, leading the Company to lower its prices (e.g. - the Company's 'Ultimate' initiative which included price cuts).

Description of the Company's business

- **Competition -** The growth of local and international IPTV providers, who do not need to build specialized infrastructure and who, as of the valuation date, are not subject to regulation, increases market competition. Yes's management estimates that continued growth in such competitive conditions may have a material adverse affect on the Company's results and operations.
- **Transition to OTT technology -** Yes has announced a gradual transition to OTT technology. OTT is an interactive and bi-directional technology. The transition is due to the fact that satellite products cannot compete with IP products in the long run, due to the growing gap in customer experience. The transition will be gradual (entailing a gradual replacement of satellite STBs with IP STBs, upgrades to broadcasting infrastructure, building a customer support network, and adapting content to the broadcast format). These conditions, coupled by expectations of continued competition throughout the forecast period and a inelastic cost structure have led us to project significant operating losses and negative cash flows in the coming years, until the Company completes the shift in its technological and business model.
- **Triple bundle** - In July 2019, DBS began offering uncoupled bundles offering its content services (satellite TV or Sting TV services) along with Bezeq International's internet access and landline services.
- **Streamlining and synergy agreement** - On March 14, 2019, the Company signed a collective agreement with the Histadrut Leumit and the workers' union, concerning restructuring and synergy initiatives to be implemented between June 1, 2019 and December 31, 2021 ("the Agreement"). The Agreement states, among other things, that the Company may reduce headcount by up to 325 employees in the Agreement period, and grant a one-time bonus to employees not included in the retirement plan. The Agreement further states that the Company may also reduce headcount by electing to leave new vacancies open. Following the Agreement ratification and the disclosure of the plan to the workers' union, the Company recognized expenses (mainly to severance pay) of NIS 45 million, under its other operating expenses.

Chapter 2 - Television Services Market

Multi-channel TV Market

Television services market - general

The television market has seen significant disruption in recent years. The two established market players are Yes (which provides satellite-based television services), and HOT (which provides cable-based television services).

In addition to those companies, the Second Authority for Television and Radio operates a DTT network (Idan+), offering a basic channel bundle for free, excepting the cost of the STB required for the service.

Increases in the available bandwidth of communication infrastructures in Israel, alongside technological improvements in transmission of video content over internet and cellular networks and improved compression capabilities enable wider use of these infrastructures for the transmission of video content.

These technological changes have allowed other telecom companies, namely Cellcom and Partner, to enter the market and offer television services without the need to set up comparable infrastructure such as Yes and HOT needed to do.

In addition to Israeli companies, global companies offer VOD services through internet streaming services, such as Netflix and Amazon Prime. These companies constitute an ever-increasing competitive force. Furthermore, an effective and enforceable solution has yet to be found for widespread use of pirated content.

Competition and recent developments

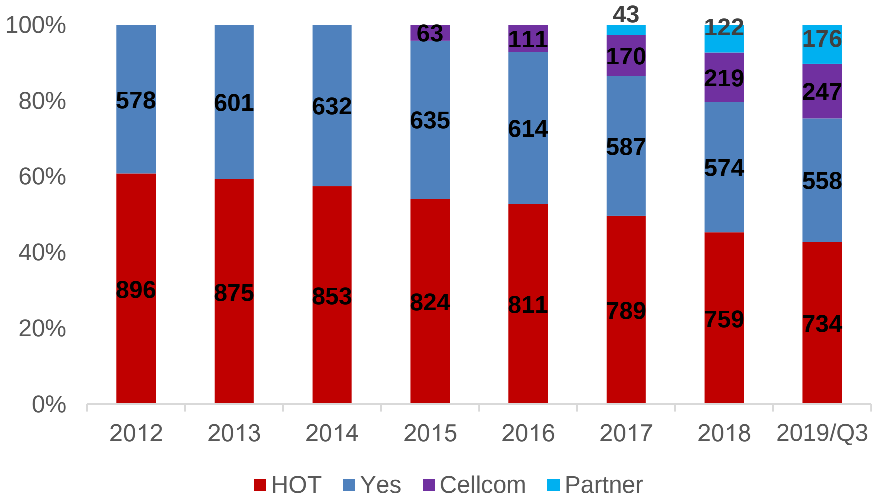
Competition in the television market focuses on content, pricing, service quality, and add-on service offerings such as HD, VOD and advanced STBs. Competition is driven by demand for advanced and personalized television services.

HOT and OTT providers

The two main market players are Yes and HOT. In recent years, HOT's market share has declined, despite their bundled offering. Furthermore, Yes's market share, which saw an upward trend until 2015, has eroded in recent years, mainly due to the introduction of Cellcom TV. In June 2017, Partner also began to offer IPTV services, under the Partner TV brand. In January 2020, HOT submitted an offer to buy all of Partner's shares.

The television services market in Israel

Exhibit 2: Television service subscribers[2]



As the above chart demonstrates, the competition and changes in the television market have eroded the subscriber base of both HOT and Yes, from 574,000 and 759,000 in 2018, to 558,000 and 734,000 in Q3/2019, for Yes and Hot respectively. Cellcom and Partner offer content packages at significantly lower prices than Yes and HOT. The lower pricing model is achieved through lower investment in infrastructure (OTT operating model) and content. Furthermore, Cellcom and Partner can offer full telecom service offerings (quad), which Yes and HOT cannot due to regulation.

Yes is also disadvantaged compared to HOT and the other competitors as it cannot offer unlocked triple bundles, due to further regulatory restrictions.

Domestic streaming services

- yes+: An IPTV service introduced in October 2019, offering linear television channels, VOD content, and a state-of-the art technological interface.
- Sting: Yes launched Sting TV, an OTT television service, in November 2017. The service includes a range of content packages and VOD services, and is served via streaming STB. Sting TV competes at a lower price point and is the Company's response to other OTT and streaming services.
- NEXT TV: HOT's streaming service, launched in August 2017 in response to increasing competition and as a supplementary offering to customers seeking basic low-cost services.

2. Based Bezeq, Partner, and Cellcom's Q3/2019 financial statements. Since Q2/2018, details on HOT data are not presented in Altice's statements. Figures for HOT are based on a study of market developments and Company assessments.

yes.

Multi-channel TV Market

- Cellcom TV: Cellcom introduced their OTT television service, in December 2014. The service offers access to an SVoD content library and linear broadcast channels through STBs and other platforms such as mobile devices, smart TVs, etc.

- Partner TV: Partner launched its Partner TV service in June 2017. It is a discount service accessible through a range of devices, and through Partner's Android STBs. Partner has partnered with Netflix and Amazon Prime to value adds to their content offerings.

Streaming services - international market

- Netflix: Netflix is a VOD platform which allows access to content from computers, mobile phones, smart TVs, and tablets, without an STB. At the start of 2016, Netflix (the leading video content provider in the US) opened the service to Israeli customers, causing a shift in customer preferences. In Israel, the basic plan is priced at NIS 32.90 per month.

- Netflix is improving its ability to provide content to Israeli customers, and is a growing threat to traditional content providers. However, it currently mostly serves as a complementary, and not a substitute, product.

- Partnership with Netflix aid Partner and Cellcom to win market share from more established market players. As of January 31, 2020, all license-holders have signed partnership agreements with Netflix.

