March 24, 2021

Bezeq – The Israel Telecommunication Corp. Ltd.

Periodic Report for 2020

Chapter A
(Description of Company Operations)
to the Periodic Report for 2020

The information contained in this report 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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Chapter A - Description of Company Operations

"Bezeq" The Israel Telecommunication Corp. Ltd. ("**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: "**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

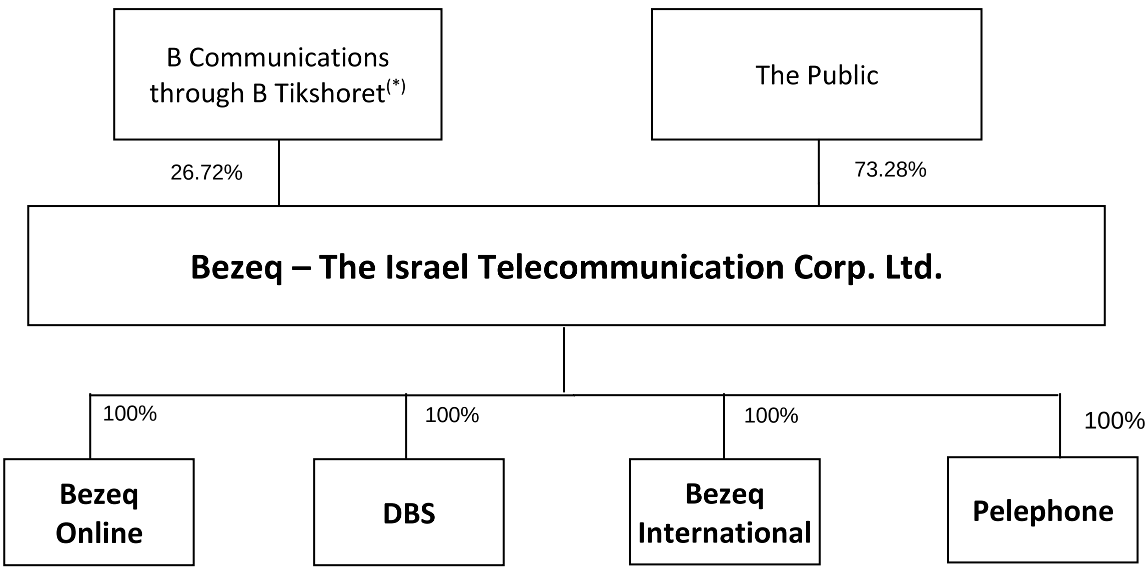
1.1 Group activities and business development

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 communications services, multi-channel television broadcasts by satellite and over the Internet (OTT), 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 24, 2021):



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

Regarding Walla – further to earlier resolutions of the Company's Board of Directors regarding Bezeq Group's business strategy, including activities for the sale of the subsidiaries Bezeq Online and Walla, on December 27, 2020, the Company completed a transaction with the Jerusalem Post Ltd. ("**buyer**") for the sale of all the Company's holdings in Walla for a total consideration of NIS 65 million, of which NIS 55 million in cash and the balance through the Company's entitlement to receive from the buyer and Walla (and their related entities) advertising space for a period of seven years from the transaction closing date. Accordingly, as of that date the Company no longer consolidates Walla in the Group's financial statements. It should be noted that the sale agreement includes an undertaking by the Company to indemnify the buyer in certain circumstances.

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 May 14, 2020, the Extraordinary General Meeting of the Company's shareholders resolved not to approve the amendment of the articles of association of the Company as requested by B Communications. It should be noted that the notice of convening of said General Meeting included the position of the Board of Directors, which adopted the recommendation of the ad-hoc committee established by the Board to review the matter, stating, inter alia, that the requested changes to the Company's articles of association were not found to be in the interest of the Company and all its shareholders, and that the amendment to the articles of association of the Subsidiaries which was expected to be submitted in the future, as specified in B Communications' notice, could even discriminate against the Company's other shareholders and therefore could be held unlawful. As against this, the Company published B Communications' comments in connection with the report on the convening of the General Meeting, which, among other things, asserted that intervention by the Board of Directors in the affairs of the General Meeting is not grounded in law or in the Company's articles of association, that the recommendation of the Board Committee per se lacks any legal basis, and that amendment of the Company's articles of association is in the Company's interest, given that it reflects directives issued by the Ministry of Communications under the Communications Order, the provisions of which apply to the Company and must be complied with by the Company, in part to ensure that it continues to hold its license. This position was not accepted by the Company. As noted in Section 8 in Chapter D of this report, the Control Permit stipulates, inter alia, that failure to lay down

[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. ErolUzumeri, 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.

provisions as aforesaid in the articles of association would constitute grounds for revoking the Control Permit.

It should be noted that according to a report by B Communications, on October 28, 2020, B Communications applied to the Ministry of Communications to rescind the condition stipulated in the Control Permit given to it in connection with its holdings in shares of the Company, to amend the Company's articles of association and the Subsidiaries' articles of association, after the General Meeting rejected the amendment of the articles of association as aforesaid. Among other reasons, B Communications asserts that the requested amendments establish provisions that in any case exist in the Communications Order and in other laws, and therefore do not create a new law and are not required.

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 3.9.5, 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 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) (“**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.

It should be noted that, 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 13.2 to the 2020 Financial Statements).

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.

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

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 ("**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 13.2 to the 2020 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 herein by way of reference.

<u>Examination of plan for structural change in the Subsidiaries</u>

The Company is considering ways to enhance the synergies and operational efficiency of the subsidiaries Pelephone, Bezeq International and DBS ("**Subsidiaries**"), in order to generate maximum value for each of them, among other things, in light of the structural separation restrictions imposed on the Company (see Section 1.7.2.1).

In this context, on March 24, 2021, the Company's Board of Directors adopted the board resolutions of the Subsidiaries to consider ways to enhance the synergies and operational efficiency of the Subsidiaries, based on an outline plan including the full statutory merger of Bezeq International into DBS (subject to the required regulatory approvals), following the spin-off of Bezeq International's integration activity into a separate company within the Group, while also examining possibilities for enhancing the synergies between the Subsidiaries by having Pelephone provide certain head office services to the Subsidiaries. The findings of the examination and the plan for implementing the change under consideration will be presented to the Company's Board of Directors for discussion and approval (if required) ("**Change Plan**").

This decision comes in light of the growing consolidation of services and business operations in the industry, the intensifying competition in the operating segments of the Subsidiaries, the business and regulatory changes that have affected and are expected to affect Bezeq International and DBS and their activity, and the need to consider the enhancement of synergies and operational efficiency of the Subsidiaries in order to generate maximum value for each of them.

The Change Plan will enable, inter alia, optimal adjustment of the Subsidiaries' operations to the structure of the industry and the provision, to the extent possible, of a unified solution for customer sales and service needs, contributing to growth. As is known, it is not possible at this stage to implement intergroup synergy that involves the Company, in view of the structural separation stipulated in the Company's license, the cancellation of which has not yet been approved by the Ministry of Communications.

This step, should it be completed, has the potential to contribute to the Subsidiaries' business results, by improving the capacity for sales and for retention of subscribers to the companies' services as well as due to streamlining and reduced costs estimated annually in the tens of

[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 ("**Approval**"), see an Immediate Report of the Company dated September 18, 2016.

millions of shekels. Additionally, spinning off the integration activity also could generate value for the Company.

The information contained in this section includes forward-looking information, as defined in the Securities Law, that is based on assessments, assumptions and expectations of the Company regarding market conditions, customer tastes and the realization of the Change Plan, which may or may not be realized or may be realized differently than expected, depending on developments in the telecommunications market and in competition, regulatory approvals and other aspects.

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

Further to investigations by the Israel Securities Authority ("ISA") from June 2017 and by the Israel Police from February 2018, into suspected offenses under the Securities Law and the Penal Law, 1977 ("**Penal Law**"), with respect to transactions related to the Company's former controlling shareholder and former Chairman of its Board of Directors, Shaul Elovitch ("**Elovitch**"), involving the purchase of shares of DBS and provision of satellite communication services to DBS, the conduct of the Ministry of Communications vis-à-vis the Company ("**DBS case**"), as well as suspicions of the exercise of authority by the Prime Minister, Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group ("**Case 4000**"):

1.1.5.1 On January 28, 2020, an indictment was filed with the Jerusalem District Court in Case 4000, inter alia, against Elovitch for various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, in connection with suspicions of the exercise of authority by the Prime Minister. Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group.

1.1.5.2 On December 23, 2020, the Company received a notice from the Tel Aviv District Attorney's Office (Taxation and Economics Division) that consideration was being given to prosecuting the Company and summoning it to a hearing in Case 4000 ("**Notice**"),[4] based on the following:

A. Following an examination of the evidence presented to him, the Attorney General is considering filing an indictment on suspicions of bribery (an offense under Section 291 of the Penal Law together with Section 23 of the Penal Law) and reporting with intent to mislead a reasonable investor (an offense under Section 53(a)(4) of the Securities Law together with Section 23 of the Penal Law).

B. According to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Elovitch, who was an organ of the Company in the period relevant to the suspicions.

C. In addition, according to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Shaul Elovitch, who was an organ of the Company in the period relevant to the suspicions, and the acts and criminal intent of Stella Handler (the former CEO of the Company), who was an organ of the Company during the relevant period (see Section 1.1.5.3.B). According to the allegations in this regard, the Company reported a letter from the Director General of the Ministry of Communications which allegedly included a misleading representation (of which Shaul Elovitch and Stella Handler were aware), and only after the intervention of senior officials in the Attorney General's Office was the letter amended and the amendment reported by the Company to the general public.

[4] It should be noted that on November 20, 2017, the Company received a "notice to suspect," according to which the Investigation file in which it was being investigated as a suspect had been sent to the Tel Aviv District Attorney's Office for review. Since then, no further notice has been received by the Company in that matter.

D. According to the notice, before the Attorney General makes a final decision regarding the criminal prosecution of the Company, and insofar as the Company wishes to argue against the possibility of a criminal prosecution, the Company must arrange within 30 days a date for a hearing, which will take place within 90 days from the date of the Notice, and it must submit its main pleadings in writing two weeks before the hearing date that will be set.

It should be noted that Walla (a former subsidiary of the Company) received a similar notice, according to which, following an examination of the evidence presented to him, the Attorney General is considering filing an indictment against Walla as well, on suspicions of bribery (an offense under Section 291 of the Penal Law together with Section 23 of the Penal Law), with the suspicion of criminal liability against Walla for the bribery offense arising from the acts and criminal intent of Shaul Elovitch, who was an organ of the company during the period relevant to the suspicions.

The Company and Walla have received the core of the investigation material relating to the above suspicions, they are studying the notices and preparing for the hearing, and they intend to argue in the hearing against the possibility of a criminal prosecution.

1.1.5.3 On December 23, 2020, to the best of the Company's knowledge, the Tel Aviv District Attorney's Office published a notice, according to which, inter alia, its Taxation and Economics Division had filed on the same day with the Economic Department of the Tel Aviv District Court an indictment against Elovitch, as well as against former senior officers in the Bezeq Group and in DBS – Or Elovitch, Amikam Shorer, Linor Yochelman, Ron Eilon and Miki Neiman, in the DBS case. According to the publication:

A. The indictment attributes to the defendants offenses of fraudulently receiving something under aggravating circumstances, fraud and breach of trust in a corporation as well as reporting violations under the Securities Law, and relates to two cases: fraud with respect to the payment of the consideration for the purchase of shares of DBS by the Company, and fraud with respect to the conduct of the independent committees set up in the Company for the purpose of examining transactions of the Company in which Elovitch had a personal interest.

B. The Taxation and Economics Division had entered into a conditional stay of proceedings arrangement, upon terms in accordance with the Securities Law, with Stella Handler, in the framework of which Handler admitted that she was involved in the inclusion of a misleading particular in the Company's reports. As stated in the arrangement, the DBS case was closed with respect to Stella Handler.

C. The investigation files against other suspects who were investigated in the aforementioned cases, including against the former VP of Regulation of the Company and against Or Elovitch and Amikam Shorer, had been closed (with respect to the latter two – except as regards the DBS case, as noted at the beginning of this section).

1.1.5.4 The Company does not yet have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material in connection with Case 4000, further to the invitation of the Company to a hearing in this matter, as set out in Section 1.1.5.2 above). Accordingly, the Company is not able to assess the effects of the investigations, their findings and their outcome on the Company and on its financial statements. See in this regard Note 1.3 to the 2020 Financial Statements.

1.1.5.5 It should be noted that following the opening of the aforementioned investigations, several civil legal proceedings were instituted against the Company and DBS, officers of the Company in the relevant period, and companies in the group of the former controlling shareholder of the Company, including motions to certify class action lawsuits and motions for disclosure of documents prior to filing a motion to certify a derivative claim. For further information on these proceedings, see Section 2.18.

1.1.5.6 As regards DBS, which on November 20, 2017 received a "notice to suspect," according to which the Investigation file in which it was being investigated as a suspect had been sent to the Tel Aviv District Attorney's Office for review – according to a notice received by DBS from the Tel Aviv District Attorney's Office, following a review of the ISA file in which it was investigated as a suspect, it was decided on January 11, 2021 to close the case against it, without filing an indictment.

1.2 Operating segments

The Group has four main operating segments 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 28 to the 2020 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.

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.

It should be noted that, in addition, the Company's consolidated financial statements include an "Others" segment, which includes mainly customer call centers (through Bezeq Online), and which included until December 27, 2020 Internet content services (through Walla; the Company completed the sale of its holdings in Walla on that date, as set out in Section 1.1.1). 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 on December 2, 2019, see Section 1.1.2.

On December 10, 2020, B Communications announced the purchase of 10,580,000 ordinary shares of the Company for a total of NIS 40 million, at an average price per share of NIS 3.78. Following said purchase, B Communications holds 26.72% of the issued and paid-up share capital and of the voting rights in the Company.

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 in the interest of clarity and transparency vis-à-vis the shareholders and in the circumstances arising from the inability to distribute a dividend due to the expectation at that time that the Company would fail to pass the profit test in the two years following the resolution. Accordingly, the Board of Directors decided that it would be incorrect to maintain a 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 2018-2020, see Note 21.2 to the 2020 Financial Statements. At the date of the report, the Company has no outstanding, distributable profits.

1.5 Financial information about the Group's operating segments

All the data in Sections 1.5.1 to 1.5.4 are in NIS millions

1.5.1 2020

	Domestic fixed-line communications	Cellular communications	ISP and international communications	Multichannel television (3)	Others	Adjustments for consolidated (2)	Consolidated
Total revenues:							
From external sources	3,813	2,127	1,217	1,286	280	-	8,723
From other operating segments in the corporation	346	59	54	1	6	(466)	-
Total revenues	4,159	2,186	1,271	1,287	286	(466)	8,723
Total costs attributable to:							
Variable costs attributable to operating segment (1)	850	799	1,021	532	186		
Fixed costs attributable to operating segment (1)	1,604	1,471	491	797	56		
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Costs that do not constitute revenue in another operating segment (3)	2,405	2,162	1,246	1,296	236	(77)	7,268
Costs that constitute revenue in other operating segments	49	108	266	33	6	(462)	-
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Profit (loss) from ordinary operations attributable to owners of the Company	1,705	(84)	(241)	(42)	44	73	1,455
Total assets attributable to operations at December 31, 2020	8,471	4,371	785	1,365	96	(1,847)	13,241
Total liabilities attributable to operating segment at December 31, 2020	11,764	1,742	580	505	42	(1,242)	13,391

(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).

Variable costs include non-recurring expenses (income) that were included in other expenses (income) of each company.

(2) Details of adjustments for consolidated – transactions between operating segments.

(3) See Note 11 in the 2020 Financial Statements concerning the exclusion of an impairment loss in the multichannel television segment. The impairment loss in this segment is presented under the adjustments.

1.5.2 2019

	Domestic fixed-line communications	Cellular communications	ISP and international communications	Multichannel television (3)	Others	Adjustments for consolidated (2)	Consolidated
Total revenues:							
From external sources	3,757	2,316	1,283	1,344	229	-	8,929
From other operating segments 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 operating segment (1)	307	1,080	727	630	177		
Fixed costs attributable to operating segment (1)	1,624	1,381	808	850	60		
Total costs	1,931	2,461	1,535	1,480	237	435	8,079
Costs that do not constitute revenue in another operating segment (3)	1,883	2,357	1,292	1,457	232	858	8,079
Costs that constitute revenue in other operating segments	48	104	243	23	5	(423)	-
Total costs	1,931	2,461	1,535	1,480	237	435	8,079
Profit from ordinary operations attributable to owners of the Company	2,142	(99)	(196)	(135)	1	(863)	850
Total assets attributable to operations at December 31, 2019	8,091	4,088	1,084	1,491	151	(1,914)	12,991
Total liabilities attributable to operating segment at December 31, 2019	12,466	1,434	604	576	79	(1,236)	13,923

(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).

Variable costs include non-recurring expenses (income) that were included in other expenses (income) of each company.

(2) Details of adjustments for consolidated – transactions between operating segments.

(3) See Note 11 in the 2020 Financial Statements concerning the exclusion of an impairment loss in the cellular communications and multichannel television segments. The impairment loss in this segment is presented under the adjustments.

1.5.3 2018

	Domestic fixed-line communications	Cellular communications	ISP and international communications	Multichannel television	Others	Adjustments for consolidated (2)	Consolidated
Total revenues:							
From external sources	3,883	2,401	1,338	1,473	226	-	9,321
From other operating segments 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 operating segment (1)	1,340	1,263	719	678	198		
Fixed costs attributable to operating segment (1)	1,632	1,182	595	851	79		
Total costs	2,972	2,445	1,314	1,529	277	1,366	9,903
Costs that do not constitute revenue in another operating segment (3)	2,915	2,343	1,076	1,516	270	1,783	9,903
Costs that constitute revenue in other operating segments	57	102	238	13	7	(417)	-
Total costs	2,972	2,445	1,314	1,529	277	1,366	9,903
Profit from ordinary operations attributable to owners of the Company	1,224	(2)	77	(56)	(36)	(1,789)	(582)
Total assets attributable to operations at December 31, 2018	8,896	4,124	1,370	1,606	159	193	16,348
Total liabilities attributable to operating segment at December 31, 2018	14,284	1,425	733	687	84	(1,159)	16,054

(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).

Variable costs include non-recurring expenses (income) that were included in other expenses (income) of each company.

(2) Details of adjustments for consolidated – transactions between operating segments.

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 ("**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 2019 and 2020:

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

	2020	2019	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenues (NIS million)	4,159	4,073	1,055	1,042	1,044	1,018	985	1,025	1,020	1,043
Operating profit (NIS million)	1,705	2,142	356	446	464	439	296	440	875	531
Depreciation and amortization (NIS million)	877	861	225	222	218	212	225	225	204	207
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	2,582	3,003	581	668	682	651	521	665	1,079	738
Net profit (NIS million)	1,040	1,192	216	300	229	295	134	175	562	321
Cash flow from current activities (NIS million)	2,106	1,847	600	561	334	611	476	484	416	471
Payments for investments in property, plant & equipment, intangible assets and other investments (NIS million)	910	881	237	272	201	200	193	145*	333*	210
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	146	407	119	1	19	7	14	14	340**	39**
Payments for leases	111	114	27	26	26	32	28	25	27	34
Free cash flow (NIS million) (2)	1,231	1,259	455	264	126	386	269	328***	396***	266***
Number of active subscriber lines at the end of the period (thousand) (3)	1,639	1,718	1,639	1,653	1,675	1,693	1,718	1,743	1,768	1,792
Average monthly revenue per telephony line (NIS) (ARPL) (4)	50	49	50	51	51	48	48	49	49	50
Number of outgoing use minutes (million)	3,985	3,499	1,004	1,019	1,079	883	820	888	865	926
Number of incoming use minutes (million)	5,107	4,291	1,326	1,368	1,293	1,120	1,046	1,099	1,056	1,090
Total number of Internet lines at the end of the period (thousand) (7)	1,556	1,575	1,556	1,565	1,571	1,566	1,575	1,589	1,613	1,635
Number of which provided as wholesale Internet lines at the end of the period (thousand) (7)	557	592	557	570	580	584	592	601	612	624
Number of which provided as retail Internet lines at the end of the period (thousand) (7)	999	983	999	995	991	982	983	988	1,001	1,011
Average monthly revenue per Internet subscriber (NIS) - retail (ARPU) (8)	99	97	102	100	98	98	98	98	97	96
Average bundle speed per Internet subscriber - retail (Mbps) (5)	74.2	67.8	74.2	71.6	70.4	69.1	67.8	66.2	64.0	61.5
Telephony churn rate (6)	12.5%	11.7%	3.2%	3.4%	2.7%	3.2%	2.9%	3.0%	2.7%	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 Financial Statements and Section 7 of the chapter Description of Company Operations in the 2020 Periodic Report.

(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 of the chapter Description of Company Operations in the 2020 Periodic Report.

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

(4) Calculated according to average lines for the period. On this matter, see Section 7 of the chapter Description of Company Operations in the 2020 Periodic Report.

(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.

(8) Revenues from retail Internet services divided by the average number of retail customers in the period. On this matter, see Section 7 of the chapter Description of Company Operations in the 2020 Periodic Report.

(*) In Q2 2019 - including an amount of NIS 149 million paid in respect of betterment tax on the sale of the Sakia complex; in Q3 2019 - including an amount of NIS 75 million received in respect of betterment tax.

(**) In Q1 2019 - including proceeds from the Sakia sale of NIS 5 million as well as a land appreciation tax refund received in the amount of NIS 5 million; in Q2 2019 - including proceeds from the Sakia sale in the amount of NIS 323 million.

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

1.5.4.2 Pelephone

	2020	2019	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenue from services (NIS million)	1,591	1,709	396	396	394	405	416	446	430	417
Revenue from the sale of terminal equipment (NIS million)	595	653	137	149	141	168	186	166	140	161
Total revenue (NIS million)	2,186	2,362	533	545	535	573	602	612	570	578
Operating profit (loss) (NIS million)	(84)	(99)	(36)	(27)	(8)	(13)	(97)	16	(8)	(10)
Depreciation and amortization (NIS million)	599	633	151	147	151	150	163	157	156	157
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	515	534	115	120	143	137	66	173	148	147
Net profit (loss) (NIS million)	(25)	(47)	(12)	(12)	1	(2)	(69)	18	2	2
Cash flow from current activities (NIS million)	697	677	241	143	149	164	146	200	136	195
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	318	292	80	100	73	65	75	72	82	63
Payments for leases	230	242	48	67	48	67	51	76	46	69
Free cash flow (NIS million) (1)	149	143	113	(24)	28	32	20	52	8	63
Number of postpaid subscribers at the end of the period (thousand) (2)	2,044	1,902	2,004	1,976	1,948	1,928	1,902	1,886	1,857	1,834
Number of prepaid subscribers at the end of the period (thousand) (2)	438	425	438	420	417	428	425	415	397	382
Number of subscribers at the end of the period) (2)	2,442	2,327	2,442	2,396	2,365	2,356	2,327	2,301	2,254	2,216
Average monthly revenue per subscriber (NIS) (ARPU) (3)	56	63	55	56	56	58	60	65	64	63
Churn rate (4)	26.9%	30.8%	5.9%	7.0%	6.8%	7.2%	7.3%	7.3%	7.5%	8.7%

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers), and does not include subscribers connected to Pelephone 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. It should be noted that 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. The subscriber list includes a retroactive correction of classification from postpaid subscribers to IOT subscribers (who are not included in the subscriber list), resulting in a decrease in the number of postpaid subscribers by 9,000 in 2019 and by 12,000 in 2020, without any change in the annual ARPU index.

(3) Average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. See Section 7 of the chapter Description of Company Operations in the 2020 Periodic Report.

(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. See Section 7 of the chapter Description of Company Operations in the 2020 Periodic Report.

1.5.4.3 Bezeq International

	2020	2019	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenues (NIS million)	1,271	1,339	325	315	314	317	330	329	339	341
Operating profit (loss) (NIS million)	(241)	(196)	(22)	(275)	27	29	(189)	(40)	7	26
Depreciation and amortization (NIS million)	149	190	26	42	38	43	51	47	46	46
EBITDA (earnings (loss) before interest, taxes, depreciation and amortization) (NIS million) (1)	(92)	(6)	4	(233)	65	72	(138)	7	53	72
Net profit (loss) (NIS million)	(275)	(157)	(13)	(305)	21	22	(149)	(32)	4	20
Cash flow from current activities (NIS million)	230	255	75	47	48	60	87	64	48	56
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million) (2)	116	128	21	28	33	34	21	40	34	33
Payments for leases	30	32	7	7	8	8	8	8	8	8
Free cash flow (NIS million) (1)	84	95	47	12	7	18	58	16	6	15
Churn rate (3)	30.2%	26.2%	10.2%	7.2%	6.1%	6.7%	6.3%	7.1%	6.2%	6.6%

Some of the data in the table were adjusted further to the restatement of the Company's financial statements, as detailed in Section 1.9 and In Note 1.5 to the Company's financial statements.

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) The item also includes long-term investments in assets.

(3) The number of Internet subscribers who left Bezeq International during the period, divided by the average number of registered Internet subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the 2020 Periodic Report.

1.5.4.4 DBS

	2020	2019	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenues (NIS million)	1,287	1,345	317	313	319	338	331	334	337	343
Operating profit (loss) (NIS million)	39	(55)	(11)	18	23	9	(6)	20	(24)	(45)
Depreciation, amortization and ongoing impairment (NIS million)	203	219	59	50	50	44	46	50	68	55
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	242	164	48	68	73	53	40	70	44	10
Net profit (loss) (NIS million)	24	(69)	(24)	16	18	14	(7)	15	(27)	(50)
Cash flow from current activities (NIS million)	163	143	14	69	39	41	31	37	22	53
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	141	238	26	38	40	37	32	69	73	64
Payments for leases	26	30	6	6	7	7	7	8	7	8
Free cash flow (NIS million) (1)	(4)	(125)	(18)	25	(8)	(3)	(8)	(40)	(58)	(19)
Number of subscribers (at the end of the period, in thousands) (2)	557	555	557	556	557	556	555	558	565	568
Average monthly revenue per subscriber (ARPU) (NIS) (3)	190	197	186	187	190	195	195	195	197	200
Churn rate (4)	21.0%	21.2%	4.9%	5.4%	4.8%	5.9%	5.2%	5.5%	4.9%	5.6%

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber - a single household or small business customer. In the case of a business customer, that has more than a certain number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is standardized. The number of business customers that are not small businesses, is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined periodically.

(3) Monthly ARPU is calculated by dividing total DBS revenues (excluding revenues from sales of content to external broadcasting entities) by the average number of customers in the period. See Section 7 of the chapter Description of Company Operations in the 2020 Periodic Report. In the first quarter of 2020, DBS revised the definition of ARPU so that ARPU does not include sales of content to external broadcasting entities. Accordingly, the ARPU data for previous periods were restated.

(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period. See Section 7 of the chapter Description of Company Operations in the 2020 Periodic Report.

1.6 Group Outlook

The following is the Group's forecast for 2021 based on the information currently known to the Bezeq Group:

- Adjusted net profit[5] for shareholders is expected to be NIS 1 billion.
- Adjusted EBITDA[6] is expected to be NIS 3.5 billion.
- CAPEX[7] is expected to be NIS 1.7 billion.

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations.

The Group's forecasts are based, inter alia, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, on the current economic situation and, accordingly, the Group's ability to implement its plans for 2021, also taking note of changes that may occur in the foregoing, business conditions and the effects of regulatory decisions, technology changes, developments in the structure of the telecommunications market, etc., or insofar as one or more of the risk factors listed in the 2020 Periodic Report materialize. Additionally, there is no certainty that the forecast will be realized, in whole or in part, inter alia, in view of the COVID-19 pandemic and the great uncertainty it has caused.

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

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, including fiber infrastructure to households, 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.

[5] Adjusted net profit and adjusted EBITDA - excluding other operating expenses/income, net, and non-recurring losses/gains from impairment/appreciation of value, and the costs of employee options. Adjusted EBITDA and adjusted net profit for 2020 were NIS 3.659 billion and NIS 144 million, respectively.

[6] See footnote 5.

[7] CAPEX - payment (gross) for investments in fixed assets and intangible assets. CAPEX for 2020 was NIS 1.50 billion.

1.7.1 Communications groups in the Israeli market

The market is characterized in recent years 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)[8].

Structural changes and mergers between competing communications groups and companies may have material implications on the structure of and competition in the communications market and on the Group's activity. The Company is unable at the present time to assess these effects.

It is noted that competitors that do not belong to the above communications group (such as 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 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 August 26, 2020, Cellcom announced the completion of an agreement to purchase full ownership and control of Golan Telecom, after regulatory approvals were received for the purchase. Furthermore, Cellcom, HOT and the Israel Infrastructure Fund (IIF) hold in equal parts a partnership with a 70% stake in IBC. Regarding this matter and the approvals received by HOT, see Section 2.6.3.5.

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

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.

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

[8] 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.

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

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

- The team and observers found that the time was not yet ripe for the total abolition of structural separation in the Bezeq Group, given that the Bezeq Group enjoys strong market power and dominance in the telecommunications market, and that elimination of the structural separation at this time may boost the Bezeq Group's power while hurting its competitors.
- The team's position is that the existing structural separation provisions have yielded results untill now, and that doing away with structural

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

separation at this time would seriously harm competition in the field of telecommunications, which in turn would hurt the public and telecommunications consumers.

- The observers' position is that the present form of structural separation does not serve the competitiveness objectives of the separation and fails to deal with the competitiveness problems in the market. Thus, structural separation should not be left in its current form, and other alternatives should be advanced, such as separation between wholesale and retail activities or separation of ownership between passive infrastructure and the Bezeq Group's other activities.
- Notwithstanding the team's position on the elimination of structural separation at this time, it did find that it is possible to make certain changes in the overall regulatory regime that could potentially improve the public service and influence the structural separation. Thus, for example, in parallel with the team's work, the Ministry of Communications promoted a sweeping change in the method of operating the "reverse bundle." In the past two years, the Ministry of Communications has not opposed the Bezeq Group's moves to reduce the separation between the subsidiaries' operations. Additionally, the team has recommended to the Minister of Communications to consider changing the prevailing separation in Israel between the infrastructure service and ISP service (see in this regard Section 1.7.2.2).

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

On February 16, 2021, a hearing was held in the petition, at the conclusion of which the court observed that it believed that the petition would be rejected at the end of the day, and it therefore recommended to the Company to withdraw the petition. Further to this, on February 23, 2021, the Company notified the court that it had decided to accept the court's recommendation and to withdraw the petition, and on February 24, 2021 the petition was struck out.

1.7.2.2 <u>Marketing joint service bundles with a subsidiary and between subsidiaries</u>

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 bundles 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 an "unbundling" requirement (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 limitations in marketing bundles (other than limitations that focus on the marketing of a joint bundle of HOT-Net and other companies in the HOT Group). The Ministry of

Communications approved HOT Telecom and HOT Systems to market to the private sector bundles comprising broadcasting, Internet infrastructure and ISP and telephony services of the HOT Group. Subsequently, the Ministry approved the marketing of joint bundles comprising cellular services and international calls. The Company's limitation is even more significantly manifested with the implementation of the wholesale BSA service and the option for ISPs to provide full end-to-end service (infrastructure + service provider) to customers at reduced prices compared to the unbundleable bundles that the Company may market, insofar as they are approved.

Marketing joint service bundles of Internet infrastructure together with ISP

In 2017, further to the Ministry's demand, changes were made to the bundle sales format, mainly splitting of the bundle (ISP and infrastructure) after a year. On June 18, 2020, the Company received the decision of the Director General of the Ministry of Communications, stating that the changes in the reverse bundle marketing format that had been implemented on a temporary basis (on March 25, 2020), mainly cancellation of the requirement to split the bundle after a year and the Company being able to contact customers and renew the bundle at any time, would become permanent. Doing away with the requirement to split the reverse bundle should in itself have a positive effect on the Company's Internet activity, to an extent that cannot be assessed at this stage.

Further to a supervisory proceeding alleging failure of the Company to fully comply with the provisions of the license with respect to splitting of the reverse bundle after a year (prior to the cancellation of this format), in June 2020 the Company received a financial sanction in the amount of NIS 2,013,760 in connection with marketing of the reverse bundle, in spite of its arguments in this matter. The Company paid the amount of the sanction.

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

On October 4, 2020, a "Hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services" ("**First Hearing**") was published, according to which the Ministry of Communications plans to take policy steps, including, inter alia, amending the licenses of the infrastructure owners – the Company and Hot Telecom – so that as of January 1, 2022 they will be allowed to provide end customers with an integrated Internet service consisting of the components currently known as "broadband access service to ISP providers" and "ISP service," at the terms specified in the hearing,

Following the submission of comments on the hearing, on February 24, 2021, a secondary hearing was published on the Ministry of Communications website in the same matter ("**Second Hearing**"), including material amendments to the outline proposed in the First Hearing, after the Ministry considered the responses received in the First Hearing. The Ministry's stated position is that it remains firm on the need to continue promoting the consolidation of the retail broadband Internet service into a single product, while maintaining a competitive market in which each provider will deal directly with the end consumer, the main tool for reaching this goal being the improvement of the wholesale market through self-regulation and substantive equality.

The following are the main points of the amended outline:

Within two months, the parties (infrastructure providers and ISPs) are required to reach agreements on output indices for the wholesale market. These agreements will be submitted as a shelf agreement for approval by the Ministry of Communications, which may approve or reject it or adopt it with changes. Thereafter, a three-month calibration period will begin in which the effectiveness of the model is examined. At the end of the calibration period, the Ministry will announce the start of a three-month preparation period, at the end of which infrastructure providers will be able to offer a unified service comprising access services and ISP services. The preparation period on both networks will start only from the end of the period of calibration and running in on the fiber network.

The infrastructure providers will be obliged to publish the output indices for the wholesale market every month to the ISP providers operating in the wholesale market as well as the Ministry, and to act in accordance with the compensation mechanism, and the Ministry may provide these indices to the public or to any of the entities it supervises, with the option to initiate supervisory and enforcement proceedings if the performance measurements indicate a violation of the duty of equality in providing wholesale services, in addition to payment of the agreed compensation included in the shelf agreement.

If there will be significant difficulties in implementing a wholesale market, with respect to both new and existing ultra-wide broadband networks, the Ministry will review the policy on this issue and act using the tools at its disposal.

The Ministry intends to establish a mechanism of automatic portability between providers that will take effect on the determining date.

One year after the ban on infrastructure providers offering a unified service is lifted, the Ministry will check the number of subscribers for split and semi-unified services, and if there is still a significant number of these subscribers, the Ministry will consider taking further action to bring about a situation where fixed-line Internet service is provided as an end-to-end service by one provider.

The Company and Bezeq International are studying the Secondary Hearing documents. The Company estimates that if the move is implemented, and the ban on the Company to offer a unified service is lifted (and the Company is permitted to offer a unified end-to-end Internet service) as of the determining date, this will have a positive impact on its operations. Regarding Bezeq International, the move could have a negative impact on its results and result in impairment of its assets. However, the total impact on the Group in the coming years is expected to be positive. On March 11, 2021, the Company submitted its comments on the Secondary Hearing, according to which the implementation outline proposed in the hearing is erroneous and gives the ISP providers tools for delaying the start of the reform and an incentive to distort the measurement results due to an unfounded fear of discrimination. The Company proposed a shorter and clearer shelf outline that does not include penalties.

See in this regard the Company's immediate report dated February 25, 2021, which is included herein by way of reference.

<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 5.15.3. 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 bundles with Pelephone</u> - 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 ISP) 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 inter-ministerial 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 joint ventures and preferences between the Group companies

There are more limitations on joint 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 virtue of the provisions of the Company's license, which oblige it to provide its services equally to all. For further limitations, see also Section 5.15.3.

Lifting of the restrictions on structural separation and waiving the limitations applicable to joint 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). Following discussions that were held, inter alia, within the Ministry of Communications, it has become apparent that the ISP providers are not set up to operate according to the service portfolio format.

Regarding the new switch that conforms to the Ministry of Communications' requirements for the service format, see Section 2.7.2.

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 (the Company, 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 (the Company 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) are not allowed to 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[10]. Cellular operators (including Pelephone) are not allowed to 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

[10] 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.

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 (F), 4.12.1(C) and 5.17.1(A).

1.7.4.4 Amendments of licenses and related 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 amendment to 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. On June 15, 2020, the Company received a regulatory report stating that in light of the low rate of deviations (7%), it was decided not to continue enforcement proceedings against the Company. In January 2021, Bezeq International received a notice from the Ministry of Communications stating that it had been found to deviate from the human response times it is required to meet, and therefore the Ministry intends to impose on it a financial sanction of NIS 285,000. In February 2021, Bezeq International submitted a response to the Ministry of Communications, contesting the financial sanction and the method of measuring the deviations.

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 whereby 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 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 ongoing 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.

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

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

In recent years, the Communications Law, the Economic Competition Law, the Securities Law, the Consumer Protection Law, the Law for Increased Enforcement of Labor Laws 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 directives pursuant thereto. 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.

In recent years, the Ministry of Communications has made extensive use of the oversight powers and has issued notice of its intention to impose fines on the Company for ongoing regulatory matters. 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 2.16.8.5. For the fine in respect of the reverse bundle, see Section 1.7.2.2.

The Consumer Protection and Fair Trade Authority also exercises enforcement powers provided for 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. In this context, in February 2021, the Company received from the Consumer Protection Authority a notice of intent to impose on the Company a financial sanction of NIS 6.75 million for an apparent violation of Section 2(a)(1) of the Consumer Protection Law, on the grounds that the Company had not provided thousands of consumers who purchased a TOP 100 Internet package this browsing speed. The Company submitted its comments on this notice with a request to cancel it, since an understanding of the findings does not give rise to any likelihood of consumer deception.

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. 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).

B. 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.

C. 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 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.

Further to a hearing published by the Ministry on September 9, 2019, regarding implementation of the use of frequencies enabling operation of a millimeter wave technology, on April 6, 2020, an amendment was published to the Wireless Telegraph Order (Non-Application of the Ordinance) (no. 2), 1982. The amendment stipulates that under certain conditions, the Wireless Telegraph Ordinance will not be applied with respect to the use of V-Band on GHz-57-66 frequencies (It should be noted that on September 15, 2020, an amendment was published that expands the exemptions for the above range of frequencies under certain conditions, both those intended to be used as outdoor point-to-point fixed wireless stations and those intended to operate indoors only.) Additionally, on August 2, 2020, a further amendment was published to the same Order, stipulating that under certain conditions, the Wireless Telegraph Ordinance will not be applied with respect to other uses. On December 15, 2020, the Wireless Telegraph Regulations (Licenses, Certificates and Fees) (Temporary Order)

(Amendment no. 2), 2020 were published, dealing with reduced fees for simple licensing in the frequency ranges: 75 to 76 GHZ and 84 to 86 GHZ.

1.7.4.9 Information asymmetry with respect to infrastructure

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

1.7.4.10 Change in the regulatory format for the provision of telecommunications services

On March 3, 2021, the Communications (Telecommunications and Broadcasting) Bill (Amendment No. 75) (Change in the Regulatory Framework for the Provision of Telecommunications Services), 2021 was published. In the bill it is proposed to change the regulatory framework existing in the law (under which the main regulatory tool is a license for the provision of telecommunications and broadcasting services), abolishing the obligation to obtain in advance a specific license (per person and per operation) as a condition for implementing a telecommunications operation, and also eliminating the distinction between the types of licenses (general, general special, and restricted) listed in the law. Instead, it is proposed that the default for regulating the provision of communications services in Israel will be by registration in a register to be maintained by the Director General of the Ministry of Communications, following an examination only of minimum threshold conditions. Those registered in the register will be subject to conditions stipulated in a general authorization that sets in advance clear and detailed conditions that may be applicable in an identical manner to all the services providers, allowing any party interested in providing telecommunications services to know in advance the conditions by which it may operate and to begin operating without applying for or receiving a license. According to the explanatory notes, the proposed change in the regulatory framework will reduce the bureaucratic burden, lower market entry barriers and be in line with generally accepted practice around the world in the communications sector. Additionally, the definition of a regulated "telecommunications service" will be modified, so as to reduce the number of services subject to regulation. A "telecommunications service" is defined as a service provided to the public or a part thereof through a telecommunications network, that is one of the following: (1) a service provided through a dedicated telecommunications network, being a data transmission service or another service in the public interest that involves state security, the public welfare or the promotion of competition, and that will be listed in the First Schedule; (a) telephony; (3) Internet access.

It is further proposed in the bill that the obligation to receive a license will continue to apply in the case of (a) a telecommunications service provided through a dedicated telecommunications network that is a cellular system or a telecommunications network in which the number of users of the network or the number of network termination points or the number of network endpoints exceeds the number determined by the Minister; (b) a telecommunications service provided through a dedicated telecommunications network that operates via a satellite under certain conditions; (c) a telecommunications service provided through a dedicated telecommunications network that is an underwater communications cable; (d) a telecommunications operation using an underwater cable. Furthermore, a local authority (including a municipal company or a municipal subsidiary) may not provide a telecommunications service without a license. The Minister is authorized to designate additional telecommunications services that will require a license to perform as well as additional service providers that will be subject to the licensing obligation. The bill amends Section 5(J) of the law, such that a "licensed provider," including an authorization holder, will be allowed to make passive use of the Company's infrastructure. It should be noted that in the comments submitted by the Company on the memorandum dated August 9, 2020 that preceded the aforesaid bill, it was clarified that notwithstanding the need to facilitate essential services (in particular those based on physical infrastructure), a multiplicity of operators could affect other regulatory arrangements in the market, undermining the foundations of the communications sector and impacting the Company's investment considerations, due to inability to compete on equal terms in areas in which deployment would be carried out by providers based on a general authorization. Moreover, the amendment to the law could result in entry of tens of parties into the Company's infrastructures and uncontrolled use thereof, with all that implies.

1.7.4.11 Hearing on requirement to provide information about the use of communications services

On January 17, 2021, the Ministry of Communications published a hearing according to which the Ministry plans to require information to be transmitted to it on a regular monthly basis, on an extremely broad scale, regarding the characteristics of the use of communications services by subscribers (including identifying details about the subscriber and about the bundle and each of the services used by the subscriber). The demand for information will be sent to all operators in the communications market that provide services to end customers (private and business) as well as to various licensees, and it applies to all types of customers (private and business) that receive wholesale or retail services from a licensee. According to the hearing, cross-referencing of the information will allow the Ministry to obtain a complete picture about the activity of the communications providers as well as the characteristics of the communications consumer and will enable the Ministry to monitor the level of competition in the different sub-markets. On March 9, 2021, the Company submitted its comments on the hearing, according to which the hearing suffers from numerous fundamental problems and defects, including – the violation of privacy and business confidentiality; the requirement for information on a vast scale without the definition of any appropriate and clearly formulated underlying objective, in breach of the authority conferred by law; a very concrete risk arising from the establishment of a giant database in which detailed personal, financial and business information is concentrated regarding the entire population of the country and the business companies operating in it, offering infinite possibilities for cross-referencing information; the individual nature of the requested information, creating an opening for complicated legal problems; the reporting format, which in many cases is irrelevant and/or impracticable; the extensive resources the Company will need to invest in the matter, necessitating the diversion of IT personnel away from critical business activities. The Company is of the opinion that the solution for these problems lies in shelving the plan presented in the hearing for the sweeping transmission of all information about the Company's customers, and alternatively, defining specific goals and objectives based on which the relevant data for their achievement will be defined in a clear and precise manner, in a process that conforms to the powers of the Ministry to receive information and is supported by the structure of the Company's information systems. Similar comments were submitted by the subsidiaries Pelephone, Bezeq International and DBS.

1.7.4.12 Regarding the decision in the hearing on licensing of new operators for the provision of Internet access infrastructure services, see Section 2.6.3.6.

1.7.4.13 Inactive subscribers

On September 10, 2020, the Ministry of Communications issued a letter to the telecommunications operators (including also the Company, Pelephone and Bezeq International) expressing the concern that some of the subscribers for the operators' services do not use these services and are not even aware of their existence. The Ministry recommended in its letter to the operators that they act to inform the subscribers that do not use these services and stop charging them, and requested to receive periodic reports on the matter during the next six months. The letter also states that the Ministry will consider in the future whether to issue binding directives in this regard, if independently initiated actions do not substantially minimize the problem. Regarding the implications of the Ministry of Communications' letter for Bezeq International and its handling of the matter, see Section 4.4. The Company and Pelephone are providing the requested information, and an examination of the matter by them does not indicate that this is an issue with material implications for them. On January 14, 2021, DBS as well received from the Cable and Satellite Broadcasting Council a preliminary communication regarding a "demand for information about 'dormant' subscribers and about services which subscribers pay for but do not use." In March 2021, DBS replied that it gives its subscribers proper notification and that it is unable to provide the requested information, inter alia because it is not in possession of well-founded information, because the Council lacks authority with respect to at least some of its requests, and because of other difficulties involved in the Council's communication.

1.7.5 Restrictions on creating charges on the assets of Group companies

For convenience, below are referrals to sections in the 2020 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[11], 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 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 5.15.1.7.

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 14.4 to the 2020 Financial Statements.

1.7.6 Pandemic – covid-19 outbreak

The global outbreak of the coronavirus (COVID-19) at the beginning of 2020 has had numerous implications, including in the macroeconomic sphere. In light of the pandemic, many countries, Israel among them, have taken and are continuing to take significant measures in an attempt to prevent the spread of the virus, such as restrictions on movement in public spaces and on public gatherings, restrictions on the transport of passengers and goods, the closing of borders between countries, etc. As an outcome, the virus as well as the measures taken have had significant repercussions on many economies and on the global capital market, including a general decline in the levels of business activity in the national economy (see Section 2.20.10), leading to payment problems in certain sectors.

The effects of the pandemic on the global and local economy and specifically on the Group companies, which also involve great uncertainty, may lead to a material adverse effect on the Group's results, mainly as a function of the duration and scope of the restrictions. In 2020 up to the date of publication of the report, the impact of the pandemic was mixed – a significant decrease in revenues from Pelephone's roaming services as well as a certain decline in revenues of the business segment in all the Group companies, that was almost

[11] The assets required to secure the provision of service by the license holder.

entirely offset by an increase in the use of and revenues from fixed-line telecommunications services in the private sector and by measures taken by the Group companies. Furthermore, the prolongation or intensification of the crisis may harm revenues from sales of cellular terminal equipment as well as collection times and amounts, mainly from small to medium business customers of the Group companies.

The Group companies are taking various measures to deal with the risks and exposures arising from the pandemic, including remote work, training employees who are required to be in contact with the public, procuring the required accessories, activity to increase the inventories of equipment and expanding the sources of supply of core products, as well as cutting costs and adjusting activities to the situation.

It should be noted that since the beginning of 2021, a drive is underway in Israel to vaccinate the population against the virus, which may moderate the effects of the pandemic and enable to a certain extent a return to normal economic activity.

The Company's foregoing assessments constitute forward-looking information that may change in line with developments relating to the COVID-19 pandemic and its effects, particularly the duration and scope of the pandemic, the nature and extent of the economic and other restrictions associated with it, and the intensity and duration of the economic slowdown developing as a result of the pandemic.

It is noted that in the recent period, various measures have been taken by the Ministry of Communications (and also by the Council and the Council Chairman with respect to DBS) to enable the communications market to cope with the effects of the pandemic, including the grant of temporary relaxations to the telecommunications companies (some of which have already expired), inter alia, with respect to human response times at the call centers, porting, connection and collection of equipment and reverse bundle.

On this matter, see also Section 1.6 of the Board of Directors Report and Note 1.4 to the 2020 Financial Statements.

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

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

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 results.

The Group's strategy

- Leading Israel's communications market through investments in advanced, quality infrastructure, and providing efficient service of a high standard of quality.
- Focusing on broadband infrastructure: fiber optics and 5G network (core areas), as continuous growth engines of the Group.
- Profitability and market share:

  Subsidiaries – Striving to improve profitability without affecting market share.

  Bezeq Fixed-Line – Striving to maintain market share/increase market share in specific segments, while sustaining profitability.
- Continued streamlining based on core operations and downsizing of administrative staff.
- Maintaining financial robustness and stability.
- Initiating business development processes (including M&A) in areas tangential to or expanding on core operations.

- Striving for regulatory cancellation of the structural separation, enabling full merger of the companies with a view to improving customer service, strengthening competitiveness and generating value for the shareholders.
- Mobilizing management and staff to work together to create value for the Company, by means of incentives and remuneration.

Streamlining measures and promoting implementation of synergies between the subsidiaries

The subsidiaries Pelephone, Bezeq International and DBS ("**Subsidiaries**") took and are taking significant steps to promote and implement the synergies between them, including signing collective agreements that include streamlining and synergy processes; transition to similarly composed managements, for more efficient decision making and to save costs; implementation of measures to increase efficiency and save operating expenses; sales of services of the companies through the distribution channels of the other companies; integration of a shared CRM system on an advanced cloud platform; implementation of further synergy measures, such as cross sales, expanding joint purchasing and using shared resources. On this matter, see also Section 1.1.4.

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 5.18.1.

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.

1.9 Event outside the ordinary course of the Company's business

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

The Company's Board of Directors appointed an independent external investigator[12] ("**External Investigator**") to conduct an in-depth investigation of the events and circumstances. On February 4, 2021, the External Investigator presented the findings of its investigation report ("**Investigation Report**") to the Company's Board of Directors. The findings related mainly to the following: Debit supplier balances that were not recorded in the Bezeq International's statement of income for the years 2001-2003 (in the investigation, documentation was found showing that some of the finance managers at Bezeq International were aware throughout the years of the unexplained debit balances); failure to recognize expenses versus revenues under service agreements with customers in the years 2018-2019; failures in the control systems that enabled the occurrence and continuation of the events; incorrect presentation of data to the independent auditor. The executive summary of the Investigation Report was attached to the Company's immediate report of February 7, 2021, which is included herein by way of reference. It should be noted that the Investigation Report did not contain new findings beyond the information provided by the Company regarding the discrepancies that were found between the assets and liabilities recorded in the books of Bezeq International and the actual assets and liabilities, or regarding the effects of those discrepancies on Bezeq International's financial results as presented in the Company's financial statements as of September 30, 2020 and in its restated financial statements as of December 31, 2019 and September 30, 2019. Following a discussion of the Investigation Report's findings and conclusions, both the Company's Board of Directors and Bezeq International's board of directors decided to adopt the External Investigator's recommendations in the Investigation Report and to complete their implementation, as part of the deficiencies correction plan

[12] Investigating team from the firm of Fahn Kanne & Co., headed by Mickey Blumenthal, CPA.

which Bezeq International's management began carrying out immediately upon learning of the discrepancies. Bezeq International's board of directors also decided to act within the law to terminate the employment of several employees in its finance department (who are not company officers) who were involved in the events under investigation. It should be noted that the Investigation Report states that the investigation findings and the test audits conducted by the External Investigator do not indicate any suspicion of embezzlement during the investigation period. In addition, the Company's Board of Directors decided to authorize its Audit Committee to continue deliberating on the Investigation Report's findings and recommendations, as well as to monitor implementation of the recommendations, consider the implications for the topics of audit and control, and examine the need to draw further conclusions and take additional steps.

For further information on this matter, including details of the effect of the correction of the discrepancies on the Group's equity and on the recognition of an additional impairment loss due to adjustment of the value of operations and book value of Bezeq International, as well as the adjustment of the Group's financial statements by way of a restatement that was made in light of the findings of the examinations discussed above, see also the Company's immediate reports dated November 9, 2020, November 18, 2020, November 19, 2020, November 30, 2020 and December 3, 2020, included herein by way of reference, as well as Chapter E of the 2020 reports. Likewise, see Section 2.18.1 for legal proceedings related to this matter.

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 as well as the wholesale market, see Sections 1.7.2 and 2.16.

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 2019 and 2020, 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[13]:

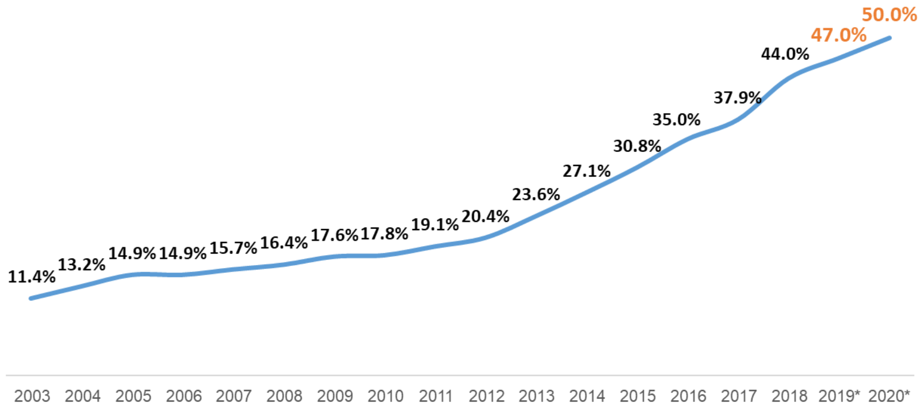
2.1.3.1 Wholesale market - at the beginning of 2015, the Company started providing a wholesale BSA service to service providers, whereas as at the end of 2020, the number of wholesale Internet lines on the Company's network was 557,000, which constitutes 36% of all Company Internet subscribers. In this 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 is no demand for wholesale telephony services (zero subscribers as of the report publication date).On this matter, 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 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

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

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 2020, the number of Company lines declined by 5%. Likewise, apparently due to the effects of the coronavirus pandemic, the number of call minutes (incoming and outgoing) on the Company's fixed telephone lines increased by 17% compared with 2019, and accordingly the average monthly revenue per phone line increased by 2%.

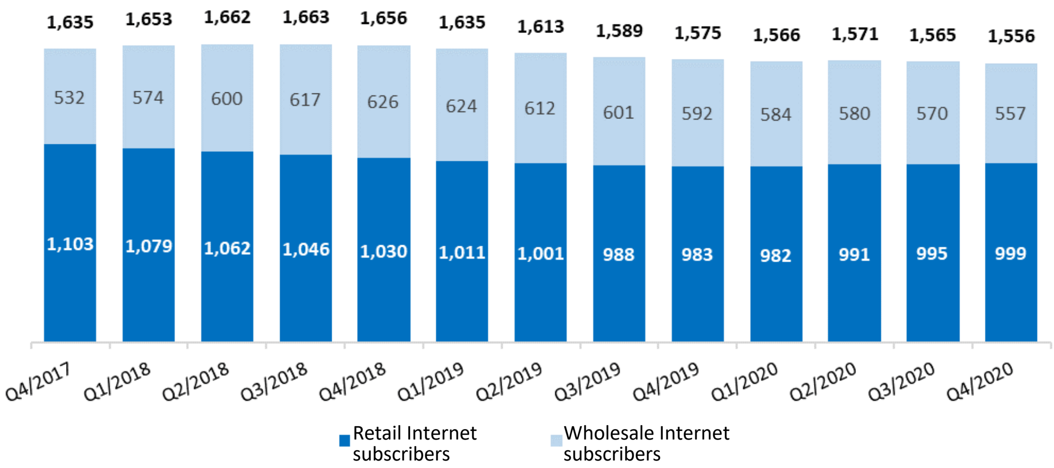
Graph - Rate of households without a fixed-line home telephone line[14]



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 estimates that in 2020, there was a 2% increase in the number of fixed-line Internet subscribers in Israel compared to 2019. In 2020, the number of Internet subscribers (retail and wholesale) of the Company decreased by 1% compared to 2019. In 2020, there was an increase in the number of fixed-line Internet subscribers using the fiber optic infrastructure of competing companies. The coronavirus pandemic accelerated the migration of subscribers to other infrastructures that can provide a higher speed. In addition, in 2020, 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. In November 2020, the Company began marketing to potential customers a speed of 200 Mbps using the 35B technology. As of the end of 2020, the number of subscribers for this technology accounts for 1% of retail Internet subscribers. Average monthly revenue per Internet subscriber (retail) of the Company rose by 2% compared with 2019.