- Amazon Prime Video: Amazon's streaming service, which held 47% of the US OTT broadcast market in 2019, second only to Netflix (77%).[4] The company has been creating critically-acclaimed original content since 2005, with several Emmy nominations and wins. In December 2016, the company announced that its service will be available in over 200 countries, including Israel. In Israel, the service is priced at USD 5.99 per month.

- Other streaming providers: Competition in the streaming market is growing, with content creators and leading tech companies offering independent streaming services. These include Disney, Apple, Google, CBS, and HBO. These platforms are possible threats for the domestic market, and indicate a coming shift in customer viewing habits.

3. Company website, as of February 24, 2019.
4. Emarketer - OTT Video Viewers.

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yes.

Multi-channel TV Market

Regulation

Multi-channel television broadcasts by satellite and cable are subject to the Communications Law and the corresponding rules and regulations, in addition to the provisions of the broadcasting licenses and rulings by the Satellite and Cable Broadcasting Commission. As such, the market is subject to several regulatory restrictions, including:

- Advertisement Ban: In Israel, advertising is banned on cable and satellite channels, in contrast to accepted conventions.
- Investment in original content: According to a Commission decision from November 2019, the minimal investment in original Israeli content will increase from 8% of annual revenue from subscription fees, to 9% in 2021. It is noted that, in June 2016, the Filber Committee recommended that going forward the minimal investment in original content should decrease to 6.5%. In July 2018, the Ministry of Communications proposed an amendment to the Communications Law (Bezeq and Broadcasting) (Regulation of Content Providers), extending the original content production requirement to OTT operators with revenues exceeding NIS 350
- Canceling early termination penalties for broadcast service contracts: License-holders are prohibited from signing consumers on long-term contracts whose violation incurs penalty payments.
- Tariff regulation: Companies must report to the Commission on changes to Commission-approved prices, and the Commission chairman may prohibit such change under the terms specified in the license.

Key data on the US Pay TV market[5]

Exhibit 3: Change in subscribers, leading US companies

	Q3 2019
Multi-channel television subscribers in the US	84,842,018
Change from same quarter in 2018	(5,482,703)

Exhibit 4: ARPU for the leading companies in the US (USD)[6]

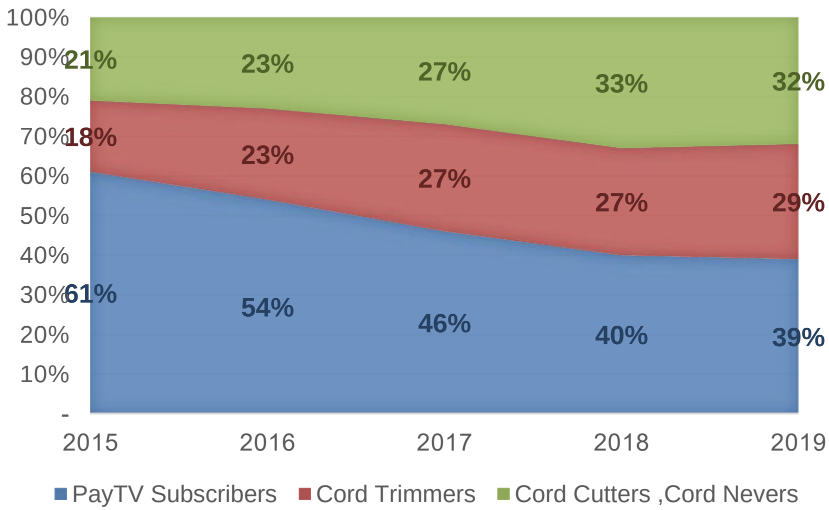
ARPU, USD	*YoY change*	2018	Q3/2019
DISH	1.0%	85.46	86.29
AT&T	(0.3%)	121.76	121.35
Cablevision (Optimum)	(2.1%)	104.43	102.20
Charter (Residential)	2.7%	89.77	92.17
Comcast	6.3%	85.11	90.45
Average	**1.5%**	**97.31**	**98.49**

5. Source: Leichtman Research Group
6. Source: The companies' annual reports

Multi-channel TV Market - Netflix

The US and global streaming markets

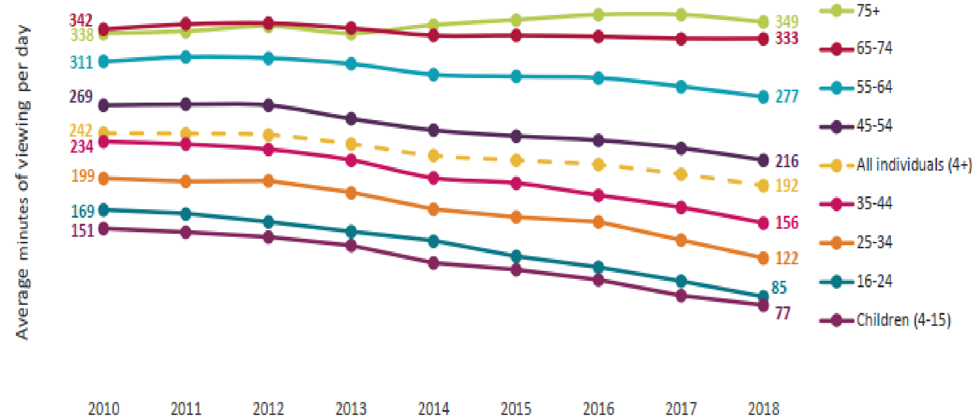
Exhibit 5: Effect of streaming services in the US[7]



- Content consumption preferences are shifting in the US. More customers are subscribing to streaming service, at the expense of linear and traditional broadcasts.
- An eMarketer study found that the percentage of households with Pay-TV plans went down from 83% in 2013 to 68% in 2019. [8]

7. PwC - The streaming shake-up, 2020, customer attitudes toward viewing services in the US.

Exhibit 6: Average daily viewing times (minutes) for traditional broadcasters, per person, by age group[9]



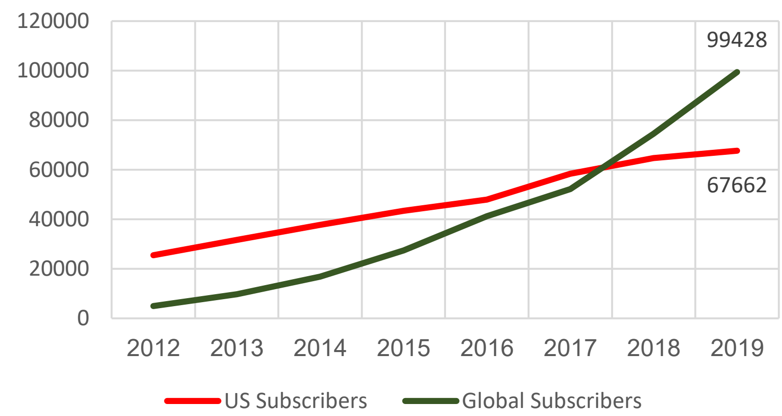
- Consumers in England show a continued decline in viewing minutes of linear broadcasts, especially among younger age groups.
- The same source indicates that viewing minutes of streaming services grew by 7 minutes per day from 2017, to 52 minutes on average. YouTube viewing increased by 6 minutes per day to 64 minutes on average.

8. eMarketer - Cable Operators' Shift to Profit Mode Accelerates Cord-Cutting
9. Source: Ofcom - Media Nations UK 2019, based on BARB data.