[14] 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 2019-2020 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 and may increase as the 5G technology becomes established (see Section 3.1.5), since it will also be able to provide ultra-fast Internet in the customer's home.

The coronavirus crisis has underscored the need for larger bandwidths for home browsing. The competitors with fiber optic infrastructure and cable infrastructure of up to 500 Mb have taken advantage of this to recruit subscribers for their infrastructure.

2.1.4.2 The Company also deals in the development and provision of wireless technology-based services for IOT (Internet of things) solutions, inter alia for homes, businesses and smart facilities, see Section 2.2.5. In 2020, the Company launched the new "smart home" that is based on the Be router and is able to provide a variety of IOT solutions.

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.

2.1.5.5 Effectiveness of the sales and services groups.

2.1.5.6 Managing an informed price policy, subject to regulatory restrictions.

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. Regarding the memorandum on the bill concerning a change in the regulatory framework and a transition to the grant of general authorizations, see Section 1.7.4.10.

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, a change in the regulatory rules (see Sections 2.7.2 and 2.16.12), 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), except for fiber optics as set out in Section 2.16.12); 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 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) (except for fibers): the Company and HOT Telecom. IBC as well is obligated to limited deployment to at least 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[15]. 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, which 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 (regarding Cellcom and HOT joining IBC, see Section 2.6.3.5).

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).

There is competition in the fixed-line telephony segment, and those competing with the Company, some 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 for several years under licenses 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.

For information on a hearing to examine the cancellation of the separation between Internet infrastructure service and access service (ISP) – see Section 1.7.2.2.

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,

[15] 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.

the new services that the Company will be permitted to provide, the tariff policy, cancellation of the structural separation, the extent of flexibility granted to the Company when offering service bundles that are not unbundleable, 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[16] 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 is 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[17] at the end of 2020 was 74.2 Mbps compared with an average of 67.8 Mbps at the end of 2019. The minimum bundle provided in the service for new customers is usually at a maximum speed of 15 Mbps.

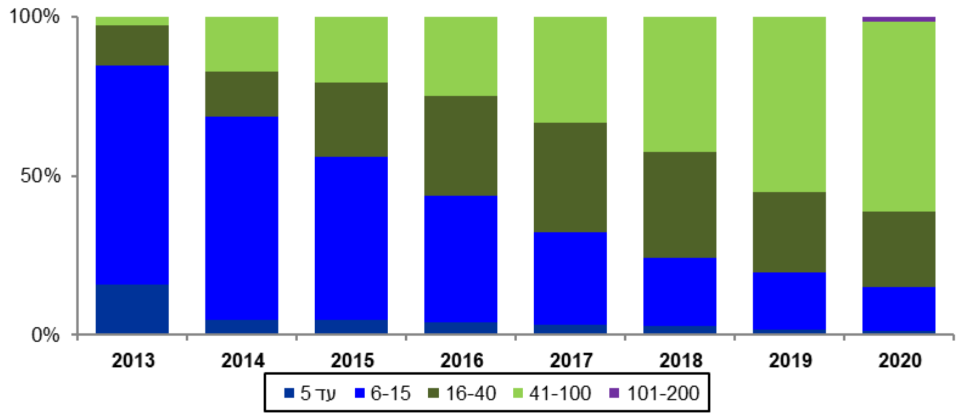
xDSL service is also provided on subscriber lines free of charge for the access line. It should be noted that according to the decision of the Ministry of Communications, the Company may not apply differential xDSL pricing between subscribers who use the service together with telephony service and subscribers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

[16] 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.

[17] 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 2013-2020 (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

This category includes, among others, virtual server services; Bcyber service; smart home, smart business and smart facilities; 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 beginning in 2019, there has been 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. On April 27, 2020, the Company informed the Ministry of Communications, through its attorneys, that it did not intend to allow the continued provision of wholesale services to service providers that do not pay for these services. On May 12, 2020, the Ministry announced that it was investigating the issues arising from the letter of the Company’s attorneys, and on February 10, 2021, the Ministry published a hearing to establish an updated procedure for handling licensees' complaints about other licensees on matters which the Ministry is authorized to regulate. According to this procedure, the team dealing with the complaints will be able to recommend to the competent official in the Ministry to issue a decision that the Ministry will not prevent the injured licensees from taking steps against the licensee about whom the complaint was filed, such as discontinuing the provision of service, not connecting new subscribers, etc., all depending on the circumstances and severity of the case. On March 3, 2021, the Company submitted its comments on the procedures, according to which the powers of the team should be clarified and also binding timetables set for examination and enforcement.

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. Regarding this section, see also Section 2.15.

2.2.6.3 Contract works

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

2.2.7 Sale of terminal equipment

Beginning in 2019, the Company sells 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 operating segment, 2018-2020 (in NIS millions):

	2020	2019	2018
Revenue from Internet infrastructure services	1,622	1,578	1,596
Percentage of total fixed-line revenues	39.0%	38.74%	38.04%
Revenue from fixed-line telephony	1,008	1,039	1,156
Percentage of total fixed-line revenues	24.24%	25.50%	27.55%
Revenue from transmission and data communication services	1,011	948	977
Percentage of total fixed-line revenues	24.31%	23.27%	23.28%
Revenue from cloud and digital services	288	274	260
Percentage of total fixed-line revenues	6.92%	6.73%	6.20%
Revenue from other services and terminal equipment sales	230	234	207
Percentage of total fixed-line revenues	5.53%	5.74%	4.93%
Total revenues from the domestic fixed line communications	**4,159**	**4,073**	**4,196**

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%).[18] The distribution is by revenue, as shows in the following table (in NIS millions):

	2020	2019	2018
Revenue from private customers	2,033	2,029	2,101
Revenue from business customers	2,126	2,044	2,095
Total revenue	**4,159**	**4,073**	**4,196**

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, several 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 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 ("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, see Section 2.16.4).

2.6.2 Telephony

The private fixed-line telephony segment is characterized by a decrease in the rate of ownership of fixed telephone lines and a gradual decline in the number of calls originating from fixed-line networks (see Section 2.1.3.2). The Company estimates that in 2020, the telephony market continued to contract at the same rate as in 2019 and at a higher rate than in earlier years. See also in this regard Section 2.3. The Company likewise estimates that at the end of 2020, its market share in the fixed-line telephony market was 54% of the private sector and 70% of the business sector, an increase of 1% in the private market and a decrease of 1% in the business market, compared with 2019.[19]

2.6.2.1 Competition from other Domestic Carrier license-holders

The Company and the HOT Group both have nationally-deployed fixed-line telephony infrastructures, and they are in competition with each other, which is manifested, inter alia, by the HOT Group marketing the "triple" (combining Internet infrastructure, telephony and cable television), and possibly cellular

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

19 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.

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). The HOT Group 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 allows 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, and since January 2019, also a service that passes through a switch of the service provider. At the date of this report, there is no demand for the service. On this matter and on 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 substitute product for the fixed-line telephone. The Company believes that increasing replacement of 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).

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.

2.6.3 Internet infrastructure segment

The Company estimates that at the end of 2020 its market share in the Internet infrastructure market (retail and wholesale customers) was 61% (compared with 63% at the end of 2019). The Company also estimates that its market share in terms of retail customers at the end of 2020 was 39%[20].

The competition in this segment is intense:

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 relaxations 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

[20] The Company’s assessment of its market share in the Internet infrastructure services at the end of 2020 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.

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). If and insofar as the mechanism for preventing a 'margin squeeze' is implemented, similar to the one described in the Ministry of 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 publications of the two companies in March 2021, the scope of deployment by Partner amounted to 760,000 households (of which 150,000 linked up) as of March 2021, and the scope of deployment by Cellcom (including IBC) as of the end of 2020 amounted to 560,000 households (105,000 linked up as of March 2021).

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 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 (See also in this regard Section 2.1.8).

IBC's license allows the provision of services to licensees. 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 ("**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 are not mentioned in 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 on the new circumstances that the Ministry contends 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. In a hearing on December 15, 2020 regarding a regulatory change pursuant to HOT's request to receive the Minister of Communication's approval for acquiring control and means of control in IBC (see below), it was stated that insofar as the request would be approved, it was proposed not to change the existing regulatory arrangement applicable to IBC with respect to its activity as a "provider to providers" and to shelve the arrangement detailed in the aforesaid hearing.

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. Furthermore, to the best of the Company's knowledge, following the signing in September 2020 of an investment agreement under which HOT is to become a partner in IBC's fiber optic project, as well as an IRU agreement between HOT and IBC under which HOT is to acquire a right of use of the infrastructures IBC will set up, at the beginning of 2021 approvals were received from the Competition Commissioner and the Ministry of Communications, such that following the merger, IBC is held by the Israel Electric Corp. (30%) and by HOT, Cellcom and the Israel Infrastructure Fund (23.3% each). Additionally, the Ministry of Communications made an amendment to the HOT license that, inter alia, permits, subject to conditions, marketing of a joint service bundle on the IBC network, as well as an amendment to the IBC license that obligates it to submit to the Ministry for approval a shelf offering for the purchase of its services (in an IRU format) at a reduced rate.

2.6.3.6 Licensing for new operators to provide Internet access infrastructure services

On October 13, 2020, the Minister of Communications issued his decision in a hearing (published in March 2020), significantly reducing the threshold requirements for receiving a license to provide broadband infrastructure services. The reduction, which is to be temporary, will be implemented by offering the possibility of receiving a special license (for 36 months from the date of the decision) instead of a single license. The special license will be granted subject to the conditions set out in the decision, among them that the service under the special license may be provided to no more than 8,000 private subscribers and no more than 800 network endpoints of business subscribers. On the face of it, it appears to the Company that under certain circumstances the Minister's decision may adversely affect its business to an extent that the Company is unable to estimate at the present time. See in this regard also Section 1.7.4.10.

2.6.3.7 Regarding the Minister of Communication's announcement within the framework of the draft economic plan for 2020 concerning an evaluation of the re-regulation of the Israeli retail Internet market, including abolition of the separation of Internet services into infrastructure services and Internet access (ISP) services, as well as a hearing to examine the separation between broadband infrastructure services and ISP services, see Sections 1.7.2.2 and 2.16.12.

2.6.4 Transmission and data communications

In addition to the Company, other companies operating in this segment are mainly 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)[21], 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[22]

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 local authorities are also trying to create an alternative to installation of pipes or fibers by deploying their own infrastructures. It should be noted that an amendment to the Communications Law concerning fiber deployment and the Ministry's decision regarding the grant of special licenses allowing limited deployment may accelerate deployment by those entities.

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 business, 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.

The Company is working on introducing a high-speed Internet infrastructure service as well as increasing the number of its customers for the service and creating 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

[21] 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.

[22] Migration to HOT and IBC infrastructure.

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. Additionally, in November 2020, the Company launched a browsing package with a speed of up to 200 Mbps, using the B35 technology, subject to feasibility conditions.

2.6.6.2 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.

2.6.6.3 The offers its telephony customers alternative payment packages (see Section 2.16.1.4), bundles, consumption-adapted tracks and special offers.

2.6.6.4 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).

2.6.6.5 In 2018, the Company began marketing its Be router. 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 2020, the number of Company customers using the Be router was 537,000 (approximately 54% of the Company’s retail Internet customers). The Company markets as well products such as Bspot and Be Mesh to extend the range of home Internet networks, selling 248,000 units of these products as of the end of 2020.

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.

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 2.16.4.2.

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 2.16.12. 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

2.7.2.1 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 completed the replacement of its telephony switch with a new one and the conversion of all telephony customers to the new switch.

2.7.2.2 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 the copper cables (mentioned in the description of the telephony network above) 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.

On July 12, 2020, the Ministry of Communications approved the Company to use the B35 technology (expansion of the xDSL technology), with which speeds of up to 200 Mbps can be provided on the Company's network, depending on the quality of the copper infrastructure. Due to the technology's characteristics, the deployment, which was completed by the Company, does not cover all the Company's sites (the hookup potential is for 350,000 households).

2.7.2.3 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.

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. In the past, the Company had frozen the deployment of fiber to the vicinity of the customer's premises until an appropriate regulatory framework would be put in place, due to lack of the certainty required for maintaining an economically sustainable business plan, as well as the absence of economic justification for the Company to launch the service, in view of the major investments entailed in completing universal deployment and operating the service. The deployment of fiber by the Company's competitors is intensifying competition and negatively impacting the Company. Nevertheless, the Company believes that due to its operational advantages, and principally the access to skilled, professional manpower, as well as the start of implementation of the fiber project, as set out below, in the medium to long term it will maintain its leading position.

On September 14, 2020 (in light of regulatory developments in the matter and further to the government's approval which preceded the legislative processes, as detailed in Section 2.16.12), the Company's Board of Directors approved the launch and start-up of the Company's plan for deployment of ultra-broadband fixed-line infrastructure ("**Fiber Project**"). The Fiber Project is a complex and resource-intensive project involving significant investments of billions of shekels by the Company over the years of its execution, and it is expected to include a massive deployment of fiber optics throughout Israel on a wide scale that will enable the provision of ultra-fast Internet services. It should be noted that until then, 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 was up to 1.5 million households and businesses.

Further to the Board of Directors' said decision, the Company began deploying optic fibers to buildings, including the deployment of GPON vertical equipment in buildings, and on March 14, 2021, it announced the rollout of services to its customers on its fiber optic network. The Company's fiber optic network deployed at the present time covers some quarter of a million households countrywide, and the Company estimates that by the end of 2021 it will cover approximately one million households, which are 40% of all households in Israel.

Some of the information included in this section is forward-looking information, as defined in the Securities Law, that is based on the Company's assessments, assumptions and expectations, and it may change according to regulatory developments and decisions, technological developments, developments in the communications market, and technical and other difficulties that may arise in implementing the plan.

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 has real estate assets 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	304	849	101	Of this, 300 properties cover an area of 820 thousand sq. m. and 80 thousand sq. m. built up are for communication needs, and the remainder for administration needs. 14 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	332	30.6	63	Of which, 316 properties on a 15 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'	2,428	N/A	26.6 (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.

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 ("**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 tax or to the ILA for an increase in value, if a betterment tax 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 2020, the Company sold real estate assets for a total of NIS 16.5 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 (a property near the Mesubim junction in which the Company had a capitalized lease right) 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 ('**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 conducted talks in the framework of the dispute resolution mechanism set out in the Settlement Agreement. 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 tax of NIS 143.5 million for the sale of the property ("**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 payment of the full amount of the betterment tax 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 tax. Upon conclusion of the sale transaction as set out above and receipt of the entire 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 levy, without this derogating from or prejudicing the steps taken or to be taken by the Company to cancel or reduce this levy. It should be noted that the amount of the permit fees to be determined at the end of the proceedings could also affect the amount of the betterment tax that the Company will be required to pay the planning committee. The Company estimates that the permit fees and the betterment tax it will be required to pay will be lower and possibly even substantially lower than the total amount of the demands. Further to the Company's demand, at the beginning of 2020, the Company made attempts with the Accountant General in the Ministry of Finance and the ILA to clarify and resolve the above differences of opinion within the framework of the dispute resolution mechanism established in the Settlement Agreement. In March 2021, the Company received from the Accountant General and the ILA a notice that considering the wide differences in the parties' positions which apparently could not be bridged, they were accepting the Company's request to terminate the dispute resolution process and allow the dispute to be submitted to the courts. In these circumstances, the Company intends shortly to file against the ILA a claim for the refund of all the amounts paid by it as permit fees and betterment tax.

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 tax 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 6.6 to the 2020 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.

<u>Sale of Company property at 8 Harakevet Street in Tel Aviv</u>

On February 25, 2021, the Company entered into an agreement to sell a property at 8 Harakevet Street, Tel Aviv ("**Property**") to the Azrieli Group Ltd. ("**Buyer**") for a total of NIS 180 million + VAT. The Property was under the joint ownership of the Company and the Israel Postal Company, and the sale agreement includes the purchase of the Israel Postal Company's share by the Company and the sale of this share together with the Company's share to the Buyer. The full consideration was paid by the Buyer when signing the Agreement.[23] The Company is expected to record in its financial statements for the first quarter of 2021 a capital gain of NIS 125 million before tax on the sale of the Property (after deduction of the cost of purchasing the Israel Postal Company's share, purchase tax, expenses and the depreciated cost to the Company).

The information included in the above paragraph regarding the recording of a capital gain on the sale of the Property is forward-looking information, as defined in the Securities Law, and is based, inter alia, on the foregoing and on the Company's assessments regarding the completion of the agreement, the transaction costs, taxes and surcharges in connection with the transaction, as well as miscellaneous costs to the Company related to the Property. The information may not be fully realized insofar as the Company's said assessments are realized differently than expected.

<u>Transfer of the Company's headquarters</u>

In October 2020, the Company vacated the management offices in the Azrieli Towers in Tel Aviv and moved to its new offices at 7 Hamanor Street in Holon. Under the lease agreement signed in December 2018, the Company is leasing 20,000 square meters for a term of 10 years, with an extension option for several further terms.

[23] The full consideration, except for VAT, was placed in trust to guarantee various liabilities of the Company. The trustee will remit the trust funds to the Company in accordance with the provisions of the Agreement.

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).

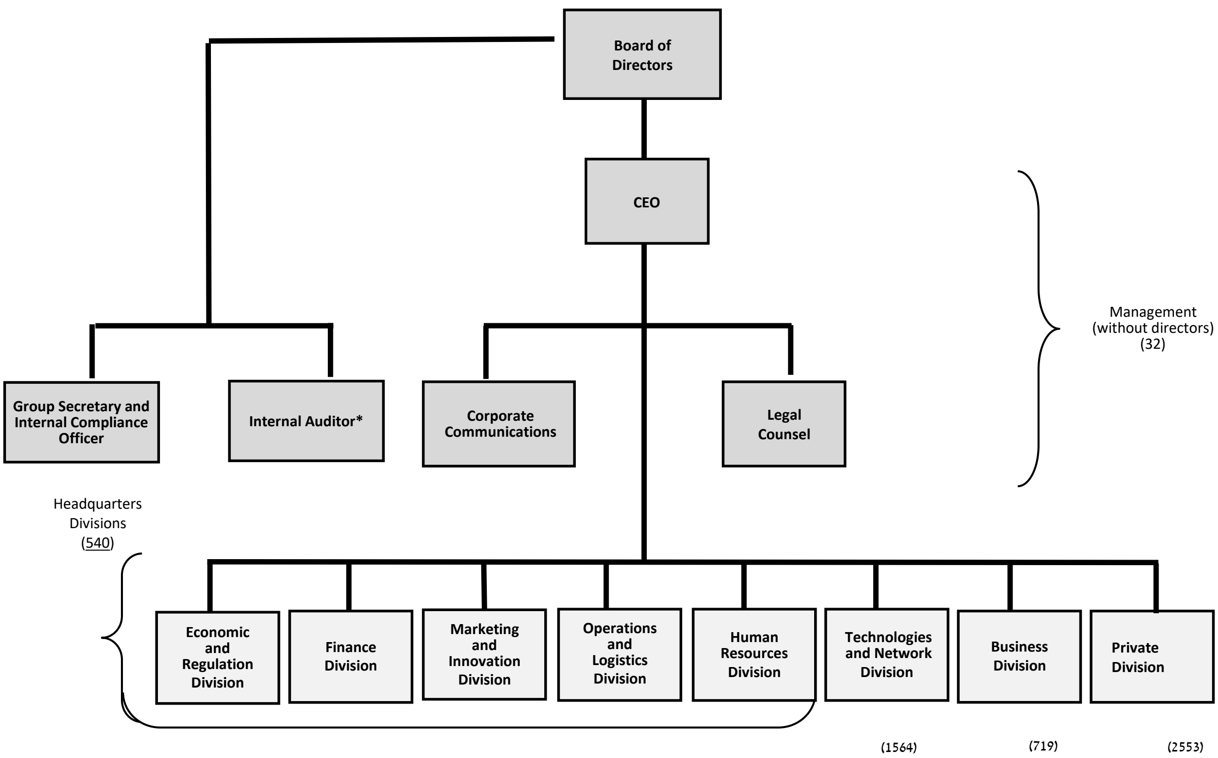
2.8.2 Trademarks

The Company uses trademarks that characterize its services and products. At the date of publication of this Periodic Report, there are 200 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 design on its Be router and the 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, 2020:



* Up to December 10, 2020, was organizationally subordinate to the CEO; as of that date, is organizationally subordinate to the Chairman of the Company's Board of Directors.

2.9.2 Number of Company employees and employment frameworks

The number of Company employees as at December 31, 2020 was 5,408 (compared with 5,256 at the end of 2019). The increase in the number of employees is mainly due to the hiring of infrastructure workers and technicians for the fiber project (see Section 2.7.2.3). 92% of the Company’s employees are employed under a collective agreement (out of which 59% 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 2020, 98 tenured employees retired from the Company under the early retirement plan.

On December 16, 2018, the Company’s Board of Directors approved, inter alia, a provision for an 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 ("**Transferred Employees**") (94 employees), for retirement in 2020 and 2021.

On December 10, 2020, the Company's Board of Directors approved, as part of the implementation of the streamlining plan in the Company, the early retirement on pension of 50 long-time tenured employees, at a total cost of NIS 68 million. In light of the foregoing, the Company recorded in its financial statements for the fourth quarter of 2020 an expense of NIS 65 million. It is clarified that this retirement is in addition to the aforesaid retirement plan for Transferred Employees.

In this regard, see also Note 17.5 to the 2020 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: "**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[24] 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 long-time tenured employee of the Company (under the collective agreement): his wage model is according to the Company's wage policy and market wages;

[24] 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.

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 tenured employees) each year (relevant for 2017-2021).

On December 16, 2020 an amendment (No. 6) was signed to the Agreement, the main points of which are:

2.9.4.1 Amendment and extension of the collective agreement until December 31, 2025, and the retirement arrangement under the collective agreement until December 31, 2026.

2.9.4.2 As part of the retirement arrangements, the Company may, at its discretion, terminate the employment of up to 80 tenured employees (including new tenured employees) in each year (in addition to a retirement quota of approximately 300 tenured employees remaining from the earlier agreement, whose employment the Company may terminate at the end of the term of the agreement).

2.9.4.3 The cost of the Agreement, excluding the retirement of employees at the Company's discretion (but including the added cost of retirement of Transferred Employees) is estimated at NIS 65 million throughout the term of the Agreement.

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

2.9.5 Labor disputes

The collective dispute declared on January 23, 2019 ended with the signing of the amendment to the collective agreement, as set out in Section 2.9.4.

2.9.6 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 two are external directors, one is an independent director (who is not external directors) and five are not independent directors (including one director among the employees). In addition, 10 senior management members also serve in the Company.

As of August 27, 2020, Mr. Gil Sharon serves as Chairman of the Company's Board of Directors, after the former Chairman of the Company's Board of Directors, Mr. Shlomo Rodav, resigned on June 22, 2020 (in the period between June 23, 2020 and August 16, 2020, the independent director, Mr. David Granot, served as interim Chairman of the Board).

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 in Chapter D of this Periodic Report and Note 29 to the 2020 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.

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

On December 10, 2020, the Company's Board of Directors approved an equity-based compensation plan ("**Plan**"), allowing the allocation of options exercisable into up to 84,000,000 ordinary shares, equivalent to 2.94% of the Company's fully diluted issued and paid-up share capital post-exercise, regarding which a memorandum was published on December 12, 2020 (as amended on January 14, 2021) ("**Memorandum**"). Within this framework, approval was given for the allocation of up to 58,735,000 options to up to 117 officer, managers and senior employees of the Company and the Subsidiaries, including the Chairman of the Company's Board of Directors and the Company's CEO, by virtue of the Memorandum and a material private offering. On February 10, 2021, the Company's Board of Directors approved the allocation of up to 2,580,000 additional options by virtue of the Memorandum to four officers and/or employees of the Company and the Subsidiaries (including an officer who is to be appointed in the Company and who had not yet taken up his position as of the Reporting Date), subject, inter alia, to receipt of TASE approval for listing the shares deriving from the exercise of the options, which had not yet been received as of the Reporting Date.

Additionally, on January 18, 2021, the General Meeting of the Company's shareholder approved the following:

A. An increase in the Company's authorized share capital by 24,485,753 ordinary shares of NIS 1 par value each, to enable the future allocation of equity-based compensation up to the maximum possible amount under the Plan.

B. Approval of the terms of service and employment of Gil Sharon as Chairman of the Board of Directors of the Company, to apply retroactively from August 27, 2020, the date of actual commencement of his service (including the allocation of 12,000,000 options in accordance with the Plan).

C. Allocation of 9,000,000 options to Dudu Mizrahi, the Company's CEO, in accordance with the Plan.

D. Amendments and revisions to the Company's compensation policy.

For further information on this matter, see the Company's amended immediate reports dated January 14, 2021, concerning the convening of an Extraordinary General Meeting of the Company's shareholders and concerning an employee option issuance memorandum, which are included herein by way of reference.

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 2020, 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
Nokia Solutions and Networks Israel Ltd.	Metro transmission and access systems to the NGN network. (GPON equipment was also purchased from this supplier for the fiber optic network. This equipment was not yet in operation on the report publication date, but following its

	operation the Company may be dependent on the supplier in this area as well.)
Juniper Networks	Metro transmission
Cisco/BroadSoft	Subscriber switches
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

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 13 to the 2020 Financial Statements as well as Sections 3 and 4 in Chapter D of this Periodic Report.

2.13 Financing

2.13.1 Average and effective interest rates on loans

As at December 31, 2020, 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	1,113	Unlinked NIS	Fixed	3.49%	3.64%	3.20%-5.30%
	Non-bank sources	71	Unlinked NIS	Variable, based on annual T-bill rate*	1.43%	1.51%	1.43%-1.54%
	Non-bank sources	3,971	Unlinked NIS	Fixed	3.10%	3.19%	3.20%-5.25%
	Non-bank sources	3,189	CPI-linked NIS	Fixed	1.92%	1.95%	1.70%-3.70%

* T-bill return per year (212) – minus 0.00200% (average of last 5 trading days of February 2021) for the interest period commencing March 1, 2021.

For additional details about the Company’s loans, see Note 14 to the 2020 Financial Statements.

2.13.2 Restrictions on borrowings

2.13.2.1 Restrictions included in the Company's loans

See Note 14 to the 2020 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, 2020, the Company's reportable credit, in accordance with Legal Position 104-15 of the Securities Authority (Reportable Credit Event) is debentures (Series 6, 9, 10, 11 and 12) of the Company, as set out in Note 14 of the 2020 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.

On April 7, 2020, the Company published a listing and unlocking prospectus for Debentures (Series 11 and 12) and a shelf prospectus (bearing the date April 8, 2020) ("**the Prospectus**"). Further thereto, further to Section 2.1.2 of the Prospectus and in accordance with Section 2.3(e) of the trust deeds for Debentures (Series 11 and 12) dated July 10 2019, on April 26, 2020, these debentures, which originally were listed on the TASE's TACT Continuous Institutional Trading System, were delisted from that system and began trading, on the same day, on the TASE's Main Board.

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

In 2020 the Company made early repayments of private loans (from a financial institution and from a bank) for a total of NIS 860 million (principal).

2.13.5 Company debentures

For details about the debentures issued by the Company, see Note 14 to the 2020 Financial Statements, and Section 4 to the Directors' Report. Also see Section 2.13.4.

2.13.6 Credit rating

The Company's debentures are rated by S&P Maalot Ltd. with an il/AA-/Stable rating and by Midroog Ltd. with an Aa3.il rating with a stable outlook. On December 22, 2020, Midroog announced that it was placing the Company's rating under credit review with negative implications.

For information regarding the Company's rating history in the last two years, see its immediate reports dated May 7, 2019, June 25, 2019, July 10, 2019, August 12, 2019, November 25, 2019, December 10, 2019, May 4, 2020 and May 26, 2020 (S&P Maalot Ltd.), and April 8, 2019, June 25, 2019, July 10, 2019, August 6, 2019, November 25, 2019, December 10, 2019, April 22, 2020, May 26, 2020 and December 22, 2020 (Midroog Ltd;), included herein by way of reference.

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

2.13.7 Company assessment regarding debt raising in 2021 and possible sources

In 2021, the Company expects to repay NIS 1.3 billion of loan principal and interest, including debentures (as well as the amount scheduled for early repayment of 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 2021 to adjust its debt structure to its needs and sources.

2.13.8 Liens and collateral

For information regarding liens and collateral of the Company, see Note 20 to the 2020 Financial Statements.

2.14 Taxation

For information about taxation, including carry-forward losses for tax purposes of DBS, see Note 7 to the 2020 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[25] 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: "**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 Reporting Date, it has permits for 13 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.

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[25] 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 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.

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 (1) the cost, according to the calculation method instructed by the Minister plus a reasonable profit; or (2) 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. In accordance with temporary orders dated June 1, 2019 and June 1, 2020, the payments were not updated and the details of the formula were updated as of the next date of update effective from June 1, 2021. Regarding a hearing on the setting of maximum tariffs for retail telephony services of the Company, see Section 2.16.1.6

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[26] 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

[26] 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) (“**Gronau Report**”).

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[27].

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 December 15, 2020, the Ministry of Communications published a hearing concerning the setting of maximum rates for the Company's retail telephony services ("**Hearing**"). This Hearing replaces a previous hearing from June 2017 concerning a change in the supervisory mechanism for the Company's retail rates and differs from it considerably.

A. In accordance with the Hearing documents, given the time that has elapsed since the basis for the existing retail telephony rates ("**rates**") was set, and given the changes in the telecommunications sector, the supervisory mechanism for and level of the rates should be adjusted for these changes. Additionally, following the previous hearing published by the Ministry in 2017 regarding the rates supervisory mechanism, in which two alternatives were proposed (transition to maximum rates and removal of rates supervision from the main telephony services), the Ministry is of the opinion that at present the alternative of supervision removal is not relevant and will not necessarily lead to rate reduction, and that the Company's rates should be examined and updated with the passage of time, in line with the current cost structure and state of competition.

B. Accordingly, and based on the economic opinion that was attached to the Hearing documents, it is proposed in the Hearing to adopt uniform rates for the usage charge and call minutes which will be set as maximum rates. As per the Hearing, the basis for setting the proposed rates is the wholesale costs with the addition of a proposed retail margin component of 25%.

[27] 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%.

C. In accordance with the above, it is proposed that the maximum rates per line and call (in NIS) will be as follows:

Service	Current Rate		Proposed Rate (Maximum)	
	VAT excluded	VAT included	VAT excluded	VAT included
Monthly charge for telephone line	49.5	57.92	20.82	24.36
Rate for call minute to fixed-line networks[28]	Low – 0.035 Peak – 0.0857	Low – 0.041 Peak – 0.010	0.012	0.014
Rate for call minute to mobile networks[29]	0.1098	0.128	0.072	0.084

D. In addition, it is proposed to set a maximum rate for a bundle of line services and a quota of minutes that the Company will be obligated to market to its subscribers, which will include 500 minutes to fixed-line and mobile destinations at a maximum rate of NIS 28, plus VAT, with an additional payment of the fixed rate for each minute exceeding the bundle. At the same time, it is proposed to cancel all the alternative existing bundles and give the Company the option to market new service bundles at reasonable rates relative to the maximum rates proposed in the Hearing, not being higher than those rates.

E. In the Ministry's estimation, the proposed change in rates is expected to lower expenses of subscribers in the segment of individual lines, such that the expenses of the Company's fixed-line telephony users will be reduced by NIS 331 million a year (NIS 390 million including VAT).

F. It should be noted that additional changes are proposed in the Hearing in the Company's service rates, including adjustments for the new rates proposed in the Hearing, setting existing rates for telephone line-related services as maximum rates and allowing the Company to set lower prices in relation to them, and removing the supervision over rates for calls initiated by business customers using PRI channels.

G. In addition, in accordance with the Hearing, if the interconnect fees change, this will result in a respective change in the call-minute rates which include this component.

In addition, a draft amendment to the Company's Tariff Regulations was attached to the Hearing documents.

The Company believes that if the changes proposed in the Hearing are implemented, this will have a material adverse effect on its financial results.

Some of the information included in this section constitutes forward-looking information, as defined in the Securities Law, that is based on assessments, assumptions and expectations, including the final decisions that will be made in the Hearing, the Ministry of Communications' assessments in the Hearing, demand for the Company's services and the behavior of other telecommunications providers. Accordingly, the information may materialize or may be materialize in a different manner than described above, depending on the realization of the above assessments.

On December 17, 2020, the Company sent the Ministry of Communications a request to postpone the deadline for submitting its comments on the Hearing, in view of the complexity of the issue, while expressing material initial reservations about the Ministry of Communications' position in the Hearing.

On January 11, 2021, the Company submitted to the Ministry a report of the international research company Cullen International, containing a concise review of policy, rules and accumulated experience in EU countries on the subject of the

[28] Including interconnect rate for fixed-line destinations.

[29] Including interconnect fee for mobile networks.

Hearing. According to the report, the practice of intervening in any way in retail rates by means of the so-called price cap adjustment mechanism no longer exists around the world for more than a decade, in particular when setting service rates on a unilateral basis. Even when telephony rates were still subject to supervision (in the 1990s and early 2000s), prices were always set using "top down" models based on full distribution of the actual accounting costs (fully distributed costing) (sometimes with certain adjustments), whereas "bottom up" models that reflect the cost structure of a hypothetical efficient operator were used only when setting wholesale prices – since using this method when setting retail prices does not, by definition, enable coverage of actual costs, and would thus lead to a continuing loss to the extent of a long-time operator's elimination from the market.

On February 28, 2021, the Company submitted to the Ministry an economic opinion of the Ernst & Young consulting firm ("**EY Opinion**") on the subject of regulation of the Company's fixed-line telephony rates, according to which the implementation of the recommendations in the Hearing document would result in a substantial hit to the Company's revenues and profits. The EY Opinion states that the Ministry is obligated to justify regulatory intervention in the market, and should it be found that intervention is justified, such intervention must be reasonable and proportional as against the economic justification and the expected harm to the Company. According to the EY Opinion, an analysis of Israel's fixed-line telephony market shows that there is no need for regulatory intervention, inter alia because the definition of the product market must include both fixed-line telephony and mobile telephony, since these are closely related substitute products. The EY Opinion clarifies that the economic opinion underlying the Hearing does not provide the required basis for justifying the proposed regulation, and that the recommendations included in it stem from methodological bias and errors, including a computational error. Thus, instead of using a methodical competitive economic analysis (as is the basic practice in Israel and the world), the economic opinion relies on biased or unfounded determinations that have no connection with the reality. Instead of setting the rate based on the Company's actual data and costs, the economic opinion deviates from the accepted practice in previous committees and from the European practice, determining in an unprecedented manner that the retail rate should be set on the basis of the cost structure of a hypothetical efficient operator. This has a decisive effect on the actual results. The assumptions made for setting the retail rates, which involve estimating the retail costs as a percentage of the wholesale cost of telephony services, are unfounded, erroneous and biased. Some of them even contradict the findings of previous studies of the Ministry of Communications itself, such that the maximum retail rate recommended in the Hearing is significantly reduced. After a result was obtained signifying a dramatic reduction in the rate – by tens of percents, no in-depth examination was made of the reasonableness of the result or the expected implications on competition and on consumers. Furthermore, the correction of these defects shows that the rates recommended in the Hearing are lower by tens of percents than those required to cover Bezeq's costs, hence they are unreasonable.

In the Company's letter accompanying the EY Opinion, the Company maintained that the economic opinion that the Hearing is based upon and its conclusions cannot stand. They are unreasonable and clearly defective, in terms of the intervention per se, as well as in terms of the process and the results. Accordingly, and in light of the analysis presented in the EY Opinion, the obvious conclusion is that the implementation of regulation in the fixed-line communications market no longer serves a legitimate public interest, but on the contrary – in a market with no barriers on entry and with a high level of competition, achieved in light of technological, regulatory and structural changes, the implementation of regulation harms the consumer interest. Therefore, adoption of the Hearing's recommendations would constitute an unreasonable decision, resulting in arbitrary and unjustified harm to the Company's proprietary right. Moreover, the Company is of the opinion that in the circumstances, as set out methodically in the EY Opinion, the correct and self-evident step is to remove the supervision over the Company's telephony service rates.

2.16.1.7 Regarding a hearing from August 29, 2017 on a margin squeeze prevention mechanism and the submission of marketing offerings for Ministry of Communications approval, as well as on wholesale service rates and the adjustment of the wholesale rates for 2019-2021, see Section 2.16.4.

2.16.1.8 Regarding wholesale market rates for the BSA service - on February 20, 2020, the Minister of Communications decided to amend the Communications Regulations (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network), 2014 (“**Amendment**” and “**Regulations**”, respectively), as follows:

A. 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.

B. 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 led 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.

On November 29, 2020, the Communications Notice (Telecommunications and Broadcasting) (Use of Public Telecommunications Network of a Domestic Operator), 2020 ("**Notice**") was published, adjusting for 2021 the demand forecast indices defined in the Communications Regulations (Telecommunications and Broadcasting) (Use of Public Telecommunications Network of a Domestic Operator), from which the rates for use of wholesale services of the infrastructure owners are derived based on formulas contained in the Regulations. The Company's revenues from these services are affected both by the rates and by the actual scope of use of the Company's network, which depends on the behavior of the different communications operators. Based on estimates of the scope of use of the Company's network by the communications operators during 2021, the Company believes that the adjusted rates expected in light of the demand forecast indices in the Notice, may have a material adverse effect on its results for 2021. The Company has reservations regarding the process and method used by the Ministry of Communications to determine some of the demand forecast indices in the Notice, which were presented inter alia in the Company's letter to the Ministry of Communications, and it is considering how to proceed in this matter.

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

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

2.16.1.9 On September 17, 2020, the Ministry of Communications approved a new arrangement proposed by the Company for approval in advance of alternative payment bundles that include increased use, further to a hearing published by the Ministry regarding use of fixed-line call minutes beyond the set quota in view of the outbreak of the coronavirus pandemic, and further to the temporary amendment of the provisions for alternative payment bundles provided by the Company, in accordance with the outline proposed by the Company enabling retroactive increase of usage bundles in case of use beyond a certain level. The arrangement has been extended from time to time (as of the date of publication of the report, it is in effect until July 31, 2021).

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, 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 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.

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

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 of NIS 15 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).

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

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

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

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:

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 ("**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 and other role 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.

It should be noted that 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. On July 8, 2020, an amendment was published in Reshumot (the official government gazette) to some of the Communications Regulations establishing the Israeli requirement, adding the possibility to replace the Israeli requirement with a provision according

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

to Section 13 of the Communications Law, which would impose on the relevant license holder alternative provisions to the Israeli requirement. To the best of the Company's knowledge, a corresponding amendment has not yet been made to the Communications Order.

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 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

[33] It should be noted that 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,

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.

On August 29, 2017, the Ministry of Communications published a secondary hearing (to 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 margin squeeze is an action by which the infrastructure owner lowers its retail prices, thereby narrowing the margin between its retail prices and the wholesale price at which it sells the infrastructure inputs to the service providers, such that the profit of the service providers is narrowed to the point that it is economically unviable for them 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. Furthermore, to the best of the Company's knowledge, the volume of wholesale subscribers on HOT’s network is not large at this stage, although the Company believes that it has recently increased.

Regarding BSA service rates on fiber see Section 2.16.12.

2.16.4.3 Wholesale service use of physical infrastructures

A) Format and applicability of the service

The Use of Physical Infrastructures service portfolio (“**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

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, the amount of the relevant derivative claim being the out-of-pocket amount incurred by the Company as a result of the fines imposed on it (NIS 8.5 million). The Company notified the Applicant that the Company's Board of Directors had appointed an independent claims committee, inter alia, for matters addressed in the judgment, that was examining the Company's rights of claim in connection with the fine.

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 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 with respect to implementation of the obligation for mutual use of physical infrastructures. The Ministry designated the service portfolio "Mutual Use of Passive Infrastructures" (“**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 directive dated January 16, 2019 and incorporates new provisions as well as some of the provisions from the Original Service Portfolio and from the Director’s directive.

The Mutual Service Portfolio does not include provisions for a dark fiber leasing service and an optic wavelength service. Accordingly, the Original Service Portfolio was amended, leaving it with regulation of dark fiber and wavelength use. Thus, the Original Service Portfolio is applicable only to holders of a special general domestic carrier license, while the Mutual Service Portfolio is applicable to all operators holding a general license for the provision of fixed-line domestic telecommunications services.

The implementation processes were established in the Mutual Service Portfolio and they apply to both service portfolios. The implementation processes include, inter alia, 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.

B) Parties performing the works

Pursuant to the Ministry of Communications' decision and dismissal of the Company’s petition against it, the work on the Company’s infrastructures in the wholesale market 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.

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

For the Competition Authority's announcement regarding infrastructure and the Company's appeal, see Section 2.16.8.5, and for the motion to certify a class action and two demands to exercise rights prior to filing a derivative claim on this matter, see Section 2.18.1(K).

C) 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 (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. It should be noted that 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. Regarding the Minister's authority to reduce the usage tariffs mainly in incentive areas, see Section 2.7.2.

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 as from May 17, 2015. 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, during which the Ministry will examine the possibility to extend the arrangement or turn it into a permanent arrangement (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 ("**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 proposed, 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.

In December 2018, the Company proposed to 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 confirm in advance that the proposed solution complies with the service portfolio and it will consider whether the breach has ceased only after coordination with the service providers and after launching of the service, and that the Ministry would not accept a solution that does not fully satisfy 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 that is based on the Company's subscriber switch as well as another component outside the switch. The Company clarified to the Ministry of Communications that due to the expected low volume of customers and the migration stage to a new switch, the fact that the solution is not on a telco-grade level is not expected to be of significance.

On May 27, 2020 the Company received a letter from the Ministry of Communications regarding the telephony call minutes service, containing a ruling on the dispute between the Company and the service providers Partner and Cellcom concerning the interpretation of the service portfolio with respect to the provision of ancillary services. The Ministry accepted the Company’s position on the matter, ruling that the telephony service to be offered by the Company to the service providers is a service that allows the service provider to receive incoming calls and generate outgoing calls and that allows the provision of all ancillary services to the basic telephony services offered by the infrastructure owner to its customers. Furthermore, the ancillary services under the service portfolio will be provided through the service provider’s switch and the Company will not be obligated to offer the ancillary services through the switch it operates (except where there is no possibility to provide them using the service provider’s switch)35. In accordance with the Ministry’s notice, on completion of the implementation of all the actions required for the provision of the telephony service, the Company is required to update the Ministry regarding the date on which it will be ready to provide the service as required in the service portfolio. As the Company noted in its reports, since the beginning of 2019 the Company has been ready to provide a wholesale telephony service that conforms to the Ministry’s ruling in its notice (today the Company is ready to provide the service on its new switch in the format of the service portfolio, however, at this stage there is no demand for the service).

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.

[35] It should be noted that the Ministry's letter stated that the Ministry's ruling does not express an opinion on the Company's compliance with the provisions of the service portfolio with respect to the telephony service, and would not prevent the Ministry from initiating supervision and enforcement proceedings in that regard.

Supervisory reports and fines

On October 19, 2017, the Ministry of Communications sent the Company a final supervision report regarding implementation of a wholesale telephony service ("**First 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 First Supervision Report, the Company was issued a 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 on it a fine of NIS 11,343,800. Further to a supplementary supervision report to the First 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 had 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, with respect to the period August-December 2018 (after the advisory committee on financial sanctions did not approve the imposition of a sanction for this period in the First Supervision Report). 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. A hearing in the petition is scheduled for April 6, 2021. 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. Regarding a draft amendment to these regulations for the imposition of an obligation to lay down fiber infrastructure, see Section 2.16.12.

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 two main additional areas apply to the Company: (1) cessation, delay or restriction of telecommunications activities and services; and (2) installation, operation and maintenance.

2.16.8 Economic competition laws

2.16.8.1 The Competition Commissioner (in this section: "**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[36].

B. Provision of high-speed access services through the access network to the subscriber[37].

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

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

[36] Declaration of July 30, 1995.

[37] 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).

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.

On November 24, 2020, the Competition Authority published for public comment an amendment it is considering to the merger conditions, whereby, in view of market changes that impact on the entry barriers to the multi-channel television market and the opening of the sector to competition, the Commissioner is considering: (1) Canceling the merger condition which requires selling at equal terms to all Bezeq customers, whether or not they purchase additional services from Bezeq, as mentioned in Section 2.16.8.3(C). (2) Revising the merger condition which provides that Bezeq and yes shall cancel all exclusivity arrangements to which they are party with respect to television content that is not locally produced, and they shall not be parties to such exclusivity arrangements (as mentioned in Section 2.16.8.3(D)), such that the section will not apply to the purchase of foreign content (except for sports content). The deadline set for the submission of comments on the proposed amendment to the merger conditions was December 24, 2020. Insofar as the amendment under consideration is implemented, it will enable DBS to sell a service bundle comprising a television service and the Company's Internet services, that may not be unbundled. As regards the sale of such a bundle of services by the Company, it now requires only the approval of the Ministry of Communications.

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 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 ("**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. On May 7, 2020, the Company filed an appeal against the Ruling. The Competition Commissioner issued a response to the appeal, which was received by the Company on December 23, 2020, and the Company requested to submit its reply 90 days after completion of the process of delivery to the Company of the materials in the Competition Authority's file or 90 days after it would receive a complete copy of the Commissioner's response to the appeal (as the copy provided to the Company is incomplete), whichever is later. 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 argued that even if there was room for determining that it 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 immeasurably lower. On July 24, 2020, the Competition Tribunal approved an accord between the Company and the Competition Commissioner for an agreed order under the Economic Competition Law in connection with a notice of intention to apply a charge, whereby the Company will pay the Treasury a sum of NIS 4.2 million ("**Accord**"), and gave it the force and effect of an order. Under the Accord, the Company admitted that it did not provide full information as required in the responses to demands for data from the Competition Authority in connection with the ruling (before the ruling was made), in contravention of Section 46(b) of the Economic Competition Law. On the other hand, the Company did not admit that at the time of its response it knew that the information provided was incorrect. The Accord provides that subject to the approval of the agreed order by the Competition Tribunal and payment to the Treasury, the Competition Commissioner or Competition Authority will not take enforcement measures against the Company or its representatives for contravening the provisions of Section 46(b) of the Economic Competition Law in connection with the information demanded in the investigation preceding the ruling and provided by the Company to the Competition Authority prior to signing the Accord ("**Arrangement**"). It is emphasized that the Arrangement will in no way affect the continuation of the proceedings concerning the actual ruling, against which the Company filed an appeal with the Competition Tribunal on May 7, 2020. For information on a new motion to certify a class action and two demands to exercise rights prior to filing a derivative claim following this ruling, see Section 2.18.1(K).

2.16.8.6 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).

NOP 36 - Communications installations in the Administered Territories

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. It should be noted that 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.

NOP 56 – Communications facilities in the Administered Territories

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 (there are a few other sites for which the licensing has not been arranged). The Company has also arranged the licensing of the facilities on customer premises with the Communications Officer in the Civil Administration according to a demand sent by the Officer to the Company in November 2016.

Radiation permits

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

Exemption from a permit to add antennas to existing lawful broadcasting facilities

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.

2.16.12 Fiber – fixed-line ultra-broadband infrastructures

2.16.12.1 Amendment to the Communications Law for regulation of the deployment of an "advanced network"

Further to a call for public inputs and hearings published by the Ministry of Communications, to the recommendations of the Inter-Ministerial Team to Examine the Policy for Deployment of Fixed-Line Ultra-Broadband Infrastructures in Israel, to the adoption of said recommendations with several changes by the Minister of Communications and to the government decision in this regard – on December 24, 2020, an amendment was published to the Communications Law for regulation of the deployment of an "advanced network." The following are the main points of the amendment to the law:

Obligation to deploy and provide service that is not universal throughout the country:

1. The Company may choose the statistical areas in which it will deploy an advanced network (that is not based on its copper network) and provide on it an Internet access service that is not offered universally throughout the country, subject to a notice to be submitted to the Minister of Communications within five months from January 1, 2021. The Minister may extend this period by another two months. The Minister will establish in the Company's license the obligation to deploy and provide a universal Internet access service in a service area comprising all the areas chosen by the Company, at terms to be set by him, including deployment milestones.

"Advanced network" – a network based on optic fibers reaching a network termination point in an end user's apartment, or an equivalent network in terms of the level of service that can be provided on it according to criteria prescribed by the Minister and published on the Ministry of Communications website. In this regard, "apartment" – a room or cubicle, or a system of rooms or cubicles, intended to serve as a complete and separate unit for dwelling, for a business or for any other purpose, including a private house.

2. The Company must comply with the deployment obligation in all the areas listed in its notice no later than at the end of six years from the earlier of: (1) the date on which the Company began providing a paid Internet access service on the advanced network; (2) the date of establishment of the obligation in the Company's license.

3. The Minister is permitted not to establish in the Company's license a deployment obligation, and this will be deemed as if the Company did not submit a notice – if he concludes that the Company's notice includes a limited number of areas indicating that the choice of areas was made for considerations other than economic viability and that this may significantly harm the ability to achieve nationwide deployment of an advanced network. The Company may submit a new notice, provided that the period of time for submitting a notice as aforesaid has not elapsed.

4. After the obligation has been established in the Company's license with respect to the service area as aforesaid, the holder of a general domestic carrier license that is not the Company (e.g. HOT) may deploy an advanced network (that is not based on its copper access network) and provide on it a telecommunications service that is not offered universally throughout the country nor at least in a service area. The Minister may set conditions for the deployment and for the provision of the service in the licenses.

5. The Minister may permit in the licenses of the Company and another general domestic carrier the provision of a service that is not offered universally throughout the country nor at least in a service area, on their copper access network that has been upgraded to an advanced network, if he concludes that this can contribute to competition and to the level of service.

Incentives for deployment in the incentive areas

6. Following the establishment of an obligation as aforesaid in the Company's license, an incentive fund will be set up under the management of the Accountant

General in the Ministry of Finance, to encourage deployment through participation in the funding thereof in statistical areas that are not among the deployment areas chosen by the Company ("incentive areas").

7. Mandatory annual payments will be deposited in the fund by obligated entities, including the Company, at 0.5% of the annual revenue of the obligated entities. The Minister of Communications with the agreement of the Minister of Finance and approval of the Economic Committee may change this rate.

8. The Minister may set in regulations a reduced rate for use of the Company's passive infrastructure (including dark fiber) in the incentive areas, and in an area that is not an incentive area and not a deployment area of the Company or used by the Company for deployment, if the infrastructure serves for deployment in an incentive area.

Tenders for the allocation of amounts from the incentive fund

9. Amounts will be allocated from the incentive fund through tenders. In the tender terms the tender committee may establish threshold conditions for participation in the tender, including the condition that a participant in the tender must be a license holder.

10. The sole criterion for selecting winners in the tenders will be the proportion between the number of households in the incentive areas in the participants' bids and the amounts from the incentive fund that are to be allocated under the tenders. No weight will be given to the geographical location of the incentive areas in the participants' bids or to the characteristics of the households in the incentive areas.

11. In the first three years of the incentive fund's activity, the Minister may direct that a minimum percentage of the households in the incentive areas included in the participants' bids – not exceeding 15% of the households to which deployment will be made in incentive areas in a year – will be in geographical areas designated by him, based on considerations of the security situation in the area; poor socio-economic status and the level of services in the area; low population density in that area; the area's geographical location or its distance from population concentrations and the center of the country; the need to narrow gaps.

12. An obligation will be established in the license of the tender winner to deploy an advanced network in a service area that includes the incentive areas won by it, including an obligation to provide a universal Internet access service on the network in the area (even in the case of a holder of a special general license), within the timeframes to be specified in the license. Regarding the establishment of such an obligation in the area of Judea and Samaria, it will be subject to the statutory provisions applying in the area of Judea and Samaria.

Prohibitions on the Company and a related corporation with respect to the incentive areas

13. The Company and any related corporation may not participate in a tender for the allocation of amounts from the incentive fund, and they may deploy and provide service in an incentive area on an advanced network deployed by them only at the end of five years from the date of establishment of a deployment obligation in the license of a tender winner.

14. The Company and a related corporation may not deploy an advanced network in the incentive areas and provide a telecommunications service on an advanced network deployed by them, unless the Minister has permitted the Company, at its request, to do so in incentive areas for which no amounts have been allocated yet from the fund, provided the percentage of households in the areas included in their request does not exceed 10% of the households in the areas included among the statistical areas chosen by the Company.

15. The above restrictions do not detract from the ability of the Company or a related corporation to deploy an advanced network in an incentive area for the provision of a telecommunications service to a business subscriber, or to provide a service to a business subscriber on an advanced network that was deployed.

Internal wiring

16. Ownership of the internal wiring will belong solely to the subscriber whose premises the wiring serves. A license holder may demand a reasonable payment for the installation thereof.

Sanctions

The Director General of the Ministry of Communications is authorized to impose a financial sanction at up to ten times the basic amount for a violation of a provision of the license with respect to the deployment of an advanced network or the provision of a service thereon.

2.16.12.2 Rates for service on ultra-broadband fiber optic infrastructure

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

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

2.16.12.3 Joint use of fiber-optic infrastructure in existing residential buildings

On July 27, 2020, the Ministry of Communications' decision of July 22, 2020 in the hearing was published. Pursuant to the decision, an administrative directive was issued regarding the manner of implementing the joint use of fiber optic infrastructure in existing residential buildings, including, *inter alia*, the principles for implementing joint use (including the obligation of a domestic operator deploying the fiber infrastructure in a residential building with no fiber infrastructure, to turn to every other domestic operator with an offer to make joint use of the fiber infrastructure it will be deploying in the building), a procedure for implementing joint use, principles for determining the payment for joint use (to be based on the proportionate share of the cost of setting up the fiber infrastructure plus a reasonable premium for the joint operator), the need to reach an agreement among the domestic operators regarding the level of service and the maintenance of fibers, and prohibition of discrimination. The decision further states that the establishment of an arrangement for joint use in existing buildings where the fiber optic infrastructure has already been deployed will be examined separately by the Ministry, and that an examination will also be made of the need for adjustments to the recommendations of the Inter-Ministerial Team to Examine the Policy for Deployment of Fixed-Line Ultra-Broadband Infrastructures in Israel, which were adopted by the Minister of Communications on July 15, 2020 (see this section). See also in this regard the Company's immediate report dated July 27, 2020, which is included herein by way of reference.

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

2.16.12.4 On January 19, 2021, the Director General of the Ministry of Communications announced the appointment of a dedicated taskforce for the purpose of maintaining an active and effective wholesale market on advanced networks.

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, and 9-12) issued by the Company, see Note 14 to the 2020 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 (today the Israel Postal Company) 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.

2.17.3 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 17 to the 2020 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[38] before tax, 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 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

[38] 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.