Multi-channel TV Market - Netflix

The US and global streaming markets - competition

Exhibit 7: Paid Netflix subscribers (thousands)[10]

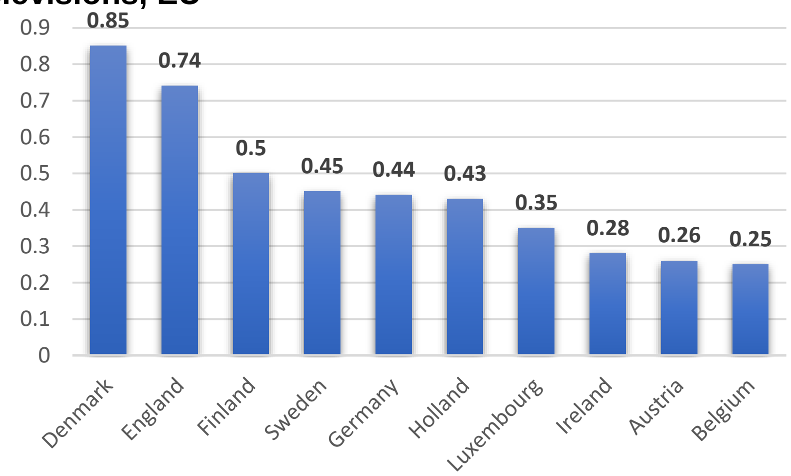


- Netflix started offering streaming services in the US in 2007. As of the end of 2019, the company recruited 167 million users worldwide, of which 67 million are in the US - accounting for 79.7% of the paid market in the US. In 2017-2019, the company almost doubled its EMEA subscriber base, from 26 million to 52 million customers.
- Netflix offers OTT VOD services. The company purchases or produces original content at a total cost of USD 13 billion, as of 2019.

10. Source: Netflix's financial statements

Streaming market share - Europe

Exhibit 8: SVOD market share among households with televisions, EU [11]



- The migration to streaming services is a worldwide trend. Market share as a percentage of households is significant, particularly when one considers that Netflix only launched in 2012, and then only in select countries.

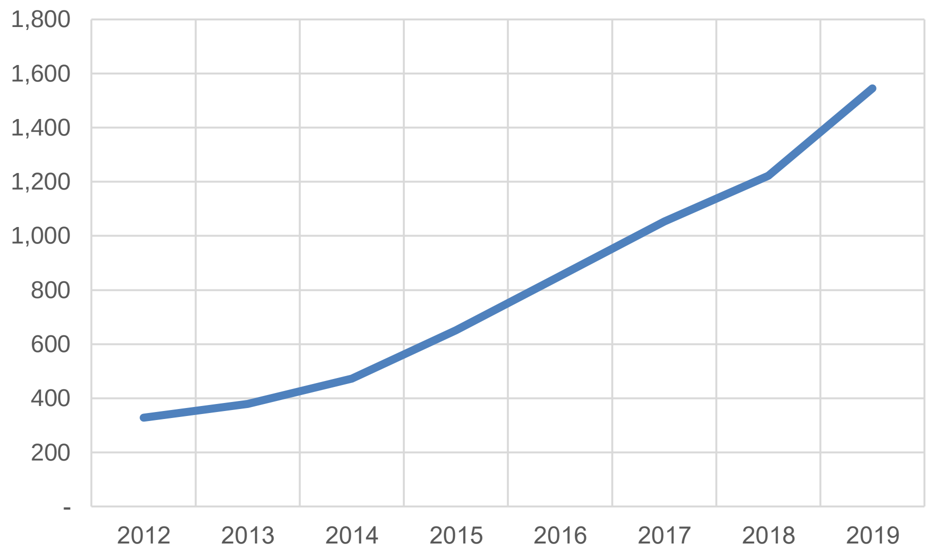
11. European Audio-Visual Observatory - Update on VOD, markets & catalogs, February 2019.

yes.

Multi-channel TV Market - Netflix

Technology and content investments

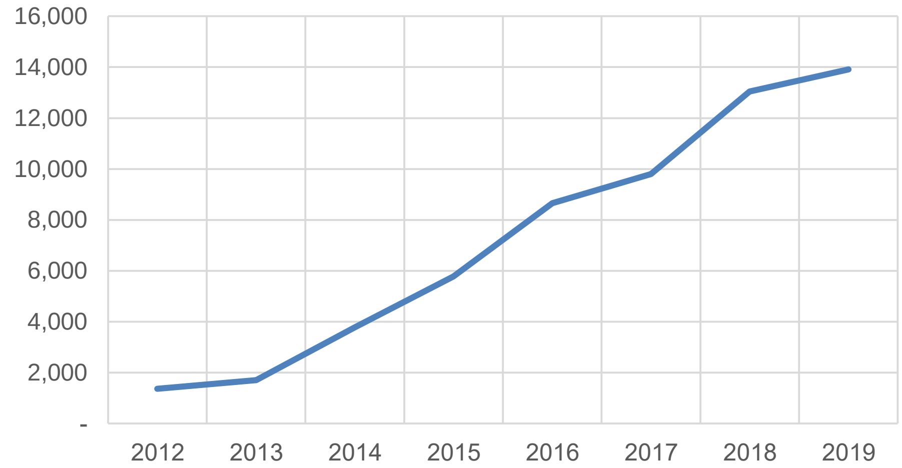
Exhibit 9: Netflix's expenses on technology (USD millions)[12]



Netflix's expenditure on technology has grown in recent years. Thus, for example, expenditure on technology grew by USD 323 million from 2018 to 2019, a 26% increase YoY (8% of revenues, in each year).

12. Source: Netflix's financial statements, 2012-2019.

Exhibit 10: Netflix's expenses on content (USD millions)[13]



Between 2012 and 2019, Netflix's content expenses grew from USD 1,368 million to USD 13,917 million - a ten-fold increase in 7 years. On average, Netflix spends 78% of its revenue on content. Recently, Netflix's competitors have increased their own content spend. Amazon reported a USD 5.8 billion investment in content in 2019, up 53% YoY.

These expenses match Netflix's philosophy that its competitive advantages reside in its ability to provide a user experience which differentiates it from the competition. This is evident in the growth of its content and technology expenses.

13. Source: Netflix's financial statements, 2012-2019.

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Chapter 3 – Analysis of Financial Statements

yes.

Balance sheet - Multi-Channel Television Operations (Yes)

Presented below is the audited financial statements for 2016-2018, and the draft statement for Dec. 31, 2019:

NIS millions	Dec. 31, 2016 Audited	Dec. 31, 2017 Audited	Dec. 31, 2018 Audited	Dec. 31, 2019 Draft*
Assets				
Current assets				
Cash and cash equivalents	142	112	80	73
Deposits	-	-	-	-
Trade receivables	155	142	132	124
Other receivables	143	6	8	6
Inventory	-	9	-	-
	440	**269**	**220**	**203**
Non-current assets				
Broadcasting rights	421	448	60	107
Property, plant and equipment	707	644	113	143
Intangible assets	127	123	1	10
Deferred taxes	331	-	-	-
Right of use in leased assets	-	-	112	85
Customer relations	-	18	-	-
	1,586	**1,233**	**286**	**345**
Total assets	**2,026**	**1,502**	**506**	**548**

* 2019 based on the draft financial statements before impairment charges.