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	Amount of the Claim (NIS millions)
A.	January 2015	Shareholder v. the Company and former 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 (“**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. On July 12, 2020, an amended statement of claim was filed, containing amendments which, among other thing, striking of the matter of the reduction in the interconnect fees and narrowing of the definition of the class of plaintiffs with respect to the wholesale market reform, pursuant to the court's judgment in the rehearing. Additionally, the total	687

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
					amount of the claim was amended and is now estimated by the plaintiff at NIS 687 million (instead of a total of NIS 2 billion based on the "out-of-pocket" method, or, alternatively, NIS 1.1 billion based on the "approximate out-of-pocket" method, according to the pre-amendment wording of the statement of claim). It should be noted that no economic opinion has been attached to the amended statement of claim	
B.	March 2015	Shareholder v. the Company and former Company officers	District Court (Tel Aviv, Economic Department)	Motion to certify a derivative claim together with a statement of derivative claim.	Motion filed against the Company, against Shaul Elovitch, the former controlling shareholder and Chairman of the Board of Directors of the Company, and against directors of the Company at the relevant times who voted for the Company's transaction under the motion, as set out below ("**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 was 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 that is the subject of this claim (see Section 1.1.5) and the ISA's position that the proceedings should be stayed, the court decided upon a stay of proceedings in this case. On January 17, 2021, the Attorney General gave notice that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case). Further to the Attorney General's request, the proceeding is stayed at this stage until September 6, 2021, in view of the ISA investigation and the indictments filed pursuant thereto (see Section 1.1.5). For information on motions to disclose documents prior to the filing of a motion to certify a derivative claim which the court resolved to consolidate in April 2018, see Subsection H.	502

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
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). In view of the ISA's investigation, the court approved a motion by the	Motion 556 dated November 2015 and Motion 258 dated March 2018

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
					Attorney General to continue the stay of proceedings in the case until May 2, 2021. The Attorney General will provide an update on his current position by that date. 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 Subsection K) 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. On January 11, 2021, the court approved a procedural arrangement formulated by the parties, according to which the ruling on the certification motion will be made based on the existing pleadings in the case, with no need to hold an evidentiary hearing.	* Claim for an unknown amount.
E.	February 2017	Customers 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. Further to a mediation process held in the case, the parties submitted to the court a motion to approve a settlement agreement. The Attorney General has submitted his comments on the settlement, which has not yet been approved.	* There is no accurate estimation, estimated at NIS tens of millions.
F.	April 2017 and May 17, 2017	Customers v. the Company	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 ("**Service**"). According to the petitioner, the Respondents charged subscribers to the Service unlawful charges On January 25, 2018, the court decided, 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 motion (an appeal against this decision was rejected).	* The amount of the claim cannot be estimated.

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
					On July 21, 2019, the parties filed a petition for approval of a settlement 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, the Chairman of the Company's Board of Directors, former directors of the Company, and companies in the Eurocom Group (the first motion is also against the former CEO of the Company and the former CEO and CFO of DBS).	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 that was 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: "**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 request of the Attorney General (who gave notice in 2017 of his appearance in the proceeding in the matter of the stay of proceedings, not on the merits of the case), the proceeding is stayed at this stage until September 6, 2021, in view of the ISA investigation and indictments that were filed pursuant thereto (see Section 1.1.5).	1,240 in the first motion and 568 in the second motion

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
H.	June-August 2017 and June 2018	Company shareholders against the Company and DBS	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	Amended and consolidated motion filed pursuant to the court's decision of April 15, 2018 regarding the consolidation of four motions that were filed in the same matter. The court is requested in the motion 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").[39] On January 17, 2021, the Attorney General gave notice that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case). Further to the Attorney General's request, the proceeding is stayed at this stage until September 6, 2021, in view of the ISA investigation and the indictments filed pursuant thereto (see Section 1.1.5).	
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 ("**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 ("**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 ("**Contingent Consideration**"), which was set out in an agreement for acquisition of all the holdings and shareholder loans of Eurocom DBS ("**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 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	65 minimum 219 minimum

[39] 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. The proceedings in that motion as well are stayed, at this stage, until September 6, 2021.

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
					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, the proceeding was stayed in view of the investigation and its derivatives. On January 17, 2021, the Attorney General gave notice that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case), and on the same date the prosecution filed a motion to continue the stay of proceedings until September 6, 2021. Further to the Attorney General's request, the proceeding is stayed at this stage until September 6, 2021, in view of the ISA investigation and the indictments filed pursuant thereto (see Section 1.1.5).	
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"). It should be noted that 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)). 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. At the ISA's request, the proceeding is stayed at this stage until September 6, 2021, in view of the ISA investigation and its derivatives. On January 17, 2021, the Attorney General gave notice of his appearance in the proceeding (in the matter of the stay of proceedings, not on the merits of the case).	
K.	(1) 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 "("**Ruling**") (on this matter, see Section 2.16.8.5) 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	400

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
					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 transfer 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 in March 2018, see Subsection (C). On June 25, 2020, the court ruled that the parties will petition for appropriate instructions in the proceeding at the conclusion of the stay of proceedings in the class action certification motion from March 2018.	
	(2) March 2020	Shareholders v. the Company	Haifa District Court	Consolidated motion to disclose documents prior to motion to certify a derivative action	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 demands allege 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 action. On April 22, 2020, the Supreme Court approved an agreed motion to consolidate the hearing of the two motions. On June 23, 2020, the Company filed a motion to stay the proceedings in the discovery motions, up to the completion of the work of the Claims Committee that was set up for this purpose and the submission of its recommendations to the Company's Board of Directors. On July 19, 2020, the Company submitted its response to the motions. On September 8, 2020, the Attorney General gave notice that he would appear in the proceeding and concurrently submitted his position, that any decision on the filing of an appeal against the decision which the petitioners claims establishes the damage that was caused to the Company, could obviate a derivative action as long as such decision is not final. No decision has been handed down as yet in the Company's motion to stay the proceedings.	
L.	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).	63

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
					On April 28, 2020, the court ordered the petitioners to split the motion for certification into two separate motions, one for each respondent in accordance with the cause of action against each of them. Accordingly, on May 10, 2020, separate motions were filed. Subsequently, in view of the court's ruling to replace the petitioner due to doubts about her competence, on June 17, 2020, an amended motion for certification was filed (by other petitioners), in which the aggregate amount of the claim of all the members of the alleged class was estimated at NIS 63 million. On November 17, 2020, the claim was certified as a class action. According to the decision, the class on whose behalf the class action will be conducted consists of all customers of the Company who were charged a fixed payment, as defined in Section 13B(b3) of the Consumer Protection Law, without the Company specifying the fixed payment components and their amounts in invoices or payment notices sent to them after June 25, 2018. The questions common to all members of the class are: whether the Company breached its duty under said section of the Consumer Protection Law to specify in its invoices or payment notices the fixed payment components and their amounts; and the amount of the reimbursement due to the class members for the breach of this duty. The remedy sought is the refund of the fixed payment the customers were charged. On December 17, 2020, the Company filed an application for leave to appeal the decision. The court ruled that the application for leave to appeal requires a response (and that subsequently it will be set for a hearing before a court panel) and also granted the Company's request for a stay of execution.	
M.	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. During the hearing that was held in February 2021, after several difficulties arose regarding the applicant's identity in terms of his being competent to act as the lead plaintiff, the applicant's attorneys gave notice of their intention to find a substitute applicant within 60 days.	At this stage, it cannot be estimated, but it is over NIS 2.5 million.
N.	May 2020	Customers v. the Company	Tel Aviv District Court	Motion to certify a class action	It is alleged that the Company misled customers who joined the B144 service for businesses on the Internet (advertising for businesses on the Internet using the B144 website) ("**Service**") to think that the cost of the Service depended upon actual use up to the charge ceiling, whereas in fact it charged its customers the ceiling amount even if in practice less use was made. Accordingly, it was requested to include in the definition of the class of plaintiffs on whose behalf the class action would be conducted all customers and/or subscribers of the Company who signed up for the various types of service packages, starting from the date when marketing of the Service by the Company began, and who were charged by the Company said excess amounts. Neither in the motion nor in the statement of claim is there any explanation or calculation in respect of this amount, other than the statement in the body of the motion that "this concerns thousands or tens of thousands of consumers". In addition, nonfinancial damage is claimed in general.	"NIS 27,537 for the petitioner and any future amount that will be determined for all members of the class " (next to this is written in handwriting "NIS 908,721,000)"

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
O.	October 2020	Shareholder of the Company v. the Company and Bezeq International	Jerusalem District Court	Motion for discovery and inspection of document prior to filing a derivative action	Motion for an order against the respondents for discovery and inspection of various documents in connection with the collection of charges from Bezeq International customers. The motion alleges that the respondents made misrepresentations that led to an inflated value for Bezeq International, by including in their financial statements "dormant subscribers" that do not use Bezeq International's services but continue to pay subscription fees. The upshot, according to that alleged, is that with the discovery of this activity, Bezeq International's value was "slashed by hundreds of millions of shekels." This loss, it is alleged, is the result of malicious or at the very least derelict conduct on the part of company officers who were aware of the matter, but refrained from rectifying it, or alternatively, were remiss in clarifying the true situation of Bezeq International. In this regard, see also Section 4.4. Additionally, regarding motions to certify class actions that were filed against Bezeq International in this matter, see Section 4.12.1.	
P.	November 2020	Shareholder of the Company v. the Company and Bezeq International	Jerusalem District Court	Motion for discovery and inspection of document prior to filing a derivative action	Motion for discovery and inspection of documents prior to the filing of a derivative action, asking that the Respondents be issued with an order for discovery and inspection of various documents concerning asset balances in Bezeq International's books (see Section 1.9), further to the immediate report issued by the Company on November 9, 2020.	
Q.	November 2020	Shareholders of the Company against the Company, B Communications, the Company's CEO and Company directors	Tel Aviv District Court – Economic Department	Motion to certify a class action	Motion to certify a class action for compensation of the petitioner and the members of the represented class in respect of damages which the motion alleges they suffered as a result of the Company's reporting and disclosure omissions in its Tel Aviv Stock Exchange filings and the concealment of material information from the investors, in connection with a public report "concerning moves by the Ministry of Communications to eliminate the problem of duplicate subscriptions in ISP services, and concerning the widespread and significant extent of the problem of duplicate subscriptions in the subsidiary Bezeq International ("**Bezeq International**") and their material adverse effect on the operations of the subsidiary and the Company." The class is defined in the motion as anyone who purchased the Company's shares between August 17, 2020 and October 30, 2020 and held all or some of said shares on October 30, 2020, with the exception of the respondents and/or parties on their behalf and/or bodies affiliated with them.	55-65
R.	January 2021	Shareholders of the Company v. the Company and others	Tel Aviv District Court – Economic Department	Motion to certify a class action	Consolidated motion (filed instead of two similar motions in the same matter, which were struck out) against the Company, B-Communications and 90 other respondents, including past and present officers of the Company, BCOM and Bezeq International, as well as the independent auditors' firm ("**Respondents**"). The motion alleges that the petitioners and the members of the represented classes suffered damages (as detailed below) due to acts and omissions of the Respondents who violated the provisions of the law, inter alia, by including in the financial statements of the Company and BCOM misleading particulars, thus failing to disclose to the investors material information they prima facie were obligated to disclose in accordance with the provisions of the law, in connection with the report of the two companies from November 9, 2020, according to which Bezeq International's books contain discrepancies amounting to hundreds of millions of shekels. The classes are defined in the motion as: (a) Anyone who purchased Company shares	"Over NIS 2.5 million (for purposes of subject-matter jurisdiction)"

	Date	Parties	Instance	Type of proceeding	Description	Amount of the Claim (NIS millions)
					between March 9, 2003 (the date of publication of the annual report for 2002) and November 9, 2020, and held them on November 9, 2020, with the exception of the Respondents or parties on their behalf, and (b) Anyone who purchased BCOM shares on the Tel Aviv Stock Exchange between October 25, 2009 and November 9, 2020, and held them on November 9, 2020, with the exception of the Respondents or parties on their behalf. According to an economic report that was attached to the motion, in the wake of the publication of the immediate report of November 9, 2020 by the Company and BCOM, the Company's share price decreased by 5.26%-5.40% (it should be noted that the motion alleges in addition, according to an additional opinion that was attached to it, that compared with the Company's reference indices, the damage to the Company's shareholders is greater than the decrease in the value of the shares, amounting to 7%), and BCOM's share price decreased by 9.07%-9.36%. Accordingly, it is contended that the damage caused to the petitioners is equal to the amount obtained from multiplying the number of shares held by the members of said classes by said rate of decrease in the shares of the Company and BCOM.	

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.	September 2019	Customers v. the Company and another service company	Jerusalem District Court	Motion to certify a class action	Motion in the matter of the entitlement of certain population groups (such as the elderly and disabled) to discounts on payments for essential services provided to them by the defendants. The motion alleges that the defendants do not do anything to realize the rights of these people, put difficulties in their way ,and do not credit them for excess payments that were made. On June 25, 2020, a judgment was handed down striking out the claim due to failure to pay a fee.	90

2.18.3 In view of the sale of the Company's holdings in Walla at the end of 2020 (see Section 1.1.1), as of this report, no description is provided of legal proceedings against it.

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, 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 control and revision of the Company's controlled tariffs, see Sections 2.16.1 (including with respect to a hearing on the setting of maximum rates for retail telephony services of the Company) 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 adjusted the wholesale service rates at which the Company will sell its services to license holders. The adjustment of the rates results in lower prices in a manner that may impair the Company's level of revenues and profits (regarding 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 and 2.17.3.

In addition, as described in Section 1.8 to the report, the Company, like the other companies in the Group, is implementing streamlining procedures that include, inter alia, a move to new offices, organizational changes and downsizing of employees, 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 ability of the competitors, given wholesale services, of offering customers end-to-end services, the effect of this risk factor surpassed the Company's activity and results. Regarding the possibility that the Group will be granted a permit to provide service bundles that may not be unbundled and that the structural separation will be cancelled in the future, and other possible changes due to the wholesale market, see Sections 1.7.2 and 2.16.4.

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 based on the surplus or deficit of assets against liabilities and also based on cash flow forecasts, according to the type of linkage. The Company's exposure to inflationary changes is high and its exposure to changes in currency exchange rates against the shekel is low. The Company hedges against part of its inflation and foreign currency exposure. In addition, the Company has exposure to changes in the interest rates on its borrowings. In this regard, see also Note 30 to the 2020 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. The Company estimates that if the local economy slides into a slowdown and a worsening of business activity following external or internal events, including upheavals in the global economy, political-security uncertainty, etc., then its business results may be harmed, *inter alia*, as a 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 ("**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 2020 Financial Statements and Section 3.1 of the Directors Report.

2.20.13 Pandemic

At the beginning of 2020 the coronavirus broke out and spread across the world, further to which the Company is monitoring developments in connection with this outbreak as well as pandemic events in general and examining actual and potential implications on its business operations. These implications have been and may potentially be reflected, among other things, in impairment of the supply chain and the customer service network. According to the Company's estimates, as at the Reporting Date, the coronavirus pandemic has caused growth in demand for and increased use of the Company's Internet and telephony services, without any material negative effects in other operating segments that can be attributed to the outbreak of the pandemic. Nonetheless, this is by nature an evolving event that is not within the Company's control, therefore the continued spread of the virus or decisions by countries and the authorities in Israel and around the world in this regard may affect the Company accordingly. See also in this regard Section 2.20.10.

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.

Summary of risk factors - Domestic fixed-line communications[40]

	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[41]	
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.

[40] 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. Furthermore, in general, the extent of a risk factor's effect on the Company's operations depends in some cases also on the scope and duration of realization of the risk, thus it may differ from that indicated.

[41] 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 operating segment

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 1.5.4.2 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 partly compensated for the price erosion. In 2020, a decrease was recorded in revenue from roaming services due to the effects of the coronavirus pandemic on overseas travel and stays (see Section 3.19.1.2).

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

The terminal equipment market as well is characterized by intense competition among the cellular operators and with numerous stores that sell terminal equipment imported as parallel imports. The year 2020 saw a continuation of the trend of manufacturers launching device models at lower prices compared with previous years, which, together with a decrease in the number of devices sold to end customers, led to a further decline in average revenue per device. To reduce the hit to revenues, Pelephone increased the range of equipment it sells and it also sells non-cellular electronic equipment. In 2020, a decrease was recorded in revenue from sales of terminal equipment, inter alia, due to the effects of the coronavirus pandemic on retail trade (see Section 3.19.1.2).

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[42]. The estimated market penetration rate at September 30, 2020 is 121%.

3.1.5 Technological changes that can affect the operating segment

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 today operate mainly over the GSM, UMTS and LTE technologies, and in 2020 use began of the New Radio technology based on a non-standalone architecture (5G).

As at the Reporting Date, Pelephone's LTE network is deployed in parts of the country, and Pelephone is continuing to expand the network to improve coverage through the use of 700 MHz frequencies and to improve performance through 2600 MHz frequencies, in addition to launching the 5G technology through 3500 MHz frequencies, which is to be implemented according to a methodical plan.

Pelephone has also begun using additional network features including carrier aggregation and MIMO 8x8 in 5G.

Pelephone offers IMS technology-based services[43]: Voice over WiFi as an improved solution for indoor coverage, as well as Voice over LTE that enables making 4G-based voice calls. This ability improves the quality of the voice call and also enables vacating third-generation frequency resources for future LTE use. In addition, Voice over LTE enables 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 (4G) and New Ratio (5G) technologies as well as the development of the next cellular generations depends on the allocation of frequencies. For details, see Section 3.8.2.

In the wake of winning the frequencies tender, Pelephone, as mentioned, has begun operating frequencies in the 700 MHz and 2600 MHZ ranges using the 4G technology, and at some of the sites it is also using the 5G technology in the 3500 MHZ frequency (see Section 3.8.2.4).

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.

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[42] 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).

[43] 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 provided 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.

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[44]

3.1.7.1 Main entry barriers are:

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 the Reporting Date there are five operators with a mobile telephony license in the cellular telecommunications market in Israel (Pelephone, Cellcom, Partner, HOT Mobile and XFone) and a few MVNO operators with mobile telephony licenses for hosting on another network (virtual operators), including Golan Telecom, which recently began operating with this status after its mobile telephony license was changed following Cellcom's acquisition of control of the company. Regarding an agreement for the sale of the Golan Telecom Shares to Cellcom see Section 1.7.1.

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 the Reporting Date, the following infrastructure sharing ventures exist in the market:

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

B. Cellcom and XFone operate under an arrangement for sharing infrastructure in the 4G radio segment through a joint corporation and the purchase of other domestic roaming services.

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.

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

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, caller ID, and more.

B. **Browsing and data communications services** – Internet browsing using 3G, 4G and 5G-compatible terminal equipment.

C. **SMS and MMS messaging service** – a service for sending and receiving text messages and multimedia messages (video/voice/text).

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, etc.

3.2.1.4 **Roaming services** - Pelephone provides its customers with roaming coverage in approximately 190 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 offers 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 expanded warranty services, or for a one-time payment at the time of repair.

Pelephone provides part of these services also under hosting agreements, to holders of mobile telephony licenses on another network that use Pelephone’s network to 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	2020	2019	2018
Revenue from services	1,591	1,709	1,755
Percentage of Pelephone's total revenue	72.8%	72.4%	71.8%
Revenue from products (terminal equipment)	595	653	688
Percentage of Pelephone's total revenue	27.2%	27.6%	28.2%
Total revenue	**2,186**	**2,362**	**2,443**

3.4 Trade receivables

Breakdown of revenues from customers (in NIS million):

Products and services	2020	2019	2018
Revenue from private customers	1,194	1,334	1,415
Revenue from business customers (*)	992	1,028	1,028
Total revenue	**2,186**	**2,362**	**2,443**

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

At the end of 2020, Pelephone had 2.4 million subscribers, consisting of 2 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.

3.5 Marketing, distribution and service

Pelephone's distribution system consists of 300 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 20 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 a variety of digital channels, including Pelephone’s website, a self-service app and 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 2020. 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 3.17 below).

For further information concerning the acquisition of the Golan Telecom shares 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 2019 and 2020 (thousands of subscribers, approximate).

		Pelephone	Cellcom (including Golan Telecom) (3)	Partner (3)	HOT Mobile (2)	MVNO and Other Operators (1)	Total subscribers in market
At Dec 31, 2019	No. of subscribers	2,327	3,671	2,657	1,630	684	10,969
	Market share	21.2%	33.5%	24.2%	14.9%	6.2%	
At Sept 30, 2020	No. of subscribers	2,396	3,641	2,762	1,636	782	11,217
	Market share	21.4%	32.5%	24.6%	14.6%	7.0%	

(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, using subscriber intercompany migration figures.

(2) HOT Mobile's subscriber data for the third quarter of 2020 are based on an estimate, using data published in reports published by Altice.

(3) The number of subscribers as of September 30, 2020 is based on public reports issued by Cellcom and Partner.

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 the 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 radio 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 the inventory of frequencies in networks of sharing competitors.

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. 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.

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

E. Ability to sell through sub-brands on designated selling channels alongside the Pelephone brand.

F. 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 in the radio segment.

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 three main technologies:

A. 5G – The New Radio technology that uses an ultra-broadband spectrum (100 MHz at Pelephone), enabling higher capacity and higher broadband speeds for the user. Down the line, the technology will enable IOT applications on a significantly larger scale than at present and at a very high level of performance.

B. 4G – The LTE 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.

C. 3G – The UMTS technology is based on the GSM 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. On December 10, 2020, the Ministry of Communications published a hearing concerning the future closure of mobile telephony networks operating on old technologies in Israel (second and third generation networks). In the framework of the hearing the Ministry presented an outline plan for closing these networks, which should lead to their closure on December 31, 2025. The outline plan includes, among other things, milestones for discontinuing the import of handsets that do not support new technologies (fourth generation and above), informing the public, and discontinuation of the hookup of these devices to the network. The Ministry has not yet published its decision on this hearing. It should be noted that Pelephone previously already closed its second generation network.

3.7.1.2 As of the 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 investments

In recent years Pelephone has invested in deploying its fourth generation network and upgrading it with new technologies such as Beam Forming, MIMO4x4 and QAM 256, Carrier Aggregation on the access network and IMS on the core network (see Section 3.1.5). Pelephone estimates that its investments in the network in 2021, including expansion of the 4G network (using 700/2600 MHz frequencies) as well as 5G deployment (using 3500 MHz frequencies), will be similar in scope to its investments in 2020, in which investments were made further to its winning of frequencies in the 5G tender, except in the event of 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 the implementation of advanced 5G data communications services, which are planned to be integrated with existing infrastructures and systems. The operation of these advanced services will be based on the 5G technology, which Pelephone will continue to deploy, and eventually will be based on a new dedicated 5G core network (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 Petah Tikva.

3.7.2.4 For its sales and service operations, Pelephone leases 50 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.

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[45] and 2100 MHz spectrums for operating its UMTS/HSPA network, in the 1800 MHz, 700 MHz and 2600 MHz spectrums for operating its LTE technology network (see also Section 3.1.5), and in the 3500 MHz spectrum for operating its 5G technology network. 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.

The Ministry of Communications reallocated the temporary allocation of this band until December 31, 2021 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 allotted 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.

On June 1, 2020, Pelephone returned to the Ministry of Communications frequencies of 5 mega bandwidth in the 850 MHz spectrum, such that the amount of frequencies in the 850 MHz spectrum held by it decreased from 10 MHz to 5 MHz. On November 26, 2020, the Ministry of Communications allowed Pelephone reuse of a full 2X10 MHz in the 850 MHz spectrum, until March 31, 2021.

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[45] Pelephone has the option to request to be allocated 5 mega in the 800 MHz spectrum, following the project for vacating the 850 MHz frequencies.

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. The impairment is expected to be moderate due to an increase in the frequency of VoLTE use as well as the expanded deployment of the 700 MHz frequency using the LTE technology. Pelephone is engaged in preparations to minimize the expected impairment.

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 ("**Tender**")

On August 12, 2020, Pelephone won an allocation of frequencies, further to its participation in a tender for mobile radio telephony services over 5G advanced bandwidths.

The highlights of the Tender that was won by Pelephone as aforesaid are, inter alia, as follows:

The Tender includes provisions concerning network coverage and quality requirements that will be formalized as part of an amendment to the mobile telephony licenses of the existing operators (see amendment to Pelephone's license below).

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).

For further information, see Section 3.19.2.1. For information concerning exposure to disruptions in the frequency ranges used by Pelephone, see Section 3.19.3.10.

The following are the conditions awarded to Pelephone in said allocation of frequencies:

1. Award of 10 mega in the 700 MHz range (for a period of 15 years); of 20 mega in the 2600 MHz range (for a period of 10 years); and of 100 mega in the 3500 MHz range (for a period of 10 years). The period of the license does not change by virtue of the Tender, and will be renewable under the terms of the license ("**Allocation of Frequencies**"). It is noted that the frequencies awarded to Pelephone are for the exclusive use of the Pelephone network, which will give the Pelephone network a competitive edge. It is also noted that companies that do not own existing networks were not awarded frequencies.
2. The Allocation of Frequencies was awarded to Pelephone at a total cost of NIS 88,230,000, with the payment date set for September 2022. It is noted in this context that the Tender also specified that incentives may be received, as described above including receipt of a conditional grant in respect of the deployment of 5G sites according to the conditions specified in the Tender, which can reach a total of NIS 200 million for all the winners of the Tender.

The amendment of the regulations according to which the frequency fees are paid established a reduction in the fee amounts for the 2600 and 3500 MHz frequencies as well as a conditional annual discount from the total amount of frequency fees that will be paid by Pelephone in the next four years (the discount is contingent on the Company's compliance with graded annual engineering targets, which will be examined by the Ministry of Communications each year).

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

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

In this regard, see also Note 11 to the 2020 Financial Statements.

3.8.3 Trademarks

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

3.8.4 Software, computer systems and databases

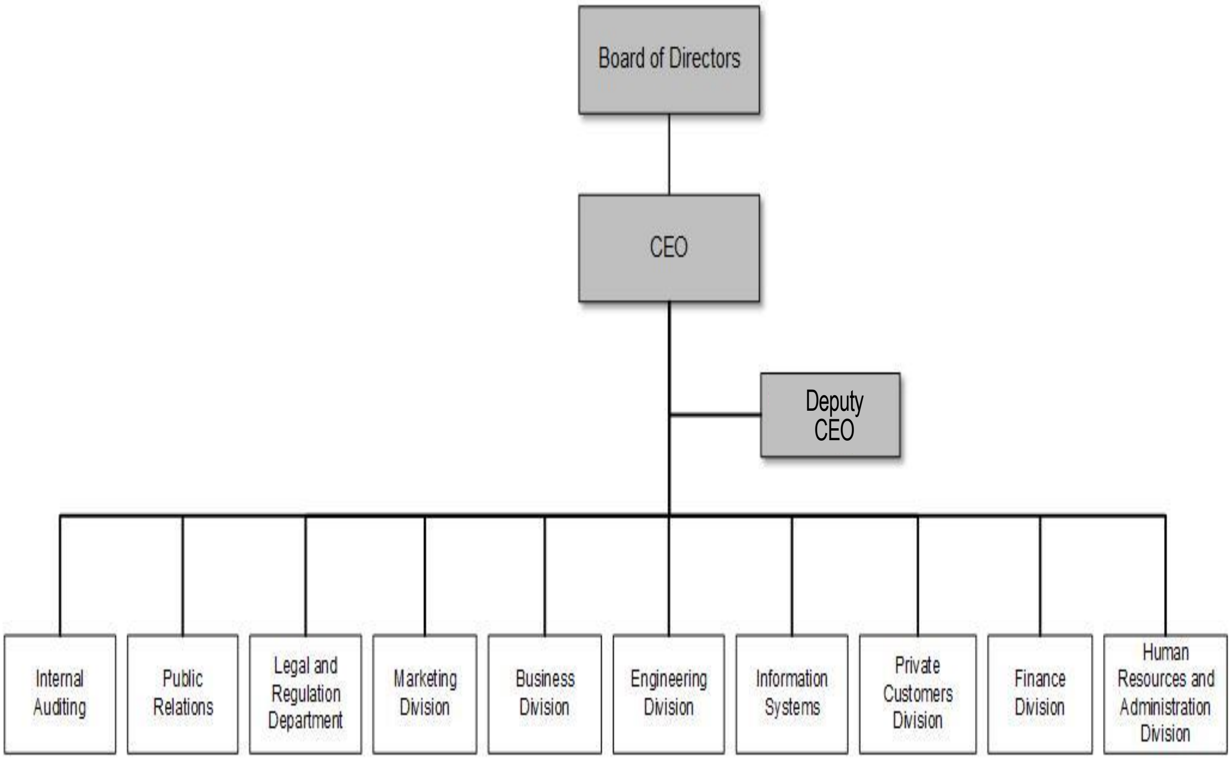
Pelephone uses software and computer systems, some under purchased licenses and others which were developed by Pelephone's IT department. Many of these licenses are limited in time, and are periodically renewed. The primary systems used by Pelephone are Oracle Applications' ERP system and Amdocs's customer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

Pelephone is also upgrading its CRM (customer relations management) system on the state-of-the-art Salesforce cloud platform, together with Bezeq International and DBS. Pelephone is dependent on the Salesforce system and services, due to their importance for managing its customer relations. Failures in the system or discontinuation of the services by this provider can be expected to cause operational difficulties until the matter is rectified or the system/provider is replaced, which could take a long time.

3.9 Human resources

3.9.1 Organizational structure

Pelephone's organizational structure at the 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 Headcount and Positions

Breakdown of the number of employees at Pelephone according to organizational structure:

Division	Number of employees	
	December 31, 2020	December 31, 2019
Management and HQ	210	238
Business and Private Customers Divisions	1,290	1,533
Engineering and Information Systems	400	431
Total	**1,900**	**2,202**

The total number of employees in the above table includes employees employed in part-time positions. The total number of positions[46] at Pelephone as at December 31, 2020 was 1,619 (at December 31, 2019 - 1,956).

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 ("**Labor Union**") and Pelephone workers' committee. The agreement applies

[46] The number of "positions" at Pelephone is calculated as: Total monthly work hours divided by the standard monthly work hours.

to all Pelephone employees, with the exclusion of senior managers and certain employees in predefined positions.

On November 13, 2019, the parties signed a renewal of the existing collective agreement, which includes streamlining and synergy measures, for the period until June 30, 2022 ("**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 costs of the Agreement amounted to NIS 100 million and were recorded in 2019 and 2020.

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 (“**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.

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 as well as Samsung, with which Pelephone does not have an agreement requiring the purchase of a minimum annual quantity, and purchases are made on the basis of orders that Pelephone places from time to time.

Pelephone's purchases from each of the suppliers, Apple and Samsung, in 2020 accounted for more than 10% of Pelephone's purchases from all of Pelephone's suppliers[47], 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, LTE and 5G networks is supplied by LM Ericsson Israel Ltd. ("**Ericsson**”). Ericsson is also a material supplier of Pelephone in the field of microwave transmission. Pelephone has multi-annual agreements for maintenance, support and upgrading of software for the UMTS network and an agreement for purchasing

[47] All Pelephone suppliers, including vendors who are not suppliers of terminal equipment and electronic devices.

4G (LTE) and 5G equipment with Ericsson, and in its opinion, it may be dependent on Ericsson for support for and expansion of this network. In addition, the cellular network uses transmission, for which the Company is Pelephone's main supplier.

Pelephone has a multi-annual transmission 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 2020:

	Credit In NIS millions	Average credit days
Customers for sales of terminal equipment (*)	626	328
Customers for services (*)	180	35
Trade payables	234	32

(*) Net of doubtful debts.

3.12 Taxation

See Note 7 to the 2020 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 ("**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 ("**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 ("**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 license 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)[48].

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.

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.

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.

[48] 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.

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. The Ordinance authorizes the Ministry of Communications to impose financial sanctions due to various violations of its provisions.

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[49]

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

[49] 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.

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 72 million.

Pelephone has submitted to the Ministry of Communications a request to renew the license for a period of ten years.

3.14.2.2 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 ("**Exemption Provision**"), and with regard to which regulations were published in 2018.

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.

<u>Building permits for erecting a cellular broadcasting facility under NOP 36A:</u>

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 Civil 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 the 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. On August 11, 2020 and November 2, 2020, the Supreme Court ruled on the appeals, holding that the petitioners' interpretation should be rejected. The Supreme Court likewise set aside the judgment of October 17, 2018, which had ruled the opposite on the interpretation of the NOP.

As part of the “pergola reform” - Amendment 101 to the Planning and Building Law, 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.

<u>Access devices exempt from building permits</u>

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(a) of the Planning and Building (Installation of Wireless Access Facility for Cellular Communications) Law, 2018) 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.

As of the Reporting Date, Pelephone operates 450 wireless access facilities.

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 micro broadcasting facility and its external components on an existing building or facility is exempt from a building permit, subject to compliance with cumulative conditions.

<u>Conclusion:</u>

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 2.16.8.4).

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 ("**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[50]

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

Details of proceedings in claims for 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.	August 2010	Customer v. Pelephone	District (Central)	Financial claim with a motion to certify it as a class action.	It is asserted that Pelephone should not collect 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 staying its decision regarding the motion.	The amount of the claim is not stated, but the motion is estimated in the tens of millions of shekels.
B.	May 2012	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action	It is alleged 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	124

[50] For information concerning reporting policies and materiality, see Section 2.18.

	Date	Parties	Court	Type of Action	Details	Amount of claim NIS million
					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.	
C.	November 2012	Customer v. Pelephone	Jerusalem District Court	Financial claim with a motion to certify it as a class action.	It is alleged 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	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone does not grant the same benefits to all its customers, thereby discriminating between those customers they "favor," in the plaintiff's words, 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.	July 2014	Customer v. Pelephone, three other cellular companies and additional defendants	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone, together with three other mobile telephony companies, registered subscribers for content services without obtaining their consent and in contravention of the law, thereby creating a "platform" for iQtech Group to unlawfully charge tens of thousands of people for content services.	100 with regard to the mobile telephony companies and 300 against all the defendants.
F.	May 2015	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged 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 is 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 motion is estimated to be in the millions of shekels.
G.	October 2016	Customer v. Pelephone, Partner and Cellcom	Lod District Court	Financial claim with a motion to certify it as a class action.	It is alleged 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 awaiting the Court's ruling. On April 5, 2020, a ruling was issued dismissing the motion. On June 29, 2020, an appeal against the ruling was filed by the petitioners in the motion to certify a class action.	The amount of the claim is not stated, but is estimated in the tens of millions of shekels.

	Date	Parties	Court	Type of Action	Details	Amount of claim NIS million
H.	April 2017	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that the defendant changed, unilaterally and without consent, the terms of the agreement between it and the petitioner, 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
I.	October 2017	Customer v. Pelephone and Partner	Central District Court	Financial claim with a motion to certify it as a class action.	It is alleged 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
J.	April 2018	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone markets and sells to its customers a repair service with an undertaking for unreasonable periods, without the agreement providing for any possibility to cancel the transaction during the period of undertaking or to transfer the service to another handset.	The amount of the claim is not specified
K.	April 2019	Customer v. Pelephone, Bezeq International and 6 other companies	Central District Court	Financial claim with a motion to certify it as a class action.	It is alleged that the respondents do not inform their customers as required concerning the potential dangers 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.
L.	November 2019	Customer v. Pelephone, Cellcom and Partner	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged 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)
M.	January 2020	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone forces every customer that purchases from it an overseas communications package that includes calls and/or Internet browsing, 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.	February 2014	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It was alleged that Pelephone operated in a manner that amounted to harassment of a large consumer public, by making repeated telephone calls aimed at recruiting customers. The causes of action are breach of a stator duty, negligence, violation of privacy and bad faith in negotiations. In May 2019 a judgment was issued dismissing the motion. In July 2019 the petitioner in the motion to certify a class action filed an appeal against the judgment with the Supreme Court. On June 24, 2020, the Supreme Court handed down a judgment whereby, on the recommendation of the Supreme Court, the appellant withdrew the appeal and the appeal was dismissed.	The amount of the claim is not stated.
B.	March 2018	Customer v. Pelephone, Golan Telecom, Cellcom, and Hamilton	Central District Court	Financial claim with a motion to certify it as a class action	It was alleged that the defendants marketed and/or provided mobile radio-telephone service for Xiaomi cell phones from which it was not possible to call emergency numbers in Israel. On July 26, 2020, a judgment was handed down approving a consent motion to withdraw the certification motion and dismiss the petitioners' personal claim.	65 (the amount is against all the respondents, not only Pelephone, without any allocation among them)
C.	December 2016	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action	It was alleged that the public had incurred damages due to a fire that broke out in one of the switching stations operated by Pelephone, on grounds of breach of a statutory duty, misleading action under the Consumer Protection Law, negligence, unjust enrichment and breach of duties of good faith. On October 30, 2020, a judgment was issued approving a settlement between the parties, pursuant to which Pelephone is to offer a benefit in the form of 50,000 discount vouchers for the purchase of cellphone accessories worth NIS 30 each, and amounting in the aggregate to NIS 1.5 million. Additionally, Pelephone is to pay compensation to the class plaintiffs and the fees of the petitioners' attorneys, for a total of NIS 350,000.	70
D.	November 2018	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action	It was asserted that due to disruptions that occurred on the Pelephone network, the defendant owes its customers compensation for breach of the contract with them as well as breach of the provisions of the license and various laws, including the Communications Law. On February 3, 2021, a judgment was handed down approving a settlement between Pelephone and the petitioners in the two proceedings, including compensation for the relevant customers in the form of benefits for a total of NIS 1.4 million.	200

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 2021, 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 2021, 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 2021 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 and IOT, and to continue focusing on large-scale launches of devices, simultaneously with the implementation of the 5G network deployment plan.

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 2021 Pelephone is expected to continue to develop and expand its online service and sales channels.

3.18.5 Synergies with the Group's subsidiaries

In 2020, Pelephone continued implementing synergetic processes with the Group's subsidiaries. For details, see Section 1.8. These processes are expected to continue in 2021 and to reduce Pelephone's costs.

3.18.6 5G network

In 2021, Pelephone is expected to continue deploying the 5G network and promoting marketing and sales of services based on this technology.

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 - The global outbreak of the coronavirus at the beginning of 2020 has had numerous implications, including in the macroeconomic sphere. In light of the pandemic, many countries, Israel among them, have taken significant measures in an attempt to prevent the spread of the virus, such as restrictions on movement in public spaces and on public gatherings, work restrictions,

restrictions on the transport of passengers and goods, the closing of borders between countries, etc. As an outcome, the virus as well as the measures taken have had significant repercussions on many economies and on the global capital market. During 2020, the crisis brought on by the COVID-19 pandemic significantly affected revenues from roaming services. Pelephone took extensive cost-cutting measures, which partly offset the decrease in these revenues. As of the date of approval of these financial statements, Pelephone's working assumption regarding the continued spread of the COVID-19 pandemic is that measures aimed at containing the virus will continue at varying degrees of intensity also throughout 2021, alongside gradual and prolonged recovery of the aviation and international tourism sectors. Accordingly, and subject to the above assumptions, Pelephone expects that the main effect of the COVID-19 pandemic on its operations will be a decline in revenues from roaming services, due to the pandemic's effects on the aviation and international tourism sectors, with no material adverse effects in other operating segments. At the same time, this is an unfolding event that is not within the Pelephone's control, thus the possible continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Pelephone's results, reflected, among others, in a greater-than-projected decrease in revenues from roaming services. The continuation or worsening of the pandemic may also affect revenues from sales of cellular terminal equipment, employee availability, customer service and technician service systems, supply chain operations, as well as the amounts and times of payments collected from customers.

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, liability for and ways of repairing products, regulation of interconnect rates, 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 ("**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 cannot 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. 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 due to natural forces, 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.

3.19.3.4 Endemic device malfunctions - various exposures arising from Pelephone's liability as an importer due to manufacturing defects in devices which are not supported by the manufacturers.

3.19.3.5 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.

3.19.3.6 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.

3.19.3.7 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.

3.19.3.8 Streamlining measures - as described in Section 1.8, Pelephone implements streamlining plans that include, among other things, sharing of management resources, 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.

3.19.3.9 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.

3.19.3.10 Frequency spectrums – 700 MHz, 850 MHz, 1800 MHz, 2100 MHz, 2600 MHz and 3500 MHz. The frequencies are exposed to interferences that 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. In addition, Pelephone may not interfere with satellite broadcasts made at several points in Israel in the MHz frequency spectrum, which limits the operation of 5G services around those points.

For further information regarding the implications of switching frequencies in the first giga spectrum, see Section 3.8.2.3.3

3.19.3.11 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 table 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 telephony services; domestic telephony services; NEP services; as well as providing ICT (infrastructure and communication technologies) solutions and data transmission and PBX (private branch exchange) services.

Bezeq International's international telephone services, similar to those of its competitor international operators, are provided primarily via the domestic networks of the Company and of HOT and via the cellular networks, for connecting the subscriber to the international exchange.

Regarding regulatory changes in the Internet services market that are expected to materially affect Bezeq International's operations in this market, see Section 4.11.5.4.

4.1.2 Legislative and statutory restrictions applicable to Bezeq International

Most of Bezeq International's operating segments are primarily regulated by the Communications Law and its regulations, and the terms of the license granted to Bezeq International (see Section 4.11).

For key developments in the regulatory framework applicable to Bezeq International, see Section 4.11.5.

4.1.3 Changes in volume and profitability of operations

For information on 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 call market in Israel has in recent years seen a decline in call minute volume (incoming and outgoing), mainly due to the service bundles offered by the cellular companies that include international call minutes as well as the multiple free applications that enable calls over the Internet. In 2020, the downtrend in the international call market continued.

In 2020, the Internet access market recorded growth in the demand for Internet services, apparently as an outcome of the coronavirus pandemic, which caused an increase in the scope of remote studies and work.

4.1.5 Main entry and exit barriers

4.1.5.1 The main entry barrier to the international call market is the need for a license under the Communications Law and for investments in infrastructure (the volume of investments in infrastructure is lower than the volume of investments in domestic carrier or cellular infrastructure), which are 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 reduce the effect of these barriers.

4.1.5.2 The main entry barrier to the data and Internet services market is the need for investments in infrastructure (international capacity, access to the Internet network) and a broad service network.

4.1.5.3 The main exit barriers from these markets stem from long-term binding agreements with infrastructure providers and from the long timeframe for recovery of investments. Furthermore, Bezeq International is obligated to provide service to its customers throughout the term of the contract with them.

4.1.6 Alternatives to Bezeq International products; structure of competition in the international call market and changes therein

In the international call market, use of the VoIP technology, the transmission of international calls over the Internet to other users of this technology, as well as to TDM network users, through the use of software products (such as Skype, WhatsApp or Zoom) and services of overseas telecommunications providers, as well as the attractive rates for these services (including the absence of user fees), have led to steady growth in the number of users of these services, and as an outcome, to a decline in Bezeq International's revenues. Concurrently, there are at present more than ten international operators with a license from the Ministry of Communications to provide International telecommunications services.

4.1.7 Structure of competition in the market and changes therein

In the Internet access service (ISP) sector, a range of licenses for the provision of Internet access services has so far been granted to some 80 companies that are permitted to provide, inter alia, also international operator services.

For further information on 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 access (ISP) services** for private and business customers, including supply of the requisite terminal equipment and support over DSL, transmission or 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 **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), and in addition, DBS markets Bezeq International's ISP services. The packages are subject to the "unbundling" obligation (see Section 1.7.2.2). In March 2020, Bezeq International launched an Internet access service on the Company's fiber optic network.

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 major ISPs operating in Israel to own a submarine cable. Ownership of the submarine 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 licensees for the provision of international telecommunications 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 broad customer service model, where the customer deals with a single contact person and Bezeq International assumes comprehensive responsibility for the entire service (“one service provider, one responsibility”).

PBX services (exchanges)

Bezeq International markets and maintains communication systems, including 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):

	2020	2019	2018
Internet services	596	632	659
% of total revenues	46.89%	47.23 %	47.35 %
Voice services and communications (PBX, ICT, Data) for businesses	675	707	732
% of total revenues	53.11%	52.77 %	52.65 %
Total revenues	**1,271**	**1,339**	**1,391**

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)[51]:

	2020	2019	2018
Revenue from private customers	401	441	468
Revenue from business customers	870	898	923
Total revenues	**1,271**	**1,339**	**1,391**

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

[51] 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).

binding directives in this regard. Bezeq International is acting to curtail the problem, while apprising its customers of the matter in accordance with the letters.

As part of the preparations by Bezeq International to inform and deal with customers that have been paying it under an agreement for ISP services but have not used those services for an extended period of time, and further to the above recommendation of the Ministry of Communications, an updated valuation was performed for Bezeq International. Regarding the valuation, see Note 11.6 to the 2020 Financial Statements. See also in this regard the Company's two immediate reports from October 30, 2020 (including in the matter of a motion to certify a class action in this connection), as well as another immediate report of the Company dated November 8, 2020. The above immediate reports are included herein by way of reference. Regarding motions to certify class actions in this matter that were filed against Bezeq International, see Section 4.12.

4.5 Marketing, distribution and service

Bezeq International has sales channels for the private market, including customer recruitment and retention call centers, a countrywide 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 sells Bezeq International services as part of joint service bundles - “reverse bundle” (see Section 1.7.2.2), and Bezeq International services are also sold by DBS as part of the marketing of Triple bundles (see Section 4.2.1.

4.6 Competition

4.6.1 ISP Services

4.6.1.1 The market is saturated with competitors, the main ones being Cellcom, Partner and Hot Net.

Bezeq International estimates that its share of the ISP market at December 31, 2020 is 34%.[52]

4.6.1.2 Competition in 2020 was characterized by price erosion.

4.6.1.3 Developments in 2020:

A. Continuation of the service bundle sales trend, particularly in view of the wholesale sales model operations (provider + infrastructure) in 2020.

B. Focusing of the competitors' on the promotion of high-speed browsing services. Some of the competitors launched ultra high-speed browsing bundles, inter alia through fiber optic infrastructure they deployed.

C. Increasing competition among ISPs of reverse bundle packages.

D. Uptrend in sales of Triple bundles by competitors that include, IP and infrastructure services, in addition to television services, in a service bundle that may not be unbundled.

E. Regarding the Minister of Communications' decision of July 20, 2020 to adopt (with changes) the recommendation of the inter-ministerial team on the deployment of ultra-broadband fixed-line infrastructure in Israel (see Section 2.16.12) – the deployment of optic fibers by the Company is expected to improve Bezeq International's competitiveness and enable an increase in revenues from its customers.

4.6.2 International telephony services

4.6.2.1 As of the end of 2020, there are some ten players in the market (including Bezeq International, Cellcom, Partner, Golan Telecom and HOT Mobile).

[52] 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.

Bezeq International estimates that its market share in the customers' outgoing calls segment as at December 31, 2020 is 22.3%.[53]

4.6.2.2 General characteristics of competition in 2020:

A. In 2020, 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 also due to the service packages offered by cellular operators, which include international call minutes. The effects of the COVID-19 pandemic included also changes in business work habits, including an increase in the use of services enabling online calls and meetings, with a parallel reduction in the use of international telephony services.

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, Taldor, IBM and others. In 2020 Bezeq International continued to consolidate its position in the ICT market.

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 Bezeq International does not own domestic access infrastructure is a competitive disadvantage vis-à-vis competitors that control infrastructure of this type.

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 SoftSwitch switches of Dialogic. 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 is upgrading its CRM (customer relations management) system on the state-of-the-art Salesforce cloud platform, together with Pelephone and DBS. Bezeq International is dependent on the Salesforce system and services, due to their importance for managing its customer relations. Failures in the system or discontinuation of the services by this provider can be expected to cause operational difficulties until the matter is rectified or the system/provider is replaced, which could take a long time.

Bezeq International's technological infrastructures, which support voice, data and Internet systems, are deployed at several sites, inside and outside Israel, inter alia, to ensure, when necessary, high service 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.

[53] Based on Ministry of Communications publication of figures for outgoing calls in the third quarter of 2020.

4.8 Human resources

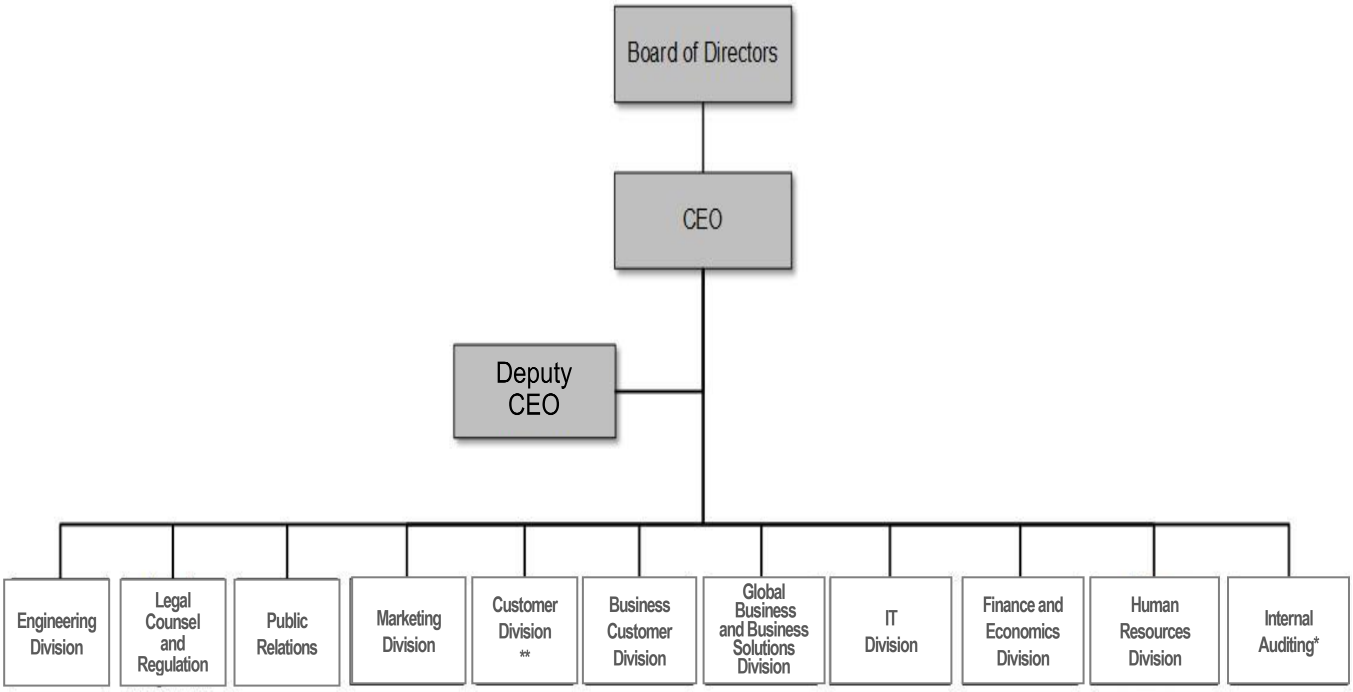
Breakdown of the Bezeq International workforce in 2019 and 2020:

	December 31, 2020	December 31, 2019
Head office employees	827	863
Sales and service representatives	484	556
Total	**1,311**	**1,419**

The total number of employees in the foregoing table includes employees in part-time positions. The total number of positions at Bezeq International's[54] as at December 31, 2020 was 1,228 compared to 1,329 as at December 31, 2019.

Organizational structure

The following chart presents the organizational structure of Bezeq International:



(*) The Internal Auditor is 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 Histadrut General Federation of Labor and the workers committee, which includes streamlining and synergetic measures for the period until 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.

[54] Total monthly work hours divided by the standard monthly work hours.

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 transaction for acquisition of control of the Company.

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

On December 28, 2020, Bezeq International received from the New Histadrut General Federation of Labor in Israel – the Cellular, Internet and High-Tech Workers Union a notice of declaration of a labor dispute under the Settlement of Labor Disputes Law, 1957 and a strike beginning on January 10, 2021. According to the notice, the disputed issues revolve around Bezeq International's intention to close the dining room serving its employees, in order to use the area for the company's business activities.

On March 24, 2021, Bezeq International received from the New Histadrut General Federation of Labor in Israel – the Cellular, Internet and High-Tech Workers Union a notice of declaration of a labor dispute under the Settlement of Labor Disputes Law, 1957 and a strike beginning on April 7, 2021. According to the notice, the disputed issues revolve around management's unilateral intention to make organizational and structural changes in Bezeq International, including merger, consolidation of operations, synergy and so forth with DBS and/or Pelephone, which, if implemented, will impact, according to the Notice, in a critical manner on the employees, including on employment conditions, status, employment security and impairment of organizational power and bargaining capacity. The employees' representatives are demanding to receive complete information and data, in a transparent manner, regarding the planned organizational and structural changes and their implications, and, furthermore, that consultations and negotiations be held to sign a special collective agreement regulating the rights of Bezeq International's employees in light of these changes and their implications, including the establishment of a safety net guaranteeing the employees' rights. Bezeq International intends to hold talks on the matter with the employees' representatives.

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 non-specific and unspecifiable part of the communication capacity transferred by the undersea cable system operated by Med Nautilus between Israel and Europe. The periods of use were extended until July 2030. 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 the period.

4.10 Taxation

See Note 7 to the 2020 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 unified general license for providing telecommunications services ("**Unified License**") that is valid through to May 2, 2025.

The main provisions of the Unified License are:

A. Under certain circumstances, the Minister may modify the terms of the license, add to or detract 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 provides a bank guarantee of NIS 2 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 operating segment, see Section 2.16.4.

4.11.5.3 Regarding the publication of a hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services, see Section 1.7.2.2. Bezeq International is studying the details of the hearing and evaluating its potential effects on the company's business and operating methods.

4.12 Legal proceedings[55]

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	Central District Court	Financial claim with a motion to certify it as a class action.	It is contended 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 contended 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.	March 2016	Customer v. Bezeq International and other telecom companies	Central District Court	Financial claim with a motion to certify it as a class action.	It is alleged, inter alia, that Bezeq International sells its customers a broadband speed, despite the fact that the infrastructure where they live does not enable this speed. In January 2021 the court certified the claim as a class action.	Not specified.
C.	April 2019	Customer v. Bezeq International and other telecommunications operators	Central District Court	Financial claim 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 specified.
D.	October 2020	Customer v. Bezeq International	Central District Court	Financial claim with a motion to certify it as a class action.	It is alleged, inter alia, that Bezeq International charges its customers for services it does not actually provide to them, supposedly in the knowledge that the customer has switched to another Internet provider and disconnected from Bezeq International. On November 5, 2020, Bezeq International was served with an additional motion to certify a class action in the same matter.	Not specified.

[55] For information concerning reporting policies and materiality, see Section 2.18.

E.	November 2020	Customer v. Bezeq International	Central District Court	Financial claim with a motion to certify it as a class action.	It is alleged, inter alia, that Bezeq International charges for the provision of an Anti-Virus service and Backup service, without these services actually being provided. It is further alleged that Bezeq International does not inform the customers at the time of concluding the contract that using the services requires that they first carry out preparatory actions on their own, such as installing special software programs; nor does it apprise them that they are billed for such services as of the contract conclusion date, and not from the actual date of service provision.	Not specified.

Regarding two motions for discovery and inspection of documents prior to filing derivative actions under Section 198A of the Company Law against the Company and against Bezeq International, from October 2020 with respect to "dormant subscribers," and from November 2020 with respect to asset balances in Bezeq International's books – see Section 2.18P.

4.12.2 Legal proceedings that 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.	June 2015	Customer v. Bezeq International (The Israeli Consumer Council replaced the petitioner as the class plaintiff)	Tel Aviv District Court	A financial claim with a motion to certify it as a class action.	It was alleged that excessive amounts are collected from Internet service customers. On July 25, 2019, the court certified a class action and ruled that the definition of the group would be any Bezeq International customer that entered into an agreement with it for a fixed period, where after said fixed period, Bezeq International collected a higher price from the customer for the services provided under the agreement, without the customer receiving prior written notice in accordance with the Consumer Protection Law, and without Bezeq International obtaining their consent to receive notices and updates by email, in the seven years preceding the filing of the certification motion until today. The causes of action in respect of which the motion was approved are breach of a statutory duty and unjust enrichment. On October 6, 2019, the Company filed leave to appeal the certification decision, and the appeal was scheduled for a hearing on July 13, 2020. On August 11, 2020, the Supreme Court held a hearing on the application for leave to appeal that was filed by Bezeq International against the decision to certify a class action. In the hearing the Supreme Court recommended to the plaintiff to agree to the acceptance of the application for leave to appeal and to the dismissal of the certification motion. On August 25, 2020, a judgment was issued accepting the application for leave to appeal and dismissing the certification motion, further to the recommendation of the Supreme Court and with the plaintiff's consent.	Not estimated, but noted that it exceeds NIS 3 million.