Assets - Key Items

Non-current assets

- <u>Effect of the December 31, 2018 impairment:</u> The decrease in the Company's assets in 2018, in its broadcasting rights, PP&E, and intangible assets, was mainly due to the fair value valuation of these assets.
- <u>Broadcasting rights:</u> Broadcasting rights can be divided into two kinds:
  1. Broadcasting rights purchased from content providers (movies and series). The fair value of these rights is assessed at 0, as they are non-transferable.
  2. Broadcasting rights for original content in which the Company invests directly.*
  3. Property, plant and equipment: PP&E is composed primarily of satellite decoders (STBs) and discounted installation costs. The item additionally consists of broadcasting and receiving equipment, furniture and office equipment, and improvements to leased property. Yes's PP&E balance grew in 2019, mainly due to investment in STBs and streamers.

* For a review of fair value, see pages 47-48 in Chapter 4.

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yes.

Balance sheet - Multi-Channel Television Operations (Yes)

NIS millions	Dec. 31, 2016 Audited	Dec. 31, 2017 Audited	Dec. 31, 2018 Audited	Dec. 31, 2019 Draft*
Liabilities + equity				
Current liabilities				
Credit	15	14	14	7
Current maturities on debentures	383	216	8	-
Trade payables	463	479	440	373
Other payables	83	90	64	77
Interest on debentures and loans	-	-	-	-
Provisions	6	5	19	6
Liabilities for leases	-	-	30	22
	950	**804**	**575**	**485**
Non-current liabilities				
Bank loans	34	20	7	-
Debentures	435	218	-	-
Loans from shareholders	-	95	-	-
Other long-term liabilities	12	14	10	3
Employee benefits	3	3	4	18
Liabilities for leases	-	-	91	70
	484	**350**	**112**	**91**
Equity	**592**	**348**	**(181)**	**(28)**
Total liabilities and equity	**2,026**	**1,502**	**506**	**548**

* 2019 based on the draft financial statements before impairment charges.

- Real estate right-of-use assets: 2018 saw the first-time application of IFRS 16, which increased this item in that year.

Liabilities and Equity - Key Items

Trade payables: The decrease in trade payables balances in 2019 was mainly due to lower investment in STBs. The Company also paid NIS 10 million to close content provider debts.

Debentures: In 2017, 96% of debentures were held by Bezeq, which Bezeq converted to equity in 2018. The remaining outstanding debt balance was paid in 2019.

Loans from shareholders: The balance of Bezeq's loans to Yes was converted to equity in 2018.

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yes.

Income Statement - Multi-Channel Television Operations (Yes)

NIS millions	2016 Audited	2017 Audited	2018 Audited	2019 Draft*
Revenues	**1,746**	**1,650**	**1,473**	**1,345**
YoY change		**(5.5%)**	**(10.7%)**	**(8.7%)**
Operating general and salary expenses	1,186	1,201	1,236	1,176
% of revenues	67.9%	72.8%	83.9%	87.4%
Depreciation and amortization	296	286	293	306
% of revenues	17.0%	17.3%	19.9%	22.8%
Total operating expenses	**1,482**	**1,487**	**1,530**	**1,482**
Other income (expenses)	-	-	-	-
Operating profit	**263**	**163**	**(57)**	**(137)**
% of revenues	**15.1%**	**9.9%**	**(3.8%)**	**(10.2%)**
Depreciation and amortization	296	286	293	306
Adjusted EBITDA	**560**	**448**	**237**	**169**
% of revenues	**32.1%**	**27.2%**	**16.1%**	**12.6%**
CAPEX	208	233	297	260
% of revenues	11.9%	14.1%	20.2%	19.3%
EBITDA - CAPEX	**352**	**215**	**(60)**	**(91)**
% of revenues	20.2%	13.0%	(4.1%)	(6.8%)

* 2018 and 2019 are presented after adjustment of leasing expenses under IFRS 16 requirements.

* 2019 based on the draft financial statements before impairment charges.

Analysis of key items

Revenues

Revenues declined 8.7% in 2019, driven by a continuing erosion in both ARPU and the subscriber base.

Expenses

Salary expenses were down in 2019 due to implementation of the Company's restructuring plans, which will continue in the coming years.

The decrease in operating expenses in 2019 was mainly due to operational efficiencies and changes to supplier contracts, opposite a decrease in premium subscribers.

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yes.

Income Statement - Multi-Channel Television Operations (Yes)

Analysis of key items (contd.)

CAPEX, EBITDA, and operating cash flows

EBITDA was down in both absolute terms and as a percentage of revenues, from NIS 237 million in 2018 (16.1% of revenues), to NIS 169 million (12.6% of revenues) in 2019. **EBITDA** declined primarily due to lower revenues which converted almost fully to losses due to an inelastic expense and investment structure. **CAPEX** decreased by NIS 37 million, due to a decrease in satellite decoders purchases and in the subscriber base. Operating cash flows before taxes and changes in operating working capital, as reflected in **EBITDA minus CAPEX**, declined by NIS 31 million YoY, from NIS (60) million (4.1% of revenues) in 2018 to NIS (91) million in 2019.

Chapter 4 - Valuation

Valuation Method - Multi-Channel Television CGU (Yes)

General

The OTT revolution lowered market entry barriers, and led Cellcom and Partner to enter the market with low-cost content offerings. Furthermore, the entry of streaming services into the market, which broke the traditional value chain, significantly increased competition (as detailed in Chapter 2, pages 25-27). These changes eroded Yes's subscriber base. In order to stay competitive, Yes significantly cut its prices without being able to significantly cut its costs. Since the Company is operationally leveraged, most of the decrease in revenues directly impacts profits. Due to the smaller subscriber base and lower price points, revenues shrank, while content costs grew, which led Yes to incur operating losses and negative cash flows.

Technological infrastructure upgrade

Management believes that, over time, the existing technological infrastructure will not be able to provide an adequate solution to customer needs compared to market alternatives. Due to the need to upgrade its infrastructure, the Company believes that IP based technology would be able to maximize customer needs and the Company's operating metrics.

The migration between infrastructures will be gradual, between 2019-2026, and will add significant transmission costs in the short and medium terms. After migrating from satellite to IP-based transmission, satellite segment costs will be replaced with transmission expenses inside the Bezeq Group. Thus, consolidated cash flows will increase as compared to continued reliance on satellite infrastructure.

Key Assumptions

In light of structural market changes, increasing competition, and major changes in its technological model, the Company is expected to incur operating losses and negative cash flows until completing its migration to IP. In 2026, upon completing the migration to the new network, the Company expects a minor negative cash flow, near the break-even point. In light of this forecast, the valuation covers the period of 2019-2026, with the representative year being after completing the tech migration and cessation of space segment payments.

yes.

Multi-Channel Television CGU (Yes) - Key Assumptions

Revenues

- Subscribers: We assumed that the Company's overall subscriber base would grow from 555,000 at the end of 2019, to 600,000 by the end of 2026. However, subscriber mix will shift significantly from premium to discount accounts. Discount customers will account for a growing portion of the Company's subscriber base, from insignificant at the end of 2019, to a sizable by 2026. The forecast accounts for consumer tendency to use international streaming services as a supplement, rather than substitute, to traditional PayTV services. This assumption must be periodically reviewed according as consumer preferences develop.
- ARPU: Competition in the television market has led the Company to implement two key initiatives, which eroded ARPU in 2019 :

  a. The introduction of Ultimate plan in 2018 - The Ultimate plan became the preferred package, at lower price points than older plans.

  b. Change in subscriber mix - Continued change in the subscriber mix, with increased subscription to the substantially cheaper Sting service. This trend is expected to continue as competition intensifies from new operators.