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 contend with the changes in the Internet market and increase the focus on wholesale market bundles and fiber-optic-based services, while managing the subscriber attrition rate.

4.13.2 To expand and enhance its array of cloud-based solutions.

4.13.3 To consolidate Bezeq International's standing as a leading ICT player in Israel, and to undertake large-scale projects in the security and public sectors.

4.13.4 To increase customer satisfaction by strengthening and expanding service portals (automated services, social networks, etc.).

4.13.5 To streamline and implement synergy process with the Group's subsidiaries.

Regarding the promotion of synergy processes with the Group's other subsidiaries, see Section 1.8.

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 areas of business, see Section 4.6.

4.14.2 Frequent technological developments and infrastructure investments

Bezeq International's operations are characterized by frequent technological changes. The development of technologies constituting attractive alternatives to some of Bezeq International's products (such as WhatsApp, Skype and Zoom) may have a materially adverse effect on its operations. Furthermore, technological developments require frequent investment in infrastructure. See Sections 4.1.5.2 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, which could result in its being required to pay substantial sums that cannot be estimated and for some of which no provision has been made in the financial statements of Bezeq International. These class actions can come to high amounts, since a substantial proportion of the country's population are customers of Bezeq International, and a claim for damage in a small amount to an individual customer may become a material claim for Bezeq International if it is recognized as a class action covering all or a significant proportion of its customers. For information concerning legal proceedings to which Bezeq International is a party, see Section 4.12.

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. Bezeq International currently has several unresolved labor disputes.

4.14.8 Impairment of Bezeq International's assets

In accordance with generally accepted accounting standards, Bezeq International performs periodic impairment testing of assets with respect to which signs of impairment have been identified. For further information concerning the risk factor relating to identification of impairment losses, see Section 2.20.12. Regulatory changes in the Internet services market (see Section 1.7.2.2) may adversely affect Bezeq International's results and/or impair its assets. Regarding the effects of dealing with Bezeq International customers that do not use ISP services on the value of Bezeq International's assets, see Section 4.4.

4.14.9 Pandemic

At the beginning of 2020 the coronavirus broke out and spread across the world, further to which Bezeq International is monitoring developments in connection with this outbreak as well as pandemic events in general and examining actual and potential implications on its business operations. These implications have been and may potentially be reflected, among other things, in impairment of the supply chain and the customer service network. According to Bezeq International's estimates, as at the Reporting Date, no material decrease in revenues is expected that can be attributed to the outbreak of the pandemic. Nonetheless, this is by nature an evolving event that is not within Bezeq International's control, therefore the continued spread of the virus or decisions by countries and the authorities in Israel and around the world in this regard may affect the Bezeq International accordingly.

4.14.10 Cash flow

Bezeq International must maintain an adequate cash flow to keep up its long-term business plan. Cash flow may be adversely affected in cases of planning gaps as well as difficulties in collecting payments from customers or from telecom operators. The lack of an adequate cash flow may impact negatively on Bezeq International's business operations and hamper its ability to contend with competitive threats.

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[56].

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[57]	
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	
Cash flow	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.

[56] See footnote 40

[57] 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 operating segment

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 declared monopoly under the Competitions Law in the multi-channel television broadcasting sector ("**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 5.15.2).

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 (through Sting TV, yes+ and yesGo services; for further information see Sections 5.2.2.1, 5.2.2.2 and 5.2.2.3), 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 the Reporting Date, most 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[58]

D. DTT network

A digital terrestrial television broadcasting system (DTT) known as Idan+ through which certain channels[59] are broadcast to the public, free of charge. The system, as at the 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.

[58] DBS is a shareholder of Zira Ltd., which acts to prevent infringement of video content copyrights over the internet.

[59] As at the 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.

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.

As at the 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 "registered content provider"[60] 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[61], 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, Partner and Cellcom offer their services together with the other communications services they provide, including as part of bundles which are not unbundleable (such as the Triple bundles providing fixed-line telephony, Internet and TV services). For information pertaining to additional communication services provided by these telecommunication groups, see Section 1.7.1. For information concerning unbundleable 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 the 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 5.15.2.

For information on changes in the number of DBS subscribers, see Section 5.6.1.

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 operating segment

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

[60] A "registered content provider" is defined in the Broadcasting Distribution Law as a content provider that is registered in the register. A "content provider" is defined in the Broadcasting Distribution 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.

[61] To the best of DBS's knowledge, as at the Reporting Date, such commercial channels are Channels 12 and 13.

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.

In 2017, the Minister of Communications adopted most of the recommendations of the advisory committee on the regulation of satellite and cable broadcasting and content and sent on some of them for review by special purpose taskforces. In addition, in recent years a number of legislative initiatives were published that are not yet completed:[62]

Memorandum on the Communications (Telecommunications and Services) (Regulation of Content Providers) Law (Amendment No. _), 2018, which is intended to change the regulatory regime in the multi-channel television market and adapt it to technological developments, while subjecting audio-video content providers transmitting content to the Israeli public to regulation, under certain conditions, encouraging competition and reducing the regulatory burden; a government bill from 2018, which deals, among other things, with the must-sell obligation of sports content, including granting a license for the broadcasting of a sports channel or a significant sports enterprise by the producers thereof..

In September 2020, the Minister of Communications appointed a Committee to Examine Meta-Regulation of the Broadcasting Sector, headed by former MK Roy Folkman ("**Folkman Committee**"), so that it should formulate recommendations with respect to the regulatory principles applicable to the broadcasting sector, given the prevailing trends in Israel and around the world in this sector and propose amendments to the relevant laws. According to the committee's terms of reference, it must act to reduce regulation and focus it on issues requiring regulation at the present time, with emphasis on promoting market competition. The committee must formulate its recommendations taking into consideration reports of previous committees that examined the sector, and having regard to the aforesaid law. The Committee has invited public comment on the key issues on its agenda, and accordingly, DBS submitted its comments to the committee. As at the present time, the committee has not yet submitted its recommendations.

Since the committee has not yet submitted its recommendations, which require the approval of the Ministry of Communications and apparently also suitable legislative amendments, and the legislative initiatives mentioned above have not yet been enacted into binding law, as of the Reporting Date DBS is unable to assess whether these recommendations or legislative initiatives will in fact be legislated, in full or in part, and in what form, and it is also unable to assess the effect of such legislative amendments on DBS's business, to the extent they are adopted and depending on their wording and the manner of their adoption.

These assessments of DBS are forward-looking information, as defined in the Securities Law, based, inter alia, on the conclusions of the Folkman Committee, prior decisions of the Ministry of Communications (see Section 5.1.2), and the wording of the legislative initiatives. There is no certainty that this issue will be legislated or regulated in general, and in the proposed manner in particular. These assessments may not be realized, or they may be realized in a materially different manner than expected, depending, among other things, on the actual manner of implementation of the Folkman Committee's conclusions, the Council's decisions, the Minister's decisions and the legislative amendments that will be formulated pursuant thereto. For information about possible effects on OTT services, see Section 5.15.2.

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 operating segment 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.

[62] 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.

5.1.4.3 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 5.15.2).

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.

5.1.4.9 Attractive price.

5.1.5 Main entry and exit barriers for the operating segment

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 and variety 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. 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.

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 services from satellite TV to OTT services. For information concerning the migration process see Section 5.18.1.

5.2.1 Satellite broadcasting and related services

DBS satellite broadcasts include linear channel broadcasts (approximately 150 channels, of which 35 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 DBS's broadcasting license and the Council's decisions, DBS's satellite broadcasts include a basic package that every subscriber is required to purchase (along with additional basic packages which DBS is permitted to offer), as well as additional subscriber selectable channels, either as packages or as individual channels.

DBS provides subscribers to 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 5.15.2.

Satellite TV services are offered in an expanded bundle that contains the vast majority of the linear channels and VOD services, which is purchased by most of the Satellite Subscribers, as well as in bundles with more limited content (with subscribers able to purchase additional channels that are not included in any of the bundles they purchased).

5.2.2 OTT services

DBS offers several OTT services:

5.2.2.1 yes+

DBS offers the yes+ service, which includes linear TV channels, as well as VOD content offered in several bundles, the most prevalent among them being similar in scope to the expanded bundle offered to satellite subscribers. An advanced technology interface including advanced features not available on the satellite interface. The service is provided via suitable streamers. The services can be used independently or in parallel with the satellite service.

5.2.2.2 Sting TV

DBS operates the Sting TV service, which includes linear TV channels and VOD content, and is intended for customers who are not satellite subscribers. The service is offered in several viewing bundles that do not include the full range of content offered as part of DBS's other services, at relatively low prices. The service is provided via suitable streamers and other suitable terminal devices.

5.2.2.3 yesGo

DBS also operates the 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.

5.3 Revenue of products and services

Following is a table containing a breakdown of DBS' revenues (in NIS millions):

	2020	2019	2018
Revenue from broadcasts and multi-channel television services to subscribers	1,254	1,316	1,431
Percentage of revenue	97%*	98%*	97%*

* 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 the 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 the 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, as well as Cellcom, Partner and Netflix.

Breakdown of DBS’s subscriber numbers and market shares[63], to the best of its knowledge, as at December 31, 2019 and 2020[64]:

63 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 2019 and 2020 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 2020), and of HOT , where with regard to 2019 and 2020 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.

64 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.

2019		2020	
Subscribers (in thousands)	Market share	Subscribers (in thousands)	Market share
555	32%	557	32%

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, using different broadcasting methods, via various technological interfaces and various customer service formats.

5.6.3.2 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 satellite infrastructure does not enable bidirectional communications, does not enable provision of VOD services and does not enable transmission of telephony and Internet services, as opposed to 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.

B. Regulatory restrictions -

For information regarding restrictions on marketing joint service bundles see Section 5.15.3.

For information regarding restrictions under the Commissioner's conditions for a merger with the Company, 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. The establishment of the wholesale market reform as set out in Section 1.7.3, which does not allow DBS to purchase services from the Company, could facilitate the entry of new players and the establishment of a foothold by them.

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 the 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 a few months and two 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.

5.8.3 OTT terminal equipment

yes+ and Sting TV 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. 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 located in Ella Valley from where it transmits its broadcasts by satellite and via the OTT systems. The broadcasting centers contain reception and broadcasting equipment, as well as computer and communication systems. The secondary broadcasting center is partly operated at the premises of a third party which provides DBS a part of the secondary broadcasting center operating and maintenance services under a framework agreement 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.

The agreement with Synamedia regarding the satellite system is valid until February 2026, subject to the terms of the agreement, 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. See also Section 5.18.1.

With regard to the services and products provided under this agreement, DBS pays 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.

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 also uses the Salesforce software program together with Pelephone and Bezeq International in accordance with Pelephone's agreement with Salesforce (for details see Section 3.8.4).

DBS is dependent upon the NetCracker and Salesforce 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 (including as a function of the agreement with Salesforce) could cause operational difficulties until the fault is repaired or the system/supplier is replaced, which could take a long time. As at the Reporting Date, part of the agreement components with NetCracker are renewed annually and some are valid until the end of 2023. The agreement with Salesforce is until the end of 2025.

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.

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 ("**Copyright 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.

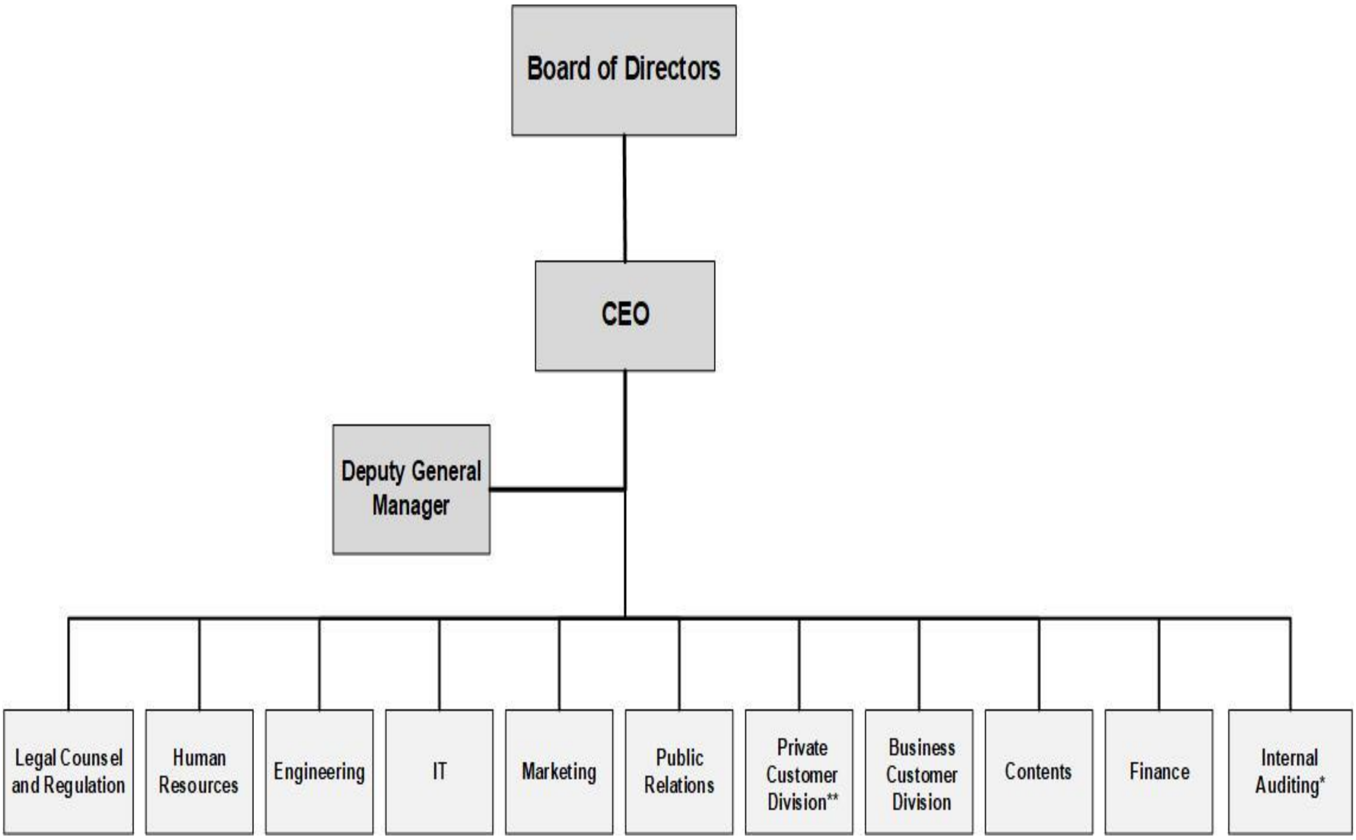
This estimate by DBS is a forward-looking statement, based among other things on estimates by DBS, including regarding the amount of use of the content and the positions of the various organizations, and should any of them change, this estimate may change accordingly.

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 the 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 divisions, each of which is headed by a VP who is a member of the DBS management.



(*) The Internal Auditor is an employee of Pelephone.

(**) 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	
	31.12.2020	**31.12.2019**
Head office employees	382	411
Customer Division	847	924
Total	**1,229**	**1,335**

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, 2020 was 1,120.

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.

A special collective agreement, which was signed in 2016 and amended in 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.

Additionally, in January 2018, a special collective agreement was signed that regulated the parties' actions concerning implementation of reforms and structural changes that were at that time on the table.

In 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 bonus will be given to employees who will not be included in the retirement plan. Under the arrangement, it was agreed to cancel all pending labor disputes. 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 dialogue 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. Regarding equity-based compensation from the Company for some of DBS's officers, see Section 2.9.6.

5.12 Trade payables

For information concerning an agreement with Spacecom, see Section 5.16

For information concerning an agreement with Synamedia, see Section 5.8.5

For information concerning agreements with NetCracker and Salesforce, 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'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 March 2021, the Company approved a credit facility or a capital investment for DBS of up to NIS 150 million over a period of 15 months, beginning January 1, 2021. The foregoing approval replaces a similar approval given in November 2020 (and is not in addition thereto).

5.14 Taxation

For further information, see Note 7 to the 2020 Financial Statements.

5.15 Restrictions on and supervision of DBS

5.15.1 Regulation of satellite broadcasts

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.

5.15.1.1 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[65] 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..

5.15.1.2 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 the 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.

DBS is obligated to notify the Council chairperson regarding every change in the DBS price list that was approved by the Council and the chairperson may, in certain cases, may prohibit the change in the price list. The Council chairperson may intervene in campaigns or discounts 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.

5.15.1.3 Obligation to invest in local productions

Under the provisions of the broadcasting license and the Council's decisions, in each of the years 2020 and 2021, DBS is required invest no less than 8% of its

[65] As at the 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.

revenue from subscription fees[66] 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 December 2020, the Council decided to defer until 2022 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 2021, 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.

5.15.1.4 Requirement to transmit channels

DBS is obligated to transmit in the satellite broadcasts the "mandatory channels," as determined by the Minister and in 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 broadcasts of small channel licensee 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.

5.15.1.5 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.

The broadcasting license also includes provisions regarding the subscriber service terms, including discrimination prohibition.

Regarding a hearing published by the Ministry of Communications in January 2021 with respect to a requirement from communications providers to provide information about the use of communications services, see Section 1.7.4.11.

Regarding a preliminary request by the Council for data in connection with inactive subscribers, see Section 1.7.4.13.

5.15.1.6 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.

5.15.1.7 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

[66] Based on DBS Satellite Subscriber revenues in the past year, including DBS revenues from terminal equipment and installations. According to the Council's position that actual investment are being made, although DBS disagrees with this, these revenues also include revenues from VOD services for satellite subscribers.

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 the Reporting Date, NIS 40 million).

5.15.2 Regulation of OTT services

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 Law. DBS believes that also the VOD services it provides via the Internet to Satellite Subscribers (see Section 5.2.1) are 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 also to regulate DBS's VOD services.

For information concerning the examination the regulation of OTT services see Section 5.1.2.

If regulation is applied to OTT content broadcasting as aforesaid, 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 entities operating in the OTT market.

DBS's assessments in this regard are forward-looking information, as defined in the Securities Law, based in part on the Folkman Committee's conclusions, previous decisions of the Ministry of Communications (see Section 5.1.2) and the wording of the proposed legislation. It is uncertain that this matter will be regulated by legislation or by any regulation in general, or in the proposed manner in particular. These assessments may not be realized or may be realized in a materially different manner than expected, among other things, depending on how the Folkman Committee's conclusions, the Council's decisions, the Minister's decisions and the legislative amendments formulated pursuant thereto are actually implemented.

5.15.3 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 "unbundling" 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 unbundling obligation does not apply.

With regard to conditions published by the Commissioner with regard to the merger of the Company and DBS, and the amendment being considered in regard thereto, 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.

5.16 Material Agreements

Following is a brief description of the main points of the agreements likely to be considered as material agreements outside the ordinary course of DBS's business, which were signed and/or were in force in the reporting period:

Space segment leasing agreement[67]

Under the 2013 agreement with Spacecom[68], 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[69] (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 2022 (following the exercise of the extension option).

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[70], positioning of Amos 8 is not expected before February 2022, if at all[71]. Consequently, even though the term of the original agreement with Spacecom is until 2028, based on 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.[72] 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.

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67 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.

68 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.

69 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, included herein by way of reference.

70 According to Spacecom reports, the agreement for the construction of Amos 8 was canceled by Spacecom in 2018.

71 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, included herein by way of reference.

72 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.

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[73]. For further information concerning the Spacecom Agreement, see amending transaction report and notice of convening of a Special General Meeting of the Company dated March 26, 2017 and immediate report on the results of the Company's General Meeting of the Company dated April 3, 2017, included herein by way of reference.

Leasing fees in 2020 amounted to NIS 75 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, unavailability of the space segments that DBS uses, or lack of redundancy of the Amos 3 satellite as at the end of the Amos 7 lease, see Section 5.19.3.4. Regarding dependence on Spacecom see Section 5.19.3.5.

5.17 Legal Proceedings[74]

5.17.1 Pending legal proceedings

	Date	Parties	Court	Type of Action	Details	Amount of claim
A.	June 2015	Customer v. DBS	Central District Court	Financial claims together with motions to certify them as class actions	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 petitioner requests non-monetary compensation for the members of the group represented and to allow every subscriber to receive the conditions received by returning subscribers ("**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, contrary to the provisions of its license and by law. The additional petitioner 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 petitioner 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 the two certification motions. 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	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.

[73] The Spacecom Agreement also establishes DBS's right of early termination of the Agreement in February 2021 due to a delay in the entry into effect of the Amos 8 construction agreement. DBS notified Spacecom that it would not exercise this right.

[74] For information concerning reporting policies and materiality, see Section 2.18.

	Date	Parties	Court	Type of Action	Details	Amount of claim
					to transfer the hearing on the motions to the other court, as aforesaid. In its decision of March 2018 to approve 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 certification motions. Furthermore, after the parties to the proceedings submitted their summations to the court, in July 2018, a hearing was held on all the certification motions filed against all the communications companies, during which the court recommended that the plaintiffs consider withdrawing the certification motions with compensation, and ruled that, if the recommendation is not accepted by September 2018, the court will hand down its ruling on the certification motions. 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 certification motions. In December 2019, The Tel Aviv District Court handed down a judgment dismissing all the certification motions. In January 2020 the petitioners in the First Motion filed an appeal against the judgment with the Supreme Court. In February 2021, in a hearing on the appeal of the First Petitioner, and in the other appeals conducted in consolidation with that appeal, the Supreme Court recommended to all the appellants, including the First Petitioner, to withdrawn their appeal, with no order for costs. Further to this, the First Petitioner gave notice of the withdrawal of her appeal. On February 16, 2021, the Supreme Court handed down a partial ruling, ordering the appeal of the First Petitioner to be struck out with no order for costs.	
B.	December 2020		Jerusalem District Court		For further information concerning an indictment filed in December 2020 by the State Attorney's Office (in the wake of an overt investigation initiated in June 2017, inter alia, against the former CEO and the former CFO of DBS, see Section 1.1.5.	
C.	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 (former) CEO of the Company and the (former)	Tel Aviv District Court (Economic Department)	Motion for certification of class actions	For further information concerning the motion for certification of a class action that was filed, inter alia, against the former CEO and the 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.	

	Date	Parties	Court	Type of Action	Details	Amount of claim
		CEO and CFO of DBS.				
B.	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	For information concerning a 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 2.18.1G.	
C.	June 2018	Shareholders of the Company against the Company, DBS and the Company's former controlling shareholders	Tel Aviv District Court (Economic Department)	Motion for discovery and inspection 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. Elovitch**"), 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.	September 2014	Customer v. DBS	Tel Aviv District Court	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 petitioners petitioned the court for relief for the inconvenience caused to the customers of DBS, harassment, loss of time, etc. and relief in an amount to 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 damage only, and the petitioners' claims of monetary damage were rejected. In June 2020, the Supreme Court handed down a ruling that in lieu of the certification decision, the petitioners would withdraw the certification motion and would be paid an award of NIS 100,000.	NIS 402 million (with additional remedy requested as the court will find at its discretion).

5.18 Goals and Business Strategy

5.18.1 DBS's goals are to retain its market share, 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.

Beginning in 2019, DBS is implementing a plan for migration from satellite broadcasts to OTT broadcasts, in a long-term, gradual process that is expected to be spread over a period of up to seven years (beginning 2026), pursuant to a resolution of the boards of directors of DBS and the Company. This decision was made in light of trends in the television content market that include lower entry barriers, emergence of new players, establishment of OTT broadcasting technologies, changes in the value chain, and changes in consumer habits, together with the differences between the technology of the older satellite broadcasts and the technology of OTT broadcasts with all its inherent advantages (considering also aspects of equipment, commitments and content rights). In accordance with the resolution, DBS will closely monitor market conditions, the competitive and the technological environment, and will regularly assess the feasibility of the plan and the need, if any, for making adjustments to the plan, the pace at which it is carried out or the manner of its implementation, also taking into account customer requirements as well as regulatory and other obligations of DBS.

As this concerns a plan for migration in a gradual, multi-annual process, with close monitoring, there can be no certainty at this stage regarding the actual time it will take to implement the process and/or that the process will be completed and the stated migration take place. If the migration is completed, it is expected to lead to a savings in DBS costs and better compatibility with changing market conditions.

As of the date of approval of the financial statements, 25%[75] of all DBS subscribers use yes+ and Sting TV services that are transmitted over the Internet (as stated in Sections 5.2.2.1 and 5.2.2.2 above).

5.18.2 To achieve these goals, along with efforts to reduce costs, DBS invests considerable effort in marketing and sales, and in appropriate marketing strategies designed to continue to attract new subscribers and to retain existing customers; continually improve the array of services to subscribers; improve the added value offers to customers; create differentiation and innovation in its broadcasting content; offer diversified products (low cost and premium) 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 implement the OTT services migration plan, while increasing the rate of penetration of advanced services among its subscribers, in such a manner as to increase DBS revenues and subscriber loyalty to DBS's services.

5.18.3 DBS’s foregoing goals, including with respect to the migration outline plan 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.

[75] This rate also includes subscribes that also use satellite services in parallel.

5.19 Discussion of Risk Factors

Following is a list of the threats, weaknesses and other risk factors of DBS ("**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 the coronavirus broke out and spread across the world, further to which DBS is monitoring developments concerning the implications of the coronavirus pandemic and the resulting legislative restrictions that have affected and will continue to affects its business operations. These implications are and may potentially be reflected, among other things, in impairment of the supply chain (including streamers) and the customer service network. As at the Reporting Date, there is no expectation of a significant decline in DBS's revenues that can be attributed to the effects of this outbreak. Nonetheless, this is by nature an evolving event that is not within DBS's control, and therefore the continuation and increasing severity of the coronavirus pandemic and/or decisions by countries and the 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 the Reporting Date (for information regarding the possibility of the regulation of these services, see Section 5.15.2). 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 Section 5.1.7) and consumer preferences requiring DBS to regularly and continuously 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.

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, resulting in a material impact on DBS's business status and competitive ability (see Section 5.15.3).

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 5.15.1.1).

5.19.3.3 Existence of sufficient cash flow - DBS is required to maintain a cash flow that 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 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, unavailability or termination of satellite services - 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 the Reporting Date, also in view of the partial backup mechanism prescribed in the Spacecom agreement (whose nature and scope will depend on the identity of the backup satellite), 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). However, in DBS's estimation, said duplication of satellites 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.

Termination of the receipt of satellite services, for any reason (including due to the expiration of the agreement), prior to completion of the migration to OTT broadcasting with respect to a substantial number of DBS subscribers, may result in impairment of DBS's revenues.

Progress in or acceleration of the process of migration to OTT broadcasting may reduce the aforementioned detrimental effects arising from malfunction, damage, unavailability or termination of the satellite services.

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 and 5.10.2), 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 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's 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.

[76] See footnote 67.

[77] See also footnote 67.

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 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 databases, violation of subscriber privacy, 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 Defects in or bypassing of the encryption system – DBS's satellite and OTT broadcasts are based on encryption of the broadcasts it transmits, including 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 satellite 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. Regarding OTT broadcasting, disruptions may occur in the quality and/or availability of the broadcasts due to disruptions in or unavailability of the Internet infrastructure.

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 5.18.1) 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		
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.

[78] See footnote 40.

[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.

March 24, 2021	
Date	Bezeq – The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Gil Sharon, 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]

2020 Financials	-	The consolidated financial statements of the Company for the year ended December 31, 2020
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.
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
Cellcom	-	Cellcom Israel Ltd. and corporations under its control

[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.

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
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 a 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
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 Broadcasting License	-	License for satellite television broadcasts
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, 2020

The information contained in this report constitutes a translation of the report published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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, 2020.

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 on the financial statements.

For information on a restatement, see Note 1.5 to the financial statements.

For information on the **effects of the COVID-19 pandemic**, see Section 1.6 below.

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

1. **Domestic Fixed-Line Communications**
2. **Cellular Communications**
3. **Internet, International Communications and NEP Services**
4. **Multi-Channel Television**

It is noted that the Company's financial statements also include an "Others" segment, which comprises mainly call center services (through "Bezeq Online") and included up to December 2020 also online content services (through "Walla").
On December 27, 2020, the Company closed a transaction for the sale of all its holdings in Walla (see Note 13.4 to the financial statements). The "Others" segment is immaterial at the Group level.

The Group's results were as follows:

	2020	2019	Increase (decrease)	
		NIS millions		%
Profit (loss) for the year	**796**	(1,194)	1,990	-
EBITDA *	**3,292**	2,762	530	19.2
Adjusted EBITDA*	**3,659**	3,688	(29)	(0.8)

* Regarding non-GAAP based financial measures, see below.

The increase in profit was primarily due to the records presented below from the same period last year that affected the operating profit – NIS 951 million in impairment losses on goodwill in the Cellular Communications segment, partially offset by NIS 403 million in capital gains on the sale of a land asset in the Sakia complex.

In addition, the change in profit was also due to the write-off of the NIS 1.166 billion tax asset for DBS's losses in the same period last year, as well as lower finance expenses. For more information, see Section 1.2.1 below.

*** Non-GAAP Based Financial Measures**

As of the report date, the Group's management is aided by non-GAAP based financial performance measures for the evaluation and presentation of the Group's financial performance. These measures are not a substitute for the information included in the Company's financial statements.

These measures include:

Index	Index Calculation and Objectives
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	The EBITDA index is a generally accepted metric in the Group's area of operations, which offsets effects arising from the variance in capital structure, various tax aspects and the depreciation/amortization method and period for fixed and intangible assets. The Group's EBITDA is calculated as operating profit before 'depreciation, amortization, and impairment' (including continuing losses from impairment of fixed and intangible assets, as described in Notes 3.10.2 and 11.5 to the financial statements).
Adjusted EBITDA	This is calculated as EBITDA adjusted for net other operating expenses/income and net one-time losses/profits from impairment/appreciation and issuance of options to employees. This index enables comparisons of operating performance between different periods of time after adjustment for one-time effects of unusual expenses/income. Adjusted EBITDA is not to be equated with other similarly designated indices reported by other companies, owing to a possible difference in calculating the index.

The indices were calculated as follows:

	2020	2019
	NIS millions	**NIS millions**
Operating profit	**1,455**	850
Net of depreciation, amortization and impairment	**1,837**	1,912
EBITDA	**3,292**	2,762
Net of impairment loss	**293**	1,147
Net of other operating expenses (income), net	**74**	(221)
Adjusted EBITDA	**3,659**	3,688

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, 2020	December 31, 2019	Increase (decrease)		
	NIS millions			%	Explanation
Cash and current investments	**1,564**	1,595	(31)	(1.9)	For more information, see Section 1.4 below.
Current and non-current trade and other receivables	**2,313**	2,496	(183)	(7.3)	The decrease was mainly attributable to the Domestic Fixed-Line Communications segment due to a decrease in other receivables from real estate sales, offset by an increase in trade receivables, and also attributable to the Cellular Communications segment, due to a decrease in trade receivables, offset by a frequencies grant receivable (see Note 11.1 to the financial statements).
Inventory	**73**	96	(23)	(24.0)	
Held-for-sale assets	**10**	43	(33)	(76.7)	
Broadcasting rights	**67**	59	8	13.6	
Right-of-use assets	**1,804**	1,308	496	37.9	The increase was attributable to the Domestic Fixed-Line Communications segment and the Cellular Communications segment, due to new lease agreements following the move to new offices. See Note 9.5 to the financial statements.
Property, plant and equipment	**6,131**	6,039	92	1.5	The increase was attributable to the Domestic Fixed-Line Communications segment, offset by a decrease in the Internet, International Communications and NEP Services segment, owing to recognition of asset impairment losses. See Note 11.6 to the financial statements.
Intangible assets	**929**	916	13	1.4	The increase was mainly due to recording of the cost of 5G frequencies in the Cellular Communications segment (see Note 11.1 to the financial statements). The increase was offset by recognition of asset impairment losses in the Internet, International Communications and NEP Services segment (see Note 11.6 in the financial statements).
Deferred costs and non-current investments	**242**	358	(116)	(32.4)	The decrease was mainly due to recognition of impairment losses on long-term prepaid expenses for bandwidth capacity and additional prepaid expenses in the Internet, International Communications, and NEP Services segment, totaling NIS 151 million (see Note 11.6 to the financial statements).
Deferred tax assets	**108**	81	27	33.3	The increase was mainly due to initial recognition of a deferred tax asset in respect of a tax loss from the sale of Walla (see Note 7 to the financial statements).
Total assets	**13,241**	12,991	250	1.9	

1.1 Financial Position (Cont.)

	December 31, 2020	December 31, 2019	Increase (decrease)		Explanation
	NIS millions			%	
Debt to financial institutions and debenture holders	**8,400**	9,558	(1,158)	(12.1)	The decrease in debt was due to loan repayments (including early repayments) and debenture repayments, offset by the issuance and expansion of debenture Series 11 and 12 in the Domestic Fixed-Line Communications segment. For more information, see Note 14 to the financial statements.
Liabilities for leases	**1,907**	1,385	522	37.7	The increase was attributable to the Domestic Fixed-Line Communications segment and the Cellular Communications segment, due to new lease agreements following the move to new offices. See Note 9.5 to the financial statements.
Trade and other payables	**1,759**	1,614	145	9.0	The increase was mainly attributable to the Domestic Fixed-Line Communications segment, due, among other things, to a higher tax liability.
Employee benefits	**817**	1,010	(193)	(19.1)	The decrease was due to payments for employee retirement and streamlining plans across the Group, offset by NIS 65 million in expenses for employee termination due to early retirement at the Company. See Note 17.5.1 to the financial statements.
Other liabilities	**508**	356	152	42.7	The increase stemmed mainly from a long-term liability in the Cellular Communications segment in respect of an award in a frequencies tender. See Note 11.1 to the financial statements.
Total liabilities	**13,391**	13,923	(532)	(3.8)	
Total equity deficit	**(150)**	(932)	782	(83.9)	The equity deficit comprises 1.1% of the balance sheet total, as compared to an equity deficit comprising 7.2% of the balance sheet total on December 31, 2019.

1.2. Results of operations

1.2.1. Highlights

	2020	2019	Increase (decrease)		Explanation
		NIS millions		%	
Revenues	**8,723**	8,929	(206)	(2.3)	The decrease was mainly attributable to the Cellular Communications segment, primarily due to the COVID-19 pandemic, which led to lower revenues from roaming services, and also attributable to the Internet, International Communications, and NEP Services segment and the Multi-Channel Television segment, offset by higher revenues in the Domestic Fixed-Line Communications segment.
General and operating expenses	**3,173**	3,308	(135)	(4.1)	The decrease was due to lower expenses in all the major Group segments, except the Domestic Fixed-Line Communications segment, coupled with a lower impairment loss on DBS broadcasting rights compared to a year ago. See Note 11.5 to the financial statements.
Salaries	**1,891**	1,933	(42)	(2.2)	The decrease was mainly attributable to the Cellular Communications segment, and to the Multi-Channel Television segment and Internet, International Communications, and NEP Services segment, primarily due to downsizing. This decrease was partially offset largely by higher salary expenses in the "Others" segment in Bezeq Online.
Depreciation, amortization and impairment	**1,837**	1,912	(75)	(3.9)	The decrease was attributable to the Internet, International Communications, and NEP Services segment, the Cellular Communications segment, and a lower impairment loss on intangible assets and PPE at DBS (see Note 11.5 to the financial statements), offset by an increase in the Domestic Fixed-Line Communications segment.
Impairment loss	**293**	1,147	(854)	(74.5)	In the current year, a NIS 307 million asset impairment loss was recognized for the Internet, International Communications, and NEP Services cash-generating unit (see Note 11.6 to the financial statements), compared to NIS 196 million a year ago. Likewise, following an agreement for the sale of all the Company's holdings in Walla, a profit was recognized for the reversal of a previously recognized impairment of NIS 14 million (see Notes 13.4 and 11.2 to the financial statements). During the corresponding period a year ago, a NIS 951 million goodwill impairment loss was recognized, attributable to the Cellular Communications cash-generating unit.
Other operating expenses (income), net	**74**	(221)	295	-	The change 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 recognized in the corresponding period last year. The change was partially offset mainly by expenses recognized in the corresponding period a year earlier for termination of employment by way of early retirement and a streamlining agreement in the other Group's segments. See Note 25 to the financial statements.
Operating profit	**1,455**	850	605	71.2	
Finance expenses, net	**371**	549	(178)	(32.4)	The decrease in net finance expenses was mainly attributable to the Domestic Fixed-Line Communications segment. See Note 26 to the financial statements.
Share in losses of investees	**-**	(2)	2	(100)	
Income tax	**288**	1,493	(1,205)	(80.7)	Taxes were down mainly due to the recognition in the corresponding period last year of NIS 1,166 million in tax expenses incurred as a result of the write-off of the tax asset due to DBS's losses. In the current year, a tax asset write-off of NIS 31 million was recorded for the Internet, International Communications, and NEP Services segment. On the other hand, a deferred tax asset of NIS 37 million was recognized in respect of a tax loss from the sale of Walla, in the Domestic Fixed-Line Communications segment. See Note 7 to the financial statements.
Profit (loss) for the year	**796**	(1,194)	1,990	-	

1.2.2. Operating segments

A. Revenue and operating profit data presented according to Group's operating segments:

	2020		2019	
	NIS millions	**% of total revenues**	**NIS millions**	**% of total revenues**
Revenues by operating segment				
Domestic Fixed-Line Communications	**4,159**	**47.7**	4,073	45.6
Cellular Communications	**2,186**	**25.1**	2,362	26.4
Internet, International Communications, and NEP Services	**1,271**	**14.6**	1,339	15.0
Multi-Channel Television	**1,287**	**14.7**	1,345	15.1
Others and adjustments	**(180)**	**(2.1)**	(190)	(2.1)
Total	**8,723**	**100**	8,929	100

	2020		2019	
	NIS millions	**% of segment revenues**	**NIS millions**	**% of segment revenues**
Operating profit (loss) by operating segment				
Domestic Fixed-Line Communications	**1,705**	**41.0**	2,142	52.6
Cellular Communications*	**(84)**	**(3.8)**	(99)	(4.2)
Internet, International Communications, and NEP services	**(241)**	**(19.0)**	(196)	(14.6)
Multi-Channel Television*	**(42)**	**(3.3)**	(135)	(10.0)
Others and adjustments	**117**	**-**	**(862)	-
Consolidated operating profit/ % of Group revenues	**1,455**	**16.7**	850	9.5

*** The results of Multi-Channel Television operations are presented net of the overall effect of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 31.3 for a summary of selected data from DBS's financial statements.**

**** A goodwill impairment loss attributable to the Cellular Communications cash-generating unit in 2019 is presented under the "Others and adjustments" item.**

1.2.2. Operating segments

B. Domestic Fixed-Line Communications Segment

	2020	2019	Increase (decrease)		
	NIS millions			%	Explanation
Internet - infrastructure	**1,622**	1,578	44	2.8	The increase stemmed primarily from higher retail ARPU, updates to the wholesale Internet service rates, and a rise in the number of retail Internet lines, mainly due to the COVID-19 pandemic. The increase was offset by a reduction in the number of wholesale internet lines.
Fixed-line telephony	**1,008**	1,039	(31)	(3.0)	Revenues were down due to a decrease in the number of lines, offset by higher average revenue per line (ARPL) owing to an increase in call revenues amid the COVID-19 pandemic.
Transmission, data communications and others	**1,241**	1,182	59	5.0	The increase was attributable, inter alia, to growth in revenues from transmission services for ISPs and businesses, and from sales of cellular terminal equipment.
Digital and cloud services	**288**	274	14	5.1	The increase was attributable, among other things, to IP Centrex services.
Total revenues	**4,159**	4,073	86	2.1	
General and operating expenses	**590**	565	25	4.4	Growth was posted mainly in interconnection services for telecom operators due to higher consumption, and in subcontractor services, expenses for doubtful debt provisions, advertising and terminal equipment costs. This increase was offset by a decrease in building maintenance costs, primarily due to municipal tax payment credits granted owing to the COVID-19 pandemic, and lower vehicle maintenance costs.
Salaries	**919**	911	8	0.9	Salary expenses decreased largely due to salary increases and actuarial provisions, offset by the retirement of employees and an increase in salaries attributable to investment.
Depreciation and amortization	**877**	861	16	1.9	
Other operating expenses (income), net	**68**	(406)	474	-	The change was due to lower capital gains on real estate sales, mainly attributable to a capital gain of NIS 403 million from the sale of a land asset in the Sakia property, which was recognized in the corresponding period last year. Additionally, the reporting year includes expenses in respect of a one-time employee bonus of NIS 40 million. On the other hand, there was a decrease in expenses recognized for termination of employment by way of early retirement, and a profit of NIS 22 million was recognized on the sale of Walla. See Notes 13.4, 17.5 and 25 to the financial statements.
Operating profit	**1,705**	2,142	(437)	(20.4)	
Finance expenses, net	**403**	569	(166)	(29.2)	The decrease was mainly attributable to lower finance expenses on employee benefits, reduced interest costs for repayment (including early repayment) of loans, lower linkage differentials for debentures owing to a drop in CPI, and costs for early repayment of loans that were lower in the reporting year than the costs for early repayment of loans and debentures that were recognized in the corresponding period last year. See Notes 14.2 and 26 to the financial statements.
Income tax	**262**	381	(119)	(31.2)	In the reporting year, a deferred tax asset was recognized on a tax loss of NIS 37 million from the sale of Walla (see Note 7 to the financial statements).
Segment profit	**1,040**	1,192	(152)	(12.8)	

1.2.2 Operating segments

C. **Cellular Communications segment**

	2020	2019	Increase (decrease)		
	NIS millions			%	Explanation
Services	**1,591**	1,709	(118)	(6.9)	The decrease was primarily due to the COVID-19 pandemic that led to lower revenues from roaming services, partially offset by higher revenues from incoming air time. In addition, there is continued migration of existing customers to cheaper plans offering greater data volumes at current market prices. This decrease was partially offset by growth in the post-paid customer base.
Equipment sales	**595**	653	(58)	(8.9)	The decrease was mainly attributable to lower retail sales due to the closure of points of sale as a result of COVID-19 lockdowns. The decrease was partially offset by increased wholesale sales.
Total revenues	**2,186**	2,362	(176)	(7.5)	
General and operating expenses	**1,329**	1,373	(44)	(3.2)	The decrease was mainly due to a decrease in the cost of goods sold and costs of roaming services as a result of the COVID-19 pandemic, as well as the continued cutting down and streamlining of operating expenses, which were offset by an increase in call completion charges owing to a rise in both subscribers and uses triggered by the COVID-19 pandemic.
Salaries	**324**	373	(49)	(13.1)	The decrease was mainly attributable to a continued reduction in the workforce as part of a streamlining plan, and placing of employees on unpaid leave amid the COVID-19 pandemic.
Depreciation and amortization	**599**	633	(34)	(5.4)	
Other operating expenses, net	**18**	82	(64)	(78.0)	The decrease was primarily due to the recording of expenses in 2019 in respect of renewal of the existing collective labor agreement that includes streamlining and synergy-promotion initiatives.
Operating loss	**(84)**	(99)	15	(15.2)	
Finance income, net	**(48)**	(39)	(9)	23.1	
Income tax (income)	**(11)**	(13)	2	(15.4)	
Segment loss	**(25)**	(47)	22	(46.8)	

For information concerning impairment in the Cellular Communications segment, see Note 11.3 to the financial statements.

1.2.2 Operating segments

D. Internet, International Communications, and NEP Services

	2020	2019	Increase (decrease)		Explanation
	NIS millions			%	
Revenues	**1,271**	1,339	(68)	(5.1)	The decrease was mainly due to lower revenues from international calls and internet operations and shrinking sales of equipment and licensing to businesses. The decrease was slightly offset by higher revenues from services to businesses.
General and operating expenses	**802**	827	(25)	(3.0)	The decrease was due to lower expenses on licensing and equipment sales to businesses, reduced international call expenses and a decline in other operating expenses. The decrease was partially offset by higher expenses on the sale of communication and computerization services to businesses and local bandwidth capacity.
Salaries	**248**	261	(13)	(5.0)	The decrease was due to continued workforce downsizing as part of the streamlining plan.
Depreciation and amortization	**149**	190	(41)	(21.6)	The decrease stemmed from asset impairments recognized as at December 31, 2019 and September 30, 2020.
Other operating expenses	**313**	257	56	21.8	In the present year, an asset impairment loss was recognized of NIS 307 million, as compared to NIS 196 million in the corresponding period last year (see Note 11.6 to the financial statements). Additionally, in the same period last year, costs were recognized in respect of a collective labor agreement and an adjustment of provisions for legal actions.
Operating loss	**(241)**	(196)	(45)	23.0	
Finance expenses, net	**2**	6	(4)	(66.7)	
Income tax expenses (income)	**32**	(45)	77	-	In the present year, deferred tax assets were written off, due to the low likelihood of future tax profits being generated in the coming years.
Segment loss	**(275)**	(157)	(118)	75.2	

1.2.2. Operating segments

E. **Multi-Channel Television ***

	2020	2019	Increase (decrease)		Explanation
	NIS millions			%	
Revenues	**1,287**	1,345	(58)	(4.3)	The decrease was primarily due to a decline in ARPU, as a result of a change in subscriber mix from "premium" to "discount," offset by revenues from the sale of content to external bodies.
General and operating expenses	**838**	895	(57)	(6.4)	The decrease was mainly due to lower marketing and content costs, and streamlining of operating expenses.
Salaries	**195**	209	(14)	(6.7)	The decrease was mainly attributable to a continuing reduction of the workforce as part of the streamlining plan, and the placing of employees on unpaid leave amid the COVID-19 pandemic.
Depreciation and amortization	**310**	334	(24)	(7.2)	The decrease was mainly due to declining investments in fixed assets (PP&E).
Other operating expenses (income)	**(14)**	42	(56)	-	The change was primarily attributable to expenses recognized on an employee retirement arrangement in the corresponding period last year.
Operating (loss)	**(42)**	(135)	93	(68.9)	
Finance expenses, net	**13**	12	1	8.3	
Income tax	**2**	2	-	-	
Segment loss	**(57)**	(149)	92	(61.7)	

* **The results of Multi-Channel Television operations are presented net of the overall effect of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. For more information, see Notes 11.5 and 28 to the financial statements. In addition, see Note 31.3 for a summary of selected data from DBS's financial statements.**

1.3. Highlights from the Group's consolidated quarterly statements of income (NIS millions)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2020	Explanation
Revenues	2,187	2,155	2,178	2,203	8,723	
Operating expenses	1,728	1,644	1,989	1,907	**7,268**	The third quarter includes NIS 282 million in losses on impairment of assets in the Internet, International Communications and NEP Services segment, and the fourth quarter includes a further loss of NIS 25 million in this segment. See Note 11.6 to the financial statements. The fourth quarter includes NIS 65 million in expenses from termination of employment by way of early retirement, as well as expenses of NIS 40 million for a one-time employee bonus in the Domestic Fixed-Line Communications segment. See Note 17.5 to the financial statements
Operating profit	459	511	189	296	**1,455**	
Finance expenses, net	34	159	80	98	**371**	In the second quarter, the Company recognized NIS 51 million in finance costs in respect of an early repayment charge for early repayment of a loan.
Profit after finance expenses, net	425	352	109	198	**1,084**	
Income tax	98	83	83	24	**288**	
Profit for the period	327	269	26	174	**796**	

<u>* Fourth quarter 2020 vs. fourth quarter 2019</u>

Profit for the fourth quarter totaled NIS 174 million, as compared to a loss of NIS 87 million in the same quarter last year. This change was mainly due to last year's corresponding quarter including an asset impairment loss in the Internet, International Communications and NEP Services segment totaling NIS 196 million (as compared to NIS 25 million in the current quarter), as well as higher expenses from termination of employment by way of early retirement in the Domestic Fixed-Line Communications segment totaling NIS 137 million, and in the Cellular Communications segment totaling NIS 77 million.

1.4. Cash Flow

	2020	2019	Change		
	NIS millions			%	Explanation
Net cash from operating activities	**3,220**	2,924	296	10.1	The decrease in net cash from operating activities stemmed primarily from the Domestic Fixed-Line Communications segment, mainly as a result of higher profits and lower income tax paid.
Net cash from investing activities	**(839)**	(883)	44	(5.0)	In the reporting year, there is mainly an increase in net proceeds from redemption of bank and other deposits in the Domestic Fixed-Line Communications segment, as well as net proceeds of NIS 44 million from the sale of Walla, offset by net inflows from the sale of the Sakia property, included in the same period last year.
Net cash used in financing activities	**(1,941)**	(2,531)	590	(23.3)	Net cash used in financing activities was down mainly due to a decrease in loan and debenture repayments and in interest paid, owing primarily to early repayment of loans and debentures in the corresponding period last year in the Domestic Fixed-Line Communications segment, offset by fewer new loans and debenture issuances. In addition, early repayment costs were lower. For more information, see Note 14 to the financial statements.
Net increase (decrease) in cash	**440**	(490)	930	-	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders - NIS 9,363 million.

Supplier credit: NIS 955 million. Short-term credit to customers: NIS 1,678 million. Long-term credit to customers: NIS 283 million.

1.4 Cash Flows (cont.)

Working Capital

As of December 31, 2020, the Group had a working capital deficit of NIS 113 million, as compared to a working capital deficit of NIS 63 million on December 31, 2019.

According to its separate financial statements, the Company had a working capital deficit of NIS 82 million as of December 31, 2020, as compared to a working capital deficit of NIS 44 million on December 31, 2019.

The increase in the Group's and the Company's working capital deficit was due to a decrease in current assets, mainly in receivables in respect of building sales and current investments, offset by a decrease in current liabilities, mainly following loan and debenture repayments coupled with the raising of longer-duration debt (see Note 14 to the financial statements), and owing to payment of employee retirement benefits.

Regarding **projected cash flows**, see Chapter 1.5 below.

The Company's Board of Directors has reviewed, among other things, both the Company's and Group's cash requirements and resources, at present and in the foreseeable future, as well as their investment needs and available credit sources, and has conducted a sensitivity analysis for the effect of unforeseen deterioration in the Company's and Group's business. Based on the review, the Company's Board of Directors has determined that the aforesaid working capital deficit does not indicate any liquidity problem in the Company or in the Group and that there is no reasonable concern that the Company and the Group will fail to meet their existing and foreseeable obligations on time. The Company and the Group can meet the present and foreseeable cash requirements, even in the event of an unexpected deterioration in their business, by means of their available cash balances, by generating cash from operations, by using sources of liquidity (net) in subsidiaries, and by raising and refinancing significant volumes of debt from bank and non-bank sources.

The above information includes forward-looking information, based on the Company’s assessments concerning liquidity. Actual data may differ materially from these assessments if there is a change in any of the factors taken into account in preparing 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 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, 2021 and ending December 31, 2022.

Projected cash flows	From January 1, 2021 through December 31, 2021	From January 1, 2022 through December 31, 2022
Company - separate	**NIS millions**	**NIS millions**
Cash and cash equivalents at the beginning of the period	***431**	**794**
Sources - Company		
Net cash from operating activities	**1,876**	**2,009**
Proceeds from the sale of property, plant and equipment	260	67
Proceeds from redemption of bank and other deposits	754	434
Miscellaneous	8	3
Total cash from investing activities	**1,022**	**504**
Debenture issuance and new loans	300	650
Total cash from financing activities	**300**	**650**
Total sources - Company	**3,198**	**3,163**
Sources from investees		
Loans from investees	300	259
Miscellaneous	22	-
Total cash from investees	**322**	**259**
Total sources	**3,520**	**3,422**
Projected liabilities (expected uses) - Company		
Acquisition of fixed assets and investment in intangible assets	(1,105)	(1,027)
Investment in bank and other deposits	(464)	-
Total cash used in investing activities	**(1,569)**	**(1,027)**
Repayment of bank loans	**(402)	**(306)
Repayment of debentures (public)	(558)	(864)
Repayment of private debentures and non-bank credit	(98)	(77)
Principal and interest payments on leases	(115)	(130)
Interest payments and other finance expenses	(276)	(254)
Miscellaneous	(40)	(47)
Total cash used in financing activities	**(1,489)**	**(1,678)**
Total uses - Company	**(3,058)**	**(2,705)**

* As of the report date, the Company has NIS 724 million invested in deposits and money market funds which can be realized in the short term.

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

1.5 Disclosure on the Company's projected cash flows (cont.)

Projected cash flows	**From January 1, 2021 through December 31, 2021**	**From January 1, 2022 through December 31, 2022**
Company - separate	**NIS millions**	**NIS millions**
Uses for investees		
Investment in a subsidiary	(63)	(45)
Repayment of loans from subsidiaries	-	(160)
Interest payment	(36)	(43)
Total cash used in investees	**(99)**	**(248)**
Total uses	**(3,157)**	**(2,953)**
Cash and cash equivalents at the end of the period	**794**	**1,263**

1.5 Disclosure on the Company's projected cash flows (cont.)

Comparison between the forecast presented in the Board of Directors' Report for 2019, and actual cash flows in the period between January 1, 2020 and December 31, 2020:

Comparison - separate Company cash flows	Actual performance 1-12.2020	Forecast 1-12.2020	Difference	Explanation for difference
		NIS millions		
Cash and cash equivalents at the beginning of the period	**134**	**134**	**-**	
Separate Company sources				
Net cash from operating activities	**2,106**	**1,833**	**273**	The difference stemmed from demand for Bezeq services during the COVID-19 pandemic, changes in employee retirement benefits and timing differences.
Proceeds from the sale of property, plant and equipment	146	290	(144)	Timing differences in asset sales.
Proceeds from redemption of bank and other deposits	1,785	1,139	646	Direct result of management of the Company's ongoing cash flows.
Miscellaneous	72	58	14	
Total cash from investing activities	**2,003**	**1,487**	**516**	
Debenture issuances and new loans	718	550	168	The difference stemmed from raising more debt than initially forecast in light of favorable market conditions.
Total cash from financing activities	**718**	**550**	**168**	
Total separate Company sources	**4,827**	**3,870**	**957**	
Loans from subsidiaries	45	90	(45)	Decrease in loans due to subsidiaries' profitability being adversely affected.
Repayment of loans from subsidiaries	48	48	-	
Miscellaneous	*21	1	20	
Cash from subsidiaries	114	139	(25)	
Total sources	**4,941**	**4,009**	**932**	

*Reclassified

1.5 Disclosure on the Company's projected cash flows (cont.)

Comparison - separate Company cash flows (cont.)	Actual performance 1-12.2020	Forecast 1-12.2020	Difference	Explanation for difference
	NIS millions			
Projected liabilities (expected uses) - Separate				
Acquisition of fixed assets and investment in intangible assets	(910)	(854)	(56)	Mainly growth in procurement of terminal equipment for the Company's customers.
Investment in bank and other deposits	(1,335)	(100)	(1,235)	Direct result of management of the Company's ongoing cash flows.
Total cash used in investing activities	**(2,245)**	**(954)**	**(1,291)**	
Repayment of bank loans	(704)	(344)	(360)	Early loan repayments
Repayment of debentures (public)	(555)	(564)	9	
Repayment of private debentures and non-bank credit	(562)	(562)	-	
Principal and interest payments on leases	(111)	(112)	1	
Interest payments and other finance expenses	(378)	(355)	(23)	
Miscellaneous	(57)	(14)	(43)	Payments for hedging transactions
Total cash used in financing activities	**(2,367)**	**(1,951)**	**(416)**	
Total separate Company uses	**(4,612)**	**(2,905)**	**(1,707)**	
Uses in subsidiaries (investing/financing activities)				
Investment in a subsidiary	*-	(101)	101	Decrease in a subsidiary's cash needs
Interest payment	(32)	(32)	-	
Cash used in subsidiaries	**(32)**	**(133)**	**101**	
Total uses	**(4,644)**	**(3,038)**	**(1,606)**	
Cash and cash equivalents at the end of the period	431	1,105	(674)	Apart from NIS 431 million in cash and cash equivalents, the Company has, as of December 31, 2020, NIS 724 million in short-term investments, and in total NIS 1,155 million.

*Reclassified

1.5 Disclosure on the Company's projected cash flows (cont.)

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 2021 and 2022 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 national economy. 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.

   The cash flow projections also include estimates concerning early repayments and raising of funds for such repayments. These may not materialize in part or in full according to the Company's discretion.

   C. Effects of the COVID-19 pandemic – The Company's forecast of sources from operating activities and from investees includes assessments regarding the effects of the COVID-19 pandemic. As of the financial statements' date, the Group expects that the pandemic's main impact on its operations will be a decline in Pelephone revenues from roaming services, due to the pandemic's effects on the aviation and international tourism sectors.

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

   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 and interest repayments in the period between January 1, 2021 and June 30, 2021 according to the Company's amortization schedules:

   March 2021 - NIS 5 million in interest payments.

   June 2021 - a NIS 40 million repayment of bank loans, a NIS 63 million repayment of financial institution loans, and NIS 123 million in interest payments.

   Sources for settling liabilities

   The Company has sufficient sources to settle its liabilities, through cash generated from operating activities, through cash balances and investments in deposits and money market funds that can be realized 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, after finding the financial scope of each source and its expected timing of receipt to be reasonable. The Board of Directors has also examined whether there are restrictions on receiving loans and loan repayments from investees, and is satisfied that they can be expected to be received on time, as planned.

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.

1.6 The COVID-19 pandemic and its effect on the Group's business activities

The global outbreak of the coronavirus (COVID-19) at the beginning of 2020 has had numerous implications, including in the macroeconomic sphere. In light of the pandemic, many countries, Israel among them, have taken significant measures in an attempt to prevent the spread of the virus, such as restrictions on movement in public spaces and on public gatherings, restrictions on the transport of passengers and goods, the closing of borders between countries, etc. As an outcome, the virus as well as the measures taken have had significant repercussions on many economies and on the global capital market.

During 2020, the crisis brought on by the COVID-19 pandemic mainly affected revenues from Pelephone's roaming services, and there was also a certain decrease in revenues from the business sector across all the Group companies. The overall impact of the pandemic on the financial and business position of the Group's companies has been mixed, with the growth in Company operations along with the measures taken by the Group's companies to counteract the effects of the pandemic largely offsetting the decrease in revenues from roaming services.

Analyses performed by the Company indicate that at this stage, the COVID-19 pandemic has not had a material effect on the ability of the Group's companies to meet their obligations or on the measurement of assets and liabilities, impairment of assets and recognition of expected credit losses. Likewise, there has been no material effect on the critical estimates and judgments.

As of the date of approval of these financial statements, the Bezeq Group's working assumption regarding the continued spread of the COVID-19 pandemic is that measures aimed at containing the virus will continue at varying degrees of intensity also throughout 2021, alongside gradual and prolonged recovery of the aviation and international tourism sectors. Accordingly, and subject to the above assumptions, the Group expects that the main effect of the COVID-19 pandemic on its operations will be a decline in Pelephone revenues from roaming services, due to the pandemic's effects on the aviation and international tourism sectors, with no material adverse effects in other operating segments.

At the same time, this is an unfolding event that is not within the Company's control, thus the possible continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Group's results. These effects may be reflected, among others, in a greater-than-projected decrease in revenues from roaming services, and may also affect revenues from the business sector, revenues from sales of cellular terminal equipment, employee availability, customer service and technician service systems, supply chain operations, as well as the amounts and times of payments collected from the Group's customers.

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

For more information, see an analysis of business results of the Cellular Communications segment and Domestic Fixed-Line Communications segment in Section 1.2.2, subsections B and C.

2. 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 2020, the Group donated a total of NIS 3.7 million.

Bezeq has also aided non-profit organizations and under-privileged individuals of NIS 2 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
Sheba Medical Center – Tel Hashomer	70,000	Companies owned by Mr. Ran Fuhrer and Mrs. Michal Fuhrer, among the holders of a control permit in the Company, donated to the Sheba Medical Center – Tel Hashomer.

2.2. Disclosure concerning an independent auditor's fees

Below are the fees paid to the independent auditors of the principal consolidated companies in the Group for auditing and audit-related services:

			2020		2019	
Company	Auditor	Details	Fees (NIS Thousands)	Hours	Fees (NIS Thousands)	Hours
Bezeq - The Israel Telecommunications Corp. Ltd.	Somekh Chaikin	Audit and audit-related services	1,700	15,250	1,700	15,500
		Other services[1]	951	3,485	596	1,898
Pelephone Communications Ltd.	Somekh Chaikin	Audit and audit-related services	670	6,350	670	6,500
		Other services[1]	520	1,259	327	778
Bezeq International Ltd.	Somekh Chaikin	Audit and audit-related services	1,166	8,250	417	4,630
		Other services[1]	122	435	133	423
D.B.S. Satellite Services (1998) Ltd.	Somekh Chaikin	Audit and audit-related services	680	5,200	580	5,400
		Other services[1]	52	162	26	66

The independent 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 2020 and 2019 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 of the corporate governance questionnaire and in Section 14 of Chapter D in 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 of the Internal Audit Law, and the provisions in Section 146(b) of the Companies Law.
Employment method	Company employee.
Method of appointment	**<u>Manner of appointment and summary of reasons for approving the appointment:</u>** 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. **<u>Duties, powers, and tasks of the internal auditor:</u>** 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	On February 3, 2020, the Company's Board of Directors decided to change the internal auditor's organizational subordination, placing him under the supervision of the Company's CEO. On December 10, 2020, the internal auditor became subordinate once again to the Board Chairman.
Work plan	In 2020, an annual work plan was formulated, which was derived from the work plan for the period 2020-2022. **<u>Considerations in determining the internal audit work plan</u>** 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 that affected the risk assessment in those processes, such as meetings with Management, findings from previous audits, and other relevant activities. The main considerations taken 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. **<u>Parties involved in formulating the work plan</u>** 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 (cont.)

Details	
Work plan	**<u>The party accepting and approving the work plan</u>** The Board of Directors' Audit Committee, after the matter has been discussed with the Chairman of the Board. **<u>The auditor's discretion to deviate 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 the scope of or halting an audit approved in the work plan. The internal auditor has the 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. One internal auditor oversees the material investees (as an employee of Pelephone also serving "yes" and Bezeq International), 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	In 2020, the scope of employment was 8,100 hours, which includes the hours worked by the internal audit unit employees, including the internal auditor, and by external third parties. In 2020, the internal audit team comprised 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. The scope of employment in 2020 was lower compared to 2019, due, among other things, to the impact of the COVID-19 pandemic, part of the time during which most of the internal audit unit employees were placed on unpaid leave. Towards the end of 2020, the Audit Committee decided to reduce the number of employees in the internal audit unit to three full-time auditors, in addition to the internal auditor, in line with the downsizing across the Company. The Committee also decided that the work plan would undergo an adjustment, and where necessary the internal auditor would be assisted by outsourcing. <u>Scope of internal audit activities in material investees in 2020:</u> Pelephone–2,600 hours; Bezeq International - 2,600 hours; DBS - 2,600 hours.

2.4 Disclosure concerning the internal auditor in a reporting company (cont.)

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 international 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 international Institute of Internal Auditors (IIA), and has an in-depth familiarity 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 was granted ongoing and direct access to the Company's information systems, including financial data.
Internal auditor's report	The internal auditor regularly submits written audit reports 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 9, 2020, February 9, 2020, March 29, 2020, May 6, 2020, June 10, 2020, August 16, 2020, August 19, 2020, September 6, 2020, September 9, 2020, October 20, 2020, November 22, 2020, December 23, 2020 and December 28, 2020. 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 targets predetermined by the Audit Committee and approved by the Board of Directors, of up to 62.5% of the annual salary excluding ancillary costs. Likewise, on February 14, 2021, the internal auditor was allotted 300,000 options. On March 24, 2021, the Company's Board of Directors approved the 2020 bonus for the Company's internal auditor of NIS 336 thousand (56% of his annual salary). 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

Very material valuations and a material valuation pursuant to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 1970:

Bezeq International's valuation as of September 30, 2020 is included in these financial statements by way of reference to the company's financial statements as of September 30, 2020, published on November 30, 2020.
Pelephone's valuation as of December 31, 2020 is attached to these financial statements, although it does not constitute a very material valuation given that the company's controlling shareholder is required to report it.
A very material valuation of the Company (Bezeq Fixed-Line) as of December 31, 2020, is not attached to the report since the Company is satisfied that there are no signs of impairment of the cash-generating unit.

	Pelephone– **Material valuation as of December 31, 2020 (attached to the financial statements as of December 31, 2020).** **See Section 3.1.4 below.**	**Bezeq Fixed-Line–** **Very material valuation as of December 31, 2020**	**DBS–** **Very material valuation as of December 31, 2020 (attached to the financial statements as of December 31, 2020).** **See Sections 3.1.2 and 3.1.4 below.**	**Bezeq International–** **Very material valuation as of September 30, 2020 (attached to the financial statements as of September 30, 2020).** **See Section 3.1.1 below.**
Subject of valuation	Value in use of Pelephone to test for impairment of goodwill recognized in the Company's financial statements pursuant to IAS 36.	Value in use of Bezeq Fixed-Line to test for 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.
Date of valuation	December 31, 2020 The valuation was signed on March 24, 2021.	December 31, 2020 The valuation was signed on March 24, 2021.	December 31, 2020 The valuation was signed on March 24, 2021.	September 30, 2020 The valuation was signed on November 30, 2020.
Value prior to the valuation	NIS 1,020 million carrying amount of Pelephone's net operating assets(*) (NIS 76 million - goodwill).	NIS 5,440 million carrying amount of net operating assets of Bezeq Fixed-Line (NIS 265 million - goodwill).	Negative amount of NIS (27) million.	NIS 405 million carrying amount of Bezeq International's net operating assets.

	Pelephone– **Material valuation as of December 31, 2020 (attached to the financial statements as of December 31, 2020).** **See Section 3.1.4 below.**	**Bezeq Fixed-Line–** **Very material valuation as of December 31, 2020**	**DBS–** **Very material valuation as of December 31, 2020 (attached to the financial statements as of December 31, 2020).** **See Sections 3.1.2 and 3.1.4 below.**	**Bezeq International–** **Very material valuation as of September 30, 2020 (attached to the financial statements as of September 30, 2020).** **See Section 3.1.1 below.**
Value set in the valuation	NIS 2,332 million. The Company concluded that there is no impairment requiring a write-down of goodwill recognized in the Company's books.	NIS 14,615 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 (145) million. In light of the negative value of the operations, the value of the company's non-current assets was set as the higher of 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, totaling NIS (134) million.	NIS 123 million. The Company recognized asset impairment losses of NIS 282 million.
Appraiser's identity and profile	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 valuations, financial statement analysis, preparing expert opinions, and performing various financial advisory studies for companies and businesses. The appraiser has no dependence on the Company. The Company has undertaken to indemnify the appraiser for damages exceeding three times its fee, unless it acted with malicious intent or gross negligence.			
Valuation model	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 - 83.9%.	Discounting rate - 7.5% (post-tax). Terminal growth rate - 0%. Scrap value of total value set in valuation – 72%.	Discounting rate - 8.5% (post-tax). Terminal growth rate - 0%. Scrap value of total value set in valuation - N/A	Discounting rate - 9.7% (post-tax). Terminal growth rate - 0.8%. Scrap value of total value set in valuation - 76%.

(*) Pelephone's net operating assets do not include trade receivable balances from installment-based handset sales presented at present value.

3.1. Disclosure of valuations (cont.)

3.1.1. The period that elapsed between the effective date of Bezeq International's valuation as of September 30, 2020 and the approval date of this report exceeds 90 days. As of December 31, 2020, an additional valuation was prepared in accordance with IAS 36, which does not constitute a material valuation according to the provisions of the Israel Securities Authority's Staff Legal Position 105-23. For further information, see Note 11.6 to the financial statements.

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 13.2.2 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, 2020, 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 a very 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 valuations attached to the financial statements.

3.1.4. Information under Regulation 10(b)(8) of the Securities Regulations (Periodic and Immediate Reports), 1970

A. As concerns Pelephone's valuation as of June 30, 2019, which was attached to the report for the second quarter of 2019, the Company studied Pelephone's actual free cash flow data for 2020[2] as compared to the forecast for 2020 included in the aforesaid valuation. This review found that Pelephone's free cash flows, according to its financial statements for 2020 were significantly higher than forecast. This difference was primarily due to timing differences in investments for acquiring frequencies. For more information, see Appendix C to the attached Pelephone valuation as at December 31, 2020.

B. As concerns DBS's valuation as of December 31, 2019, which was attached to the financial statements for 2019, the Company studied DBS's actual free cash flow data for 2020 as compared to the forecast for 2020 included in the aforesaid valuation. This review found that DBS's free cash flows, according to its financial statements for 2020 were significantly higher than forecast. This difference was primarily due to lower-than-forecast operating expenses (some of them resulting from the coronavirus crisis) and timing differences in engineering and technology investments net of working capital changes. For more information, see Appendix F to the attached DBS valuation as at December 31, 2020.

3.1.5. For more information, see Note 11 to the financial statements.

3.2. Due to the materiality of the 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

As regards **Material events subsequent to the financial statements' date** – see Note 32 to the financial statements.

[2] Free cash flows for these purposes are cash flows from operating activities, less capital investments and less changes in interest-bearing trade receivables from installment-based handset sales (financial instrument).

4. Details of debt certificate series

Data on the Company's debentures in circulation, as of December 31, 2020:

		Debentures (Series 6)	Debentures (Series 7)	Debentures (Series 9)	Debentures (Series 10)	Debentures (Series 11)	Debentures (Series 12)
a	Issue date (excluding expansions)	July 3, 2011	July 3, 2011	October 15, 2015	October 15, 2015	July 10, 2019	July 10, 2019
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	NIS 834,766,000	NIS 1,269,240,000
c	Par value	NIS 999,992,644	NIS 71,415,793	NIS 2,144,968,000	NIS 881,683,808	NIS 834,766,000	NIS 1,269,240,000
d	Par value revalued to the reporting date (CPI-linked)	NIS 1,036,665,374	NIS 71,415,793	NIS 2,144,968,000	NIS 883,350,190	NIS 834,766,000	NIS 1,269,240,000
e	Accrued interest, revalued to the reporting date	NIS 3,196,385	NIS 85,223	NIS 6,524,278	NIS 1,619,475	NIS 2,226,043	NIS 1,798,090
f	Fair value as included in the financial statements	NIS 1,089,491,985	NIS 71,987,120	NIS 2,342,305,056	NIS 955,833,416	NIS 910,479,276	NIS 1,350,471,360
g	Stock exchange value	NIS 1,089,491,985	NIS 71,987,120	NIS 2,342,305,056	NIS 955,833,416	NIS 910,479,276	NIS 1,350,471,360
h	Type of interest	Fixed, 3.7%	Variable - STL for one year plus 1.4% margin	Fixed, 3.65%	Fixed, 2.2%	Fixed, 3.2%	Fixed, 1.7%
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	June 1 every year from 2026 through 2030	June 1 every year from 2026 through 2030
j	Interest repayment dates	June 1 and December 1 every year, from Dec. 1, 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	June 1 and December 1 every year, from Dec. 1, 2019 through June 1, 2030	June 1 and December 1 every year, from Dec. 1, 2019 through June 1, 2030
k	Linkage	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)	Unlinked	Principal and interest linked to increases in the CPI (base index – May 2019)

4. Details of debt certificate series (cont.)

		Debentures (Series 6)	Debentures (Series 7)	Debentures (Series 9)	Debentures (Series 10)	Debentures (Series 11)	Debentures (Series 12)
l	Liability in relation to Company's total liabilities	Material	Immaterial	Material	Material	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, 11 and 12) are rated **il/AA-/Stable** by Standard&Poor's Maalot Ltd., and **Aa3.il/Stable** by Midroog Ltd. On December 22,2020, Midroog announced that it is placing the Company's rating under review with negative implications (see Immediate Report ref. 2020-01-138669). For current and historical rating reports for these debentures, see the Company's immediate reports (Midroog) of April 22, 2020 and May 26, 2020, as well as the Company's immediate reports (Maalot) of May 4, 2020 and May 26, 2020. 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, 2020, the Company issued to the trustees of Debentures (Series 6, 7, 9, 10, 11 and 12) confirmations of its compliance with the deeds of trust for 2020.					
p	Pledges	As concerns Debentures (Series 6, 7, 9, 10, 11 and 12), the Company has undertaken not to create additional pledges on its assets unless prior consent is given by the debenture holders, through a special decision, permitting the Company to create a pledge in favor of the third party, or unless the Company simultaneously creates pledges in favor of the debenture holders and the lending banks (negative pledges), subject to such exceptions as detailed in Note 14.4.1 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, 2020, see the Company's reporting form on the MAGNA system, dated March 25, 2021.

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

_________________________	_________________________
Gil Sharon Chairman of the Board	Dudu Mizrahi CEO

Signed: March 24, 2021

Part C:

Consolidated Financial Statements for the Year Ended December 31, 2020

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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KPMG

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, 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 Israel Telecommunication Corporation Ltd. ("the Company") as of December 31, 2020 and 2019 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2020. These financial statements are the responsibility of the Company's Board of Directors and 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 included in consolidation constitute approximately 1% of the total consolidated assets as of December 31, 2019, and whose revenues constitute approximately 1% of the total consolidated revenues for the years ended December 31, 2019 and 2018. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based 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 (Auditor's Mode of Performance) - 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2020 and 2019 and results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of 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", the Company's components of internal control over financial reporting as of December 31, 2020, and our report dated March 24, 2021 included a negative opinion on those components due to the existence of material weaknesses.

Without qualifying our aforementioned opinion, we draw attention to Note 1.3 regarding the Israel Securities Authority's (ISA) investigation of suspected offenses under the Securities Law and Penal Law, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and summoning it to a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently under aggravating circumstances, fraud and breach of trust in a corporation, and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. As noted in the aforementioned note, 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 their preparation, 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 19.

Somekh Chaikin

Certified Public Accountants (Isr.)

March 24, 2021

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+972 3 684 8000

Auditors' Report to the Shareholders of Bezeq – The Israel Telecommunication Corporation Ltd. regarding the Audit of Components of Internal Control over Financial Reporting in accordance with paragraph 9B(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Bezeq – The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter "the Company") as of December 31, 2020. 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 financial reporting preparation and closing 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 refers to the audited control components only. 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.

A material weakness is a deficiency or combination of deficiencies in the internal controls, such that there is a reasonable possibility that a material misstatement in the annual or quarterly financial statements of the Company will not be prevented or detected on a timely basis.

The following material weaknesses in the audited control components were identified and included in the assessments of the Board of Directors and Management:

Material weaknesses in the entity level controls over financial reporting and in the controls over the financial reporting preparation and closing process, which resulted in inadequate recognition of expenses, as described in the assessment of the Company's Board of Directors and Management.

These material weaknesses were taken into account in determining the nature, timing and scope of the control procedures applied in our audit of the Company's financial information as of December 31, 2020 and for the year then ended, and this report does not affect our report on said financial statements.

In our opinion, due to the effect of the material weaknesses identified above on the achievement of the control objectives, the Company did not effectively maintain the audited control components as of December 31, 2020.

As described in the report on the effectiveness of internal controls over financial reporting and disclosure for the year ended December 31, 2020 of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company"), 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 of this report, the Company 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 Company 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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and our report, dated March 24, 2021, expressed an unqualified opinion on those financial statements, based on our audit and on the reports of other auditors. Said report also drew attention to Note 1.3 regarding the Israel Securities Authority's (ISA) investigation of suspected offenses under the Securities Law and Penal Law, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and summoning it to a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently under aggravating circumstances, fraud and breach of trust in a corporation, and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. Attention was also drawn to that stated in 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 24, 2021

Consolidated Statements of Financial Position as at December 31

		2020	2019
Assets	**Note**	**NIS million**	**NIS million**
Cash and cash equivalents	3.3, 4	**840**	400
Investments	3.3, 5	**724**	1,195
Trade receivables	3.3, 6	**1,621**	1,677
Other receivables	3.3, 6	**178**	342
Inventory	3.9	**73**	96
Assets held for sale		**10**	43
Total current assets		**3,446**	3,753
Trade and other receivables	3.3, 6	**514**	477
Broadcasting rights	3.4, 8	**67**	59
Right-of-use assets	3.7, 9	**1,804**	1,308
Fixed assets	3.5, 10	**6,131**	6,039
Intangible assets	3.6, 11	**929**	916
Deferred expenses and non-current investments	12	**242**	358
Deferred tax assets	3.16, 7	**108**	81
Total non-current assets		**9,795**	9,238
Total assets		**13,241**	12,991

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

Consolidated Statements of Financial Position as at December 31 (Contd.)

	Note	2020 NIS million	2019 NIS million
Debentures, loans and borrowings	3.3, 14	**786**	1,007
Current maturities of lease liabilities	3.7, 9	**415**	416
Trade and other payables	15	**1,759**	1,614
Employee benefits	3.11, 17	**482**	654
Provisions	3.12, 16	**117**	125
Total current liabilities		**3,559**	3,816
Loans and debentures	3.3, 14	**7,614**	8,551
Lease liabilities	3.7, 9	**1,492**	969
Employee benefits	3.11, 17	**335**	356
Derivatives and other liabilities	15	**307**	139
Deferred tax liabilities	3.16, 7	**32**	43
Provisions	3.12, 16	**52**	49
Total non-current liabilities		**9,832**	10,107
Total liabilities		**13,391**	13,923
Total equity (deficit)	22	**(150)**	(932)
Total liabilities and equity		**13,241**	12,991

Gil Sharon	**Dudu Mizrahi**	**Amit Kurland**
Chairman of the Board of Directors	CEO	Chief Accountant

Date of approval of the financial statements: March 24, 2021

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

Consolidated Statements of Income for the Year Ended December 31

	Note	2020 NIS million	2019 NIS million	2018 NIS million
Revenues	3.13, 22	**8,723**	8,929	9,321
Costs of activity				
General and operating expenses	23	**3,173**	3,308	3,413
Salaries	24	**1,891**	1,933	1,992
Depreciation, amortization and impairment	9,10,11,12	**1,837**	1,912	2,189
Impairment loss	11	**293**	1,147	1,675
Other operating expenses (income), net	26	**74**	(221)	634
Total operating expenses		**7,268**	8,079	9,903
Operating profit (loss)		**1,455**	850	(582)
Financing expenses	3.15, 26			
Financing expenses		**416**	624	516
Financing income		**(45)**	(75)	(81)
Financing expenses, net		**371**	549	435
Profit (loss) after financing expenses, net		**1,084**	301	(1,017)
Share in losses of equity-accounted investees		**-**	(2)	(3)
Profit (loss) before income tax		**1,084**	299	(1,020)
Income tax	3.16, 7	**288**	1,493	72
Profit (loss) for the year attributable to shareholders of the Company		**796**	(1,194)	(1,092)
Earnings (loss) per share (NIS)	27			
Basic and diluted earnings (loss) per share		**0.29**	(0.43)	(0.39)

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	2020 NIS million	2019 NIS million	2018 NIS million
Profit (loss) for the year	**796**	(1,194)	(1,092)
Remeasurement of defined benefit plan, net	**(9)**	(33)	16
Other comprehensive income (net of tax)	**(5)**	1	26
Total comprehensive income (loss) for the year attributable to shareholders of the Company	**782**	(1,226)	(1,050)

The accompanying 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, 2018	3,878	384	390	(85)	(2,537)	2,030
Loss for 2018	-	-	-	-	(1,092)	(1,092)
Other comprehensive income for the year, net of tax	-	-	-	26	16	42
Total comprehensive loss for 2018	-	-	-	26	(1,076)	(1,050)
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders (Note 21)	-	-	-	-	(686)	(686)
Balance as at December 31, 2018	3,878	384	390	(59)	(4,299)	294
Loss for 2019	-	-	-	-	(1,194)	(1,194)
Other comprehensive income (loss) for the year, net of tax	-	-	-	1	(33)	(32)
Total comprehensive loss for 2019	-	-	-	1	(1,227)	(1,226)
Balance as at December 31, 2019	**3,878**	**384**	**390**	**(58)**	**(5,526)**	**(932)**
Profit for 2020	**-**	**-**	**-**	**-**	**796**	**796**
Other comprehensive loss for the year, net of tax	**-**	**-**	**-**	**(5)**	**(9)**	**(14)**
Total comprehensive income for 2020	**-**	**-**	**-**	**(5)**	**787**	**782**
Balance as at December 31, 2020	**3,878**	**384**	**390**	**(63)**	**(4,739)**	**(150)**

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

Consolidated Statements of Cash Flows for the Year Ended December 31

	Note	2020 NIS million	2019 NIS million	2018 NIS million
Cash flows from operating activities				
Profit (loss) for the year		**796**	(1,194)	(1,092)
Adjustments:				
Depreciation and amortization	9,10,11,12	**1,837**	1,912	2,189
Impairment loss of assets	11	**293**	1,147	1,675
Capital gain, net	25	**(40)**	(508)	(15)
Share in losses of equity-accounted investees		**-**	2	3
Financing expenses, net	26	**403**	497	445
Income tax expenses	7	**288**	1,493	72
Change in trade and other receivables	6	**57**	103	269
Change in inventory		**13**	(19)	(5)
Change in trade and other payables	15	**17**	(77)	(132)
Change in provisions	16	**(8)**	(49)	81
Change in employee benefits	17	**(192)**	(50)	489
Change in other liabilities		**(1)**	(8)	-
Net income tax paid		**(243)**	(325)	(467)
Net cash provided by operating activities		**3,220**	2,924	3,512
Cash flow for investing activities				
Purchase of fixed assets	10	**(1,133)**	(1,095)	(1,216)
Investment in intangible assets and deferred expenses	11,12	**(366)**	(382)	(390)
Investment in deposits with banks and others		**(1,335)**	(2,067)	(2,338)
Proceeds from bank deposits and others		**1,786**	2,297	1,244
Proceeds from the sale of fixed assets		**148**	76	160
Sale of Walla, net	13.4	**44**	-	-
Receipts from the sale of the Sakia property		**-**	328	155
Payment of permit fees, betterment tax, and purchase tax*		**-**	(74)	(121)
Receipt (payment) of appreciation tax*		**-**	5	(80)
Miscellaneous		**17**	29	34
Net cash used for investing activities		**(839)**	(883)	(2,552)
Cash flow for financing activities				
Issue of debentures and receipt of loans	14	**718**	1,865	891
Repayment of debentures and loans	14	**(1,828)**	(3,447)	(1,567)
Payments of principal and interest for leases	9	**(391)**	(414)	(422)
Dividends paid	21	**-**	-	(686)
Interest paid	14	**(314)**	(392)	(421)
Costs for early repayment of loans and debentures	14	**(65)**	(93)	-
Payment for expired hedging transactions		**(57)**	(46)	(36)
Miscellaneous		**(4)**	(4)	(10)
Net cash used for financing activities		**(1,941)**	(2,531)	(2,251)
Increase (decrease) in cash and cash equivalents, net		**440**	(490)	(1,291)
Cash and cash equivalents as at January 1		**400**	890	2,181
Cash and cash equivalents as at the end of the year		**840**	400	890

* For the sale of the Sakia property.

The accompanying 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, 2020 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 28 – Segment Reporting).

1.2 Control of the Company

As from April 14, 2010, the holder of the control permit for the Company is B Communications Ltd. ("B Communications") which was under the indirect control of Eurocom Communications Ltd. until 2019.

On December 2, 2019, the Company received notice from B Communications regarding the completion of a transaction with Searchlight II BZQ LP and a company controlled by the Fuhrer family (TNR Investments Ltd.), in which control of B Communications and the Company was transferred to these entities, following the liquidation of Eurocom Communications Ltd, in the framework of which the holdings of its subsidiary Internet Gold – Golden Lines in B Communications were sold.

B Communications is an Israeli public company whose shares are traded on the Tel Aviv Stock Exchange and were traded until September 9, 2020 on the NASDAQ.

1.3 Investigation by the Israel Securities Authority and the Israel Police

1.3.1 In the course of 2017 and 2018, the Israel Securities Authority (“ISA”) and the Israel Police conducted investigations into suspected offenses under the Securities Law and the Penal Law, 1977 ("the Penal Law"), with respect to transactions related to the Company's former controlling shareholder and former Chairman of its Board of Directors, Shaul Elovitch ("Elovitch"), involving the purchase of shares of DBS and provision of satellite communication services to DBS, the conduct of the Ministry of Communications vis-à-vis the Company ("the DBS case"), as well as suspicions of the exercise of authority by the Prime Minister, Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group ("Case 4000"). Further to the investigations, indictments were filed and notices were received as follows:

1.3.1.1 On January 28, 2020, an indictment was filed with the Jerusalem District Court against Elovitch for various offenses, including bribery and misleading information in an immediate report, in connection with suspicions of the exercise of authority by the Prime Minister. Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group.

1.3.1.2 On December 23, 2020, the Company received a notice from the Tel Aviv District Attorney's Office (Taxation and Economics Division) that consideration was being given to prosecuting the Company and summoning it to a hearing in Case 4000 ("the Notice"), based on the following:

A. Following an examination of the evidence presented to him, the Attorney General is considering filing an indictment on suspicions of bribery (an offense under section 291 of the Penal Law together with section 23 of the Penal Law) and reporting with intent to mislead a reasonable investor (an offense under section 53(a)(4) of the Securities Law together with section 23 of the Penal Law).

B. According to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Elovitch, who was an organ of the Company in the period relevant to the suspicions.

C. In addition, according to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Shaul Elovitch, who was an organ of the Company in the period relevant to the suspicions, and the acts and criminal intent of Stella Handler (the former CEO of the Company), who was an organ of the Company during the relevant period (see Section 1.3.1.3B). According to the allegations in this regard, the Company reported a letter from the Director General of the Ministry of Communications which allegedly included a misleading representation (of which Shaul Elovitch and Stella Handler were aware), and only after the intervention of senior officials in the Attorney General's Office was the letter amended and the amendment reported by the Company to the general public.

D. According to the notice, before the Attorney General makes a final decision regarding the criminal prosecution of the Company, and insofar as the Company wishes to argue against the possibility of a criminal prosecution, the Company must arrange within 30 days a date for a hearing, which will take place within 90 days from the date of the Notice, and it must submit its main pleadings in writing two weeks before the hearing date that will be set.

It should be noted that Walla (a former subsidiary of the Company) received a similar notice, according to which, following an examination of the evidence presented to him, the Attorney General is considering filing an indictment against Walla as well, on suspicions of bribery (an offense under section 291 of the Penal Law together with section 23 of the Penal Law), with the suspicion of criminal liability against Walla for the bribery offense arising from the acts and criminal intent of Shaul Elovitch, who was an organ of the company during the period relevant to the suspicions.

The Company and Walla have received the core of the investigation material relating to the above suspicions, they are studying the notices and preparing for the hearing, and they intend to argue in the hearing against the possibility of a criminal prosecution.

1.3.1.3 On December 23, 2020, to the best of the Company's knowledge, the Tel Aviv District Attorney's Office published a notice, according to which, inter alia, its Taxation and Economics Division had filed on the same day with the Economic Department of the Tel Aviv District Court an indictment against Elovitch, as well as against former senior officers in the Bezeq Group and in DBS – Or Elovitch, Amikam Shorer, Linor Yochelman, Ron Eilon and Miki Neiman, in the DBS case. According to the publication:

A. The indictment attributes to the defendants offenses of fraudulently receiving something under aggravating circumstances, fraud and breach of trust in a corporation as well as reporting violations under the Securities Law, and relates to two cases: fraud with respect to the payment of the consideration for the purchase of shares of DBS by the Company, and fraud with respect to the conduct of the independent committees set up in the Company for the purpose of examining transactions of the Company in which Elovitch had a personal interest.

B. The Taxation and Economics Division had entered into a conditional stay of proceedings arrangement, upon terms in accordance with the Securities Law, with Stella Handler, in the framework of which Handler admitted that she was involved in the inclusion of a misleading particular in the Company's reports. As stated in the arrangement, the DBS case was closed with respect to Stella Handler.

C. The investigation files against other suspects who were investigated in the aforementioned cases, including against the former VP of Regulation of the Company and against Or Elovitch and Amikam Shorer, had been closed (with respect to the latter two – except as regards the DBS case, as noted at the beginning of this section).

1.3.1.4 As regards DBS, which on November 20, 2017 received a "notice to suspect," according to which the Investigation file in which it was being investigated as a suspect had been sent to the Tel Aviv District Attorney's Office for review – according to a notice received by DBS from the Tel Aviv District Attorney's Office, following a review of the ISA file in which it was investigated as a suspect, it was decided on January 11, 2021 to close the case against it, without filing an indictment.

1.3.2 It should be noted that following the opening of the aforementioned investigations, several civil legal proceedings were instituted against the Company and DBS, officers of the Company in the relevant period, and companies in the group of the former controlling shareholder of the Company, including motions to certify class action lawsuits and motions for disclosure of documents prior to filing a motion to certify a derivative claim. For further information on these proceedings, see Note 18.

1.3.3 The Company does not yet have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material in connection with Case 4000, further to the invitation of the Company to a hearing in this matter, as set out in section 1.3.1.2 above). Accordingly, the Company is not able to assess the effects of the investigations, their findings and their outcome on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any. Once the constraints on carrying out reviews and controls related to issues that arose in the investigations are lifted, the review of all matters related to subjects that arose during those investigations will be completed as required.

1.4 Outbreak of the COVID-19 pandemic

The global outbreak of the coronavirus at the beginning of 2020 has had numerous implications, including in the macroeconomic sphere. In light of the pandemic, many countries, Israel among them, have taken significant measures in an attempt to prevent the spread of the virus, such as restrictions on movement in public spaces and on public gatherings, restrictions on the transport of passengers and goods, the closing of borders between countries, etc. As an outcome, the virus as well as the measures taken have had significant repercussions on many economies and on the global capital market.

During 2020, the crisis brought on by the COVID-19 pandemic mainly affected revenues from Pelephone's roaming services, and there was also a certain decrease in revenues from the business sector across all the Group companies. The overall impact of the pandemic on the financial and business position of the Group companies has been mixed, with the growth in Company operations along with the measures taken by the Group companies to counteract the effects of the pandemic largely offsetting the decrease in revenues from roaming services.

Analyses performed by the Company indicate that at this stage, the COVID-19 pandemic has not had a material effect on the ability of the Group companies to meet their obligations or on the measurement of assets and liabilities, impairment of assets and recognition of expected credit losses. Likewise, there has been no material effect on the critical estimates and judgments.

As of the date of approval of these financial statements, the Bezeq Group's working assumption regarding the continued spread of the COVID-19 pandemic is that measures aimed at containing the virus will continue at varying degrees of intensity also throughout 2021, alongside gradual and prolonged recovery of the aviation and international tourism sectors. Accordingly, and subject to the above assumptions, the Group expects that the main effect of the COVID-19 pandemic on its operations will be a decline in Pelephone revenues from roaming services, due to the pandemic's effects on the aviation and international tourism sectors, with no material adverse effects in other operating segments.

At the same time, this is an unfolding event that is not within the Company's control, thus the possible continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Group's results. These effects may be reflected, among others, in a greater-than-projected decrease in revenues from roaming services, and may also affect revenues from the business sector, revenues from sales of cellular terminal equipment, employee availability, customer service and technician service systems, supply chain operations, as well as the amounts and times of payments collected from the Group's customers.

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

1.5 Restatement

During the preparation of the quarterly report as of September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, inter alia, from failure to charge to the statement of income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses.

In light of the aforesaid findings, the Company republished on December 21, 2020 its financial statements for 2019 and for the first and second quarters of 2020 (including the comparative figures presented in them), in order to reflect retrospectively the effect of the correction of the discrepancies.

The comparative figures included in these financial statements are the figures after their restatement.

1.6 Definitions

In these financial statements:

The Company: Bezeq – The Israel Telecommunication Corporation Limited.

The Group: Bezeq – The Israel Telecommunication Corporation Limited and its subsidiaries, as follows:

Subsidiaries: Companies the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company, as set out in Note 13.

Associates: Companies in which the Group’s investment is included, directly or indirectly, in the consolidated financial statements on the equity basis.

Investees: Subsidiaries or associates.

Related parties: As defined in IAS 24, Related Party Disclosures.

Interested parties: As defined in paragraph (1) of the definition of an “interested party” in a corporation 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 24, 2021.

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 include 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 or impairment reversal	Note 11
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
Determination of lease period	In determining the lease period, the Group takes into account the period in which the lease may not be cancelled, including extension options which it is reasonably certain will be exercised or cancellation options which it is reasonably certain will not be exercised	An Increase or decrease in the measurement of a right-of-use asset and lease liability and in the depreciation and financing expenses in subsequent periods.	Note 9
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 16 and Note 18

Subject	Key assumptions	Possible effects	Reference
	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 6.6
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 17
Deferred taxes	Assumption of anticipated future realization of the tax benefit, including assumption that it is more likely than not that the carryforward tax losses in DBS will not be utilized.	Recognition of a deferred tax asset	Note 7
Unavoidable costs of a contract	Assumption that the economic benefits will exceed the unavoidable costs of the contract	Recognition of a provision for an onerous contract	Note 3.12.3

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 30.7 regarding fair value.

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.

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 and italics***. This does not attribute greater importance compared to other accounting policies that are not presented in bold and italics.

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 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.

3.3.2 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.

3.3.3 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.

3.3.4 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.

3.3.5 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).

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.

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	1-7
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. 5G frequencies will be amortized until September 2032.

The amortization of rights in frequencies is recognized under depreciation and amortization in the statement of income.

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 2032
Computer programs and software licenses	3-7 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 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***.

3.7.2 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).

3.7.3 **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.

3.7.4 **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.

3.7.5 **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, 2020 (years)
Cellular communications sites	6.4
Buildings	14.8
Vehicles	2.3

3.7.6 **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 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. Rights of use of capacities are presented net of accumulated impairment losses.

3.9 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.

3.10 Impairment

3.10.1 Non-derivative financial assets

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.

3.10.2 Non-financial assets

Timing of impairment testing

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.

Measurement of recoverable amount

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 costs of disposal 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 costs of disposal (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 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.

3.11 Employee benefits

3.11.1 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.

3.11.2 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***.

3.11.3 Early retirement and termination benefits

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 and the offer has been accepted or the Company is no longer able to withdraw the offer.

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).

3.11.4 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.

3.12 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.

3.12.1 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 18 describes the amount of additional exposure due to contingent liabilities that are likely to be realized.

3.12.2 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.

3.12.3 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)***.

3.13 Revenues

3.13.1 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.

3.13.2 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.

3.13.3 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.

3.13.4 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.

3.13.5 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***.

3.13.6 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.

3.13.7 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 2.6 to 4 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

3.13.8 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.

3.14 Government grants

Government grants are initially recognized at fair value when it is more likely than not that they will be received and that the Group will meet the eligibility conditions for the grant. Government grants received for the purpose of purchasing an asset ***are presented as deferred income in the statement of financial position and reclassified to the statement of income over the useful life of the asset***.

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).

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

3.18.1 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, 2023. Earlier application is permitted. The amendment is effective retrospectively, including reconciliation of comparative information. The Group is examining the effects of the application of the standard on the financial statements.

3.18.2 Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" with respect to onerous contracts

The amendment specifies that in determining the cost of fulfilling a contract, account should also be taken of indirect costs in addition to incremental costs (see Note 3.12.3).

The date of initial application of the amendment is set for January 1, 2022. Upon initial application of the amendment, the opening balance of retained earnings at the date of initial application will be adjusted by the amount of the cumulative effect of the amendment. The amendment may affect the identification and measurement of onerous contracts in the Group, possibly reflected in the creation of material provisions, which the Company is unable to estimate at this stage. The Company is studying the amendment and preparing for its timely application.

4. Cash and Cash Equivalents

As at December 31, 2020, cash and cash equivalents include mainly bank deposits for an average period of 90 days and current account balances.

5. Investments

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Bank deposits in shekels(1)	**665**	842
Bank deposits in foreign currency (2)	**59**	-
Investment in monetary funds and other marketable securities at fair value through profit or loss and other	**-**	312
Deposit used as collateral against hedging transactions	**-**	41
	724	1,195

(1) Bank deposits in shekels are repayable until December 2021.
(2) Bank deposits in US dollars are repayable until December 2021.

6. Trade and Other Receivables

6.1 Composition of trade and other receivables

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Trade receivables*		
Open accounts and checks receivable	**656**	729
Credit cards	**405**	415
Revenues receivable	**224**	146
Current maturities of long-term receivables	**332**	382
Related and interested parties	**4**	5
	1,621	1,677
Other receivables and current tax assets*		
Current tax assets	**42**	56
Other receivables and authorities (mainly in respect of real estate sales)	**105**	247
Prepaid expenses	**31**	39
	178	342
Long-term trade and other receivables*		
Trade receivables – open accounts	**256**	304
Long-term other receivables and authorities (in respect of real estate sales)**	**185**	173
Frequencies grant (see Note 11.1)	**73**	-
	514	477
	2,313	2,496

* The amounts of trade and other receivables are stated net of the provision for doubtful debts.

** See Note 6.6

6.2 Discount rates for long-term trade receivables are based the estimated credit risk of the trade receivables. The discount rates used by the Group in 2020 are 3.26%-8.5% (in 2019: 3.5%-5.6%).

6.3 Expected payment dates for long-term trade and other receivables:

Expected payment dates	December 31, 2020
	NIS million
2022	**266**
2023	**114**
2024 onwards	**134**
	514

6.4 Aging of trade receivables at the reporting date:

	December 31, 2020		December 31, 2019	
	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	**1,732**	**(5)**	1,800	(5)
Past due up to one year	**165**	**(37)**	185	(32)
Past due one to two years	**30**	**(15)**	34	(14)
Past due more than two years	**30**	**(23)**	42	(29)
	1,957	**(80)**	2,061	(80)

6.5 Change in provision for doubtful debts in the year:

	2020	2019
	NIS million	NIS million
Balance as at January 1	**80**	87
Impairment loss recognized	**26**	13
Bad debts	**(22)**	(20)
Deconsolidation	**(4)**	-
Balance as at December 31	**80**	80

6.6 Long-term other receivables and authorities include receivables of NIS 106 million in respect of amounts paid by the Company to the Israel Land Authority and the Or Yehuda local authority for the sale of the Sakia complex in 2019:

On January 21, 2018, the Company signed an agreement for the sale of a real estate property in the Sakia complex located near the Mesubim junction (in which the Company had a capitalized lease interest), and on May 5, 2019, the transaction was completed. The total consideration received by the Company for the property (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 Land Authority ("the ILA") for payment of a permit fee in the amount of NIS 148 million plus VAT, for the property betterment plan approved prior to the signing of the agreement ("the Demand"). The Company filed a legal objection to the Demand. On January 20, 2019, the ILA dismissed all the Company's arguments in the legal objection, however, the parties conducted talks in the framework of the dispute resolution mechanism established in the settlement agreement (the agreement from 2003 signed by the Company with the Israel Land Administration (today, the Israel Land Authority) and the State regarding most of the real estate properties, including the property in the Sakia complex, that were transferred to the Company under the property transfer agreement signed before the start of the Company's business operations). Concurrently, the Company filed an assessment objection to the Demand.

On August 5, 2018, the Company received from the Or Yehuda local planning and building committee a demand for payment of 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 20, 2019, the ILA rejected the Company's demand for payment of the betterment tax. On completion of the sale transaction 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 prejudicing the proceedings undertaken or to be undertaken by the Company to cancel or reduce this tax. It should be noted that the amount of the permit fee that will 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 will be lower and possibly even significantly lower than the total amount of the demands.

In March 2021, the Company received from the Accountant General and the ILA a notice that considering the wide differences in the parties' positions which apparently could not be bridged, they were accepting the Company's request to terminate the dispute resolution process and allow the dispute to be submitted to the courts. In these circumstances, the Company intends shortly to file against the ILA a claim for the refund of all the amounts paid by it as permit fees and betterment tax.

The Company recognized in its financial statements for 2019 a capital gain before tax of NIS 403 million. Recognition of the capital gain is based on the Company's estimates of the final amount that will be paid to the authorities. It should be noted that if the Company's estimates are not realized, the final amount of the capital gain will be between NIS 250 million and NIS 450 million.

7. Income Tax

7.1 Corporate tax rate

Current taxes for the reported periods and the balances of deferred taxes as of December 31, 2020 are calculated at the tax rate applicable to the Group, which is 23%.

7.2 Final tax assessments

7.2.1 The Company has final tax assessments up to and including 2018.

On September 15, 2016, parallel to signing the assessment agreement ending the dispute between the Company and the tax assessor regarding the financing income from 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 permissible 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 at the time it was issued. Without detracting from the amount of the losses determined in the assessment agreement, should there be any change in the applicable tax laws, the Income Tax Authority will review the tax ruling in light of the tax laws applicable at the merger date. However, it was made clear that the approval is effective until December 31, 2019. The 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 in the terms of the tax ruling, 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. Further to the above, the tax ruling has been extended, at this stage, until December 31, 2021.

The tax losses of DBS as at December 31, 2020 amount to NIS 5.2 billion. See Note 7.6 below regarding deferred taxes not recognized in respect of carryforward losses.

7.2.2 Pelephone has received final tax assessments up to and including 2018.

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 Bezeq Online has received final tax assessments up to and including 2018.

7.3 Components of income tax expenses

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Current tax expenses			
Expenses for the current year	**273**	391	303
Adjustments for prior years according to an assessment agreement	**53**	-	-
Adjustments for prior years	**4**	(11)	(24)
Total current tax expenses	**330**	380	279
Deferred tax expenses			
Adjustments for prior years according to an assessment agreement	**(53)**	-	-
Reversal of temporary differences according to an assessment agreement	**18**	-	-
Creation and reversal of other temporary differences	**30**	(53)	(93)
Creation of deferred taxes for tax losses from the sale of a subsidiary	**(37)**	-	-
Write-off of a deferred tax asset for carryforward losses in DBS (see Note 7.6)	**-**	1,166	-
Write-off of a tax reserve due to impairment	**-**	-	(114)
Total deferred tax expenses (income)	**(42)**	1,113	(207)
Income tax expenses	**288**	1,493	72

7.4 Reconciliation between the theoretical tax on the pre-tax profit and the tax expenses

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Profit (loss) before income tax	**1,084**	299	(1,020)
Statutory tax rate	**23%**	23%	23%
Income tax at the statutory tax rate	**249**	69	(235)
Temporary differences for impairment of assets for which no deferred tax assets were created	**54**	-	253
Expenses not recognized for tax purposes and others and losses for which no deferred tax assets were created, net	**(9)**	42	54
Creation of deferred taxes for tax losses from the sale of a subsidiary	**(37)**	-	-
Write-off of a tax asset due to no expectation of future profits	**31**	-	-
Write-off of a deferred tax asset for carryforward losses in DBS (see Note 7.6)	**-**	1,166	-
Impairment of cellular communications goodwill for which no deferred tax assets were created	**-**	219	-
Creation of deferred taxes for losses and benefits from prior years for which deferred taxes were not recorded in the past	**-**	(3)	-
Income tax expenses	**288**	1,493	72

7.5 Recognized deferred tax assets and tax liabilities and their changes

	Deferred tax asset for the losses in DBS	Deferred tax assets for employee benefit plans	Deferred tax liabilities for fixed assets and intangible assets	Tax asset for tax loss from the sale of a subsidiary	Other deferred taxes	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2019	1,166	268	(312)	-	27	1,149
Changes recognized in the statement of income:						
Creation and reversal of temporary differences	-	28	35	-	(10)	53
Write-off of a tax reserve due to impairment (see Note 7.6)	(1,166)	-	-	-	-	(1,166)
Changes recognized in equity	-	2	-	-	-	2
Balance as at December 31, 2019	-	298	(277)	-	17	38
Changes recognized in the statement of income:						
Creation and reversal of temporary differences	**-**	**(36)**	**(3)**	**37**	**44**	**42**
Changes recognized in equity	**-**	**(1)**	**-**	**-**	**(3)**	**(4)**
Balance as at December 31, 2020	**-**	**261**	**(280)**	**37**	**58**	**76**

Carrying amount	**December 31**	
	2020	**2019**
	NIS million	**NIS million**
Deferred tax assets	**108**	**81**
Deferred tax liabilities	**(32)**	**(43)**
Balance as at December 31	**76**	**38**

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 13.2.1 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 Company has an approval from the Tax Authority for the utilization of the carryforward tax losses, which is subject to the receipt of approval from the Ministry of Communications for the cancellation of the structural separation between the two companies, and which requires an extension from the Tax Authority for an additional year every year until the actual merger, as described in Note 7.2.1 above.

In 2019, the Company wrote off the tax asset by way of a change of 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.

As at the date of the financial statements, deferred taxes for carryforward losses for tax purposes of DBS in the amount of NIS 5.2 billion were not recognized, and deferred taxes for an impairment loss of assets in DBS are not taken into account (see Note 11.5), since they are not expected to be utilized, according to the Company's assessment as at the date of the financial statements..

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 investments. Deferred taxes in respect of a distribution of profit in subsidiaries and associates were not taken into account since the dividends are not taxable.

8. Broadcasting Rights

	December 31, 2020	December 31, 2019
	NIS million	**NIS million**
Cost	**1,441**	1,242
Less rights exercised	**(599)**	(578)
Impairment loss (Note 11.5)	**(775)**	(605)
	67	59

See also Note 19 "Commitments" regarding the Group’s agreements with respect to broadcasting rights.

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, 2019	966	625	286	1,877
Additions*	146	34	28	208
Derecognition for expired or terminated agreements	(71)	(13)	(27)	(111)
Balance as at December 31, 2019	1,041	646	287	1,974
Additions*	**200**	**609**	**118**	**927**
Derecognition for expired or terminated agreements	**(51)**	**(146)**	**(80)**	**(277)**
Deconsolidation	**-**	**(14)**	**-**	**(14)**
Balance as at December 31, 2020	**1,190**	**1,095**	**325**	**2,610**
Amortization and impairment losses				
Balance as at January 1, 2019	169	115	89	373
Amortization for the year	185	120	110	415
Derecognition for expired or terminated agreements	(65)	(5)	(25)	(95)
Changes in agreements and other	(4)	(2)	(21)	(27)
Balance as at December 31, 2019	285	228	153	666
Amortization for the year	**179**	**116**	**102**	**397**
Derecognition for expired or terminated agreements	**(45)**	**(121)**	**(83)**	**(249)**
Changes in agreements and other	**(4)**	**(2)**	**(2)**	**(8)**
Impairment	**-**	**-**	**3**	**3**
Deconsolidation	**-**	**(3)**	**-**	**(3)**
Balance as at December 31, 2020	**415**	**218**	**173**	**806**
Carrying amount				
January 1, 2019	797	510	197	1,504
December 31, 2019	756	418	134	1,308
December 31, 2020	**775**	**877**	**152**	**1,804**

* Additions for new agreements and changes 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, 2019	810	519	222	1,551
Additions*	150	32	53	235
Disposals	(6)	(8)	(2)	(16)
Financing expenses for lease liabilities	16	9	4	29
Payments for a lease	(180)	(124)	(110)	(414)
Balance as at December 31, 2019	790	428	167	1,385
Additions*	**203**	**607**	**117**	**927**
Disposals	**(9)**	**(23)**	**(2)**	**(34)**
Financing expenses for lease liabilities	**18**	**10**	**2**	**30**
Payments for a lease	**(169)**	**(117)**	**(105)**	**(391)**
Deconsolidation	**-**	**(10)**	**-**	**(10)**
Balance as at December 31, 2020	**833**	**895**	**179**	**1,907**

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

Carrying amount as at December 31, 2020				
Current maturities of a lease liability	**230**	**97**	**88**	**415**
Long-term liabilities for a lease	**603**	**798**	**91**	**1,492**
Total balance as at December 31, 2020	**833**	**895**	**179**	**1,907**

* Additions for new agreements and changes to existing agreements

9.3 Analysis of repayment dates of Group's lease liabilities (including principal and interest to be paid)

Expected payment dates	December 31, 2020
	NIS million
Up to one year	**433**
1-5 years	**897**
More than 5 years	**803**
Total	**2,133**

9.4 Options to terminate or extend a lease

In most of its leases, the Group assumed that it is more likely than not 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 more likely than not that the cancellation options will not be exercised.

9.5 Information about material lease agreements included for the first time in the measurement of the lease assets and liabilities

A. In October 2020, the Company vacated the management offices in the Azrieli Towers in Tel Aviv and moved to its new offices in Holon.

B. In November 2020, the management offices of Pelephone relocated to new offices in Petach Tikva.

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, 2019	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)
Reclassification 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
Additions	**35**	**233**	**222**	**181**	**120**	**360**	**97**	**1,248**
Disposals	**(31)**	**(174)**	**(119)**	**(2)**	**(61)**	**(67)**	**(40)**	**(494)**
Deconsolidation	**(20)**	**-**	**-**	**-**	**-**	**-**	**(53)**	**(73)**
Reclassification from assets held for sale	**47**	**-**	**-**	**-**	**-**	**-**	**-**	**47**
Balance as at December 31, 2020	**1,311**	**2,876**	**11,945**	**3,275**	**1,593**	**1,868**	**813**	**23,681**
Depreciation and impairment losses								
Balance as at January 1, 2019	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
Impairment	19	5	43	-	106	15	16	204
Disposals	(59)	(169)	(159)	(3)	(39)	(105)	(50)	(584)
Reclassification to assets held for sale	(70)	-	-	-	-	-	-	(70)
Balance as at December 31, 2019	1,021	1,546	9,065	2,410	1,407	846	619	16,914
Depreciation for the year	**25**	**230**	**180**	**185**	**36**	**258**	**69**	**983**
Disposals	**(32)**	**(174)**	**(119)**	**(1)**	**(54)**	**(51)**	**(38)**	**(469)**
Impairment loss (reversal of impairment) (see Note 11)	**(5)**	**9**	**19**	**-**	**101**	**33**	**18**	**175**
Deconsolidation	**(15)**	**-**	**-**	**-**	**-**	**-**	**(51)**	**(66)**
Reclassification from assets held for sale	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**13**
Balance as at December 31, 2020	**1,007**	**1,611**	**9,145**	**2,594**	**1,490**	**1,086**	**617**	**17,550**
Carrying amount								
January 1, 2019	353	1,321	2,819	718	115	679	209	6,214
December 31, 2019	259	1,271	2,777	686	127	729	190	6,039
December 31, 2020	**304**	**1,265**	**2,800**	**681**	**103**	**782**	**196**	**6,131**

10.1 The residual value of the Group's copper cables is assessed at the end of each quarter. The residual value amounted to NIS 191 million as at December 31, 2020 and NIS 159 million as at December 31, 2019.

10.2 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.

10.3 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.

10.4 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. On September 14, 2020, the Company's Board of Directors approved the launch of the Company's plan for deployment of the fiber optic network. Further to the Board of Directors' decision, the Company began deploying optic fibers to buildings, including the deployment of vertical equipment in buildings, and on March 14, 2021, it announced the rollout of services to its customers on the fiber optic network. It should be noted that the customers are to be connected gradually.

10.5 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).