According to management's forecast, which was reviewed and found reasonable, working assumptions for the ARPU are as follows:

a. **Premium ARPU** - Market competition will continue to erode ARPU over time.

b. **Discount ARPU** - ARPU will gradually grow until 2024. It is noted that this assumption was found reasonable in light of our assessments that present prices in the discount market are not sustainable over time, and the Company's corresponding focus on broader content bundles offering additional content and enhanced sales. Moreover, sports channels in the bundle make the offering more attractive to customers.

In summary, Company revenues will gradually shrink from NIS 1,345 million in 2019 to NIS 1,116 million in 2026. Premium revenues will continue to erode with growth in discount service revenues partially making up the difference.

Multi-Channel Television CGU (Yes) - Key Assumptions

KPIs and revenues

Year	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Subscribers (thousands)								
Subscribers, end of period	**555**	**547**	**552**	**565**	**580**	**590**	**600**	**600**
% Change	(3.3%)	(1.3%)	0.9%	2.4%	2.7%	1.7%	1.7%	-
APRU (NIS/month)								
Weighted ARPU	**199**	**193**	**183**	**176**	**169**	**163**	**157**	**155**
% Change	(5.9%)	(3.0%)	(5.0%)	(4.1%)	(3.8%)	(3.6%)	(3.4%)	(1.5%)
Revenues (NIS millions)								
Revenues	**1,345**	**1,273**	**1,208**	**1,178**	**1,162**	**1,145**	**1,124**	**1,116**
% Change	(8.7%)	(5.4%)	(5.1%)	(2.5%)	(1.4%)	(1.4%)	(1.8%)	(0.7%)

Multi-Channel Television CGU (Yes) - Key Assumptions

Operating expenses

The Company's forecast for its operating cash flow expenditure in 2019-2026 is as follows:

Year	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Cash flow expenses*	**1,176**	**1,135**	**1,126**	**1,091**	**1,062**	**1,051**	**1,044**	**964**

* Operating expenses include lease payments

The Company's operating expenses include mainly salaries, content costs, space segment costs, and additional expenses such as data transmission, marketing and advertising, technology, etc. The decrease operating costs was mainly due to short and medium-term lower salary expenses, due to reductions in personnel as part of the restructuring plan agreed with the employee representation and the national Histadrut Leumit union. The plan will continue through 2021. It is noted that the increase in other operating expenses in 2020-2025 is due to an expected increase network traffic costs as part of the transition to IP. The decrease in 2026 is due to ceasing payments for space segments, after full migration to IP-based services. Content expenses are also expected to decrease over the forecast period, mainly due to expected streamlining of content procurement and purchased channel costs.

Multi-Channel Television Operations (Yes) - Key Assumptions

EBITDA

The adjusted EBITDA forecast (including lease payments), as a result of the above revenue and expense assumptions, is as follows:

NIS millions	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Adjusted EBITDA	**169**	**138**	**82**	**86**	**100**	**94**	**80**	**153**
%of revenues	12.6%	10.8%	6.8%	7.3%	8.6%	8.2%	7.1%	13.7%

Adjusted EBITDA will decrease in the next three years, reaching NIS 82 million in 2021 (6.8% of revenues). From 2022, we assume a recovery, with EBITDA totaling NIS 86 million (7.3% of revenues) in 2022. Afterward, in 2024-2025, we assumed another decrease in EBITDA due to the accelerated migration to IP, and a recovery in 2026 once space segment payments have stopped.

Tax expenses

We assumed a 23% corporate tax rate, according to the current statutory rate in Israel. Since the Company will run at a loss in the coming years, it is not expected to pay taxes over the forecast period. Since no profit is expected in the foreseeable future, no tax shield will be created from losses.

Multi-Channel Television Operations (Yes) - Key Assumptions

CAPEX

The Company's CAPEX forecast, as adopted, is as follows:

NIS millions	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total CAPEX, net	**260**	**225**	**235**	**230**	**213**	**190**	**172**	**160**
%of revenues	19.3%	17.7%	19.4%	19.5%	18.3%	16.6%	15.3%	14.4%

The Company's CAPEX investments include procurement of decoders and streamers, installation costs (contractors and materials), network and technology investments, salary amortization, and others.

The Company estimates that the CAPEX reduction in 2022-2024 is due mainly to a decrease in the number of STB upgrades, following the Company's efforts to promote the migration to IP services. Furthermore, the investment in engineering infrastructure also ends in these years. After transitioning to a single broadcast platform, there is another decrease in investment in 2025-2026. This is due to a decrease in streamer purchases, once most households have upgraded their equipment, and a decrease in the associated engineering investments. In these years there is also a decrease in IT investments, as development of the CRM system is completed.

Multi-Channel Television Operations (Yes) - Key Assumptions

Operating working capital

Assumptions concerning changes in operating working capital are inline Company projections.

Discount rate and terminal growth rate

Under the CAPM model, the discount rate applicable to Yes's operations is 7.2% (for details, see Appendix A). Since we believe the risk inherent in the sector has not decreased compared to 2018, we used an 8.5% discount rate, similar to the rate used in the previous valuation of the Multi-Channel Television segment.

We assumed a terminal growth rate of 0%.*

* Since the Company's cash flow is negative, we assumed that a company with a negative cash flow will not increase its negative cash flow.

Multi-Channel Television CGU (Yes) - Projected Cash Flows

NIS millions	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	TY
Revenues	**1,746**	**1,650**	**1,473**	**1,345**	**1,273**	**1,208**	**1,178**	**1,162**	**1,145**	**1,124**	**1,116**	**1,116**
% change from previous period		(5%)	(11%)	(9%)	(5%)	(5%)	(3%)	(1%)	(1%)	(2%)	(1%)	-
Total operating expenses (less depreciation and amortization)	(1,186)	(1,201)	(1,236)	(1,176)	(1,135)	(1,126)	(1,091)	(1,062)	(1,051)	(1,044)	(964)	
% of revenues	68%	73%	84%	87%	89%	93%	93%	91%	92%	93%	86%	
Adjusted EBITDA	**560**	**448**	**237**	**169**	**138**	**82**	**86**	**100**	**94**	**80**	**153**	**153**
% of revenues	32%	27%	16%	13%	11%	7%	7%	9%	8%	7%	14%	14%
Total depreciation and amortization	(296)	(286)	(293)	(306)	(289)	(279)	(282)	(277)	(266)	(238)	(188)	(160)
Adjusted operating profit	**263**	**163**	**(57)**	**(137)**	**(151)**	**(196)**	**(196)**	**(178)**	**(172)**	**(158)**	**(35)**	**(7)**
% of revenues	15%	10%	(4%)	(10%)	(12%)	(16%)	(17%)	(15%)	(15%)	(14%)	(3%)	(1%)
Tax income (expenses)					-	-	-	-	-	-	-	-
Tax rate					-	-	-	-	-	-	-	-
CAPEX					(225)	(235)	(230)	(213)	(190)	(172)	(160)	(160)
% of revenues					18%	19%	19%	18%	17%	15%	14%	14%
Positive (negative) cash flow from working capital changes					(34)	(22)	21	29	26	18	8	
Cash flow					**(121)**	**(175)**	**(122)**	**(85)**	**(70)**	**(74)**	**0**	**(7)**
Discounting period					0.5	1.5	2.5	3.5	4.5	5.5	6.5	6.5
Discounted cash flow					**(117)**	**(155)**	**(100)**	**(64)**	**(48)**	**(47)**	**0**	**(51)**

Chapter 4 - Valuation

Multi-Channel Television Operations (Yes) - Results of Valuation

Summary of valuation

Results of valuation	NIS millions
Enterprise value of the model years	(530)
Enterprise value of the terminal year	(51)
Total value of operations	**(581)**

In summary, the value of multi-channel television CGU under the above assumptions as of December 31, 2019 is NIS (581) million, and the Company's book value as of December 31, 2019 totaled NIS (28) million.