10.6 For information about liens for loans and borrowings, see Note 14. For information about other liens, see Note 20.

10.7 For information about agreements for the purchase of fixed assets, see Note 19.

11. Intangible Assets

	Goodwill	Software and licenses	Cellular communication usage rights (see 11.1 below)	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, 2019	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
Acquisitions or additions from in-house development	**-**	**220**	**86**	**-**	**-**	**306**
Deconsolidation	**(10)**	**(11)**	**-**	**-**	**(119)**	**(140)**
Disposals	**-**	**(36)**	**-**	**-**	**-**	**(36)**
Balance as at December 31, 2020	**1,421**	**2,428**	**566**	**1,137**	**-**	**5,552**
Amortization and impairment losses						
Balance as at January 1, 2019	133	1,632	291	1,137	136	3,329
Amortization for the year	-	175	19	-	2	196
Impairment	957	84	-	-	-	1,041
Disposals	-	(39)	-	-	(21)	(60)
Balance as at December 31, 2019	1,090	1,852	310	1,137	117	4,506
Amortization for the year	**-**	**153**	**21**	**-**	**2**	**176**
Impairment (see below)	**-**	**112**	**-**	**-**	**-**	**112**
Deconsolidation	**(10)**	**(6)**	**-**	**-**	**(119)**	**(135)**
Disposals	**-**	**(36)**	**-**	**-**	**-**	**(36)**
Balance as at December 31, 2020	**1,080**	**2,075**	**331**	**1,137**	**-**	**4,623**
Carrying amount						
January 1, 2019	1,298	428	189	-	4	1,919
December 31, 2019	341	403	170	-	2	916
December 31, 2020	**341**	**353**	**235**	**-**	**-**	**929**

11.1 Right of use of cellular communications frequencies

In August, 2020, Pelephone won a cluster of frequencies following its participation in the tender for advanced bandwidth cellular services. Pelephone's win in the frequency allocation has a total cost of NIS 88.2 million (capitalized amount as of the balance sheet date NIS 86 million), with the payment date set for September 2022.

In accordance with the terms of the tender, in order to promote and accelerate the development of cellular networks, inter alia so as to advance the deployment of the 5G technology, the winning companies will be eligible for a grant if they meet the engineering conditions of deployment and operation of 250 intracellular 5G radio stations, and the operation of a minimum bandwidth as specified in the terms of the tender, the amount of which, for all its winners, can reach a total of NIS 200 million.

The grants will be divided among the eligible winners according to the following distribution: The first eligible winner will be entitled to 41% of the grant (NIS 82 million), the second eligible winner will be entitled to 33% of the grant (NIS 66 million), and the third eligible winner will be entitled to 26% of the grant (NIS 52 million). If there are two first eligible winners, the grant will be divided between these winners as an average between the amounts (approximately NIS 74 million). If there are three first eligible winners, the grant will be divided equally between them.

As of the date of the financial statements, Pelephone estimates that it meets the conditions for eligibility for the grant and expects that it will be entitled to a grant of approximately NIS 74 million (capitalized amount as of the balance sheet date NIS 73 million), which was recognized in the statement of financial position in the trade and other receivables item, under non-current assets.

On September 29, 2020, upon receipt of the frequencies, Pelephone began operating the 5G frequencies at the broadcast sites it upgraded.

11.2 Assessment of impairment of cash-generating units

11.2.1 To assess impairment, goodwill was attributed to the Group's operating segments as follows

	December 31, 2020	December 31, 2019
	NIS million	**NIS million**
Cellular communications (Pelephone) (11.3)	**76**	76
Domestic fixed-line communication (Bezeq) (11.4)	**265**	265
	341	341

11.2.2 Composition of impairment loss recognized by the Group in 2018-2020:

	2020	2019	2018
	NIS million	**NIS million**	**NIS million**
Impairment loss in the Internet and international communications services segment (see Note 11.6 below)	**307**	196	-
Impairment loss (reversal of impairment loss) in respect of Walla (see Note 13.4)	**(14)**	-	37
Impairment loss in the cellular communications segment	**-**	951	-
Impairment loss in the multichannel television segment	**-**	-	1,638
	293	1,147	1,675

11.3 Assessment of goodwill impairment in cellular communications (Pelephone)

The balance of goodwill attributable to the cash-generating cellular communications unit is NIS 76 million. Accordingly, the Company assessed the recoverable amount of the cash-generating cellular communications unit as at December 31, 2020.

The value in use of the cellular communications cash-generating unit for Bezeq Group as at December 31, 2020 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.

The forecast also assesses the effect of the coronavirus pandemic on Pelephone's performance in forthcoming years, and estimates that the pandemic will have a material adverse effect on the company's roaming services in 2021. The forecast likewise assumes a certain impairment of revenues from roaming services in subsequent years, in light of expectations of prolonged and gradual recovery of the aviation and international tourism sectors.

The nominal cost of capital taken into account for the valuation is 10.3% (after tax) (the same as in 2019). In addition, a terminal growth rate of 2.5% was assumed (the same as in 2019).

The valuation is sensitive to changes in the terminal 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 throughout the forecast years results in a change in the value of operations amounting to NIS 387 million; a change of 50,000 users throughout the forecast years results in a change in the value of operations amounting to NIS 445 million).

The valuation was prepared by an external appraiser. Based on the valuation as explained above, the value of operations of Pelephone amounted to NIS 2,332 million, compared with a carrying amount of NIS 1,020 million. Therefore, the Group was not required to record amortization for impairment of a cellular communications cash-generating unit.

11.4 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, 2020.

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: decrease in revenues from telephony (decrease in the number of lines, decrease in call minutes used per line, and decrease in rates in light of the hearing on setting maximum rates for the company's retail telephony services), very short- term erosion in Internet revenues, and a return to growth in the medium to long term (supported by market growth, penetration of Internet services over the fiber network, and the expected cancellation of the separation between broadband infrastructure service and Internet access service), stability in revenues from data communication and transmission, and moderate growth in cloud and digital revenues. 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 cost of capital taken into account for the valuation is 7.5% (after tax) (the same as 2019). In addition, a terminal growth rate of 0% was assumed (the same as 2019).

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.

11.5 Assessment of goodwill impairment in multichannel television (DBS)

The value in use of the multi-channel television cash-generating unit for Bezeq Group as at December 31, 2020 was calculated by discounting future cash flows (DCF) up to and including 2026 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 cost of capital taken into account for the valuation is 8.5% (after tax) (the same as 2019). In addition, a terminal growth rate of 0% was assumed (the same as 2019).

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 (Over the Top) 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 positive cash flow that is expected at the end of the forecast period in the technology and business model of DBS. It should be noted that the plan is being and 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 as of December 31, 2020 was a negative NIS 145 million (as at December 31, 2019, the total value of operations was a negative NIS 581 million). In view of the negative value of the operations, as at December 31, 2020, 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 2019 and at the end of 2018.

Accordingly, the Group recognized an impairment loss of NIS 324 million in 2020. 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 3.10.2 above.

Attribution of impairment loss of Group assets:

	2020	2019	2018
	NIS million	NIS million	NIS million
Broadcasting rights - less rights utilized (the expense was presented under general and operating expenses)	**170**	202	403
Fixed assets (the expense was presented under depreciation and impairment expenses)	**112**	117	559
Intangible assets (the expense was presented under depreciation and impairment expenses)	**29**	44	106
Deferred expenses (the expense was presented under general and operating expenses)	**13**	-	-
Customer relations and brand	**-**	-	505
Goodwill	**-**	-	33
Acquisition of subscribers	**-**	-	29
Rights of use of leased property (reduced expense presented as depreciation, amortization, and impairment expenses)	**-**	(1)	3
Total impairment recognized	**324**	362	1,638

Below is information about DBS's method for measuring the fair value (at Level 3) of the assets 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.

11.6 Assessment of impairment of Bezeq International Ltd. (“Bezeq International”)

A. Valuation as at September 30, 2020

As of the date of the financial statements for the third quarter of 2020, Bezeq International identified indications of a possible impairment, in the absence of a difference between the value of its operations and the carrying amount of its net operating assets measured as at December 31, 2019, and in the wake of its preparations, also further to the Ministry of Communications' recommendation in its letters dated September 10, 2020 and November 8, 2020 to the operators in the market, to inform and deal with customers that have been paying it under an agreement for ISP services but have not used those services for an extended period of time (as described in Note 13.3). Due to the foregoing, the Group measured the recoverable amount of the ISP, international communications and NEP services cash-generating unit as of September 30, 2020. The value in use was calculated using the discounted cash flow (DCF) method based on the forecast of cash flows from operations for four years from the end of 2020 plus the salvage value.

The valuation was prepared by an external appraiser. Based on the valuation as explained above, the recoverable amount of Bezeq International was set at NIS 123 million, compared with carrying amount of NIS 405 million in the Group's books. Therefore, the Group recognized in the financial statements as of September 30, 2020 an impairment loss attributable to the ISP, international communications and NEP services segment of NIS 282 million. Since Bezeq International has no expectation of future profits for tax purposes, no tax asset was recognized. Additionally, the Group wrote off the balance of deferred tax that existed in its books, amounting to NIS 28 million.

B. Valuation as at December 31, 2020

At the end of 2020, Bezeq International revised its forecasts for the coming years, taking into account trends and changes in its operating environment. Due to the foregoing, and in the absence of a difference between the value of its operations and the carrying amount of its net operating assets measured as at December 31, 2019 and as at September 30, 2020, and in the wake of its preparations for the hearing published by the Ministry of Communications on October 4, 2020 and the secondary hearing published on February 24, 2021 for the examination of the separation between infrastructure services and access services (as described in Note 13.3), the Group estimated the recoverable amount of the ISP, international communications and NEP services cash-generating unit as at December 31, 2020.

The value in use of the ISP, international communications and NEP services cash-generating unit was calculated by discounting future cash flows (DCF method) based on the forecast of cash flows from operations for five years from the end of 2020 plus the salvage value.

The cash flow forecast was based, inter alia, on Bezeq International's performance in recent years and assessments regarding future trends in the markets in which it operates (competition, price levels, regulation and technological developments).

The revenue forecast is based on assumptions regarding Bezeq International's Internet subscriber base and the average income per subscriber (including assumptions regarding the notification and termination of billing of customers that have not been using ISP services and regarding the effects of the hearing for the examination of the separation between infrastructure services and access services), assumptions regarding Bezeq International's activity in the international communications market, and assessments regarding the development of its activity in the business communications services market.

Operating, selling, marketing and investment costs were adjusted for the scope of operations in the segment, and the forecasts included in this respect assumptions regarding the decrease in the number of employees of Bezeq International and the associated salary expenses, as well as assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet television broadcasts, in general, and the expected migration of DBS from satellite television broadcasting to Internet television broadcasting, in particular). These assumptions, and mainly the profound changes foreseen in Bezeq International's Internet operations, lead to expectations of operating losses and negative cash flows in the coming years. The nominal cost of capital taken into account for the valuation is 9.7% (after tax) (the same as 2019). In addition, in the absence of growth expectancy given an increase in losses and negative cash flows, a terminal growth rate of 0% was assumed (September 2020 – 0.8%; 2019 – 0.7%).

The valuation is sensitive to the net cash flow in the representative year in general, and to the intensity of changes in internet activity in particular (users, ARPU, and traffic costs). The sensitivity of the valuation to changes in the terminal growth rate and in the discount rate is low, in light of the expectations for low (negative) cash flows.

The valuation was prepared by an external appraiser. Based on the valuation as described above, the value of Bezeq Internationals' operations amounted to a negative NIS 145 million. Given the negative value of operations, the value of Bezeq International's non-current assets as at December 31, 2020 was set at the higher of their fair value less costs of disposal and zero.

Accordingly, the fair value of Bezeq International less costs of disposal as at December 31, 2020 is NIS 28 million, and the Group recognized in the fourth quarter an additional impairment loss amounting to NIS 25 million. Since Bezeq International has no expectations for future profits in the coming years, no tax asset was recognized.

C. Allocation of the impairment loss to assets of Bezeq International in 2019 and 2020:

	2020	2019
	NIS millions	NIS millions
Fixed assets and intangible assets	**154**	128
Long-term prepaid expenses for cable capacities and other prepaid expenses	**150**	67
Rights of use for leased assets	**3**	1
Total impairment recognized	**307**	**196**

Bezeq International allocated the impairment loss first to its assets based on book value ratios, and limited the fair value allocation of each of its assets, as determined in the valuation, which was performed by the net asset value method, as described above.

Below is information on Bezeq International's method for measuring the fair value (at Level 3) of the assets less costs of disposal:

Fixed assets – The fair value of fixed assets that are available for sale to a market participant was based on the cost approach, which takes into account the cost of replacement with new equipment less costs of physical wear and tear and technological obsolescence less costs required for making the sale.

Intangible assets – Material fair value was not attributed to intangible assets, since most of the software and licenses were specially adapted to Bezeq International, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

International capacity – In light of the nature of the agreements that were signed, which allow the assignment of these rights only to the Company or to a fellow subsidiary of Bezeq International, which are not considered a market participant (third party) for the purpose of calculating fair value according to IFRS 13, these right have no fair value.

Short- and long-term prepaid expenses – Material fair value was not attributed to prepaid expenses for maintenance of Bezeq International's systems, as the majority of the maintenance agreements were specially adapted to Bezeq International, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

Rights of use of 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 asset on the market, and the exit penalties in the lease contract.

12. Deferred Expenses and Non-current Investments

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Net subscriber acquisition asset (see 12.1 below)	**165**	160
Deferred expenses (see 12.2 below)	**37**	30
Bank deposit for loans to Company employees (see 12.3 below)	**36**	45
Rights of use of capacities (see 12.4 below)	**-**	117
Investments in equity-accounted investees	**4**	6
	242	358

12.1 Subscriber acquisition assets:

	Subscriber acquisition assets
	NIS million
Cost	
Balance as at January 1, 2019	333
Additions	130
Disposals	(25)
Balance as at December 31, 2019	438
Additions	**137**
Disposals	**(98)**
Balance as at December 31, 2020	**477**
Amortization and impairment losses	
Balance as at January 1, 2019	191
Depreciation	112
Disposals	(25)
Impairment loss	-
Balance as at December 31, 2019	278
Depreciation	**132**
Disposals	**(98)**
Balance as at December 31, 2020	**312**
Carrying amount	
January 1, 2019	142
December 31, 2019	160
December 31, 2020	**165**

12.2 The balance of deferred expenses as at December 31, 2020 is presented net of impairment of assets amounting to NIS 14 million. For information on impairment of Bezeq International see Note 11.6).

12.3 Bank deposit for loans to Company employees with no maturity date.

12.4 Transactions for the acquisition of an indefeasible right of use (IRU) of seabed cable capacities by Bezeq International are accounted for as service transactions. Under the contract, Bezeq International has a right to use the capacities until 2022 with an extension option until 2027. The balance of Bezeq International's liability for the agreement as at December 31, 2020 is $8.4 million. In February 2021, Bezeq International signed an agreement extending the periods of use of the capacities until July 2030. Bezeq International is paying for said rights of use annual installments over the period of use of the capacity.

The balance of rights of use of capacities as at December 31, 2020 and as at December 31, 2019 is presented net of impairment of assets amounting to NIS 196 million and NIS 67 million, respectively (for information on impairment of Bezeq International see Note 11.6).

13. Investees

13.1 Subsidiaries:

13.1.1 The place of incorporation of the companies held directly by the Company is Israel. Information about companies held directly by the Company:

A. Pelephone Communications Ltd.

B. DBS Satellite Services (1998) Ltd. (see Note 13.2 below)

C. Bezeq International Ltd. (see Note 13.3 below)

D. Bezeq Online Ltd.

As at December 31, 2020 and December 31, 2019, the Company holds 100% of the interests in the capital of the subsidiaries listed above. The Company's subsidiaries have investments in other subsidiaries that are not material. In addition, up to December 27, 2020, the Company held 100% of the share capital of Walla! Communications Ltd. For information about the sale of Walla see Note 13.4 below.

13.1.2 Examination of restructuring plan for the Subsidiaries

On March 24, 2021, the Company's Board of Directors adopted resolutions made by the boards of the Subsidiaries to examine an outline plan for enhancing the synergies and operational efficiency of the Subsidiaries that would essentially include the full and statutory merger of Bezeq International into DBS (subject to the required regulatory approvals), following a spin-off of Bezeq International's integration activity into a separate company within the Group, while also examining possibilities for enhancing the synergy between the Subsidiaries by having Pelephone provide certain head office services to the Subsidiaries. The findings of the examination and the plan for implementing the change under consideration will be presented to the Board of Directors for discussion and approval (if required).

13.2 DBS Satellite Services (1998) Ltd.

13.2.1 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).

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, 2020, taking into consideration the solvency of Eurocom DBS, no repayment of the advances is expected.

13.2.2 As at December 31, 2020, DBS has an equity deficit in the amount of NIS 81 million and a working capital deficit in the amount of NIS 260 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.

During 2020, the Company's Board of Directors approved, once a quarter, an irrevocable undertaking of the Company to DBS to provide a credit facility or capital investment, with the last approval given in November 2020 for up to NIS 150 million for a period of 15 months until December 31, 2021. It should be noted that during 2020, DBS did not use any of this credit facility.

In March 2021, the Company's Board of Directors approved an irrevocable undertaking of the Company to DBS to provide a credit facility or capital investment of up to NIS 150 for 15 months, from January 1, 2021 until March 31, 2022, instead of the undertaking from November 2020.

13.2.3 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 13.2.2 above, will be adequate for the operations of DBS for the coming year.

13.3 Bezeq International Ltd.

13.3.1 Ministry of Communications' recommendation to minimize the problem of inactive subscribers

On September 10, 2020, the Ministry of Communications issued a letter to Bezeq International (and other telecommunications operators) expressing the concern that some of the subscribers for Internet services or other services such as an electronic mail box do not use these services and are not even aware of their existence. The Ministry recommends in its letter to inform the subscribers that do not use these services and to stop charging them, and requests to receive periodic reports on the matter during the next six months. On November 8, 2020, an additional letter was received in the matter from the Ministry of Communications, asking that by the next reporting deadline (set for December 17, 2020) the data reported to the Ministry by the telecommunications operators reflect a substantial minimization of the problem, and be accompanied by an explanation on how the license holder is acting to prevent a recurrence of the problem. It was further written that in the event the problem would not be substantially minimized, the Ministry would consider in the future whether to issue binding directives in this regard. See also in this regard Note 11.6 (a) on an impairment of Bezeq International.

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

On October 4, 2020, a "Hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services" was published ("the first hearing"), according to which the Ministry of Communications plans to take policy steps, including, inter alia, amending the licenses of the infrastructure owners – the Company and Hot Telecom – so that as of January 1, 2022 they will be allowed to provide end customers with an integrated Internet service consisting of the components currently known as "broadband access service to ISP providers" and "ISP service," at the terms specified in the hearing.

On February 24, 2021, a secondary hearing was published on the Ministry of Communications website in the same matter ("the second hearing"), including material amendments to the outline proposed in the first hearing. The ministry's stated position is that it remains firm on the need to continue promoting the consolidation of the retail broadband Internet service into a single product, while maintaining a competitive market. See in this connection Note 11.6(b) regarding an impairment of Bezeq International.

13.4 Walla! Communications Ltd.

On December 27, 2020, following the receipt of regulatory approvals, the Company completed a transaction with the Jerusalem Post Ltd. ("the buyer") for the sale of all the Company's holdings in Walla for a total consideration of NIS 65 million, of which NIS 55 million in cash and the balance through the Company's entitlement to receive from the buyer and Walla (and their related entities) advertising space for a period of seven years from the transaction closing date. Accordingly, as of that date the Company no longer consolidates Walla in the Group's financial statements. It should be noted that the sale agreement includes an undertaking by the Company to indemnify the buyer in certain circumstances.

Upon the completion of the sale transaction, the Company recognized a capital gain before tax of NIS 22 million.

14. Debentures, Loans and Borrowings

14.1 Composition:

	December 31, 2020	December 31, 2019
	NIS million	**NIS million**
Current liabilities		
Current maturities of debentures	**584**	590
Current maturities of loans	**202**	417
	786	1,007
Non-current liabilities		
Debentures	**5,707**	5,582
Loans	**1,907**	2,969
	7,614	8,551
Total debentures, loans and borrowings	**8,400**	9,558

14.2 Changes in the debt composition in 2020

14.2.1 Raising debt

On April 7, 2020, the Company published a listing and unlocking prospectus and a shelf prospectus bearing the date April 8, 2020. Further to the publication of the prospectus, on April 26, 2020, Debentures (Series 11 and 12) were delisted from the TASE's TACT Continuous Institutional Trading System and began trading, on the same day, on the TASE's Main Board. The interest rate payable on the outstanding principal of the debentures, as of the date of their listing on the Main Board, was reduced by 0.4%, in accordance with the terms of the debentures.

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

14.2.2 Early repayments

In 2020 the Company made early repayment of a private loan from a financial institution in the amount of NIS 500 million and of a bank loan in the amount of NIS 360 million.

As a result of the early repayments, the Company recognized financing costs in the amount of NIS 65 million.

14.3 Debenture and loan terms

	December 31, 2020		December 31, 2019		
	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	**1,062**	**1,057**	1,593	1,580	3.2% - 4.3%
Unlinked loans at fixed interest	**56**	**56**	243	243	5% - 6.85%
Total bank loans	**1,118**	**1,113**	1,836	1,823	
Loan from financial institutions:					
Unlinked loans at fixed interest	**974**	**975**	1,517	1,520	3.22% - 4%
Unlinked loans at fixed interest	**17**	**17**	33	33	5.25%
Total loans from financial institutions	**991**	**992**	1,550	1,553	
Total loans	**2,109**	**2,105**	3,386	3,376	
Debentures issued to the public					
Series 6 – linked to the CPI, at fixed interest	**1,055**	**1,000**	1,600	1,500	3.7%
Series 7 – unlinked, at variable interest	**71**	**71**	107	107	MAKAM (T-bill) for one year +1.4%
Series 9 – unlinked, at fixed interest	**2,186**	**2,145**	2,197	2,145	3.65%
Series 10 – linked to the CPI, at fixed interest	**894**	**882**	902	882	2.2%
Series 11* – unlinked, at variable interest	**841**	**835**	605	603	3.2%
Series 12* – linked to the CPI, at fixed interest	**1,244**	**1,269**	761	799	1.7%
Total debentures issued to the public	**6,291**	**6,202**	6,172	6,036	
Total loans and debentures	**8,400**	**8,307**	9,558	9,412	

* On April 26, 2020, Debentures (Series 11 and 12) were delisted from the TASE's TACT Continuous Institutional Trading System and began trading, on the same day, on the TASE's Main Board. The interest rate payable on the outstanding principal of the debentures, as of the date of their listing on the Main Board, was reduced by 0.4%, in accordance with the terms of the debentures.

14.4 Loans and debentures issued by the Company

Below are details of the terms undertaken by the Company for the loans that were received and the debentures that were issued:

14.4.1 For the Company's overall debt, standard grounds were included for immediate repayment of the debentures and loans, including events of breach, default, dissolution or receivership proceedings, etc. In addition, a right was established to call for immediate repayment if a third party lender calls for immediate repayment of the Company's debts to it in an amount exceeding the amount determined.

In addition, the Company has undertaken not to create additional liens on its assets unless the debenture holders give their prior consent, in a special resolution, permitting the Company to create the lien in favor of the third party, or the Company creates at the same time liens in favor of all the lenders (negative lien). The lien includes exceptions, inter alia 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 regarding a token lien.

14.4.2 For the Company's public debentures, for bank loans with an outstanding balance of NIS 1.1 billion as at December 31, 2020, and for loans from financial institutions with an outstanding balance of NIS 1 billion as at December 31, 2020, the Company has undertaken that if 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).

14.4.3 For the Company's public debentures, and for loans from financial institutions amounting to NIS 1 billion, grounds were included for immediate repayment if telecommunications ceases to be the Group's core activity.

14.4.4 For the Company's public debentures, and for loans from financial institutions amounting to NIS 1 billion, the Company has undertaken towards the lenders to act so that, to the extent under its control, the rating of the debentures will be monitored by at least one rating agency, so long as there are outstanding debentures of the relevant series or an outstanding balance of loans, as the case may be.

14.4.5 For Debentures Series 9-12, and for loans from financial institutions amounting to NIS 1 billion, grounds were included for immediate repayment in the event of a change in control, following which the Company's Controlling Shareholders (as defined in the agreements) will cease to be its 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 of the Company in accordance with the provisions of the Communications Law and/or the Communications Order; or (2) transfer of control where the Transferee holds control together with the Company's Controlling Shareholders, provided that the holding rate of the Company's Controlling Shareholders in 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/the lenders.

14.4.6 In addition, for Debentures Series 9-12, and for loans from financial institutions amounting to NIS 1 billion, grounds were included for immediate repayment of the debentures in the event that a going concern qualification is included in the Company's financial statements for two consecutive quarters, due to a material deterioration in the Company's business compared with its situation at the time of the issue, where there is real concern that the Company will not be able to repay the debentures/loans on time (as set out in section 35I1(a)(1) of the Israel Securities Law).

As at December 31, 2020 and the date of approval of the financial statements, the Company was in compliance with all its obligations, there were no grounds for calling for immediate repayment, and financial covenants were not set as detailed above.

14.5 Reportable credit

Below is information about the Group's reportable credit, in accordance with Legal Bulletin No. 104-15: Reportable Credit Events, issued by the ISA on December 30, 2011 and amended on March 19, 2017 (according to the Group's data, debentures series and loans amount to more than NIS 800 million). The debentures were issued by the Group without a specific purpose. The debenture principal is repayable in equal installments in the number specified in the table, with the interest payable on the outstanding loan principal.

	Debentures (Series 6)	**Debentures (Series 9)**	**Debentures (Series 10)**	**Debentures (Series 11)**	**Debentures (Series 12)**
Debenture issue date	3.7.2011	15.10.2015	15.10.2015	10.7.2019	10.7.2019
Final repayment date	1.12.2022	1.12.2025	1.12.2025	1.6.2030	1.6.2030
Type of loan	CPI-linked shekel, at fixed interest	Unlinked shekel, at fixed interest	CPI-linked shekel, at fixed interest	Unlinked shekel, at fixed interest	CPI-linked shekel, at fixed interest
Original amount of the loan or par value (NIS million)	3,000	2,145	882	835	1,269
Balance of revalued principal (plus interest payable) as at December 31, 2020 (NIS million)	1,040	2,151	885	837	1,271
Number of principal payments per year	1	1	1	1	1
Principal payments as from	2018	2022	2022	2026	2026
Number of interest payments per year	2	2	2	2	2
Interest rate as at December 31, 2020	3.70%	3.65%	2.20%	3.20%	1.70%
Fair value of the liability as at December 31, 2020 (NIS million)	1,089	2,342	956	910	1,350
Effective interest rate in fair value as at December 31, 2020	0.31%	1.19%	0.04%	1.93%	0.83%
Effective interest rate in fair value as at December 31, 2019	(0.2%)	1.75%	0.52%	2.69%	1.24%
Special conditions	See Note 14.4	See Note 14.4	See Note 14.4	See Note 14.4	See Note 14.4
Right to early repayment	No	No	Yes	Yes	Yes

14.6 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, 2019	6,476	4,738	11,214
Changes due to cash flows from financing activities			
Proceeds from the issue of debentures and receipt of loans, less transaction costs	1,065	800	1,865
Repayment of debentures and loans	(1,316)	(2,131)	(3,447)
Interest paid	(220)	(172)	(392)
Total net cash provided by financing 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
Changes due to cash flows from financing activities			
Proceeds from the issue of debentures and receipt of loans, less transaction costs	**718**	**-**	**718**
Repayment of debentures and loans	**(555)**	**(1,273)**	**(1,828)**
Interest paid	**(200)**	**(114)**	**(314)**
Total net cash provided by financing activities	**(37)**	**(1,387)**	**(1,424)**
Financing expenses recognized in the statement of income	**157**	**103**	**260**
Balance as at December 31, 2020	**6,307**	**2,117**	**8,424**

15. Trade and Other Payables

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Trade payables		
Open accounts and expenses payable *	**940**	925
Notes payable	**-**	2
Total trade payables	**940**	927
Other current payables, including derivatives		
Liabilities to employees and other liabilities for wages and salaries	**397**	356
Deferred income	**168**	136
Current tax liabilities	**80**	5
Institutions	**66**	66
Derivative instruments	**51**	55
Accrued interest	**24**	30
Other	**33**	39
Total other current payables, including derivatives	**819**	687
Total trade payables and other current payables	**1,759**	1,614
Other non-current payables		
Liability for payment in respect of frequencies**	**86**	-
Deferred income from government grant**	**72**	-
Deferred income	**75**	69
Derivative instruments	**66**	66
Other	**8**	4
Total other non-current payables	**307**	139
Total trade payables and other current and non-current payables	**2,066**	1,753

* Of which, trade payables that are related parties and interested parties as at December 31, 2020 amount to NIS 3 million (December 31, 2019 – NIS 2 million).

** See Notes 11.1 and 3.14 regarding the frequencies tender and a government grant.

16. Provisions

	Customer claims	Additional legal claims	Dismantling and clearing of cellular and warranty	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2020	**111**	**9**	**54**	**174**
Provisions created	**6**	**-**	**3**	**9**
Provisions used	**(4)**	**(8)**	**-**	**(12)**
Provisions canceled	**(1)**	**-**	**(1)**	**(2)**
Balance as at December 31, 2020	**112**	**1**	**56**	**169**
Presented in the statement of financial position as:				
Current provisions	**112**	**1**	**4**	**117**
Non-current provisions	**-**	**-**	**52**	**52**
	112	**1**	**56**	**169**

* For further information about legal claims, see Note 18.

17. Employee Benefits

Employee benefits include termination benefits, post-employment benefits, other long-term benefits, and short-term benefits.

17.1 Composition of liabilities for employee benefits

		2020	2019
	Note	NIS million	NIS million
Current liabilities for:			
Vacation		**122**	120
Sick pay	17.4	**161**	152
Provision for the early retirement plan at Bezeq	17.5.1	**87**	139
Provision for early retirement for employees transferred from the civil service at Bezeq	17.5.2	**62**	170
Provision for the streamlining plan in Pelephone, Bezeq International and DBS	17.5.3	**43**	66
Current maturities of pensioner benefits	17.3.3	**7**	7
Total current liabilities for employee benefits		**482**	654
Non-current liabilities for:			
Liability for pensioner benefits	17.3.3	**140**	137
Provision for early retirement for employees transferred from the civil service	17.5.2	**108**	94
Severance pay, net (see composition below)	17.3.1	**58**	65
Early notice and pension	17.3.2	**29**	29
Provision for the streamlining plan in Pelephone, Bezeq International and DBS		**-**	31
Total non-current liabilities for employee benefits		**335**	356
Total liabilities for employee benefits		**817**	1,010
Composition of liabilities for severance pay:			
Liability for severance pay		**214**	230
Fair value of plan assets		**(156)**	(165)
		58	65

17.2 Defined contribution plans

17.2.1 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

	2020	2019	2018
	NIS million	NIS million	NIS million
Deposits recognized as an expense for a defined contribution plan	**221**	223	232

17.2.2 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 17.3.1 below.

17.3 Defined benefit plans

Obligations for defined benefit plans in the Group include the following:

17.3.1 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.

17.3.2 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

17.3.3 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.

17.4 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.

17.5 Early retirement and termination benefits

17.5.1 According to the collective agreement of December 2006 between the Company and the employees union and the Histadrut – New General Federation of Labor, and according to Amendment No. 5 to the agreement from August 2015, the Company was entitled, at its discretion, to terminate the employment of 163 long-time tenured employees in each of the years 2015-2021 (the Company’s right was accumulated over the years).

On December 16, 2020, Amendment No. 6 to the agreement was signed, extending the retirement arrangement in the agreement until December 31, 2026. According to the amendment, the Company may, at its discretion, terminate the employment of 50 tenured employees in each year (in addition to a retirement quota of approximately 300 tenured employees remaining from the earlier agreement, whose employment the Company may terminate at the end of the period of the agreement).

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 December 10, 2020, the Company's Board of Directors approved, as part of the implementation of the streamlining plan in the Company, the early retirement on pension of 50 tenured employees, at a total cost of NIS 68 million. In light of the foregoing, the Company recorded in its financial statements for the fourth quarter of 2020 an expense of NIS 65 million.

17.5.2 On December 16, 2018, an early retirement plan was approved, until 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 provision for the retirement liability for these employees as at December 31, 2020 is NIS 170 million.

17.5.3 Pelephone, Bezeq International and DBS have collective agreements with the Labor Federation and the employee committees. The agreements from 2019 inter alia provided for streamlining and synergy processes including the right of these companies to terminate the employment of employee according to rules set in the agreements. The balance of the provision for streamlining in respect of these agreements as of December 31, 2020 is NIS 43 million.

17.6 Actuarial assumptions

The main actuarial assumptions for defined benefit plans at the reporting date are as follows:

17.6.1 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.

17.6.2 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.

17.6.3 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, 2020	December 31, 2019
	Average discount rate	Average discount rate
Severance pay	**2.7%**	2.4%
Retirement benefits	**2.8%**	2.9%

17.6.4 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
Long-time tenured employees in the Company	The calculation was based on specific assumptions regarding an expected salary increase for 2021 through to 2026, arising from the collective agreement signed in August 2015 and in December 2020.
New tenured 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, Bezeq International and DBS employees	Salary increase rates were determined based on the collective agreements signed. The annual average salary increase is 2%.

17.6.5 Average weighted life of liabilities for the main post-employment benefits:

	December 31, 2020	**December 31, 2019**
	Years	**Years**
Severance pay	**11.9**	10.8
Retirement benefits	**16.4**	16.6

17.7 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, 2020	**December 31, 2019**
	NIS million	**NIS million**
Discount rate – addition of 0,5%	**(35)**	(42)
Rate of future salary increases – addition of 0.5%	**34**	35
Employee churn rate – addition of 5%	**(20)**	(25)
Mortality rate assumption – 5% increase	**(3)**	(4)

18. Contingent Liabilities

During the normal course of business, legal claims were filed against Group companies or there are various pending legal proceedings 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 16), where provisions are required to cover the exposure resulting from the legal claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at December 31, 2020 for legal claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 3.8 billion. There is also additional exposure of NIS 3.7 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 nominal.

For updates subsequent to the reporting date, see section 18.2 below.

18.1 Following is a detailed description of the Group's contingent liabilities as at December 31, 2020, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provision	Additional exposure	Exposure for claims whose chances 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.	**112**	**3,126**	**1,792(1)**
Claims by enterprises and companies	Lawsuits alleging liability of the Group companies in respect of their activities and/or investments.	**-**	**687(2)**	**1,873(3)**
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	**-**	**-**	**-**
Claims by the State and authorities	Various legal proceedings by the State of Israel, various government institutions and state authorities ("the Authorities"). These are mainly proceedings in the regulatory field relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the Authorities (including municipal property taxes). See also Note 6.6.	**1**	**5**	**-**
Miscellaneous	Other legal claims, including civil tort claims (excluding claims for which the insurance coverage is not disputed), real estate, infrastructure, etc.	**-**	**12**	**14**
Total legal claims against the Company and subsidiaries		**113**	**3,830**	**3,679**

(1) Including exposure of NIS 0.9 billion for a motion for certification of a class action filed against the Company in May 2020 with respect to Internet advertising packages through B144 (the amount of the exposure was written in handwriting without any explanation or calculation).

(2) Exposure for a class action of a shareholder against the Company and officers in the Company, alleging reporting omissions by the Company regarding the wholesale market reform.

(3) Two motions for certification of a class action for 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 shareholder at the time, regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. The proceeding is stayed until September 6, 2021, due to the ongoing investigation and at the request of the Attorney General (as described in Note 1.3).

18.2 Subsequent to the date of the financial statements, two motions for certification of a class action were filed against the Company, without specifying an exact amount. As of the date of approval of the financial statements, the chances of the motions cannot yet be assessed. In addition, claims with exposure of NIS 372 million were concluded.

19. Commitments

19.1 DBS has agreements for the acquisition of space segments (as detailed in Note 19.2 below), content, and copyrights, up to the end of 2026. The amounts of future agreements for these contracts as at December 31, 2020 are as follows:

Year ended December 31	Space segments	Content and copyright	Total
	NIS million	NIS million	NIS million
2021	**73**	**379**	**452**
2022	**60**	**262**	**322**
2023	**58**	**80**	**138**
2024	**58**	**8**	**66**
2025 and onwards	**67**	**-**	**67**
	316	**729**	**1,045**

19.2 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 2022 (after the extension option was exercised).

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.

19.3 The cellular infrastructure equipment in the UMTS/HSPA, LTE and 5G networks is manufactured by LM Ericsson Israel Ltd. ("Ericsson"), which serves as a supplier of Pelephone for the deployment of a 4G radio (LTE) and 5G network. 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 (LTE) and 5G network equipment with Ericsson, and Pelephone believes that it could be dependent on Ericsson for network support and expansion. As at December 31, 2020, Pelephone has agreements with Ericsson for the acquisition of terminal equipment and the receipt of services as aforesaid, for a total of NIS 10 million.

19.4 As at December 31, 2020, the Group companies have agreements for the acquisition of terminal equipment, fixed assets, intangible assets, and other assets amounting to NIS 383 million and other agreements for the receipt of various services in the future amounting to NIS 101 million.

19.5 For information about transactions with related parties, see Note 29.

20. Securities, Liens and Guarantees

The Group's policy is to provide tender, performance and legal guarantees. In addition, the Company provides bank guarantees, where necessary, for banking obligations of subsidiaries.

20.1 The Group companies provided guarantees of NIS 129 million in favor of the Ministry of Communications to secure the terms of their licenses (of which NIS 52 million is linked to the CPI).

20.2 The Group companies provided bank guarantees totaling NIS 195 million in favor of third parties (including a guarantee of NIS 118 million for the Sakia complex – see Note 6.6 for details).

20.3 Restrictions on the creation of liens on assets of the Group companies:

20.3.1 In accordance with the Company's license, the license may not be transferred, pledged or attached, in whole or in part. Any transfer, pledge or attachment of any of the license assets that is not explicitly permitted by the license, is subject to the approval of the Minister, who may, in special cases, permit the transfer of the license in conjunction with structural changes, if he is satisfied that the transferee license holder meets all the conditions that were met by the transferor. Furthermore, if a third party has rights in any of the assets used to provide the Company's services, the Company must ensure that the exercise of such rights does not impair the performance of the Company's obligations under the license.

20.3.2 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 ("the License Assets"), without the consent of the Minister of Communications, given after he was satisfied that the exercise of the rights by the third party will not impair the services provided under the license, except for:

A. A pledge on any of the License Assets in favor of a bank operating lawfully in Israel, to receive bank credit, provided that Pelephone gives the Ministry of Communications notice regarding the pledge it intends to register, specifying 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.

C. Sale, lease, pledge or transfer of the License Assets to a holder of a cellular infrastructure license holder of which Pelephone is a customer.

20.3.3 In accordance with its license, Bezeq International is not permitted to sell, lease or pledge any of the assets required for ensuring the services of the license holder, without the consent of the Minister of Communications, given after he was satisfied that the exercise of the rights by the third party will not impair the services provided under the license. Notwithstanding the foregoing, Bezeq International may pledge any of the license assets in favor of a bank operating lawfully in Israel, to receive bank credit, provided that Bezeq International gives the Ministry of Communications advance notice regarding the pledge it intends to make, and that the pledge agreement includes a clause ensuring that the exercise of the rights by the bank will not impair the services provided under the license.

20.3.4 Regarding DBS's broadcasting license, the Communications Law and the license stipulate restrictions on the transfer, attachment and encumbrance of the license and of any of the license assets. The broadcasting license requires receiving the Minister's approval for certain changes in the holding of means of control in DBS and imposes reporting obligations with respect to the holders of means of control. There are also certain restrictions under the license on the performance of uplink operations (transfer of broadcasts from DBS's broadcasting center to the broadcasting satellite and implementation of setup and ancillary operation activities).

20.4 For information about the conditions that the Company undertook for loans and borrowings, see Note 14.

21. Equity

21.1 Share capital

	Registered share capital	Issued and paid up share capital
	Number of shares	**Number of shares**
	Balance as at December 31, 2020 and 2019	**Balance as at December 31, 2020 and 2019**
Ordinary shares of NIS 1 par value	**2,825,000,000**	**2,765,485,753**

* See Note 32.1 regarding the approval of the General Meeting of the Company's shareholders, after the date of the financial statements, for increasing the Company's authorized capital, as well as regarding an equity-based compensation plan.

21.2 Dividends

Distributions made by the Company during 2018-2020:

Distribution date	Distributed amount per share (NIS)	2020	2019	2018
		NIS million	NIS million	NIS million
10.5.2018	0.133	-	-	368
10.10.2018	0.115	-	-	318
		-	-	686

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 with the aim of presenting a clear and transparent position to the shareholders, in view of the inability to distribute a dividend due to the expected failure to meet the profit test in the two years following the resolution. Accordingly, the Board of Directors decided 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 generation of value for the shareholders of the Company through regular dividend distributions, all subject to the approval of the General Meeting of the Company's shareholders regarding each specific distribution, as provided in the Company's Articles of Association.

22. Revenues

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Domestic fixed-line communication (Bezeq fixed-line)			
Internet – infrastructure	**1,537**	1,497	1,525
Fixed-line telephony	**981**	1,017	1,130
Data transmission and communication	**785**	745	769
Cloud and digital services	**288**	273	260
Other services	**222**	225	199
	3,813	3,757	3,883
Cellular communications – Pelephone			
Cellular services and terminal equipment	**1,550**	1,674	1,713
Sale of terminal equipment	**577**	642	688
	2,127	2,316	2,401
Multichannel television – DBS	**1,286**	1,344	1,473
Internet services (ISP), international communications, and NEP services – Bezeq International	**1,217**	1,283	1,338
Other	**280**	229	226
	8,723	8,929	9,321

23. General and Operating Expenses

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Interconnectivity and payments to domestic and international operators	**776**	757	789
Terminal equipment and materials	**747**	806	771
Content costs	**589**	644	653
General and marketing	**462**	489	555
Maintenance of buildings and sites	**246**	271	286
Services and maintenance by subcontractors	**303**	270	277
Vehicle maintenance*	**50**	71	82
	3,173	3,308	3,413

* General and operating expenses are presented net of expenses of NIS 38 million recognized in 2020 for investments in fixed assets and intangible assets (2019 – NIS 43 million; 2018 – NIS 46 million).

24. Salaries

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Total salaries and incidentals	**2,439**	2,472	2,571
Less salaries recognized in investments in fixed assets and intangible assets	**(548)**	(539)	(579)
	1,891	1,933	1,992

25. Other Operating Expenses (Income), Net

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Capital gain (mainly from the sale of real estate)	**(18)**	(508)	(1)
Profit from the sale of an investee (see Note 13.4)	**(22)**	-	(14)
Receipts from a settlement agreement	**(9)**	-	-
Termination expenses for early retirement in the Company (see Note 17.5.1)	**64**	109	547
Provision for collective agreement signing bonus (see Note 17.5.1)	**40**	-	-
Termination expenses for early retirement and the streamlining agreement in Pelephone, Bezeq International and DBS (see Note 17.5.3)	**9**	167	12
Provision for claims	**11**	10	91
Other expenses (income)	**(1)**	1	(1)
Other operating expenses (income), net	**74**	(221)	634

26. Financing Expenses (Income), Net

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Interest expenses for financial liabilities	**273**	349	370
Costs for early repayment of loans and debentures (see Note 14)	**65**	93	-
Financing expenses for lease liabilities	**30**	29	26
Linkage and exchange rate differences	**22**	43	63
Change in fair value of financial assets at fair value through profit or loss	**11**	9	-
Financing expenses for employee benefits	**8**	89	9
Other financing expenses	**7**	12	5
Changes in liability for contingent consideration for a business combination	**-**	-	43
Total financing expenses	**416**	624	516
Income for credit in sales	**30**	29	30
Other financing income	**15**	32	27
Revenues for debenture exchange	**-**	14	-
Change in fair value of financial assets at fair value through profit or loss	**-**	-	24
Total financing income	**45**	75	81
Financing expenses, net	**371**	549	435

27. Earnings per Share

	2020	**2019**	**2018**
Net profit (loss) (NIS million)	**796**	(1,194)	(1,092)
Number of shares (millions of shares)	**2,765**	2,765	2,765
Earnings (loss) per share (NIS)	**0.29**	(0.43)	(0.39)

28. Segment Reporting

28.1 The Group operates in four different segments in the communications sector, such that each company in the Group operates in a separate business segment. Each company provides services in the segment in which it operates, using the fixed assets and the infrastructure it owns (see also Note 22). 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. The primary reporting format, by business segments, is based on the Group's management and internal reporting structure.

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 reportable 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 multichannel TV segment are presented net of the impairment losses described in Note 11.5. 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.

28.2 Operating segments

	Year ended December 31, 2020						
	Domestic fixed-line communications	Cellular communications	ISP and international communications	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,813	2,127	1,217	1,286	280	-	8,723
Inter-segment revenues	346	59	54	1	6	(466)	-
Total revenues	4,159	2,186	1,271	1,287	286	(466)	8,723
Depreciation and amortization	877	599	149	310	14	(112)	1,837
Segment results – operating profit (loss)	1,705	(84)	(241)	(42)	44	73	1,455
Financing expenses	419	18	5	15	1	(42)	416
Financing income	(16)	(66)	(3)	(2)	-	42	(45)
Total financing expenses (income), net	403	(48)	2	13	1	-	371
Segment profit (loss) before income tax	1,302	(36)	(243)	(55)	43	73	1,084
Income tax	262	(11)	32	2	4	(1)	288
Segment results – net profit (loss)	1,040	(25)	(275)	(57)	39	74	796
Segment assets	8,471	4,371	781	1,365	96	(2,188)	12,896
Investment in associates	-	-	4	-	-	-	4
Goodwill	-	-	-	-	-	341	341
Segment liabilities	11,764	1,742	580	505	42	(1,242)	13,391
Investments in fixed assets and intangible assets	975	437	123	165	12	-	1,712

* Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 for condensed selected information from the financial statements of DBS.

28.2 Operating segments (cont.)

	Year ended December 31, 2019						
	Domestic fixed-line communications	Cellular communications*	ISP and international communications	Multichannel 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	334	14	(120)	1,912
Segment results – operating profit (loss)	2,142	(99)	(196)	(135)	1	(863)	850
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)	(202)	(147)	-	(863)	301
Share in losses of associates	-	-	-	-	(2)	-	(2)
Segment profit (loss) before income tax	1,573	(60)	(202)	(147)	(2)	(863)	299
Income tax	381	(13)	(45)	2	-	1,168	1,493
Segment results – net profit (loss)	1,192	(47)	(157)	(149)	(2)	(2,031)	(1,194)
Segment assets	8,091	4,088	1,080	1,491	149	(2,255)	12,644
Investment in associates	-	-	4	-	2	-	6
Goodwill	-	-	-	-	-	341	341
Segment liabilities	12,466	1,434	604	576	79	(1,236)	13,923
Investments in fixed assets and intangible assets	914	335	110	222	9	-	1,590

* Impairment loss of the cellular communications segment is presented under adjustments.

** Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group’s chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 for condensed selected information from the financial statements of DBS.

28.2 Operating segments (cont.)

	Year ended December 31, 2018						
	Domestic fixed-line communications	Cellular communications	ISP and international communications	Multichannel 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)	77	(56)	(36)	(1,789)	(582)
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	67	(45)	(36)	(1,789)	(1,017)
Share in profits (losses) of associates	-	-	1	-	(4)	-	(3)
Segment profit (loss) before income tax	754	32	68	(45)	(40)	(1,789)	(1,020)
Income tax	187	8	17	3	-	(143)	72
Segment results – net profit (loss)	567	24	51	(48)	(40)	(1,646)	(1,092)

* Results of the multi-channel television segment are presented net of the impairment loss set out in Note 11.5. 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 31.3 for condensed selected information from the financial statements of DBS.

28.3 Adjustments for segment reporting of revenues, profit or loss, assets and liabilities

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Revenues			
Revenues from reportable segments	**8,903**	9,119	9,503
Revenues from other segments	**286**	238	241
Elimination of revenues from inter-segment sales	**(466)**	(428)	(423)
Consolidated revenues	**8,723**	8,929	9,321

Profit or loss			
Operating profit for reportable segments	**1,338**	1,712	1,243
Financing expenses, net	**(371)**	(549)	(435)
Adjustments for the multichannel television segment	**81**	80	-
Loss for operations classified in other categories and other adjustments	**36**	9	(31)
Share in losses of associates	**-**	(2)	(3)
Loss from impairment of assets	**-**	(951)	(1,638)
Amortization of excess cost	**-**	-	(156)
Consolidated profit (loss) before income tax	**1,084**	299	(1,020)

	December 31, 2020	December 31, 2019
	NIS million	**NIS million**
Assets		
Assets of reportable segments	**14,992**	14,754
Assets attributable to operations classified in other categories	**96**	151
Goodwill not attributable to an operating segment	**341**	341
Less loss from impairment of assets (see Note 11), inter-segment assets and other adjustments	**(2,188)**	(2,255)
Consolidated assets	**13,241**	12,991

Liabilities		
Liabilities of reportable segments	**14,591**	15,080
Liabilities attributable to operations classified in other categories	**42**	79
Less inter-segment liabilities	**(1,242)**	(1,236)
Consolidated liabilities	**13,391**	13,923

29. Transactions with Interested and Related Parties

29.1 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.

29.2 Balances with interested and related parties

	December 31	
	2020	**2019**
	NIS million	**NIS million**
Trade and other receivables - associates	**2**	5
Related parties, net	**(1)**	(1)
Eurocom DBS Ltd. for excess advance payments for contingent consideration (not including interest) (see Note 13.2.1)	**99**	99

29.3 Transactions with interested and related parties

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Revenues			
From related parties	**12**	13	31
From associates	**2**	1	6
Expenses			
To related parties	**28**	20	54*
To associates	**2**	-	5
Fixed assets			
Related parties	**-**	-	1
Adjusted balance of the excess advance payments for acquisition of DBS (see Note 13.2.1)	**-**	**-****	43**

* Expenses to related parties include also amounts paid by DBS to Spacecom up to May 3, 2018. It should be noted that 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 29.3.2 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 made by it, recognized as financing income, net.

Details of transactions with interested and related parties

29.3.1 Negligible transactions procedure

On March 7, 2011, the Company's Board of Directors resolved to adopt rules and guidelines for classifying a transaction of the Company or its subsidiaries with an interested party as a negligible transaction, as set out in section 41(a3) of the Securities Regulations (Annual Financial Statements), 2010 ("the Financial Statements Regulations"). These rules and guidelines, 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 controlled by it and a subsidiary or associate with a controlling shareholder or which the controlling shareholder has a personal interest in its approval, as set out in section 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Periodic Reports Regulations"), and in section 54 of the Securities Regulations (Prospectus Details and Draft Prospectus – Structure and Form), 1969 ("the Prospectus Details Regulations"). The types of transactions set out in the Financial Statements Regulations, the Periodic Reports Regulations, and the Prospectus Details Regulations are 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.

The Company and its subsidiaries from time to time enter into negligible transactions, which are not extraordinary transactions, with officers of the Company and its controlling shareholder (collectively – "Interested Parties in the Company") (or in which the controlling shareholder has a personal interest), of the types and with the characteristics set out below:

1. Sales of communications services and products by Group companies – including, inter alia: 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; Internet access services, international telephony services, hosting services and data communication services; television services.
2. Rental, management and real estate acquisition agreements, including, inter alia, rental of areas used for communication facilities and warehouses.

In the absence of special qualitative considerations arising from the overall circumstances, a transaction made in the ordinary course of business, at market terms, which has no material impact on the Company, is 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 section 36 and section 37A of the Periodic Reports Regulations or any other law.

C. The transaction does not include terms of service and employment (as defined in the Companies Law, 1999, ("the Companies Law")) of an interested party or his relative, and does not constitute an agreement as set out in section 270(4) of the Companies Law (agreement of a public company with a holder of control therein, directly or indirectly, including through a company he controls, for the receipt of services from him by the Company, and if such person is also an officer of the Company – as to the terms of his service and employment, and if he is an employee of the Company but not an officer – as to his employment by the Company).

Subject to the provisions of the Companies Law, as in effect 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 the need to revise them. In general, each transaction will be tested separately for negligibility. Notwithstanding the aforesaid, separate transactions that are part of the same transaction or continuing transactions or very similar transactions that are carried out routinely and repeatedly, will be tested for negligibility as one transaction on an annual basis, provided the amount of such transactions does not exceed NIS 10 million.

The Board of Directors may, from time to time, at its discretion, revise the parameters for a negligible transaction. Such a revision will be reported as required by law.

29.3.2 Below are transactions listed in section 270(4) of the Companies Law, which are not considered negligible transactions

	Date of approval by the General Meeting (after approval by 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 for the Company to vote at the general meeting of DBS in favor of DBS signing with Space Communications Ltd. ("Spacecom" and "the Parties" respectively) 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 the perfection and implementation of the transaction.	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 19.1 and 19.2.	Section A below

A. B Communications had a personal interest in the transaction at the time of its approval, since, as at the date of the transaction, Spacecom was controlled by Eurocom Communications, which was at that time the controlling shareholder (indirectly) of B Communications. To the best of the Company's knowledge and according to 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 has ceased to regard Spacecom as a related party.

For information about the transactions listed in section 270(4) of the Companies Law, regarding directors and officers insurance and indemnity, see Note 29.6 below.

29.4 Benefits for key officers

Benefits for employment of key officers in 2018-2020, including:

	Year ended December 31		
	2020	2019	2018
	NIS thousand	NIS thousand	NIS thousand
Number of key officers*	**4**	3	7
Salary**	**6,919**	5,485	7,568
Bonus	**4,995**	3,834	5,453
Management fees for the former Chairman of the Board of Directors***	**1,919**	2,400	2,508
Compensation for the former interim Chairman of the Board of Directors	**-**	-	372
	13,833	11,719	15,901

* Key officers in the Group in the reporting year include the former Chairman of the Board of Directors, whose remuneration for his service was paid to a management company of which he holds 50% of the means of control, the current Chairman of the Board of Directors, the CEO of the Company and the CEO of Pelephone, Bezeq International and DBS.

** In 2020, the changes in other provisions (which are included in the total salary) include mainly a provision for early notice and for a non-competition period for the Chairman of the Board of Directors, amounting to NIS 0.9 million.

In 2019, the changes in other provisions (which are included in the total salary) include mainly an increase in the provision for early notice, vacation and sick leave for the Company's CEO in the amount of 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 payment of early notice and vacation 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 due to the creation of a provision for early notice and vacation for the Company's CEO in the amount of NIS 0.5 million and for the former Chairman of the Board of Directors in the amount of NIS 0.5 million.

*** On May 3, 2019, the former Chairman of the Board of Directors notified the Company of a 20% reduction in management fees for the whole of 2019.

For information about share-based compensation see Note 32.1.

29.5 Benefits for directors

	Year ended December 31		
	2020	2019	2018
	NIS thousands	NIS thousands	NIS thousands
Remuneration for directors who are not employed by the Company (see 29.5.1)	**2,212**	2,890	5,689
Number of directors receiving remuneration	**7**	13	13
Salary of employee directors (see 29.5.2)	**624**	626	641
Number of directors receiving a salary (see 29.5.2)	**2**	1	1
Management fees to the former controlling shareholder	**-**	-	800

29.5.1 The management fees for the services of the former Chairman of the Board of Directors and the remuneration for the current Chairman of the Board of Directors are not included in this section and are included in section 29.4 above, since the Chairman of the Board of Directors is a key officer.

29.5.2 The salary paid to employee directors in the reporting year is for their work in the Company and does not include any additional payment for their service as directors. The salary specified in the table includes only the period in which they served as directors and received a salary accordingly.