Multi-Channel Television CGU (Yes) - Results of Valuation

Sensitivity to the discount rate and terminal growth rate

Presented is a sensitivity analysis of Multi-Channel Television CGU enterprise value to changes in the discounting and terminal growth rates:

		Discount rate				
		6.5%	7.5%	8.5%	9.5%	10.5%
Terminal growth rate	(1.0%)	(666)	(635)	(609)	(586)	(566)
	(0.5%)	(649)	(620)	(596)	(575)	(556)
	-	(630)	(604)	(581)	(562)	(545)
	0.5%	(607)	(585)	(565)	(548)	(533)
	1.0%	(580)	(563)	(547)	(533)	(520)

<u>Summary</u>

A 1% increase (decrease) in the discount rate causes a NIS 26 million to NIS 17 million decrease (increase) in the enterprise value. An 0.5% increase (decrease) in the terminal growth rate causes a NIS 13 million to NIS 18 million increase (decrease) in the enterprise value.

Sensitivity to changes in ARPU

Presented below is the sensitivity of the enterprise value of the Multi-Channel Television CGU to changes in ARPU:

	Sensitivity to changes in ARPU (in NIS)				
	(10)	(5)	-	5	10
EV (NIS millions)	(1,441)	(1,011)	(581)	(152)	278

<u>Summary</u>

A NIS 5 increase (decrease) in ARPU causes a NIS 430 million increase (decrease) in the enterprise value.

yes.

Multi-Channel Television CGU (Yes) - Results of Valuation

Sensitivity to number of subscribers

Presented below is the sensitivity of the enterprise value of the Multi-Channel Television CGU to changes in the number of subscribers::

	Sensitivity to changes in number of subscribers (thousands)				
	(40)	(20)	-	20	40
EV (NIS millions)	(1,226)	(904)	(581)	(259)	63

<u>Summary</u>

An increase (decrease) of 20,000 subscribers* causes a NIS 322 million decrease (increase) in the enterprise value.

* Based on the subscriber mix in the forecast period.

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Chapter 4 - Valuation

Multi-Channel Television CGU (Yes) - Fair Value

Fair Value Assessment Requirements

According to accounting standards governing impairment testing, Yes's recoverable amount is the higher of either its value in use or its fair value. Since the value of the CGU operations is negative, we examined the fair value of its assets.

In 2019, the Company's assets totaled NIS 548 million.* Assets are composed, among other things, of broadcasting rights, PP&E, and intangible assets.

* Net of write-downs from September 30, 2019.

Change in PP&E asset values in Yes's books

Yes's PP&E balance as of Dec. 31, 2019 is NIS 143 million. The fair value of its PP&E assets is as follows:

<table>
<tr><th>PP&E / NIS millions</th><th>Balance sheet value as of Dec. 31, 2019*</th><th>Fair value</th></tr>
<tr><td>Broadcasting and receiving equipment</td><td>26</td><td>22</td></tr>
<tr><td>Installation costs</td><td>13</td><td>1</td></tr>
<tr><td>ULTRA boxes**</td><td rowspan="3">99</td><td>89</td></tr>
<tr><td>Type 1 streamers **</td><td>8</td></tr>
<tr><td>Other streamers **</td><td>1</td></tr>
<tr><td>Office furniture and equipment</td><td>4</td><td>1</td></tr>
<tr><td>Improvements to leased property</td><td>1</td><td>-</td></tr>
<tr><td>Total value</td><td>143</td><td>122</td></tr>
</table>

<u>Conclusion:</u> The total fair value of PP&E in our valuation was NIS 122 million.

* Before impairment in Q4/2019.

** Under IAS 36 and after consulting with the Company's management, presented as the lower of either depreciated cost or fair value.

yes.

Multi-Channel Television CGU (Yes) - Fair Value

Change in PP&E asset values in Yes's books

The STB item in Yes's PP&E is composed of (in order of increasing technological sophistication): SD boxes, MAX boxes, HD boxes, Total boxes, Quatro boxes, and Ultra boxes. Company management stated that these STBs have been customized to Yes's technology. Therefore, in considering the fair value of Yes's STBs, in consideration that these are used STBs, and due to high customization costs, collection costs, and the technological obsolescence of most of these STBs, the boxes do not have any disposal value except for the Ultra boxes which were introduced in 2017, and the Sting boxes which can be used by all operators and by individuals. For more details, see Appendices A and B.

The streamers item in Yes's PP&E is composed of (in order of increasing technological sophistication): Sting boxes, Xiaomi boxes, and 5G AppleTV boxes. In measuring the fair value of these boxes, we considered the costs of collecting boxes from customer homes. The Company is transitioning from Sting boxes to more advanced boxes, and is transitioning to a model where boxes are leased and not sold. As a result, the Company is writing off Sting boxes from its balance sheet. For more information, see Appendices C and D.

We examined additional PP&E items and found that some have value as used products, as shown in the table.

<u>**Summary**</u>

The fair value of Yes's PP&E as shown in the above table totals NIS 122 million.

yes.

Multi-Channel Television CGU (Yes) - Results of Valuation

Change in intangible asset values in Yes's books

As of December 31, 2019, Yes' intangible assets totaled NIS 10 million, composed mainly of licenses and software some of which were uniquely customized for Yes, for use in its routine operations. As such, these assets bear no value under fair value as a used product. Intangible asset balances include upgrades to the Company's storage and back-up system, which we found to be of value.

Summary

The fair value of Yes's intangible assets totals NIS 2 million.

Broadcast rights

Yes's broadcasting rights totaled NIS 107 million as of December 31, 2019. The asset comprises of broadcast rights costs net of utilized rights and write-downs made on September 30, 2019. Some rights cannot be sold in the secondary market due to contractual provisions arising from the structure of the agreement dictated by regulatory restrictions (due to the requirement for exclusive procurement, procurement agreements do not allow the sale of rights on the secondary market). However, the Company's management stated that its rights in original content produced by Yes may be sold at a fair value of NIS 59 million. The details of broadcast rights calculations are as follows:

Movies and series procurement

The Company's management clarified that value cannot be attributed to movies and series since broadcasting rights are non-transferable (except options to assign rights in the case of a merger with Bezeq), and so we assess Yes's fair value for its rights in movies and series to be NIS 0.

Multi-Channel Television CGU (Yes) - Results of Valuation

Original productions which have aired

We examined the probability for sale and the recovery rate expected from the sale* of original productions which have already aired according to the year in which they were created. The fair value for Yes's rights in original productions which have aired is **NIS 32 million**.

Original productions which have not aired

We examined the probability for sale and the recovery rate expected from the sale* of original productions which have not yet aired according to their production stage (writing, filming, ready-to-air). The fair value for Yes's rights in original productions which have not aired is **NIS 27 million**.

* The probability rate for recovering the full investment through the net sale.

Broadcast rights

Conclusion: Between 2016-2018, broadcast rights net of utilized rights ranged from NIS 420 million to NIS 460 million. In this period, revenues from content sales accounted for 0.5% to 3% of broadcast rights net of utilized rights. The fair value of broadcast rights was estimated at NIS 59 million, accounting for 12% of the rights as of December 31, 2019.* In summary, the fair value of broadcasting rights as of the valuation date was found reasonable when compared to actual sales in previous years, since the valuation deals with the disposal of these assets without continued development. Thus, we believe that consideration for these assets at a rate of 12% of their carrying amount (equivalent to 4 years of their historical inflows) is reasonable.

* Carrying amount before depreciation.

Multi-Channel Television CGU (Yes) - Results of Valuation

Changes to the book value of real estate rights

We examined the Company's rights to long-term real estate assets. As of December 31, 2019 these totaled NIS 72 million, as compared to liabilities of NIS 74 million. Since Yes's commercial terms are at market prices and it can sub-let them, assets and liabilities at fair value are negligible and were not included.

Summary

The fair value for real estate rights and obligations remains at their carrying amounts.

Changes to the book value of vehicle leases

As the balance is outside the scope of IAS 36, the asset's method of presentation was specified by the Company.

yes.

Multi-Channel Television Operations (Yes) - Results of Valuation

Summary of valuation under NAV requirements

Under this method, we assessed the net realizable value (NRV) of the Company's assets, according at their previously-presented fair value.

Details / NIS millions	Balance sheet value as of Dec. 31, 2019 before Q1-Q4/2019 impairment	Write-down	NRV	NAV
Cash and cash equivalents	73	-	73	-
Trade receivables	124	-	124	124
Other receivables	6	-	6	6
Broadcasting rights	261	(202)	59	59
Property, plant and equipment	239	(117)	122	122
Intangible assets	46	(44)	2	2
Customer relations	-	-	-	-
Real estate right-of-use assets	72	-	72	72
Vehicle operating lease right-of-use assets*	12	1	13	13
Total assets	**833**	**(362)**	**471**	**398**
Bank credit	(7)	-	(7)	-
Current maturities on debentures	-	-	-	-
Trade payables	(373)	-	(373)	(373)
Other payables	(77)	-	(77)	(77)
Provisions	(6)	-	(6)	(6)
Bank loans	-	-	-	-
Other liabilities	(3)	-	(3)	(3)
Employee benefits	(18)	-	(18)	-
Real estate lease liabilities	(74)	-	(74)	(74)
Vehicle operating lease liabilities	(18)	-	(18)	(18)
Total liabilities	**(576)**	**-**	**(576)**	**(551)**
Equity	**257**	**(362)**	**(105)**	**(153)**

Thus, Yes's equity, as derived from the fair value of the balance sheet items revalued under IAS 36 requirements, is negative 153 million NIS.

* The asset's presentation method was provided by the Company.

Summary of valuation under NAV requirements

Comparison to September 30, 2019:

Details / NIS millions	Balance sheet value as of Dec. 31, 2019 before Q4/2019 impairment	Write-down	NRV	NAV
Cash and cash equivalents	73	-	73	-
Trade receivables	124	-	124	124
Other receivables	6	-	6	6
Broadcasting rights	107	(48)	59	59
Property, plant and equipment	143	(21)	122	122
Intangible assets	10	(8)	2	2
Customer relations	-	-	-	-
Real estate right-of-use assets	72	-	72	72
Vehicle operating lease right-of-use assets*	13	-	13	13
Total assets	**548**	**(77)**	**471**	**398**
Bank credit	(7)	-	(7)	-
Current maturities on debentures	-	-	-	-
Trade payables	(373)	-	(373)	(373)
Other payables	(77)	-	(77)	(77)
Provisions	(6)	-	(6)	(6)
Bank loans	-	-	-	-
Other liabilities	(3)	-	(3)	(3)
Employee benefits	(18)	-	(18)	-
Real estate lease liabilities	(74)	-	(74)	(74)
Vehicle operating lease liabilities	(18)	-	(18)	(18)
Total liabilities	**(576)**	**-**	**(576)**	**(551)**
Equity	**(28)**	**(77)**	**(105)**	**(153)**

Thus, Yes's equity, as derived from the fair value of the balance sheet items revalued under IAS 36 requirements, is negative 153 million NIS.

* The asset's presentation method was provided by the Company.

yes.

Multi-Channel Television CGU (Yes) - Results of Valuation

Summary of valuation under NAV requirements

Summarized below are the previous valuations of the CGU:

Details	NIS millions	Details
Yes valuation as of Mar. 23, 2015	2,496	Fahn Kanne valuation (value in use) from May 19, 2015
Yes valuation as of Dec. 31, 2015	2,620	Giza valuation (value in use) from Mar. 9, 2016
% Change	5%	
Yes valuation as of Dec. 31, 2016	2,551	Giza valuation (value in use) from Mar. 28, 2017
% Change	(3%)	
Yes valuation as of Jun. 30, 17	1,947	Giza valuation (value in use) from Aug. 23, 2017
% Change	(24%)	
Yes valuation as of Sept. 30, 2017	1,761	Giza valuation (value in use) from Nov. 27, 2017
% Change	(10%)	
Yes valuation as of Dec. 31, 2017	1,346	Prometheus valuation (value in use) from Mar. 28, 2018
% Change	(24%)	
Yes valuation as of Dec. 31, 2018	(229)	Prometheus valuation (NAV) from Mar. 18, 2019
% Change	(117%)	
Yes valuation as of Dec. 31, 2019	(232)	Prometheus valuation (NAV) from May 13, 2019
% Change	(7%)	
Yes valuation as of Jun. 30, 2019	(199)	Prometheus valuation (NAV) from Aug. 25, 2019
% Change	14%	
Yes valuation as of Sept. 30, 2019	(148)	Prometheus valuation (NAV) from Nov. 10, 2019
% Change	26%	
Yes valuation as of Dec. 30, 2019	(153)	Prometheus valuation (NAV) from Valuation date
% Change	(3%)	

Appendices

Fair value of STBs

Fair value of Ultra boxes

We assumed that Yes would sell its Ultra boxes at a discount as they are used and would be past-warranty upon sale. We also attributed box-collection costs and box-repair costs.

Box collection: According to the Company's management, there are 106.5 thousand boxes installed in customer homes and requiring collection. Collection costs are NIS 50 per unit.

Furthermore, under IAS 36 and after consulting with the Company's management, the value will be the lower of either depreciated cost or fair value for each tier*

Tier	Depreciated cost in books (NIS)	Depreciated cost in books (USD)	Depreciated cost - Prometheus	Attributed derecognition of boxes (USD)	Attributed adaptation costs (USD)	Attributed collection costs (USD)	Depreciated cost, Prometheus measurement, after adaptation and collection costs	Value for valuation
2016 boxes	2,403	695	720	(2)	(52)	(56)	610	610
2017 boxes	19,559	5,660	6,833	(20)	(422)	(499)	5,891	5,660
2018 boxes	35,808	10,361	10,916	(33)	(547)	(643)	9,693	9,693
2019 boxes	39,044	11,298	10,605	(32)	(479)	(297)	9,797	9,797
Total	**96,815**	**28,014**	**29,073**	**(87)**	**(1,500)**	**(1,495)**	**25,991**	**25,760**

* Tier - boxes are classified to tiers based on the year of their purchase.