29.6 Additional benefits for directors and officers

Date of approval by the General Meeting (after approval by the Company's Audit/Compensation Committee and Board of Directors), unless otherwise stated	Nature of the transaction	Amount of the transaction
June 14, 2020 Approval of the Compensation Committee in accordance with section 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 limit of liability of up to USD 130 million per claim and in total for the entire year of insurance plus a limit of liability of USD 20 million beyond the basic policy for coverage for directors only (Side A) plus reasonable legal expenses. The annual premium is in accordance with the limitations on amounts set in the compensation policy. The Company’s deductible is up to USD 250,000 per event.
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.

30. Financial Instruments

30.1 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 rate and CPI 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.

30.2 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 regularly monitor the various risks, to set the risk exposure level that must be complied with and to determine the possible effects of this exposure based on the assessments and expectations of the Board of Directors.

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.

30.3 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.

30.4 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 14 above.

The Group has contractual commitments with respect to acquisitions, fixed assets, terminal equipment and other ongoing services. For further information about commitments, see Note 19, Commitments.

The following are the contractual maturities of financial liabilities actually acquired up to December 31, 2020, including estimated interest payments (based on known CPI and interest rates on December 31, 2020):

	December 31, 2020						
	Carrying amount	Contractual cash flow	First half 2021	Second half 2021	2022	2023 to 2025	2026 and thereafter
	NIS million						
Non-derivative financial liabilities							
Trade and other payables	**1,541**	**1,541**	**1,502**	**39**	**-**	**-**	**-**
Loans	**2,109**	**2,451**	**135**	**129**	**147**	**948**	**1,092**
Debentures	**6,291**	**7,015**	**77**	**646**	**1,022**	**3,045**	**2,225**
	9,941	**11,007**	**1,714**	**814**	**1,169**	**3,993**	**3,317**
Financial liabilities for derivative instruments	**117**	**117**	**8**	**43**	**44**	**12**	**10**

The Group expects that it will not be required to repay the above obligations earlier or in substantially different amounts.

30.5 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.

30.5.1 Exposure to CPI and foreign currency risks

<u>CPI risk</u>

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.

<u>Foreign currency risk</u>

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 dollar or euro. 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 dollar exposure through forward transactions against the dollar and management of dollar deposits.

Statement of financial position according to linkage basis as at December 31, 2020:

	December 31, 2020				
	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	775	-	65	-	840
Investments	665	-	59	-	724
Trade receivables	1,592	16	13	-	1,621
Other receivables	50	90	-	38	178
Inventory	-	-	-	73	73
Assets held for sale	-	-	-	10	10
Non-current assets					
Trade and other receivables	323	191	-	-	514
Broadcasting rights	-	-	-	67	67
Right-of-use assets	-	-	-	1,804	1,804
Fixed assets	-	-	-	6,131	6,131
Intangible assets	-	-	-	929	929
Deferred expenses and non-current investments	36	-	-	206	242
Deferred tax assets	-	-	-	108	108
Total assets	3,441	297	137	9,366	13,241
Current liabilities					
Debentures, loans and borrowings	268	518	-	-	786
Current maturities of liabilities for leases	2	413	-	-	415
Trade and other payables	1,287	126	179	167	1,759
Employee benefits	479	-	3	-	482
Provisions	115	2	-	-	117
Non-current liabilities			-	-	
Loans and debentures	4,943	2,671	-	-	7,614
Liabilities for leases	4	1,488	-	-	1,492
Employee benefits	286	-	49	-	335
Derivatives and other liabilities	89	66	-	152	307
Deferred tax liabilities	-	-	-	32	32
Provisions	52	-	-	-	52
Total liabilities	7,525	5,284	231	351	13,391
Total exposure in the statement of financial position	(4,084)	(4,987)	(94)	9,015	(150)
Forward contracts	(1,477)	1,215	262	-	-

Statement of financial position according to 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	1,636	20	21	-	1,677
Other receivables	44	251	-	47	342
Inventory	-	-	-	96	96
Assets held for sale	-	-	-	43	43
Non-current assets					
Trade and other receivables	304	173	-	-	477
Broadcasting rights	-	-	-	59	59
Right-of-use assets	-	-	-	1,308	1,308
Fixed assets	-	-	-	6,039	6,039
Intangible assets	-	-	-	916	916
Deferred expenses and non-current investments	45	-	-	313	358
Deferred tax assets	-	-	-	81	81
Total assets	3,575	444	70	8,902	12,991
Current liabilities					
Debentures, loans and borrowings	486	521	-	-	1,007
Current maturities of liabilities for leases	21	395	-	-	416
Trade and other payables	1,289	65	159	101	1,614
Employee benefits	651	-	3	-	654
Provisions	33	92	-	-	125
Non-current liabilities					
Loans and debentures	5,820	2,731	-	-	8,551
Liabilities 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	8,662	4,832	212	217	13,923
Total exposure in the statement of financial position	(5,087)	(4,388)	(142)	8,685	(932)
Forward contracts	(1,745)	1,555	190	-	-

30.5.2 CPI

In 2020, the known CPI decreased by 0.6% (2019 – increase of 0.3%; 2018 – increase of 1.2%)

30.5.3 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.

30.5.4 Interest rate risk

As at December 31, 2020, the exposure to interest rate risk due to liability for debt instruments bearing variable interest – is negligible.

A. Type of interest

Type of interest on the Group's interest-bearing financial instruments:

	Carrying amount	
	2020	**2019**
	NIS million	**NIS million**
Fixed-interest instruments		
Financial assets (mainly deposits and trade receivables)	**1,547**	1,786
Financial liabilities (loans and debentures)	**(8,329)**	(9,451)
	(6,782)	(7,665)
Variable-interest instruments		
Financial liabilities (loans and debentures)	**(71)**	(107)

B. Fair value sensitivity analysis for instruments at fixed interest

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 have a negligible effect on profit and on capital.

30.6 Hedging

30.6.1 Cash flow hedge accounting

The Company entered into 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 accounted for as cash flow hedge. The expiry date of these transactions corresponds to the repayment schedules of the debentures they are meant to hedge. The fair value of the forward contracts is determined based on observable market information (level 2 in the fair value hierarchy).

Hedged item	Repayment dates	Number of transactions	Nominal value NIS million	Fair value NIS million	Capital reserve NIS million
December 31, 2020					
Debentures (Series 6)	**December 2021 to December 2022**	**3**	**665**	**(78)**	**(9)**
Debentures (Series 10)	**December 2022 to December 2025**	**4**	**300**	**(15)**	**(6)**
Debentures (Series 12)	**June 2026 to June 2030**	**5**	**250**	**(10)**	**(5)**
		12	**1,215**	**(103)**	**(20)**
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)**

30.6.2 Economic hedging

A. In 2020, the Company entered into forward contracts to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as at December 31, 2020 is a liability of NIS 2 million.

B. DBS has forward transactions to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as at December 31, 2020 is a liability of NIS 12 million (as at December 31, 2019, a liability of NIS 4 million).

30.7 Financial instruments measured at fair value

30.7.1 The table below presents an analysis of the financial instruments measured at fair value.

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Level 1: investment in marketable securities at fair value through profit or loss (see 30.7.2)	**-**	312
Level 2: forward contracts (see 30.7.3)	**(117)**	(122)

30.7.2 The fair value of marketable securities is determined by reference to their quoted closing selling price at the reporting date (Level 1).

30.7.3 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.

30.8 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 determined based on their quoted closing buying price at the reporting date (Level 1).

The fair value of loans and non-marketable debentures is based on the present value of future principal and interest cash flows, discounted at the market interest rate for similar liabilities, plus the required adjustments for a risk and non-marketability premium, as at the date of the financial statements (Level 2).

	December 31, 2020			December 31, 2019		
	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 financial institutions (unlinked)	**2,118**	**2,252**	**1.97**	3,401	3,561	2.39
Debentures issued to the public (CPI-linked)	**3,199**	**3,394**	**0.44**	2,508	2,647	0.05
Debentures issued to the public (unlinked)	**3,036**	**3,253**	**1.40**	2,204	2,335	1.75
Debentures issued to financial institutions (CPI-linked)	**-**	**-**	**-**	762	855	1.24
Debentures issued to financial institutions (unlinked)	**-**	**-**	**-**	607	646	2.69
	8,353	**8,899**		9,482	10,044	

30.9 Offset of financial assets and liabilities

The Group has agreements with various communications companies to supply and receive communications services. Under some of the agreements, each party has the right to offset the amounts owed by the other party. The table below shows the carrying amount of the offset balances as presented in the statement of financial position:

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Trade and other receivables, gross	**93**	90
Offset amounts	**(84)**	(81)
Trade and other receivables presented in the statement of financial position	**9**	9
Trade payables, gross	**102**	100
Offset amounts	**(84)**	(81)
Trade and other payables presented in the statement of financial position	**18**	19

31. Selected Condensed Information from the Financial Statements of Pelephone Communications Ltd., Bezeq International Ltd., and DBS Satellite Services (1998) Ltd.

31.1 Pelephone Communications Ltd.

Information from the statement of financial position:

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Current assets	**899**	843
Non-current assets	**3,472**	3,245
Total assets	**4,371**	4,088
Current liabilities	**720**	667
Non-current liabilities	**1,022**	767
Total liabilities	**1,742**	1,434
Equity	**2,629**	2,654
	4,371	4,088

Information from the statement of income:

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Revenues			
Revenues from services	**1,591**	1,709	1,755
Revenues from sales of terminal equipment	**595**	653	688
Total revenues from services and sales	**2,186**	2,362	2,443
Costs of activity			
General and operating expenses	**1,329**	1,373	1,402
Salaries	**324**	373	379
Depreciation and amortization	**599**	633	655
Total operating expenses	**2,252**	2,379	2,436
Other operating expenses, net	**18**	82	9
Operating loss	**(84)**	(99)	(2)
Financing expenses (income)			
Financing expenses	**18**	23	22
Financing income	**(66)**	(62)	(56)
Financing income, net	**(48)**	(39)	(34)
Profit (loss) before income tax	**(36)**	(60)	32
Income tax expenses (income)	**(11)**	(13)	8
Profit (loss) for the year	**(25)**	(47)	24

31.2 Bezeq International Ltd.

Information from the statement of financial position:

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Current assets	**443**	482
Non-current assets	**342**	602
Total assets	**785**	1,084
Current liabilities	**432**	461
Non-current liabilities	**148**	143
Total liabilities	**580**	604
Equity	**205**	480
	785	1,084

Information from the statement of income:

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Revenues	**1,271**	1,339	1,391
Costs of activity			
General and operating expenses	**802**	827	812
Salaries	**248**	261	300
Depreciation and amortization	**149**	190	194
Other operating expenses, net	**313**	257	8
Total operating expenses	**1,512**	1,535	1,314
Operating profit (loss)	**(241)**	(196)	77
Financing expenses (income)			
Financing expenses	**5**	8	11
Financing income	**(3)**	(2)	(1)
Financing expenses, net	**2**	6	10
Share in profits of equity-accounted investees	**-**	-	1
Profit (loss) before income tax	**(243)**	(202)	68
Income tax expenses (income)	**32**	(45)	17
Profit (loss) for the year	**(275)**	(157)	51

31.3 DBS Satellite Services (1998) Ltd.

Information from the statement of financial position:

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Current assets	**176**	203
Non-current assets	**248**	268
Total assets	**424**	471
Current liabilities	**436**	485
Non-current liabilities	**69**	91
Total liabilities	**505**	576
Equity deficit	**(81)**	(105)
	424	471

Information from the statement of income:

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Revenues	**1,287**	1,345	1,473
Costs of activity			
General and operating expenses	**857**	923	956
Salaries	**203**	216	233
Depreciation and amortization	**203**	219	323
Impairment loss	**-**	-	1,100
Other operating expenses (income), net	**(15)**	42	17
Total operating expenses	**1,248**	1,400	2,629
Operating profit (loss)	**39**	(55)	(1,156)
Financing expenses (income)			
Financing expenses	**15**	17	16
Financing income	**(2)**	(5)	(27)
Financing expenses (income), net	**13**	12	(11)
Profit (loss) before income tax	**26**	(67)	(1,145)
Income tax expenses	**2**	2	3
Profit (loss) for the year	**24**	(69)	(1,148)

32. Subsequent Events

32.1 Share-based compensation

On December 10, 2020, the Company's Board of Directors approved an equity-based compensation plan ("the Plan"), for the allocation of up to 58,735,000 options to up to 117 officer, managers and senior employees of the Company and the subsidiaries, including the grant of 12,000,000 options to the Chairman of the Company's Board of Directors, as well as the grant of 9,000,000 options to the Company's CEO and 9,000,000 options to the CEO of Pelephone, DBS and Bezeq International.

On January 18, 2021, the General Meeting of the Company's shareholders approved an increase in the Company's authorized capital, to enable the future allocation of equity-based compensation under the Plan. The General Meeting also approved the grant of options as aforesaid to the Company's Board of Directors and CEO.

The fair value of the options granted, which was estimated by an external appraiser using the Monte Carlo method, is NIS 45 million, based on the vesting period and terms of exercise of the options as set in the Plan (the options include four tranches with a vesting period of one to four years). Out of this amount, the fair value at the date of grant of the options to the Chairman of the Board of Directors is NIS 9.3 million. The fair value at the date of grant of the options to the Company's CEO and to the CEO of Pelephone, DBS and Bezeq International is NIS 6.9 million each.

32.2 Sale of real estate

On February 25, 2021, the Company entered into an agreement for the sale of a real estate property in Tel Aviv ("the Property"). The Company is expected to recognize in its financial statements for the first quarter of 2021 a capital gain before tax of NIS 125 million on the sale of the Property.

32.3 See Note 13.1.2 regarding the Board of Directors' resolution of March 24, 2021 for the examination of a restructuring plan for the Subsidiaries.

Separate Financial Information for Year ended December 31, 2020

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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SomekhChaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, 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 at December 31, 2020 and 2019 and for each of the three years, the last of which ended December 31, 2020. 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 as of December 31, 2019, and the Company's share in their losses amounted to approximately NIS 14 million and NIS 44 million for the years ended December 31, 2019 and 2018, respectively. The financial statements of those companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, 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 suspected offenses under the Securities Law and Penal Code, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and summoning it to a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently under aggravating circumstances, fraud and breach of trust in a corporation, and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. As noted in the aforementioned note, 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 their preparation, 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 24, 2021

Information on Financial Position as of December 31

	Note	2020 NIS million	2019 NIS million
Assets			
Cash and cash equivalents		**431**	134
Investments	3.1	**724**	1,180
Trade receivables	3.3	**773**	671
Other receivables	3.3	**76**	238
Assets held for sale		**10**	43
Loans provided to investees	10.2.2	**-**	17
Total current assets		**2,014**	2,283
Trade and other receivables	3.3	**214**	200
Fixed assets	5	**5,154**	4,962
Intangible assets		**237**	233
Goodwill		**265**	265
Investment in investees	9.2	**2,878**	3,178
Loans provided to investees	10.2.2	**-**	32
Right-of-use assets		**628**	236
Non-current and other investments	3.2	**111**	92
Deferred tax assets	4.2	**113**	53
Total non-current assets		**9,600**	9,251
Total assets		**11,614**	**11,534**

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

	Note	2020 NIS million	2019 NIS million
Liabilities			
Debentures, loans and borrowings	3.5	**786**	1,000
Trade and other payables	3.4	**768**	603
Employee benefits		**384**	532
Current maturities of lease liabilities		**79**	106
Provisions	11	**79**	86
Total current liabilities		**2,096**	2,327
Loans and debentures	3.5	**7,614**	8,551
Loan from a subsidiary	10.2.1	**1,065**	1,020
Employee benefits		**303**	288
Lease liabilities		**566**	146
Derivatives and other liabilities		**120**	134
Total non-current liabilities		**9,668**	10,139
Total liabilities		11,764	12,466
Equity			
Share capital		**3,878**	3,878
Share premium		**384**	384
Reserves		**327**	332
Deficit		**(4,739)**	(5,526)
Total equity (deficit)		**(150)**	(932)
Total liabilities and equity		**11,614**	11,534

Gil Sharon	**Dudu Mizrachi**	**Amit Kurland**
Chairman of the Board of Directors	CEO	Chief Accountant

Date of approval of the financial statements: March 24, 2021

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

Information on Income for year ended December 31

	Note	2020 NIS million	2019 NIS million	2018 NIS million
Revenues	6	**4,159**	4,073	4,196
Costs of activity				
Salaries		**919**	911	912
Depreciation and amortization		**877**	861	850
Operating and general expenses	7	**590**	565	596
Other operating expenses (income), net	8	**68**	(406)	614
Total operating expenses		**2,454**	1,931	2,972
Operating profit		**1,705**	2,142	1,224
Financial expenses (income)				
Financial expenses		**419**	608	502
Financial income		**(16)**	(39)	(32)
Financial expenses, net		**403**	569	470
Profit after financial expenses, net		**1,302**	1,573	754
Share in losses of investees, net		**(244)**	(2,386)	(1,659)
Profit (loss) before income tax		**1,058**	(813)	(905)
Income tax	4.1	**262**	381	187
Profit (loss) for the year attributable to the Company's shareholders		**796**	(1,194)	(1,092)

Information on Comprehensive Income for year ended December 31

	2020 NIS million	2019 NIS million	2018 NIS million
Profit (loss) for the year	**796**	(1,194)	(1,092)
Other comprehensive income (loss), net of tax	**(14)**	(32)	42
Total comprehensive income (loss) for the year attributable to equity holders of the Company	**782**	(1,226)	(1,050)

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

Information on Cash Flows for year ended December 31

	2020	2019	2018
	NIS million	NIS million	NIS million
Cash flow from operating activities			
Profit (loss) for the period	**796**	(1,194)	(1,092)
Adjustments:			
Depreciation and amortization	**877**	861	850
Share in losses (income) of investees, net	**244**	2,386	1,659
Financial expenses, net	**368**	462	447
Capital gain, net	**(35)**	(513)	(11)
Income tax expenses	**262**	381	187
Change in trade and other receivables	**(94)**	20	(16)
Change in trade and other payables	**69**	(44)	30
Change in provisions	**(8)**	(45)	73
Change in employee benefits	**(136)**	(144)	487
Miscellaneous	**(18)**	(9)	5
Net cash provided by operating activities due to transactions with subsidiaries	**24**	4	19
Net income tax paid	**(243)**	(318)	(432)
Cash flow from operating activities	**2,106**	1,847	2,206
Cash flow from investing activities			
Investment in intangible assets and other investments	**(139)**	(123)	(113)
Receipts on account of sale of fixed assets	**146**	74	152
Proceeds from sale of the Sakia complex	**-**	328	155
Investment in bank deposits and securities	**(1,335)**	(2,067)	(2,324)
Proceeds from repayment of bank deposits and other	**1,785**	2,295	1,233
Purchase of fixed assets	**(771)**	(684)	(742)
Payment of permit fees and purchase tax for the Sakia complex	**-**	(74)	(121)
Payment of appreciation tax for the sale of the Sakia complex	**-**	5	(80)
Investment in a subsidiary – see Note 12.3	**-**	(145)	(100)
Miscellaneous	**17**	29	20
Proceeds from the sale of Walla, net	**55**	-	-
Net cash provided by investing activities due to transactions with subsidiaries	**70**	149	146
Net cash (used for) investing activities	**(172)**	(213)	(1,774)
Cash flow from financing activities			
Issue of debentures and receipt of loans	**718**	1,865	891
Repayment of debentures and loans	**(1,821)**	(3,425)	(1,544)
Payment of early repayment fees	**(65)**	(93)	-
Dividend paid	**-**	-	(686)
Interest paid	**(346)**	(419)	(419)
Payment of principal and interest for a lease	**(111)**	(114)	(99)
Payment for expired hedging transactions	**(57)**	(46)	(36)
Miscellaneous	**-**	-	(1)
Net cash provided by financing activities due to transactions with subsidiaries	**45**	205	220
Net cash (used for) financing activities	**(1,637)**	(2,027)	(1,674)
Increase (decrease) in cash and cash equivalents, net	**297**	(393)	(1,242)
Cash and cash equivalents at January 1	**134**	527	1,769
Cash and cash equivalents at the end of the year	**431**	134	527

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

1. General

Below is separate financial information of the Company ("Separate Financial Information") from the Group's consolidated financial statements as at December 31, 2020 ("Consolidated Statements"), published in the framework of the Periodic Report. The Separate Financial Information is presented in accordance with Regulation 9C ("the Regulation") and the Tenth Schedule ("Tenth Schedule") of the Securities Regulations (Periodic and Immediate Reports), 1970 concerning 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.

"Associate", "Subsidiary", "Investee," "Group", "Interested Party" - as these terms are defined in the Group's consolidated financial statements for 2020.

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 of classifying financial information in the Consolidated Statements, with the required changes as set out below:

2.1. Presentation of the financial information

The information on financial position, income, comprehensive income and cash flows includes information contained in the Consolidated Statements that is attributable to the Company separately. The investment balances and results of operations of investees are accounted for by the equity method. Cash flows of operating activities, investing activities and financing activities due to 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 eliminated 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 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. Restatement

At the beginning of November 2020, during the preparation of the quarterly report as of September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the statement of income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses.

In light of the aforesaid findings, the Company republished on December 21, 2020 its financial statements for 2019 and for the first and second quarters of 2020 (including the comparative figures presented in them), in order to reflect retrospectively the effect of the correction of the discrepancies.

The comparative figures included in these financial statements are the figures after their restatement.

2.4. New standards not yet adopted

For information regarding new standards that have not yet been adopted, see Note 3.18 to the Consolidated Statements.

3. Financial Instruments

3.1. Investments

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Shekel bank deposits (1)	**665**	842
Foreign currency bank deposits (2)	**59**	-
Investments in marketable securities	**-**	297
Deposit used as collateral for hedging transactions	**-**	41
	724	1,180

(1) The deposits mature by December 2021.

(2) The deposits in US dollars mature by December 2021.

3.2. Non-current and other investments

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Bank deposit used for providing loans to Company employees (1)	**36**	44
Customer acquisition asset, net	**66**	48
Deferred expenses	**9**	-
	111	92

(1) The bank deposit for providing loans to Company employees has no maturity date.

3.3. Trade and other receivables

	Maturity	Unlinked	Israeli CPI linked	Total
		NIS million	NIS million	NIS million
December 31, 2021				
Current assets				
Trade receivables	**2021**	**773**	**-**	**773**
Other receivables and government authorities	**2021**	**28**	**48**	**76**
Total current assets		**801**	**48**	**849**
Non-current assets	**2022-2023**	**44**	**170**	**214**
December 31, 2019				
Current assets				
Trade receivables	2020	671	-	671
Other receivables and government authorities	2020	31	207	238
Total current assets		702	207	909
Non-current assets				
Trade and other receivables	2021-2022	45	155	200

3.4. Trade and other payables

	Unlinked (including non-monetary items	Israeli CPI linked	In or linked to foreign currency (primarily USD)	Total
	NIS million	NIS million	NIS million	NIS million
December 31, 2020				
Total current assets	**631**	**114**	**23**	**768**
December 31, 2019				
Total current assets	538	60	5	603

3.5. Debentures and loans

3.5.1 Composition

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Current liabilities		
Current maturities of debentures	**584**	590
Current maturities of bank loans	**202**	410
	786	1,000
Non-current liabilities		
Debentures	**5,707**	5,582
Loans	**1,907**	2,969
	7,614	8,551
	8,400	9,551

3.5.2 Terms and debt repayment schedule

	December 31, 2020		December 31, 2019	
	Carrying amount	Par value	Carrying amount	Par value
	NIS million	NIS million	NIS million	NIS million
Total unlinked bank loans at fixed interest	**1,118**	**1,113**	1,829	1,816
Total unlinked loans from financial institutions at fixed interest	**991**	**992**	1,550	1,553
Total loans	**2,109**	**2,105**	3,379	3,369
Debentures issued to the public:				
Total Debentures Series 6-12 issued to the public	**6,291**	**6,202**	6,172	6,036
Total debentures	**6,291**	**6,202**	6,172	6,036
Total interest-bearing liabilities	**8,400**	**8,307**	9,551	9,405

For further information, see Note 14 to the Consolidated Statements - Debentures, Loans and Borrowings.

3.6. Liquidity Risk

Below are the expected maturities of financial liabilities, including estimated interest payments (based on known CPI and interest rates at December 31, 2020):

	December 31, 2020						
	Carrying amount	Contractual cash flows	First half of 2021	Second half of 2021	2022	2023-2025	2026 onwards
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Non-derivative financial liabilities							
Trade and other payables	**628**	**628**	**613**	**15**	**-**	**-**	**-**
Loan from a subsidiary	**1,065**	**1,287**	**4**	**26**	**167**	**789**	**301**
Loans	**2,109**	**2,451**	**135**	**129**	**147**	**948**	**1,092**
Debentures	**6,291**	**7,015**	**77**	**646**	**1,022**	**3,045**	**2,225**
Total	**10,093**	**11,381**	**829**	**816**	**1,336**	**4,782**	**3,618**
Financial liabilities - derivatives							
Forward contracts (on the consumer price index)	**105**	**105**	**2**	**37**	**44**	**12**	**10**

3.7. Currency and CPI risks

For information regarding CPI hedging transactions made by the Company in 2020, see Note 30.6 to the Consolidated Statements. These transactions are accounted for as cash flow hedges.

4. Income Tax

4.1. General

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Current tax expenses			
Expenses for the current year	**273**	386	275
Adjustments in respect of previous years based on an assessment agreement	**53**	-	-
Total current tax expenses	**326**	386	275
Deferred tax expenses			
Creation and reversal of temporary differences	**(29)**	(5)	(88)
Adjustments in respect of previous years based on an assessment agreement	**(53)**	-	-
Reversal of temporary differences based on an assessment agreement	**18**	-	-
Total deferred tax income	**(64)**	(5)	(88)
Income tax expenses	**262**	381	187

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, 2019	Total recognized in profit or loss	Recognized in equity	Balance as at December 31, 2019	Total recognized in profit or loss	Recognized in equity	Balance as at December 31, 2020
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Employee benefit plans	246	17	2	265	**(19)**	**(1)**	**245**
Fixed assets	(214)	(5)	-	(219)	**11**	**-**	**(208)**
Tax asset in respect of tax loss from the sale of a subsidiary	-	-	-	-	**37**	**-**	**37**
Provisions and others	13	(7)	1	7	**35**	**(3)**	**39**
	45	5	3	53	**64**	**(4)**	**113**

5. Property, Plant and Equipment

	2020	2019
	NIS million	NIS million
Cost		
Balance at January 1	**16,697**	16,628
Additions	**837**	741
Reclassified from assets held for sale (to assets held for sale)	**47**	(113)
Disposals	**(351)**	(559)
Balance at December 31	**17,230**	16,697
Depreciation		
Balance at January 1	**11,735**	11,635
Depreciation for the year	**678**	669
Reclassified from assets held for sale (to assets held for sale)	**15**	(70)
Disposals	**(352)**	(499)
Balance at December 31	**12,076**	11,735
Depreciated cost at December 31	**5,154**	4,962

For further information, see Note 10 to the Consolidated Statements - Property, Plant and Equipment

6. Revenues

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Internet infrastructure	**1,622**	1,578	1,596
Fixed-line telephony	**1,008**	1,039	1,156
Transmission and data communications	**1,011**	948	977
Cloud and digital services	**288**	274	260
Other services	**230**	234	207
	4,159	4,073	4,196

7. Operating and General Expenses

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Maintenance of buildings and sites	**113**	132	143
Marketing and general	**159**	146	183
Interconnectivity and payments to communications operators	**115**	97	108
Services and maintenance by subcontractors	**94**	82	83
Vehicle maintenance	**29**	35	37
Terminal equipment and materials	**80**	73	42
	590	565	596

8. Other Operating Expenses (Income), Net

	Year ended December 31		
	2020	**2019**	**2018**
	NIS million	**NIS million**	**NIS million**
Gain from disposal of fixed assets (mainly real estate)	**(13)**	(513)	(11)
Provision for severance pay in voluntary redundancy	**64**	109	547
Provision for grant to employees	**40**	-	-
Gain from sale of a subsidiary	**(22)**	-	-
Other expenses (income) (mainly provision for legal claims)	**(1)**	(2)	78
Other operating expenses (income), net	**68**	(406)	614

9. Subsidiaries

9.1 For information concerning the Company's investment in DBS, see Note 13.2 to the consolidated financial statements.

9.2 Direct subsidiaries of the Company:

	Company's interest in equity	Investment in subsidiaries (equity-accounted) at	
		December 31, 2020	**December 31, 2019**
		NIS million	**NIS million**
Pelephone Communications Ltd.	**100%**	**2,698**	2,723
Bezeq International Ltd.	**100%**	**205**	486
Bezeq Online Ltd.	**100%**	**53**	51
Walla! Communications Ltd.	**100%**	**-**	20
DBS Satellite Services (1998) Ltd.	**100%**	**(78)**	(102)
		2,878	3,178

Regarding the recording of an investment impairment in DBS, see Notes 11.3, 11.5 and 11.6 to the Consolidated Statements

The Company's subsidiaries have immaterial investments in other subsidiaries.

For information concerning loans received from and provided to subsidiaries, see Note 10.2 below.

10. Material 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 to DBS, in respect of the guarantee that DBS 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 its holdings in DBS (100%), up to an amount of NIS 32 million (linked to the Consumer Price Index).

10.1.3 For information on guarantees provided by the Company to various entities, see Note 20 to the Consolidated Statements - Collateral, Liens and Guarantees.

10.1.4 For information on lines of credit or capital investments provided by the Company for a total amount of NIS 150 million that may be withdrawn by DBS for a period of 15 months, see Note 12.3 below.

10.2. Intercompany loans

10.2.1 Loans from investees

Terms of loans received from investees (as presented in the Information on Financial Position):

	Balance			
	NIS million	Payment dates	Number of installments	Interest rate
Pelephone				
	815	2022-2025	4	3.41%
	20	2026-2030	5	3.62%
	185	2026-2030	5	3.41%
	15	2026-2030	5	2.94%
	1,035			
Bezeq International				
	30	2022	1	2.24%
	1,065			

10.2.2 Loans to investees

Balances of loans provided to investees:

	December 31, 2020	December 31, 2019
	NIS million	NIS million
Short-term loans and current maturities		
Bezeq International	-	17
	-	17
Non-current liabilities		
Bezeq International	-	32
	-	32
	-	49

10.3. Service agreements

The Company and its investees, as communications providers, are bound by agreements and arrangements for providing and receiving various services in the communications sector, such as: transmission agreements, interconnectivity agreements, 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), agreements for joint ventures and advertising on websites of subsidiaries, etc.

The terms of the above service agreements were set according to customary market rates for this type of service.

Details of the transactions and their carrying amounts in the Company's books:

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Transactions			
Revenues			
Pelephone	**84**	81	81
Bezeq International	**255**	230	225
DBS	**4**	3	4
Other	**3**	2	3
Total	**346**	316	313
Expenses			
Pelephone	**38**	30	33
Bezeq International	**10**	18	21
Other	**-**	-	3
Total	**48**	48	57

	December 31	December 31
	2020	2019
	NIS million	NIS million
Balances due to the Company		
Pelephone	**8**	8
Bezeq International	**81**	73
DBS	**2**	1
Total	**91**	82

For further information, see Note 29 to the Consolidated Statements - Transactions with Interested and Related Parties

10.4. Dividends

Details of dividends received from subsidiaries:

	Year ended December 31		
	2020	2019	2018
	NIS million	NIS million	NIS million
Pelephone Communications Ltd.	**-**	-	61
Bezeq International Ltd.	**-**	-	102
	-	-	163

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 legal claims, the financial statements include appropriate provisions of NIS 79 million, where provisions are required to cover the exposure arising from such legal claims.

Furthermore, motions have been filed against the Company to certify class actions, with respect to which the Company has additional exposure beyond the foregoing, which cannot be quantified as the exact amounts of the claims are not stated in the claims.

As of December 31, 2020:

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		
79	**1,364**(1)	**3,525**(2)

* Nominal

(1) Including exposure of NIS 687 million due to a class action by a shareholder against the Company and officers of the Company, alleging reporting omissions by the Company regarding the wholesale market reform.

(2) The exposure includes:

a. Two motions to certify a class action suit for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's former controlling shareholder, concerning a transaction for the Company’s acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint motion is expected to be filed instead of these two motions. The proceeding has been stayed in light of the investigation described in Note 1.3 to the consolidated financial statements and at the request of the Attorney General, until September 6, 2021.

b. Exposure in the amount of NIS 0.9 billion due to a class action certification motion filed against the Company in May 2020, concerning Internet advertising packages through the B144 site (the amount of the exposure was written in handwriting without any accompanying explanation or calculation).

11.2 Subsequent to the date of the financial statements, two motions to certify a class action suit were filed against the Company, without an exact amount. As of the date of approval of the financial statements, it is not yet possible to assess the chances of success of these claims. Furthermore, a claim for which the Company has exposure of NIS 43 million was ended.

For further information on contingent liabilities see Note 18 to the Consolidated Statements.

12. Events in and Subsequent to the Reporting Period

12.1 Regarding the investigation by the Israel Securities Authority and the Israel Police, see Note 1.3 to the Consolidated Statements.

12.2 Regarding an impairment loss due to Bezeq International and DBS and a test for goodwill impairment with respect to Pelephone and Bezeq’s fixed-line segment, see Note 11 to the Consolidated Statements.

12.3 During 2020, the Company's Board of Directors approved, once per quarter, an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment, with the last approval given in November 2020 for NIS 150 million, for a period of 15 months until December 31, 2021. It should be noted that DBS did not use this facility during 2020.

In March 2021, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment of NIS 150 million for 15 months, as of January 1, 2021 until March 31, 2022, instead of the undertaking from November 2020. See Note 13.2 to the Consolidated Statements.

12.4 Regarding the Company’s entry into an agreement for the sale of the Sakia property, see Note 6.6 to the Consolidated Statements.

12.5 Regarding the writing off of the tax asset with respect to DBS losses by way of a change in estimate, see Note 7.6 to the consolidated financial statements.

12.6 For information concerning employee retirement and concerning the amendment of the collective agreement see Note 17.5 to the Consolidated Statements.

12.7 For information on the effects of the coronavirus pandemic see Note 1.4 to the Consolidated Statements.

12.8 For information on the sale of the subsidiary Walla see Noted 13.4 to the Consolidated Statements.

12.9 For an update on share-based compensation see Note 32.1 to the Consolidated Statements.

12.10 For an update concerning the sale of real estate see Note 32.2 to the Consolidated Statements.

12.11 For an update concerning restructuring see Note 13.1.2 to the Consolidated Statements.

Chapter D

Additional Information about the Company
Corporate Governance Questionnaire
Year ended December 31, 2020

The information contained in this report constitutes a translation of the report published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

1. **Regulation 10A: Summary of the Company's consolidated statements of comprehensive income for each of the quarters of the reporting year**

See section 1.3 of the Board of Directors Report, attached to the second part of the report.

2. **Regulation 10C: Use of proceeds for securities**

A. On April 26, 2020, registered Debentures (Series 11) of the Company of NIS 1 par value each and for a total par value of NIS 602,860,000 ("**Debentures (Series 11)**"), as well as registered Debentures (Series 12) of the Company of NIS 1 par value each and for a total par value of NIS 799,240,000 ("**Debentures (Series 12)**") (Debentures (Series 11) and Debentures (Series 12) are referred to collectively as: "**Debentures (Series 11-12)**"), were listed on the Main Board of the Tel Aviv Stock Exchange Ltd. ("**TASE**"), pursuant to a listing and unlocking prospectus and a shelf prospectus of the Company dated April 8, 2020 and published on April 7, 2020 ("**Shelf Prospectus**" or "**Prospectus**"), included herein by reference, after they had been issued by the Company in several private offerings in the course of 2019 to institutional investors (as defined in the TASE Regulations) and listed on the TASE's TACT Continuous Institutional Trading System. The listing did not include an offering for which the Company received proceeds.

B. On May 27, 2020, Debentures (Series 11) of the Company for a total par value of NIS 231,906,000, as well as Debentures (Series 12) of the Company for a total par value of NIS 470,000,000, were listed on the TASE's Main Board, by way of expansion of existing series listed on the TASE's Main Board, pursuant to an offering under a shelf offering report dated May 26, 2020 ("**Shelf Offering Report**"), included herein by reference, published pursuant to the Shelf Prospectus ("**Offering**"). Gross proceeds for the offering of Debentures (Series 11) amounted to NIS 243,919,000, and for the offering of Debentures (Series 12) of the Company to NIS 480,481,000 ("**Proceeds of the Offering**").

C. In accordance with the designated use of the proceedings as provided in the Shelf Offering Report, the Proceeds of the Offering were used by the Company to refinance an existing debt.

3. **Regulation 11: Breakdown of investments in subsidiaries as at the date of the statements of financial position**[1]

Company name:	Name of holder	Class of share	Number of shares held	Total par value	% of holding in issued capital and voting rights	% of holding in right to appoint directors	Value in Company's separate balance sheet (NIS millions)
Pelephone Communications Ltd. ("**Pelephone**")	The Company	Ordinary NIS 1 shares	302,460,000	302,460,000	100%	100%	2,698
Bezeq International Ltd. ("**Bezeq International**")	The Company	Ordinary NIS 0.1 shares	1,136,986,301	113,698,630	100%	100%	205
DBS Satellite Services (1998) Ltd. ("**DBS**")	The Company	Ordinary NIS 1 shares	36,117	36,117	100%	100%	(78)
Walla Communications Ltd. ("**Walla**")[2]	-	-	-	-	-	-	-

[1] For details relating to other subsidiaries held directly or indirectly by the Company, see Note 13 to the financial statements attached to this report.

[2] On December 27, 2020, the Company's transaction with the Jerusalem Post Ltd. for the sale of all the Company's holdings in Walla was completed. For further information on this sale transaction, see Note 13.4 to the Financial Statements.

Company name:	Name of holder	Class of share	Number of shares held	Total par value	% of holding in issued capital and voting rights	% of holding in right to appoint directors	Value in Company's separate balance sheet (NIS millions)
Bezeq Online Ltd. ("**Bezeq Online**")	The Company	Ordinary shares without par value	1,170,000	-	100%	100%	53

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 millions)
March 31, 2020	Repayment of loans provided by the Company to Bezeq International	Bezeq International	33
December 16, 2020	Repayment of loans provided by the Company to Bezeq International	Bezeq International	16
June 30, 2020	Repayment of capital note of Bezeq Online	Bezeq Online	10
December 31, 2020	Repayment of capital note of Bezeq Online	Bezeq Online	8
December 27, 2020	Completion of sale of all the Company's holdings in Walla	Walla	65

5. Regulation 13: Revenues of subsidiaries and the Company's revenues from them as at the date of the statement of financial position (NIS millions)

Company name	Income (loss) for the period	Comprehensive income (loss) for the period	Dividends	Management fees	Interest income
Pelephone	(25)	(25)	-	0.17	-
Bezeq International	(275)	(275)	-	0.09	1
DBS	24	24	-	0.09	-
Walla	(18)	(18)	-	0.1	-
Bezeq Online	19	19	-	0.03	1

6. Regulation 20: Stock Exchange trading

A. In the reporting period, Debentures (Series 11 and 12) of the Company were listed on the TASE's Main Board, as detailed above under Regulation 10C.

B. To the best of the Company's knowledge, during the reporting period, there was no interruption in trading in the Company's listed securities, other than a halt in trading on March 16, 2020, due to a sharp drop in indices, and a halt in trading on December 15, 2020, following the Company's announcement of the publication of a hearing by the Ministry of Communications concerning the setting of maximum rates for the Company's retail telephony services.

7. Regulation 21: Remuneration of interested parties and executive officers

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3 For information on the recording of impairments of investments in subsidiaries, see Notes 11.2 and 11.5-11.6 to the Financial Statements
For information on the grant of an irrevocable undertaking by the Company to DBS for the provision of a credit facility or capital investment, that has not been utilized, see Note 13.2.2 to the Financial Statements.

4 Repayment amounts set out in this Regulation refer to principal amounts only. For details of loans received by the Company from investees, see Note 10.2 to the Separate Financial Information attached to this report. As of December 31, 2020, the outstanding principal on these loans totals NIS 1,065 million.

Below is a breakdown of the remuneration for 2020, as recognized in the financial statements for 2020, paid to each of the five highest-paid executive officers in the Company or in a company under its control for their service in the Company or in 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 2020, but some of the actual payments to some of the officers include amounts recognized in previous financial statements, and some are subject to conditions as set out below.

Recipient					**Remuneration (NIS thousands)**				**Total (NIS thou.)**	**Section below**
Name	**Position**	**Sex**	**Scope of position**	**% of holding in Company's capital**	**Salary**[5]	**Bonus**[6]	**Share-based payment**	**Other (manage-ment fees)**	**Total**	
Dudu Mizrahi	CEO of the Company	Male	Full-time	-	2,514	2,695	-	-	5,209	A
Ran Guron	CEO of Pelephone, DBS and Bezeq International	Male	Full-time	-	2,454	2,300	-	-	4,754	B
Ido Eshed	CEO of Walla	Male	Full-time	-	935	2,025	-	-	2,960	C
Gil Sharon	Chairman of the Board of Directors	Male	Full-time	-	1,951[7]	-	-	-	1,951	D
Udi Atar	VP Private Division	Male	Full-time	-	1,163	781	-	-	1,944	E

In light of the correction of the error in the financial statements, as detailed in Note 1.5 to the financial statement included in the financial statements for 2019 which were reissued, there have been changes in the rates of compliance with the targets for annual bonuses by some of the Group's past and present officers for the years in respect of which the financial statements were restated by the Company in the framework of the financial statements for 2019 which were reissued. The difference between the bonuses actually paid for the years in respect of which the financial statements were restated, and the bonuses calculated based on the corrected financial statements for those years, for all the Group's officers, stands at amounts of up to several hundreds of thousands of shekels in the aggregate, which are of no significance for the Group. The Company is still examining the calculation of the difference and the manner of dealing with the bonuses paid for the years in respect of which the financial statements were restated.

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5 The salary amounts include cost of salary (employer's cost) and salary-related components, including perks and social benefits, such as telephone expenses, customary type of company car (cost of leasing or vehicle depreciation costs, and reimbursement of expenses in lieu of use of a company car), study fund (for some of the managers), deposit into pension fund and deposits for termination of employer-employee relationship (for employees subject to section 14 of the Severance Pay Law), reimbursement of expenses and vacation, sick leave and annual convalescence allowance as customery, expenses for employee holiday gift (grossed-up amount), membership fees for professional organizations paid for the employee (not in the employee's field of occupation), and, if a loan was provided to an employee, the value of the benefit embodied in the interest on the loan.

6 The bonus amounts appearing in the table are as recognized in the financial statements for 2020 and include a performance-based bonus and special bonuses (for information concerning each of the officers, see sections A-F below the following table), all in accordance with the Company's compensation policy. The performance-based bonus that appears in the table is for 2020 (as of the reporting date, it is yet to be paid to the 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 2020, bonuses were paid to the some of the above officers for 2019, the amount of which (including the contingent portion (if any) that was not actually paid in 2020, but will be paid in 2021 is included in the corresponding table in the Company's annual report for 2019 (as reissued on December 21, 2020).

7 The salary amount included in the table for Mr. Gil Sharon includes the creation of a provision for prior notice and for a non-competition period.

Below are details of the terms of agreement with the interested parties and the officers appearing in the above table:

A. <u>Dudu Mizrahi</u>

Employed as CEO of the Company, since September 1, 2018 under a personal employment agreement dated October 4, 2018 (in this section: "**Employment Agreement**"). His gross monthly salary amounts to NIS 150 thousand. The agreement is for an unlimited period, and may be terminated at any time with six months prior notice by either party.

Dudu Mizrahi's bonus targets for 2020 as CEO of the Company were preset by the Company's Board of Directors in December 2019, following approval by the Company's Compensation Committee, and included: an adjusted EBITDA[8] target for the Company (separate), accounting for 50% of the bonus calculation; an after-tax profit target for the Company (separate), accounting for 25%; and an adjusted FCF[9] target for the Company (separate), accounting for 25%. The threshold condition for receiving the bonus was that the FFO[10] results for the Company (separate) for 2020 (NIS 1,230.5 million) would not fall by more than 20% below the target set in this regard in the Company's separate budget for 2020 (NIS 1,227.7 million) – this condition was met. The rate of compliance of the Company's CEO with all the bonus targets for 2020 was 119.04%. Accordingly, the bonus that will be granted to the Company's CEO for 2020 amounts to 119.04% of the annual salary. Mr. Mizrahi will be entitled to 40% of the remuneration for compliance with the adjusted EBITDA target for the Company (separate) in 2020, only in 2022 (after the date of approval of the financial statements for 2021), and only if the minimum adjusted EBITDA target for the Company (separate) set for the 2021 budget year is achieved. It should be noted that after the reporting year, Mr. Mizrahi was approved, in accordance with the Company's compensation policy, a special bonus for 2020 totaling NIS 539 thousand (included in the above table in the bonus for 2020), for extraordinary and outstanding efforts in advancing and implementing several key projects and processes of the Company in a number of areas, foremost among them: advancement of the Company's fiber optic deployment project; promotion of several significant regulatory issues; management of the Company's strategy for coping with the COVID-19 crisis, which was done with great success, as well as projects for customer recruitment and reducing the customer churn rate.

On January 18, 2021, the General Meeting of the Company approved, following approval by the Company's Board of Directors on December 10, 2020 and by the Company's Audit Committee on December 9, 2020, an amendment to the Company officers' compensation policy as well as the grant of 9,000,000 options to the Company's CEO. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 6.9 million.

B. <u>Ran Guron</u>

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 in this section: "**Subsidiaries**"),

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8 Adjusted EBITDA for determining the compensation – calculated as EBITDA less other operating expenses/income (net), impairment/appreciation losses/gains (including continuing impairment losses) and the effects of the application of IFRS 16 "Leases."

9 Adjusted FCF (free cash flow) – calculated as cash flows arising from operating activities (as defined in the Company's annual financial statements), less cash flows for/from the purchase/sale of fixed assets and intangible assets (net), and less payments for leases.

10 FFO (funds from operations) – calculated as cash flows from operating activities (as defined in the Company's annual financial statements), before changes in working capital and before changes in other asset and liability items, and less payments for leases.

amounted to NIS 150 thousand. The agreement is for an unlimited period, and may be terminated at any time with six months prior notice by either party.

Ran Guron's bonus targets for 2020 as CEO of the three Subsidiaries were preset by the Company's Board of Directors in December 2019, following approval by the Company's Compensation Committee, and included: an adjusted EBITDA[11] target for the Subsidiaries, accounting for 70% of the bonus calculation; a salary expenses target for the Subsidiaries (excluding capitalization), accounting for 10%; an adjusted FCF[12] target for the Subsidiaries, accounting for 10%; and a net profit target for the Subsidiaries, accounting for 10%. The threshold condition for receiving the bonus was that the adjusted EBITDA[13] results for the Subsidiaries for 2020 (NIS 697 million) would not fall by more than 40% below the target set in this regard in the budget of the Subsidiaries for 2019 (NIS 785 million) – this condition was met. The rate of compliance of the CEO of the Subsidiaries with all the bonus targets for 2020 was 93.7%. Accordingly, the bonus that will be granted to the CEO of the Subsidiaries for 2020 amounts to 93.7% of the annual salary. Mr. Guron will be entitled to 40% of the remuneration for compliance with the weighted adjusted EBITDA in 2020, only in 2022 (after the date of approval of the financial statements for 2021), and only if the minimum adjusted EBITDA target set for the 2021 budget years is achieved. It should be noted that, in accordance with the Company's compensation policy, Mr. Guron was approved in the reporting year a special bonus contingent on performance, for implementation of a synergy and efficiency plan in the Subsidiaries ("**Alpha Plan**"), for 2020, totaling NIS 603.6 thousand (included in the above table in the bonus for 2020). The bonus was paid for the implementation of the Alpha Plan – an exceptional, unusual and highly significant project involving the investment of exceptional efforts by the CEO of the Subsidiaries, resulting in a significant savings in expenses and giving the Group significant added value – and is also meant to ensure the retention of the CEO of the Subsidiaries, as a key role holder in the companies and in the development of the Alpha Plan, and to give him an incentive to continue investing exceptional and unusual efforts in its advancement. Likewise, the structure of the special bonus is appropriate and closely linked to the success of the Alpha Plan.

* In light of the correction of the error in the financial statements of Bezeq International for 2019, there was a change in the rates of compliance with Mr. Guron's annual bonus targets for 2019. The difference between the bonus actually paid for 2019, and the bonus calculated based on the corrected financial statements for 2019, stands at NIS 160 thousand. The Company is still examining the calculation of the difference and the manner of dealing with the bonuses paid for the years in respect of which the financial statements were restated.

On December 10, 2020, the Company's Board of Directors and the boards of directors of the Subsidiaries approved, following approval by the Company's Audit Committee on December 9, 2020, the grant of 9,000,000 options to the CEO of the Subsidiaries. On January 18, 2021, the General Meeting of the Company approved an amendment to the Company officers' compensation policy, which was a condition for the grant of the options. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 6.9 million.

C. <u>Ido Eshed</u>

Employed as CEO of the subsidiary Walla! Communications Ltd. ("**Walla**") since June 11, 2019, under a personal employment agreement from April 1, 1996 (in this section: "**Employment Agreement**"). As of January 1, 2020, the total gross monthly salary of the CEO of Walla stood at

[11] See footnote 8 above.

[12] See footnote 9 above.

[13] See footnote 8 above.

NIS 60 thousand. It should be noted that the CEO of Walla was approved in the reporting year a special bonus for sales by Walla, totaling NIS 2,025 thousand (included in the above table in the bonus for 2020). It is likewise noted that as of December 27, 2020, Walla is no longer held by the Company, and accordingly the amounts detailed in the above table do not include amounts, if any, that were approved for payment after the above date, for 2020.

It should be noted that the Company officers' compensation policy applies, according to its provisions, to the CEOs of the Company and the material subsidiaries (as defined in the compensation policy) and to the Company's VPs. Walla is not defined as a material subsidiary, and therefore the remuneration of Walla's CEO is not subject to the Company's compensation policy.

D. <u>Gil Sharon</u>

Employed as a director and as Chairman of the Board of Directors of the Company and as chairman of the board of directors of all the Group's subsidiaries as of August 27, 2020, under a personal employment agreement from December 10, 2020 (in this section: "**Employment Agreement**"). In this framework, subject to and in accordance with resolutions of the Board of Directors from time to time, he is also employed on a full-tine basis as the chairman of the board of directors of subsidiaries of the Company. As such, he is to provide the following services: (1) steering the Company and delineating its operating strategy, while implementing the strategy determined by the Company's Board of Directors; (2) promoting and developing the Company; and (3) performing, inter alia, the duties imposed on him within his authority and role as Chairman of the Board of Directors, in accordance with the provisions of any law, including the Company's articles of association and procedures as revised from time to time. His total gross monthly salary amounts to NIS 170 thousand. The agreement is for an unlimited period, and may be terminated at any time and for any reason with three months prior notice by either party (if Mr. Gil Sharon is employed for less than one year in his position, the advanced notice period will be two months) . For further information on the terms of service and employment of Gil Sharon as Chairman of the Board of Directors of the Company, see the report on the convening of a general meeting, as published on December 12, 2020, included herein by reference.

On January 18, 2021, the General Meeting of the Company approved, following approval by the Company's Board of Directors on December 10, 2020 and by the Company's Audit Committee on December 9, 2020, an amendment to the Company officers' compensation policy as well as the grant of 12,000,000 options to the Chairman of the Board of Directors of the Company. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 9.3 million.

E. <u>Udi Atar</u>

Employed as VP of the Company's Private Division since October 15, 2018, under a personal employment agreement from October 15, 2018 (in this section: "**Employment Agreement**"). His total gross monthly salary amounts to NIS 70 thousand. The agreement is for an unlimited period, and may be terminated at any time with three months prior notice by either party.

Udi Atar's bonus targets for 2020 as VP of the Company's Private Division were preset by the Company's Board of Directors in December 2019, and included: an adjusted EBITDA[14] target for the Company (separate), accounting for 50% of the bonus calculation; a revenue target for the Private Division (net of transfers to the Business Division), accounting for 20%; a net combined Internet, telephony and teleprocessing target, accounting for 20%; and a salary expenses target for the Private Division, accounting for 10%. The rate of compliance of the VP of the Private Division with all the bonus targets for 2020 was 119.27%. Accordingly, the bonus that will be granted to the VP of the Private Division for 2020 amounts to 59.63% of the annual salary. Mr. Atar will be entitled

[14] See footnote 8 above.

to 40% of the remuneration for compliance with the adjusted EBITDA target for the Company (separate) in 2020, only in 2022 (after the date of approval of the financial statements for 2021), and only if the minimum adjusted EBITDA target for the Company (separate) set for the 2021 budget year is achieved. It should be noted that after the reporting year, Mr. Atar was approved, in accordance with the Company's compensation policy, a special bonus for 2020 totaling NIS 280 thousand (included in the above table in the bonus for 2020), for extraordinary and outstanding efforts in advancing and implementing several key projects and processes of the Company in a number of areas, foremost among them management of the Company's strategy for coping with the COVID-19 crisis, which was done with great success, as well as projects for customer recruitment and reducing the customer churn rate.

* In light of the correction of the error in the financial statements of Bezeq International, as detailed in Note 1.5 to the financial statement for 2019 which was reissued, there have been changes in the rates of compliance with the targets for annual bonuses by Mr. Atar for the years in respect of which the financial statements were restated by the Company in December 2020, during which Mr. Atar served as VP of the Private Customers Department at Bezeq International. The difference between the bonus actually paid for those years, and the bonus calculated based on the corrected financial statements for those years, stands at NIS 150,000. The Company is still examining the calculation of the difference and the manner of dealing with the bonuses paid for the years in respect of which the financial statements were restated.

On December 10, 2020, the Company's Board of Directors approved, following approval by the Company's Audit Committee on December 9, 2020, the grant of 1,500,000 options to the VP of the Private Division. On January 18, 2021, the General Meeting of the Company approved an amendment to the Company officers' compensation policy, which was a condition for the grant of the options. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 1.1 million.

F. Pursuant to the provisions of section 7.2.1.6.3 of the Company's compensation policy, below are details of the threshold conditions for receiving an annual performance bonus for the CEO of the Company and the CEO of the Subsidiaries, as approved by the Company's Compensation Committee and Board of Directors:

The threshold condition for the CEO of the Company, Dudu Mizrachi, receiving a bonus for 2021 is that the adjusted EBITDA[15] results of the Company (separate) for 2021 do not fall more than 40% below the adjusted EBITDA[16] results of the Company (separate) in 2020.

The threshold condition for the CEO of the Subsidiaries, Ran Guron, receiving a bonus for 2021 is that the aggregate adjusted EBITDA results of the Subsidiaries for 2021 do not fall more than 40% below the aggregate adjusted EBITDA results of the Subsidiaries for 2020.

<u>Other interested parties who received remuneration from the Company in the reporting year</u>

G. <u>Israel Lighterage & Supply Co. Ltd. (management services provided by Mr. Shlomo Rodav)</u>

Israel Lighterage & Supply Co. Ltd. ("**Israel Lighterage**"), in which Mr. Shlomo Rodav held 50% of the controlling interests during the period of the agreement between it and the Company, provided the Company with management services, through Mr. Shlomo Rodav ("**Mr. Rodav**"), from April 30, 2018 until June 22, 2020, when he submitted his resignation. For the provision of the management services, in which framework Mr. Rodav served as Chairman of the Board of Directors of the

15 Adjusted EBITDA for determining the compensation – calculated as EBITDA less other operating expenses/income (net), impairment/appreciation losses/gains (including continuing impairment losses) and the effects of the application of IFRS 16 "Leases," and less share-based payment expenses.