Comments

- Number of Ultra boxes used to measure value - 166 thousand.
- Cost of Ultra box for fair value purposes - USD 235 (USD 190 for the STB component and USD 45 for the hard-drive component).
- Boxes stricken from the STB roster without tier association were derecognized based on the relative size for the tier.
- A collection rate of 0.97 was assumed.

Property, plant and equipment value

Value of Ultra boxes, in NIS:

Property, plant and equipment - STBs	
Value for valuation (USD thousands)	25,760
Expected deduction for STB repair costs (USD thousands)	(14.38)
Total STB value (USD thousands)	25,746
USD-NIS exchange rate as of Dec. 31, 2019	3.46
Total STB value (NIS thousands)	88,978

Conclusion: Ultra boxes are valued at NIS 88,978 thousand

yes.

Fair value of STBs

Fair value of Type 1 streamers

We assumed that, since they are used, Yes would sell its Type 1 streamers at a discount. Presented is fair value calculation:[1]

Property, plant and equipment - Type 1 boxes		
Value of STBs before additional costs (USD thousands)	2,744	Note 1
Collection costs (USD thousands)	32	Note 2
Total streamer value (USD thousands)	**2,711**	
USD-NIS exchange rate as of Dec. 31, 2019	3.46	
Total streamer value (NIS thousands)	**9,371**	

Notes:

Note 1

Property, plant and equipment - STBs	
No. of Type 1 streamers (thousands)	16.8
Cost of Type 1 streamers (USD)	163.0
Selling price (USD)	163.0
Total value of streamers before additional costs (USD thousands)	**2,744**

The selling price was provided by the Company's management. We reviewed whether selling prices were reasonable based on samples provided by Management.

- *Depreciated cost was NIS 7.5 million. Under IAS 36, value is assigned as the lower of either depreciated cost or fair value.*

Note 2

Property, plant and equipment - streamers	
Number of boxes installed (thousands)	3.11
Collection cost per unit (NIS)	50
Collection coefficient	72%
Total collection costs (NIS thousands)	112
USD-NIS exchange rate as of Dec. 31, 2019	3.46
Total collection costs (USD thousands)	**32.3**

Assuming a 72% collection rate, at an average of 1.4 streamers per customer, as specified by the Company's management.

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Appendix C

yes.

WACC - Multi-Channel Television CGU (Yes)

Calculating the discount rate for Yes' operations

Symbol	Parameter	Value	Comments
D/V	Debt to asset value ratio	0.50	*Based on the median of comparative companies (see table)*
E/V	Equity to asset value ratio	0.49	**(D/V) = 1 - (E/V)**
D/E	Debt to equity ratio	1.03	**(D/E) = (D/V) / (E/V)**
βUL	**Unleveraged beta for comparative companies**	**0.60**	*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**	**1.07**	**βL= βUL*{1+(1-Tax)*(D/E)}**
Rf	Risk-free interest rate	1.4%	*Nominal yield to long-term maturity on NIS-based government bonds, for a 15-year period, as of December 31, 2019.*
MRP	Market risk premium	6.9%	*The risk premium in the Israeli market, based on Damodaran data as of 2019.*
SRP	Specific risk premium	3.4%	*Premium according to Duff and Phelps data for 2019, for mid-sized enterprises.*
Re	**Cost of equity**	12.2%	**RE = Rf + βL * MRP + SRP**
Rd	**Cost of Company debt**	3.1%	*Long-term cost of debt for the operations, based on the yield to maturity as of the valuation date of Bezeq's debentures in trading*
WACC	**Weighted average cost of capital**	**7.2%**	**WACC = Re *(E/V) + Rd*(D/V)*(1-TAX)**

The above table presents the discount rate calculated for Yes's operations as of December 31, 2019.

Since we believe the risk in these operations will not decrease compared to 2017, use used an 8.5% discount rate, similar to the rate used in valuations of the Multi-Channel Television segment since 2017. For details, see the following page.

Additional information on comparative companies:

Company	Unleveraged beta	D/V
DISH NETWORK	0.81	0.40
LIBERTY GLOBAL	0.38	0.60
Median	**0.60**	**0.50**

Prometheus Financial Advisory

Appendix C

WACC - Multi-Channel Television CGU (Yes)

Discount rate

The WACC is significantly lower than the discount rate that we adopted.

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

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

- A decrease in interest rates in the USA
- The pending introduction of the World Government Bond Index (WBGI) into Israel, which is expected to increase demand for bonds and decrease the yield.
- Additional factors, such as the low inflation level in Israel, or interest rate decreases by central banks worldwide as a measure to combat uncertainty in the markets.

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

As a result, we believe that in the specific case of the Israeli telecommunications market, the decrease in WACC does not express a decrease in the sectoral risk and the appropriate return from an investor's point of view.

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

yes.

Appendix D - Summary of Changes in Key Assumptions Underlying the Valuation as of Dec. 31, 2019, compared to Dec. 31, 2018

Appendix D - Disclosures

yes.

Differences regarding discounted cash flow (DCF) method of the goodwill impairment test conducted for the Dec. 31, 2018:

Details	NIS millions
Yes valuation as of Dec. 31, 2018	(871)
Yes valuation as of Dec. 31, 2019	(581)
% Change	33.3%

Summary of changes in key assumptions underlying the valuation as of December 31, 2019, compared to December 31, 2018:

Revenues

- **Subscribers** - The Dec. 31, 2019 forecast projects 66,000 less subscribers in 2026 compared to the Dec. 31, 2018 forecast. This decrease is primarily due to increased competition and actual subscriber numbers in 2019.
- **ARPU** - ARPU was adjusted downward in the present forecast, as compared to the Dec. 31, 2018 forecast, due to increased competition and growth in alternative services. A major driver is the drop in discount prices in light of actual results for 2019.

Due to the changes in the two factors as aforesaid, revenues in the Dec. 31, 2019 forecast were lower than those in the Dec. 31, 2018 forecast.

Operating expenses

In the Report, the operating expenses line includes all of the Company's current expenses. We adopted management's forecast whereby Yes will be able to reduce its operating expenses compared to projections made in the Dec. 31, 2018 forecast (content, space segment, marketing and advertising, installation, and other costs). The following key assumptions were used to establish the projections:

- **Content** - We assumed a decrease in expenses over the forecast period, matching the decrease in subscriber numbers, and the reduction in content and channel purchases.
- **Space segments** - We assumed a decrease in expenses matching the reduction in space segments and bandwidth requirements.

Appendix D - Disclosures

Changes compared to Yes's impairment testing under the DCF model, as of December 31, 2018 (contd.)

- **Capacity** - We assumed a decrease in line with the decline in subscriber numbers. We also assumed an improvement in bandwidth consumption per subscriber, due to expected technological developments. The effect of the Ministry of Communications' regulations of February 19, 2020 was also taken into consideration.
- **Marketing and advertising** - We assumed a decrease in marketing and advertising expenses, due to joint marketing efforts with other Bezeq Group companies.

CAPEX

We accepted the Company’s projection that it will be able to reduce its investments during the forecast period. The savings in this item, compared to the Dec. 31, 2018 forecast, were primarily due to the decrease in subscriber numbers and operations, and the streamlining of the technological investments required to migrate to IP-based services.