16 See footnote 15 above.

Company and the Subsidiaries in a 75% capacity, the Company paid Israel Lighterage annual management fees of NIS 3 million plus statutory VAT. The amount paid by the Company to Israel Lighterage under the management agreement for the period from January 1, 2020 until June 22, 2020, including payment for two months' early notice, totaled NIS 1,919 thousand.

H. **Rami Nomkin**, served in the reporting year until January 12, 2020 as an employee director (elected by the General Meeting to serve as a director as of January 17, 2007). He was employed by the Company in the reporting year in the area of community contribution, in the Human Resources Division, and left the Company on September 30, 2020. He transferred from the Ministry of Communications in 1966. Rami Nomkin's total salary as an employee of the Company during the period in which he served as a director of the Company in 2020 (12 days), stood at NIS 16,000 and was linked to the professional salary tables. This salary does not include a bonus for the period of his employment by the Company in 2020, between January 1, 2020 and September 30, 2020, in the amount of NIS 15 thousand, which was set in accordance with the criteria for all the Company's employees based on the Company's adjusted EBITDA[17] results, as well as a signing bonus in accordance with the collective agreement, in the amount of NIS 22 thousand, which was not yet paid as of the report date.

I. **Joseph Abergel** began serving as an employee director on January 14, 2020.[18] His total salary as an employee of the Company during the period in which he served as a director of the Company in 2020 stood at NIS 596,000 and was linked to the professional salary tables. This salary does not include a bonus for 2020, in the amount of NIS 25 thousand, which was set in accordance with the criteria for all the Company's employees based on the Company's adjusted EBITDA[19] results, as well as a signing bonus in accordance with the collective agreement, in the amount of NIS 21 thousand, which was not yet paid as of the report date All the remuneration amounts paid to Mr. Abergel, as detailed above, were in respect of his being an employee of the Company during the period of his service as an employee director, and not in respect of his service as a director of the Company.

J. **Remuneration for external directors, independent directors and directors who are not external directors nor independent directors** (regarding 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 ("**Remuneration Regulations**"), with regard to an expert external director, linked to the CPI as set out in those 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 2020 is NIS 1,589 thousand (not including VAT).

8. Regulation 21A: The controlling shareholder of the Company

To the best of the Company's knowledge, 714,169,560 of the Company's shares are held by B Communications (SP2) Ltd. ("**B-Communications 2**"), a private company registered in Israel, that is wholly owned and controlled by B Communications (SP1) Ltd. ("**B Communications 1**"), a private company registered in Israel.. B Communications 1 is wholly owned and controlled by B Communications Ltd. ("**B Communications**"), an Israeli public company whose shares are traded on the Tel Aviv Stock Exchange Ltd. In addition to the foregoing, 24,784,153 shares of the Company are directly held by B Communications.

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[17] See footnote 8.

[18] For further information on this matter, see footnote 26 below.

[19] For a description of additional provisions from the Communications Order that apply to the Company, see section 2.16.3 in Chapter A of the Periodic Report.

To the best of the Company's knowledge, the controlling shareholders of B Communications are Searchlight II BZQ L.P., a limited partnership incorporated in the Cayman Islands ("**Searchlight**"), and T.N.R. Investments Ltd. ("**TNR**"), a private company incorporated in Israel.

The ultimate general partner in 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 Haarmaann, who are among the individuals that received the control permit for the Company from the Ministry of Communications.

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, 1999, Searchlight and TNR are deemed the controlling shareholders of B Communications by virtue of the control permit dated November 11, 2019 and by virtue of a voting agreement between them that gives them a cumulative stake, as at the report publication 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.

For further details, see the Company's immediate report of December 2, 2019.

Control permit under the Communications Law and the Communications Order

On November 11, 2019, the Minister of Communications, by virtue of the power of the Prime Minister that was transferred to him ("**Ministers**"), granted control permits for control of the Company, pursuant to section 4D of the Communications Law and Section 3 of the Communications Order, as follows:

A. A control permit to B Communications 2, B Communications 1, B Communications, TNR, Searchlight and Searchlight Group companies[20] ("**Permit for Companies**").

B. A permit to hold means of control of the Company and to control it to Messrs. Michal Fuhrer, David Fuhrer, Oliver Harmaann, Erol Uzumeri, Eric Zinterhofer and Darren Glatt[21] ("**Permit for Individuals**"). The Permit for Companies and the Permit for Individuals are hereinafter referred to collectively as the "**Control Permits.**" The entities to which the Permits were granted are referred to as the "**Permit Holders**."

The Control Permits are for the control and holding of means of control of the Company, through B Communications 2, B Communications 1 and B Communications, at a rate of no less than 25% (**"Minimum Rate**")[22]. 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 make "joint appointments," as defined in the Communications Order, 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 Ministers' approval.

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[20] 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**").

[21] Darren Glatt is a director of the Company. As the Company was informed by B Communications, Darren Glatt is not considered a "controlling shareholder" of the Company, within the meaning of the term in the Securities Law and the Companies Law.

[22] The Minimum Rate is defined as 25% of any type of means of control in the Company, or a lower rate as approved by the Ministers under Section 3 (a2) of the Communications Order. It should be noted that the Minimum Rate 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 Order are met.

In addition, the Control Permits impose on the Permit Holders the duty of reporting to the Ministers regarding the matters specified therein. The Control Permits further establish provisions regarding the minimum rate of holdings of an "Israeli Entity" (as defined in the Communications Order)[23] in the Company. For further information on the hearing of March 8, 2020 concerning a change in the requirement for holding a minimum rate of means of control in a general license holder by an Israeli Entity, see Section 2.16.3.6 in Chapter A of the Periodic Report.

Furthermore, the Permit for Companies establishes provisions regarding the amendment 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: "**Subsidiaries**"), as follows: (1) The articles of association of the Company, B Communications and the Subsidiaries must contain provisions whereby: (a) the method for appointing directors will not be changed without the prior written approval of the Minister of Communications; (b) the Company will report to the Ministers regarding a holder of means of control with irregular holdings in the Company 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 when the Company becomes aware 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 Order, to appoint directors in them, in accordance with Section 4(a)(2)(b)(2) of the Communications Order (see Section 2.16.3 in Chapter A of the Periodic Report); (3) Provisions were established which the articles of association of B Communications are required to include, in accordance with the provisions of the Control Permit and the Communications Order. The Control Permit specifies that if the articles of association of B Communications, the Company and the Subsidiaries do not include provisions as aforesaid at the time the Permit is granted, they must be laid down within 60 days of the granting of the Permit, and that failure to lay down such required provisions within 60 days of the granting of the Control Permit or to amend the provisions of the Articles as aforesaid, would constitute grounds for revoking the Control Permit.

In this regard, on February 25, 2020, the Company received a request from B Communications to add to the agenda of the Company's Annual Meeting a proposal to amend the Company's articles of association with respect to the matters listed 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 had been 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.

On April 2, 2020, the Company published a notice of convening of an Annual and Extraordinary General Meeting of its shareholders, having on the agenda, inter alia, the approval of an amendment to the Company's articles of association as requested by B-Communications. The notice included the position of the Board of Directors, which adopted the recommendation of the ad-hoc committee established by the Board to review the matter, stating, inter alia, that the requested changes to the Company's articles of association were not found to be in the interest of the Company and all its shareholders, and that the amendment to the articles of association of the Subsidiaries which was expected to be submitted in the future, as specified in B Communications' notice, could even discriminate against the Company's other shareholders and therefore could be held unlawful. Later on that same day (April 2, 2020), the Company published B Communications' comments in connection with the report on the convening of the General Meeting, which, among other things, asserted that intervention by the Board of Directors in the affairs of the General Meeting is not grounded in law or in the Company's articles of association, that the

[23] The Control Permits were granted subject to Messrs. David and Michal Fuhrer being citizens and residents of Israel, and they provide that, as long as the Communications Order requires an Israeli entity, as defined in the Communications Order, to hold means of control in the Company, TNR and/or Messrs. Michal Fuhrer and David Fuhrer may not transfer means of control in the Company without the Ministers' prior written approval, if such transfer will diminish their holdings, as the case may be, in any type of means of control to a lower rate than the Minimum Rate under the Communications Order. It is also provided that any change in the Israeli citizenship and residency of Messrs. Michal Fuhrer and David Fuhrer will be grounds for rescinding the Control Permit.

recommendation of the Board Committee per se lacks any legal basis, and that amendment of the Company's articles of association is in the Company's interest, given that it reflects directives issued by the Ministry of Communications under the Communications Order, the provisions of which apply to the Company and must be complied with by the Company, in part to ensure that it continues to hold its license. On May 14, 2020, the General Meeting resolved not to approve the amendment of the articles of association of the Company. As noted, Control Permit stipulates, among other things, that failure to lay down the aforementioned provisions in the articles of association would constitute grounds for revoking the Control Permit. Additionally, as noted in the immediate report of the Company dated April 2, 2020, B Communications' contention that there is a regulatory obligation for the existence of control in the Company was not accepted by the Company. See in this regard also two immediate reports of the Company on this matter dated April 2, 2020, as well as an immediate report of the Company dated May 14, 2020, on the outcome of the meeting, which are included in the report by way of reference.

It should be noted that as reported by B Communications, on October 28, 2020, B Communications applied to the Ministry of Communications to rescind the condition stipulated in the Control Permit given to it in connection with its holdings in shares of the Company, to amend the Company's articles of association and the Subsidiaries' articles of association, after the General Meeting rejected the amendment of the articles of association as aforesaid. Among other reasons, B Communications asserts that the requested amendments establish provisions that in any case exist in the Communications Order and in other laws, and therefore do not create a new law and are not required.

The Permit was granted to the Permit Holders based on the composition of their means of control[24]. 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 there has been a change compared with the factual situation that was before them when they considered the permit application, 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 the essential service by the Company, the Ministers may, after consulting with the Minister of Defense, revoke the Permit.

Additional cases[25] were defined in the Control Permits where, if the Ministers believe that there are real concerns of impairment of the provision of the essential service by the Company, or of the grounds for designating it as an essential service, the Ministers may act as provided in the Communications Order, including with regard to issuing orders and revoking the Permit. From the date of revocation of the Control Permits, all holdings acquired pursuant to the Control Permits will become irregular holdings within the meaning of the Communications Order.

Regarding any grounds for calling for immediate repayment specified in the terms of the Company's debentures and loans from financial institutions in the event of a change in control of the Company (as this term is defined there), see Note 14 to the financial statements for 2020.

[24] The Permits allow, under certain conditions, transfer of the means of control of the Company among the Permit Holders themselves.

[25] These include: incorrect information provided in the application for a permit, failure of the Permit Holders to file a report as required or a material change in information provided by the Permit Holders, failure to establish a provision in the Articles of Association or amending a provision not in accordance with the Permit, and filing an application to initiate proceedings under the Insolvency Law or under the Companies Ordinance.

Pledge Permit

On November 11, 2019, Reznik Paz Nevo Trusts Ltd., as trustee for holders of debentures issued by B Communications ("**Trustee**"), was awarded a permit by the Ministers to hold means of control of the Company by way of a pledge 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 Order ("**Pledge Permit**").

The Pledge Permit states that it does not constitute a permit for holding or operating means of control of the Company, except by way of pledge, and does not constitute a permit for control or transfer of control of the Company. In addition, it provides that the rights vested in the Trustee and in any holder of a debenture in respect of which means of control of the Company were pledged in favor of the Trustee, may not be deemed as the transfer of ownership of means of control of the Company, but only as pledged collateral.

Moreover, the Pledge Permit includes restrictions on the exercise of the pledge, considering, among other things, the provisions of the Communications Order, including provisions whereby the pledge may be exercised only by appointment of a receiver and a trustee whose identity has been approved by the Ministers based on various parameters specified in the Permit. Furthermore, similar to the Control Permits as set out above, mutatis mutandis, the Pledge Permit also includes provisions permitting the Ministry of Communications to revoke it, including in circumstances of concern regarding harm to State security or essential public needs as well as other cases[26] where, if the Ministers believe that there are real concerns of impairment of the provision of the essential service by the Company, or of the grounds for designating it as an essential service, the Ministers may act as provided in the Communications Order, including with regard to giving orders and revoking the Permit.

9. Regulation 22: Transactions with the controlling shareholder

For particulars, to the best of the Company's knowledge, concerning any transactions with the controlling shareholder of the Company or where the controlling shareholder has a personal interest in their approval, which were entered into by the Company, its controlled companies or its related companies during the reporting year or on a date subsequent to the end of the reporting year until the date of submission of the report, or which are still in force on the reporting date, and for further information on the Company's negligible transactions procedure, see Note 29 to the financial statements.

10. Regulation 24: Holdings of interested parties and executive officers

Details of the holdings of interested parties and executive officers of the Company are brought in the report by way of reference to the amending report on holdings of interested parties and executive officers of the Company, dated December 29, 2020, and by way of reference to the update to that report concerning changes in the holdings of interested parties and executive officers of the Company, dated February 14, 2021.

11. Regulation 24A: Authorized capital, issued capital, and convertible securities

The Company's authorized capital as at the date of publication of the Periodic Report is 2,849,485,753 ordinary shares of NIS 1 par value each ("**ordinary shares**").

The Company's issued and paid-up share capital as at the date of publication of the Periodic Report is 2,765,485,753 ordinary shares.

[26] These include: incorrect information in the application for a permit, failure of the Trustee to file a report as required, or a material change in the information provided by the Trustee, failure to report as required by the Trustee or material changes in the information provided by the Trustee, and the Trustee's failure to apply for the appointment of a receiver and a trustee at the times stipulated by the Permit.

For information on the Company's capital as at the report publication date, see immediate report dated February 14, 2021, included herein by reference.

12. Regulation 24B: Register of shareholders

The Company's register of shareholders is presented in the report by way of reference to the Company's report on status of equity, grant of share purchase rights and registers of securities of the Company and changes therein, dated February 14, 2021.

13. Regulation 25A: Registered address of the Company

Address: 7 Hamanor St., 5th floor, Holon

Telephone 1: 03-626-2200; Telephone 2: 03-626-2201; Fax: 03-626-2209

Email: Shelly.Bainhoren@bezeq.co.il (Group Secretary and Internal Compliance Officer)

14. Regulation 26: Directors of the Company

The table below lists the directors serving on the Company's Board of Directors as at the report publication date, followed by particulars of directors who served in the reporting year, but whose service ended before the report publication date.[27]

A. Serving directors as at the report publication date

Name ID Date of birth Citizenship	Address for service of court papers	Membership on Board committees Serves as an external or independent director	Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)	Date of commencement of service	Education and employment in 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
Gil Sharon 058381351 September 12, 1963 Israeli	37 Drezner St., Tel Aviv	Chairman of the Board of Directors of the Company Chairman of the Security Committee The director is not an external director	No, served formerly, in the years 2005-2015, as CEO of Pelephone Communications Ltd., a wholly owned subsidiary of the Company	August 27, 2020	Education: BA in Economics and Business Administration, Hebrew University of Jerusalem. MBA, Tel Aviv University. Occupation in past five years: Chairman and CEO of Golan Telecom Ltd., 2017-2020. CEO of Pelephone Communications Ltd., 2005-2015. Director in the following companies: Telit PLC, Educating for Excellence (member of the executive committee).	No	Yes

[27] For the current roster of officers as of the reporting date, see immediate report of the Company dated March 25, 2021, included herein by reference.

Name **ID** **Date of birth** **Citizenship**	**Address for service of court papers**	**Membership on Board committees** **Serves as an external or independent director**	**Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)**	**Date of commencement of service**	**Education and employment in 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**
Tomer Raved 036864288 April 18, 1985 Israeli	7 Avshalom Haviv St., Apt. 2, Tel Aviv 6949507	Security Committee The director is not an external director	Yes	May 14, 2020	Education: BA in Economics, Tel Aviv University. LLB, Tel Aviv University. MBA, specializing in Accounting and Finance, NYU Stern School of Business. Occupation in past five years: CEO and director, B Communications Ltd., 2020 to the present. Director and VP, Royal Bank of Canada (investment bank), 2016-2020. Associate Director, UBS Investment Bank, 2014-2016.	No	Yes
Darren Glatt 549871770 November 18, 1975 US citizen	16 Abba Hillel St., Ramat Gan (c/o, Meitar, Liquornik, Geva, Leshem, Tal & Co. law firm)	No The director is not an external director	Yes, see details of occupation in past five years	December 1, 2019	Education: BACCY, George Washington University. MBA, Harvard University School of Business Administration. Occupation in past five years: Partner in private capital fund Searchlight Capital Partners, and head of investments in infrastructure, telecommunications, media and technology. Director in PatientPoint. Chairman of the board of directors of B Communications, as of December 2019. Served previously as a board member of: Charter Communications, Ocean Outdoor, 160over90, PlayPower, Veritable Maritime and Core Media. Director in the following companies: Chairman of the board of directors of B Communications.	No	Yes
David Granot 045333739 January 30, 1947 Israeli	26 Hashomer Street, Raanana 60850	Security Committee; Financial Statements Review Committee; Audit Committee; Compensation Committee The director is not an external director The director is an independent director	No	May 9, 2017	Education: BA in Economics, Hebrew University of Jerusalem. MBA, Hebrew University of Jerusalem. Occupation in past five years: Acting Chairman of the Board of Directors of Bezeq, from June 2017 to April 2018 and from June 23, 2020 to August 16, 2020. Member of the board of directors of Harel Insurance and Harel Insurance Investments and Financial Services (until 2017). Member of the board of directors of Alrov Ltd. and Mivne Ltd. (until 2019).	No	Yes

Name ID Date of birth Citizenship	Address for service of court papers	Membership on Board committees Serves as an external or independent director	Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)	Date of commencement of service	Education and employment in 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
					Chairman of the investment committee in Harel Insurance Investments and Financial Services Ltd. (until 2017). Financial consultant to Scorpio Ltd. Member of the executive committee of Friends of Meir Medical Center. Chairman of the loans committee of Credito Ltd. Chairman of the investment committee of Tel Aviv University. Director in Tempo Beverages Ltd. (until 2021). Acting Chairman of the Board of Directors of Bezeq, from June 23, 2020 to August 16, 2020. Member of the board of directors of Ackerstein. Chairman of the board of directors of Fritz Ltd. (private). Director in the following companies: Chairman of the board of directors of Melran Ltd. Independent director in Ormat Technologies, Independent director in Protalix. Director in Sonol and G.D. Goren.		
Zeev Vurembrand 050772672 June 19, 1951 Israeli	5 Kalman Magen St., Tel Aviv 6107077	Chairman of the Financial Statements Review Committee; Audit Committee; Chairman of the Compensation Committee The director is an external director.	No	September 3, 2017	Education: BSc (cum laude) in Industrial and Management Engineering, The Israel Institute of Technology Occupation in past five years: CEO of the Meuhedet Health Fund, from May 2013 to February 9, 2019. Member of the board of trustees of Bar Ilan University (chairman of the IT committee). Director in the following companies: Director in Ya'alon (Extension1983) Ltd. (a 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 also considers the director as an expert external director.

Name ID Date of birth Citizenship	Address for service of court papers	Membership on Board committees Serves as an external or independent director	Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)	Date of commencement of service	Education and employment in 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
Edith Lusky 50163567 August 16, 1950 Israeli	6 Kehilat Kovna St., Tel Aviv, 6940065	Chairperson of the Audit Committee; Financial Statements Review Committee; Compensation Committee, Security Committee The director is an external director.	No	April 26, 2018	<u>Education</u>: BA in Economics and Statistics, Tel Aviv University. MA in Economics, Tel Aviv University. <u>Occupation in past five years</u>: External director in Discount Bank. External director in Israel Railways. Director in Cellcom. Member of the board of trustees of the Machshava Tova Association. <u>Director in the following companies</u>: External director in Mivtach Shamir Holdings Ltd. Director in Rafael Advanced Defense Systems	No	Yes. The Company also considers the director as an expert external director.
Ran Fuhrer 066522772 September 2, 1984 Israeli	2 Hayas'ur Street, Ramat Gan, 4703012	Security Committee The director is not an external director	Yes VP business development in 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	<u>Education</u>: LLB, Herzliya Interdisciplinary Center. BA in Business Administration, Herzliya Interdisciplinary Center. LLM in Commercial Law (cum laude), Tel Aviv University. MSc General Management, Graduate School of Business Administration, Stanford University, California, USA. Semester at Berkeley University Law School, California, USA. Member of the Israel Bar Association (certified attorney). <u>Occupation in past five years</u>: VP business development in the Neopharm Group. Member of the board of directors of the ADO Group. Business assistant to the chairman of the Neopharm Group. Business development manager at Celgene Corporation.	Serves as VP business development and as an officer in the Neopharm Group, whose controlling shareholders are his parents, David and Michal Fuhrer, who 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.	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[28]	<u>Education</u>: MBA, Ben Gurion University. BSc in Electrical and Computer Engineering, Ben Gurion University. <u>Occupation in past five years</u>: Head of the Maintenance and Service Quality Department – Bezeq National Operations Division.	No	Yes

[28] Joseph Abergel was appointed for the first time by the Board of Directors of the Company as an employee director on January 14, 2020. In accordance with the Company's Articles of Association, a director so appointed will serve for a period of no more than six months from the date of his appointment or until the next General Meeting, when he can be elected, according to the earlier of these dates. On February 6, 2020, a General Meeting of the shareholders of the Company was convened which did not have on its agenda the appointment of Joseph Abergel as a director of the Company, thus his appointment expired. On February 13, 2020, the Board of Directors reappointed Joseph Abergelas as an employee director. As aforesaid, in accordance with the Company's Articles of Association, this appointment was for a period of no more than six months from the date of the appointment or until the next General Meeting, when he

Name ID Date of birth Citizenship	Address for service of court papers	Membership on Board committees Serves as an external or independent director	Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)	Date of commencement of service	Education and employment in 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
Philip Bacal[29] HP037044 September 13, 1985 Canadian	16 Abba Hillel St., Ramat Gan (c/o Meitar, Liquornik, Geva, Leshem, Tal & Co. law firm)	No The director is not an external director	Yes, see details of occupation in past five years	December 1, 2019	Education: HBA from the Richard Ivey School of Business at the University of Western Ontario. Occupation in past five years: Director of Roots Corporation. Director of the Octave Group. Managing director and limited partner of Searchlight Capital Partners. Director in B Communications, as of December 2019.	No	Yes
Tal Fuhrer[30] 034521344 December 15, 1977 Israeli	15 Lehi Street, Ramat Hasharon 4704114	No The director is not an external director	VP development in the Neopharm Group, whose owners, David and Michal Fuhrer, are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the controlling shareholder of the Company. Serves in the Company as substitute director for his brother, Ran Fuhrer	December 1, 2019	Education: MBA in Finance and Accounting, Strategy and Entrepreneurship, Tel Aviv University. MSc in Biotechnology, Tel Aviv University. BSc in Management and Biology, Tel Aviv University. Occupation in past five years: Manager/officer in 103W COOP LLC. Chairman of the board of directors of Mivne Real Estate (KD) Ltd. Director in Birad – Bar Ilan R&D Company Ltd. Director in Jerusalem Economy Ltd. Director in Simplexis Ltd.; Director in Shall Do Real Estate Development (UK) Ltd. Chief business officer and VP business and corporate development in Neopharm Group Ltd. Director in ABBA Investment Ltd. Director in the following companies: Director in Birad Bar Ilan R&D Co.	Serves as VP development in the Neopharm Group, whose controlling shareholders are his parents, David and Michal Fuhrer, who are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications , the 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

B. Directors who served in the reporting year, but whose service ended before the report publication date

During the reporting year, the director Rami Nomkin served until January 12, 2020, the Chairman of the Board of Directors, Shlomo Rodav, served until June 22, 2020, and the external director Amnon Dick served until December 2, 2020.

could be elected, according to the earlier of these dates. On March 18, 2020, the annual General Meeting of the shareholders of the Company approved the appointment of Joseph Abergelas as a director of the Company.

29 Philip Bacal was appointed as substitute director for Darren Glatt at board meetings which Darren Glatt is unable to attend, as of the date of said appointment until announced otherwise.

30 Tal Fuhrer was appointed as substitute director for Ran Fuhrer at board meetings which Ran Fuhrer is unable to attend, as of the date of said appointment until announced otherwise.

15. Regulation 26A: Executive officers:

The table below lists the executive officers serving in the Company as at the report publication date, followed by particulars of executive officers who served in the Company during the reporting year, but whose service ended before the report publication date.[31]

A. Executive officers who served during the reporting year and as at the report publication date

Name	ID	Date of birth	Date of commencement of service	Position held in the Company	Is he an interested party in the Company or a family member of another executive 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, Hebrew University of Jerusalem
Guy Hadass	029654472	September 8, 1972	December 9, 2007	VP Corporate Communications	No	BA in Economics and Communication, Tel Aviv University. MBA, Tel Aviv University. Directors Course, Herzliya Interdisciplinary Center.
Udi Atar	033287541	September 1, 1976	October 15, 2018	VP, Head of Private Division	No	Software Engineering, The College of Management Academic Studies. BA in Business Administration, University of Derby. Directors and Executive Management Course – Coller Faculty of Management, Tel Aviv University.
Nir David	024226474	February 14, 1969	March 18, 2020	VP, Head of Business Division	No	BA in Social Sciences, majoring in Management, Open University. Teacher's Diploma in technological subjects, Government Institute for Technology and Science Training. Practical electrical engineer, SAMAT Haifa. 2019-2020 – acting Head of Business Division and Head of Integration and Customer Relations Department at Bezeq – The Israel Telecommunication Corp. Ltd. 2011- 2018 – Head of Customer Relations Department at Bezeq – The Israel Telecommunication Corp. Ltd.
Shelly Bainhoren	066240045	November 14, 1982	February 18, 2018	Group Secretary and Internal Compliance Officer	No	LLB (cum laude), Bar Ilan University. BA in Political Science and Communication (cum laude), Bar Ilan University. Certified Attorney. June 2017-February 2018 – acting Group Secretary at Bezeq – The Israel Telecommunication Corp. Ltd. June 2013-June 2017 – Deputy Group Secretary at Bezeq – The Israel Telecommunication Corp. Ltd.
Amir Nachlieli	23012313	May 30, 1967	January 1, 2009	VP, Legal Counsel	No	MBA (expanded major in Finance), Tel Aviv University. BA in Economics, Hebrew University. LLB, Hebrew University.

[31] For the current roster of officers as of the reporting date, see immediate report of the Company dated March 25, 2021, included herein by reference.

Name	ID	Date of birth	Date of commencement of service	Position held in the Company	Is he an interested party in the Company or a family member of another executive 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 the audit committee – Eurocom Retirees Association (voluntary position). 2017-2019 – CFO at Yail Noa Group 2009-2016 – CFO and VP Finance, Procurement and Transportation at 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 (cum laude), 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 and Logistics	No	BA in Industrial Engineering and Management, Tel Aviv University; MBA, Tel Aviv University
Lior Segal	025695701	September 9, 1973	January 24, 2011	Internal Auditor	No	MBA, specializing in Finance and Accounting, Strategy and Entrepreneurship; LLB; BA in Accounting, and Diploma in Accounting – all from Tel Aviv University. Diploma in internal and public auditing from the IMC. Certified attorney and CPA in Israel. Certification as an internal audit system Quality Assurance Reviewer (QAR) and as a Certified Internal Auditor (CIA) and holder of a Certification in Risk Management Assurance (CRMA) from the Global Institute of Internal Auditors. Certification as a Certified Data Privacy Solutions Engineer (CDPSE) from the international Information System Audit and Control Association (ISACA). Director at the Institute of Internal Auditors in Israel (IIA), which was established in 2020 by consolidation of two organizations of auditors, in one of which – IIA Israel – he served as a director until 2019 (service in both organizations on a voluntary basis). 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 Communication and Psychology (cum laude), Haifa University. MBA, specializing 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, specializing in Finance, Florida International University. 2011- February 14, 2019 – Deputy CFO at Bezeq Group

Name	ID	Date of birth	Date of commencement of service	Position held in the Company	Is he an interested party in the Company or a family member of another executive officer or of an interested party	Education and business experience over the past five years
Ran Guron	024113268	December 25, 1968	November 8, 2015	CEO of the subsidiaries Pelephone, Bezeq International and DBS	No	BA in Economics and Business Administration, Hebrew University. MBA, Hebrew University. January 9, 2006-November 8, 2015 – Deputy CEO and VP Marketing at the Company.

B. Officers appointed after the end of the reporting year and serving as at the reporting date

Name	ID	Date of birth	Date of commencement of service	Position held in the Company	Is he an interested party in the Company or a family member of another executive officer or of an interested party	Education and business experience over the past five years
Moran Kita	033424607	February 8, 1977	February 21, 2021	VP Human Resources	No	BA in Statistics and Actuarial Studies, Haifa University. MBA, specializing in Human Resources, Ariel University. Program for the Development of an Executive Cadre, Bezeq in collaboration with Bar Ilan University. February 2016-February 2021 – Manager of Human Resources, Salary and Labor Relations Department at Bezeq.

C. Officers who served in the reporting year, but whose service ended before the report publication date

During the reporting year, Yali Rothenberg served as VP Finance and Group Chief Financial Officer until November 30, 2020, and Ehud Mezouman served as VP Human Resources, terminating his actual employment with the Company on January 3, 2021 (he is completing a prior notice period until March 31, 2021).

16. Regulation 27: The Auditors of the Company

Somekh Chaikin, Certified Public Accountants
Address: KPMG Millennium Tower, 17 Ha'arba'a St., Tel Aviv 6473917
Tel: 03-684-8000

17. Regulation 29(a): Recommendations and resolutions of the Board of Directors submitted to the General Meeting, and Board resolutions which do not require the approval of the General Meeting in the matters specified in Regulation 29(a)

A. For information on extraordinary transactions, see Note 29 to the financial statements.

B. Resolution of November 17, 2019 – Recommendation to the General Meeting of the shareholders to approve the amendment of Section 114.2 of the Company's articles of association, effective as of June 30, 2019, regarding indemnification of officers of the Company, as set out in Section 17(c) below.

C. Resolution of April 1, 2020 – Further to B Communication's request to the Company's Board of Directors to include the proposal for approval of the amendment to the Company's articles of association as an item on the agenda of the meeting, as set out in Section 1.11 of the notice of convening of a General Meeting of the shareholders published by the Company on April 2, 2020, which is included herein by reference, recommendation not to approve the amendment of the Company's Articles, as set out in Section 17.M. below.

D. Resolution of December 10, 2020 – Recommendation to the General Meeting of the shareholders to approve an increase in the Company's authorized share capital by an additional 24,485,753 ordinary shares, to stand at NIS 2,849,485,753 divided into 2,849,485,753 ordinary shares, and accordingly to amend the text of Section 8 of the Company's articles of association and Section 2.B. of the Company's Memorandum of Association.

18. <u>Regulation 29(c): Resolutions of an Extraordinary General Meeting</u>

A. Approval of an amendment to the indemnification and exemption undertaking to directors of the Company serving as of the date of the notice of convening of an Extraordinary General Meeting of the Company's shareholders dated January 2, 2020, and/or who will serve in the Company from time to time (including the controlling shareholder of the Company and/or his relatives and/or officers in companies of the controlling shareholder), effective as of June 30, 2019, as worded in said notice of convening of the meeting (resolution dated February 6, 2020).

B. Approval of an amendment to Section 2.2 of the indemnification and exemption undertaking to the CEO of the Company serving as of the date of the notice of convening of an Extraordinary General Meeting of the Company's shareholders dated January 2, 2020, and/or who will serve in the Company from time to time (including the controlling shareholder of the Company and/or his relatives and/or officers in companies of the controlling shareholder), effective as of June 30, 2019, as worded in said notice of convening of the meeting (resolution dated February 6, 2020).

C. Approval of an amendment to the Company's articles of association, effective as of June 30, 2019, as worded in the notice of convening of the General Meeting dated January 2, 2020 (resolution dated February 6, 2020).

D. Approval of an amendment to Section 8.2 of the Company officers' compensation policy, effective as of June 30, 2019, and approval of various other amendments to the Company officers' compensation policy, effective as of December 16, 2020, as worded in the notice of convening of the meeting dated January 2, 2020 (resolution dated February 6, 2020).

E. Approval of re-appointment of Darren Glatt and Ran Fuhrer as directors of the Company, as of February 6, 2020 until the date of the next Annual General Meeting (resolution dated February 6, 2020).

F. Approval of the grant of an indemnification and exemption undertaking, in the Company's customary wording, including the amendment as specified in section 17.B. above, to the directors Darren Glatt and Ran Fuhrer, as of December 1, 2019, the date of commencement of their service as directors of the Company (resolution dated February 6, 2020).

G. Approval of the appointment of the KPMG Somekh Chaikin accounting firm as the Company's auditors for 2020 until the next Annual General Meeting, and authorization of the Board of Directors to determine their fee for 2020 (resolution adopted on May 14, 2020).

H. Approval of re-appointment of the following directors, as of May 14, 2020 until the date of the next Annual General Meeting: ordinary directors – Shlomo Rodav, Darren Glatt and Ran Fuhrer; independent directors – David Granot (resolution dated May 14, 2020).

I. Approval of the appointment of Joseph Aberget as an employee director, to serve on the Company's Board of Directors until the next Annual General Meeting of the Company's shareholders (resolution dated May 14, 2020).

J. Approval of the appointment of Tomer Raved as an ordinary director on the Company's Board of Directors, at B Communication's request, until the next Annual General Meeting of the Company's shareholders (resolution dated May 14, 2020).

K. Approval of the grant of an indemnification and exemption undertaking to the candidate for the position of employee director, worded the same as the indemnification and exemption undertakings approved for all the other directors of the Company in its General Meeting of February 6, 2020 (resolution dated May 14, 2020).

L. Approval for making amendments and revisions to the Company's existing compensation policy, as approved on May 23, 2019, for a period of three years, by the General Meeting of the Company's shareholders, and amended on February 6, 2020, as set out in Section 1.10 of the notice of convening of a General Meeting of the shareholders published by the Company on April 2, 2020, which is included herein by reference (resolution dated May 14, 2020).

M. Not to approve the amendment to the Company's articles of association pursuant to B Communication's request to include this item on the agenda, as set out in Section 1.14A of the notice of convening of a General Meeting of the shareholders published by the Company on April 2, 2020 (resolution dated May 14, 2020).

N. Approval of the appointment of Gil Sharon as an ordinary director on the Board of Directors of the Company, until the next Annual General Meeting of the Company's shareholders (resolution dated September 6, 2020).

O. Approval of the re-appointment of Zeev Vurembrand for an additional (second) term of office of three years as an external director of the Company, as of September 6, 2020 until September 2, 2023 (resolution dated September 6, 2020).

P. Approval of the grant of an indemnification and exemption undertaking to the director Tomer Raved, worded the same as the indemnification and exemption undertakings approved for all the other directors of the Company in its General Meetings of February 6, 2020 and May 14, 2020, as of May 14, 2020 (the date of commencement of his service as a director) (resolution dated September 6, 2020).

Q. Approval of an increase in the Company's authorized share capital by an additional 24,485,753 ordinary shares, to stand at NIS 2,849,485,753 divided into 2,849,485,753 ordinary shares, with a corresponding amendment of the text of Section 8 of the Company's articles of association and Section 2.B. of the Company's Memorandum of Assocation (resolution dated January 18, 2021).

R. Approval of the terms of service and employment of Gil Sharon as Chairman of the Board of Directors of the Company, to apply retroactively from August 27, 2020, the date of actual commencement of his service, as set out in Section 2.2 of the notice of convening of a General Meeting of the shareholders published by the Company on December 12, 2020 and amended on January 14, 2021, which is included herein by reference (resolution dated January 18, 2021).

S. Approval of the allocation of 9,000,000 options exercisable into up to 9,000,000 ordinary shares in accordance with the Company's equity compensation plan, to Dudu Mizrahi, the Company's CEO, as set out in Section 2.3 of the notice of convening of a General Meeting of the shareholders published by the Company on December 12, 2020 and amended on January 14, 2021 (resolution dated January 18, 2021).

T. Approval for making amendments and revisions to the Company officers' compensation policy, as set out in Section 2.4 of the notice of convening of a General Meeting of the shareholders published by the Company on December 12, 2020 and amended on January 14, 2021 (resolution dated January 18, 2021).

19. <u>Regulation 29A(4): Exemption, insurance and indemnification undertaking to officers</u>

For information on the exemption, insurance and indemnification undertaking given to officers, see Note 29.6 to the financial statements.

March 24, 2021	
Date	Bezeq – The Israel Telecommunication Corp. Ltd.

Signatories and their positions:
Gil Sharon, Chairman of the Board of Directors
Dudu Mizrahi, CEO

CORPORATE GOVERNANCE QUESTIONNAIRE[1]

BOARD OF DIRECTORS INDEPENDENCE			True	False
1.		During the entire reporting year, two or more external directors served in the Company. You may answer TRUE if the period during which Company did not have two external directors does not exceed 90 days, as specified in section 363A(B)(10) of the Companies Law. However, for any answer (TRUE/FALSE), the period (in days) during which two or more external directors did not serve in the reporting year should be indicated (including also a period of service approved retroactively, referring separately to each external directors): **Director A: 0** **Director B: 0** Number of external directors serving in the Company as at the date of publication of this questionnaire: 2. See note at the end of the questionnaire.	√	
2.		Rate[2] of independent directors[3] serving in the Company as at the date of publication of this questionnaire: 3/8. See note at the end of the questionnaire. Rate of independent directors determined in the articles of association[4] of the Company[5]: ________ ☒ Not applicable (there is no such provision in the articles of association).	———	———
3.		An examination conducted with the external directors (and the independent directors) during the reporting year found that they complied in the reporting year with the provision of sections 240 (b) and (f) of the Companies Law regarding the absence of a relationship between the external directors (and independent directors) serving in the Company, and they met the conditions required for serving as external directors (or independent directors). See note at the end of the questionnaire.	√	

[1] Issued in the context of legislative proposals for improvement of the reports on March 16, 2014.

[2] In this questionnaire, "rate" refers to a certain number out of the total; for example, 3/8.

[3] Including “external directors” as defined in the Companies Law.

[4] In respect of this question, "articles of association" including pursuant to a specific legal provision applicable to the Company (for example, for a bank – the directives of the Supervisor of Banks).

[5] A debenture company is not required to respond to this question.

BOARD OF DIRECTORS INDEPENDENCE				
			True	**False**
4.		None of the directors who served 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). If you answered FALSE (i.e., a director is subordinate to the CEO as aforesaid), indicate the number of directors who <u>did not</u> comply with the above restriction: _____.	√	
5.		All the directors who declared the existence of a personal interest in the approval of a transaction on the agenda of the meeting did not attend that meeting and did not participate in the vote on that transaction (except for meetings/voting under circumstances specified in section 278(b) of the Companies Law): If you answered FALSE – Was it for the sake of introducing a certain issue by the director as specified in at the end of section 278(a)? ☒ Yes ☐ No (Mark X in the appropriate box) Indicate the percentage of meetings in which such directors attended the meeting and/or participated in the vote, except under the circumstances described in subsection (a) above		√
6.		The controlling shareholder (including a relative and/or anyone acting on behalf thereof), who is not a director or other senior officer in the Company, <u>did not</u> attend the Board meetings held during the reporting year. If you answered FALSE (i.e., the controlling shareholder and/or a relative and/or anyone acting on behalf thereof who is not a director and/or senior officer in the Company did attend Board meetings, as aforesaid), indicate the following details regarding each additional individual's attendance at the Board's meetings, as aforesaid: Identity: _____. Position in the Company: _____ (if any). Details of the relationship with the controlling shareholder (if the individual who attended the meetings is not the controlling shareholder): _____. Was this for the purpose of presenting a specific issue: ☐ Yes ☐ No (Mark X in the appropriate box). Rate of the individual's attendance[7] at Board meetings held during the reporting year for the purpose of presenting a specific issue: _____ Other attendance: ______ ☐ Not applicable (the Company has no controlling shareholders).	√	

[6] In respect of this question, mere service as a director in an investee that is controlled by the Company will not be considered as "subordinate." On the other hand, a director who serves as an officer (except for a director) and/or is employed in a company that is controlled by the Company will be considered "subordinate" with respect to this question.

[7] Distinguishing between the controlling shareholder and a relative and/or anyone acting on behalf thereof.

DIRECTORS' QUALIFICATIONS AND SKILLS					
				True	**False**
7.			The Company's articles of association <u>do not</u> include a provision restricting the possibility of immediately terminating the service of all the Company's directors who are not external directors (in this context, an ordinary majority decision is not considered a restriction)[8]. If you answered FALSE (i.e., there is such a restriction), please indicate –		√
		A.	The timeframe determined in the articles of association for a director's service: <u>For a director who is not an external director – from the date of appointment until the date of the following general meeting; for an external director – in accordance with the provisions of the Companies Law.</u>		
		B.	The requisite majority determined in the articles of association for terminating a director's service: <u>Special majority (the majority required to approve an extraordinary transaction with a controlling shareholder, in accordance with the provisions of the Companies Law).</u>		
		C.	The quorum determined in the articles of association for a general meeting convened to terminate a director's service: <u>Ordinary quorum – two members holding together or representing at least 25% of the voting rights in the Company</u>.		
		D.	The majority required to change these provisions in the articles of association: <u>Ordinary majority.</u>		
8.			The Company has a training program for new directors in the Company's area of business and in the laws applicable to the Company and the directors, as well as a follow-up program for training acting directors, which is adapted, inter alia, to each director's position in the Company. If you answered TRUE – indicate whether the program was implemented during the reporting year: ☒ Yes ☐No (Mark X in the appropriate box).	√	
9.		A.	The Company has determined the minimum required number of directors on the Board of Directors who must possess accounting and financial expertise. If you answered TRUE – indicate the minimum number determined: <u>At least a third of the directors (including at least one external director).</u>	√	
		B.	The number of directors who served in the Company during the reporting year: With accounting and financial expertise[9]: <u>8</u>. With professional qualifications[10]: <u>1</u>. If any changes occurred in the number of the above directors during the reporting year, state the lowest number of each type of director that served during the reporting year (not including the 60-day period from the date of change).	_____	_____

[8] A debenture company is not required to respond to this question.

[9] Based on the Board of Director’s assessment, according to the provisions of the Companies Regulation (Conditions and Tests for Directors with Accounting and Financial Expertise and for Directors with Professional Qualifications), 2005.

[10] See Footnote 9.

DIRECTORS' QUALIFICATIONS AND SKILLS					
				True	**False**
10.		A.	Throughout the reporting year, the Board of Directors included members of both genders. If you answered FALSE – indicate the timeframe (in days) during which this condition was not met: _____. You may answer TRUE for this question if the timeframe during which directors of both genders did not serve on the Board of Directors does not exceed 60 days. However, for any answer (TRUE/FALSE), indicate the timeframe (in days) during which directors of both genders did not serve in the Company: ________.	√	
		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 meetings held during each quarter in the reporting year: Q1 (2020) 7 Q2 8 Q3 6 Q4 12				_____	_____
	B.	Indicate next to the name of each the Company's directors who served during the reporting year, rate[11] the director's rate of participation in Board meetings (in this subsection,– including meetings of Board committees of which the director is a member, as noted below), held during the reporting year (with respect to the director's service): See note at the end of the questionnaire. (Add lines according to the number of directors)				_____	_____

Director's Name	Rate of participation in Board meetings	Rate of participation in Audit Committee meetings[12]	Rate of participation in Financial Statements Review Committee meetings[13]	Rate of participation in Compensation Committee meetings[14]	Rate of participation in meetings of other Board committees of which the director is a member (specifying the name of the committee)		
Shlomo Rodav	13/13						
Gil Sharon	13/13						
Joseph Abergel	32/32						
Darren Glatt	31/32						
David Granot	32/32	16/18	8/8	21/21	Security Committee 1/1		
Amnon Dick	27/27	16/16	9/9	18/18			
Zeev Vurembrand	32/32	18/18	10/10	23/23			
Edith Lusky	32/32	18/18	10/10	23/23	Security Committee 1/1		
Rami Nomkin	0/0 Served in the						

[11] See Footnote 9. 2 צ"ל הערה

[12] For directors who are members of this committee.

[13] For directors who are members of this committee.

[14] For directors who are members of this committee.

BOARD MEETINGS (AND CONVENING OF THE GENERAL MEETING)										
									True	False
				reporting year until January 12, 2020 (no Board meeting was held until that date)						
			Ran Fuhrer	32/32						
			Tomer Raved	23/23				Security Committee – 1/1		
12.		During the reporting year, the Board of Directors held at least one meeting to discuss the Company's businesses management by the CEO and subordinate officers, at which they were not present but they were given the opportunity to state their opinion.								√

SEPARATION OF THE ROLES OF THE CEO AND THE CHAIRMAN OF THE BOARD					
				True	**False**
13.		Throughout the reporting year, a Chairman of the Board served in the Company. You may answer TRUE for this question if the timeframe during which a Chairman of the Board did not serve in the Company does not exceed 60 days (as specified in section 363A(2) of the Companies Law). However, for any answer (TRUE/FALSE), you must indicate the timeframe (in days) during which a Chairman of the Board did not serve in the Company: 10. See note at the end of the questionnaire.		√	
14.		Throughout the reporting year, a CEO served in the Company. You may answer TRUE for this question if the timeframe during which a CEO did not serve in the Company does not exceed 90 days (as specified in section 363A(6) of the Companies Law). However, for any answer (TRUE/FALSE), you must indicate the timeframe (in days) during which a CEO did not serve in the Company: 0.		√	
15.		In a company in which the Chairman of the Board also serves as the CEO and/or exercises CEO authorities, the dual role 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. If you answered FALSE (i.e., the CEO is a relative of the Chairman of the Board) –		√	
		A.	Indicate the relationship between the parties: _____.	_____	_____
		B.	The service was approved in accordance with section 121(C) of the Companies Law[16]: ☐ Yes ☐ No (Mark X in the appropriate box).	_____	_____
17.		The controlling shareholder or a relative thereof does not serve as CEO or as a senior officer in the Company, other than as a director. ☐ Not applicable (the Company has no controlling shareholder).		√	

[15] In a debenture company, approval in accordance with section 121(D) of the Companies Law.

[16] In a debenture company, approval in accordance with section 121(D) to the Companies Law.

AUDIT COMMITTEE				
			True	False
18.		During the reporting year, the following did not serve on the Audit Committee:	_____	_____
	A.	The controlling shareholder or a relative thereof. ☐ Not applicable (the Company has no controlling shareholder).	√	
	B.	The Chairman of the Board of Directors.	√	
	C.	A director employed by the Company or by the Company's controlling shareholder or by a corporation under their control.	√	
	D.	A director that provides services on a regular basis to the Company or to the Company's controlling shareholder or to a corporation under their control.	√	
	E.	A director whose main source of income is from the controlling shareholder. ☐ Not applicable (the Company has no controlling shareholder).	√	
19.		Persons who are not eligible to serve on the Audit Committee, including the controlling shareholder or a relative thereof, did not attend Audit Committee meetings during the reporting year, except in accordance with the provisions of section 115(E) of the Companies Law.	√	
20.		The quorum for deliberations and resolutions in all Audit Committee meetings held during the reporting year was a majority of the committee members, with the majority of the attendees being independent directors and at least one being an external director. If you answered FALSE – indicate the number of meetings in which this requirement was not met: _____.	√	
21.		During the reporting year, the Audit Committee held at least one meeting concerning deficiencies in the Company's business management, attended by the Internal Auditor and the Independent Auditor and without the presence of Company officers that are not members of the committee.	√	
22.		At all Audit Committee meetings attended by persons who are not eligible to serve on the committee, the attendance of such persons was approved by the chairman of the committee and/or at the request of the committee (with respect to the Company's General Counsel and Secretary who is not a controlling shareholder or a relative thereof).	√	
23.		In the reporting year, arrangements were in effect as prescribed by the Audit Committee for handling complaints by Company employees regarding deficiencies in the Company's business management and for protecting employees who made such complaints.	√	
24.		The Audit Committee (and/or the Financial Statements Review Committee) was satisfied that the scope of the Independent Auditor's work and professional fee for the financial statements in the reporting year were adequate for performing appropriate audit and review work.	√	

DUTIES OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE ("THE COMMITTEE") PRIOR TO THE APPROVAL OF THE FINANCIAL STATEMENTS				
			True	**False**
25.	A.	Indicate the timeframe (in days) determined by the Board of Directors as reasonable for submitting the Committee's recommendations prior to the Board meeting for approval of the financial statements: 3 days when approving periodic statements, and 2 days when approving quarterly statements.	____	____
	B.	Actual number of days that elapsed between the date on which the recommendations were submitted to the Board of Directors and the date of the Board meeting for approval of the financial statements: Q1 Report (2020): 3 days Q2 Report: 3 days Q3 Report: 0 days. See note at the end of the questionnaire. Annual Report: 3 days.	____	____
	C.	Number of days that elapsed between the date on which the draft of the financial statements was submitted to the directors and the date of the Board meeting for approval of the financial statements: Q1 Report (2020): 5 days Q2 Report: 3 days Q3 Report: 1 day Annual Report: 5 days		
26.	The Company's Independent Auditor participated in all meetings of the Committee and the Board of Directors at which the Company's financial statements for the periods included in the reporting year were discussed. If you answered FALSE, please indicate his rate of participation: _____.		√	
27.	Throughout the reporting year until the publication of the annual report, the Committee was in compliance with all the conditions set forth below:		_____	_____
	A.	The number of Committee members was not less than three (at the time of the Committee's discussion and approval of said statements).	√	
	B.	All the conditions prescribed in section 115(b) and (c) of the Companies Law were met (regarding the service of Audit Committee members).	√	
	C.	The chairman of the Audit Committee is an external director.	√	
	D.	All the Committee's members are directors, and the majority are independent directors.	√	
	E.	All the Committee's members are able to read and understand financial statements, and at least one of the independent directors has accounting and financial expertise	√	
	F.	The Committee's members provided declarations prior to their appointment.	√	
	G.	The quorum for deliberations and resolutions by the Committee was a majority of the Committee's members, provided the majority of the participants were independent directors and at least one was external director.	√	
	If you answered FALSE to one or more of the subsections of this question, indicate which of the conditions was not met with respect to which report (periodic/quarterly): ______		_____	_____

COMPENSATION COMMITTEE

			True	False
28.	In the reporting year, the Committee consisted of at least three members, and the majority of members were external directors (during meetings of the committee). ☐ Not applicable (no meetings were held).		√	
29.	The terms of service and employment of all the 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 on the Compensation Committee:		√	
	A.	The controlling shareholder or a relative thereof. ☐ Not applicable (the Company has no controlling shareholder).	√	
	B.	The Chairman of the Board of Directors.	√	
	C.	A director employed by the Company or by the Company's controlling shareholder or by a corporation under their control.	√	
	D.	A director that provides services on a regular basis to the Company or to the Company's controlling shareholder or to a corporation under their control.	√	
	E.	A director whose main source of income is from the controlling shareholder. ☐ Not applicable (the Company has no controlling shareholder).	√	
31.	In the reporting year, the controlling shareholder or a relative thereof did not attend the meetings of the Compensation Committee, except if the chairman of the committee determined that any of the above was needed for the presentation of a certain issue.		√	
32.	The Compensation Committee and the Board of Directors did not exercise their authority pursuant to sections 267A(c), 272(c)(3) and 272(c1)(1)(c) to approve a transaction or compensation policy, despite the General Meeting's objection. If you answered FALSE, indicate ______ Type of transaction approved as above: ________ Number of times the above authority was exercised in the reporting year: ____		√	

INTERNAL AUDITOR			
		True	**False**
33.	The Chairman of the Board or the CEO of the Company has organizational responsibility for the Company's Internal Auditor.	√	
34.	In the reporting year, the Chairman of the Board or the Audit Committee approved the work plan. In addition, specify the audit topics the Internal Auditor dealt with in the reporting year: Business Continuity, Compliance, Payment Methods, Corporate Governance, Information Security, Procurement, Infrastructure, Knowledge Management, Recruitment, Monitoring of Recommendations, etc. (Mark X in the appropriate box).	√	
35.	Scope of employment of the Internal Auditor in the Company in the reporting year (in hours[17]): Approximately 8,100 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 2020: Pelephone, 2,600 hours; Bezeq International, 2,600 hours; DBS, 2,600 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 is not an interested party in the Company, a relative thereof, an Independent Auditor or anyone on behalf thereof and does not maintain a material business relationship with the Company, its controlling shareholder, a relative thereof or a corporation under their control.	√	

[17] Including working hours invested in investees and in audit work outside Israel, as the case may be, both by the Internal Auditor of the Company and by the internal auditors of the Company's subsidiaries.

TRANSACTIONS WITH INTERESTED PARTIES			
		True	**False**
37.	The controlling shareholder or a relative thereof (including a company under their control) are not employed by the Company and do not provide it with management services. If you answered FALSE (i.e., the controlling shareholder or a relative thereof are employed by the Company or do provide it with management services), indicate – – Number of relatives (including the controlling shareholder) employed by the Company (including companies controlled by them and/or through management companies): – Were the employment agreements and/or management services approved by the organs prescribed by law? ☐ Yes ☐ No (Mark X in the appropriate box) ☐ 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 field of activity (in one or more field). See note at the end of the questionnaire. If you answered FALSE, indicate whether an arrangement has been made for delimiting activities between the Company and its controlling shareholder: ☐ Yes ☐ No (Mark X in the appropriate box) ☐ Not applicable (the Company has no controlling shareholder).	√	

Concluding Notes to the Questionnaire

1. **Board of Directors independence**

   Section 1 – On March 18, 2021, an Annual and Extraordinary General Meeting was convened, having on its agenda, inter alia, the appointment of an additional external director to the Company's Board of Directors.

   Section 2 – During most of the reporting year, until December 2, 2020, four independent directors served on the Company's Board of Directors.

   Section 3 – Regarding the classification by the Audit Committee of a business relationship of an independent director as negligible, and the Company's position on agreements that do not constitute a business relationship for purposes of the definition of "relationship," see footnotes 4, 5 and 6 to the immediate report on the convening of an Annual and Extraordinary General Meeting of the Company's shareholders dated March 18, 2021.

2. **Board meetings (and convening of the General Meeting)**

   Section 11B – It is noted that the column "Rate of participation in meetings of other Board committees" refers to permanent committees of the Board only and does not include ad-hoc committees set up for specific topics. It is noted that Mr. Shlomo Rodav concluded his service as a director and as Chairman of the Board of Directors of the Company on June 22, 2020. Between June 23, 2020 and August 16, 2020, the independent director Mr. David Granot served as interim Chairman of the Board, and on August 27, 2020, Mr. Gil Sharon began serving as a director and as Chairman of the Board of Directors of the Company. Furthermore, it is noted that on December 2, 2020, the external director Mr. Amnon Dick concluded his service in the Company. It is noted that the number of meetings of the Board of Directors and its committees held in the reporting year takes into account the period of service of each of the directors on the Board of Directors and on each of the committees, as applicable. Furthermore, it is noted that in the reporting year, a Board meeting was held having on its agenda only a matter in which Darren Glatt and Ran Fuhrer had a personal interest that prevented their participation in the meeting, as well as another Board meeting having on its agenda only a matter that barred the directors David Granot, Amnon Dick, Zeev Vurembrand and Irit Lusky from participating. The above directors did not participate in both these meetings (respectively), in compliance with the provisions of the law, and therefore these meetings were not included in the count of meetings relating to them.

3. **Separation between the roles of CEO and Chairman of the Board**

   Section 13 – Mr. Shlomo Rodav concluded his service as a director and as Chairman of the Board of Directors of the Company on June 22, 2020. Between June 23, 2020 and August 16, 2020, the independent director Mr. David Granot served as interim Chairman of the Board, and on August 27, 2020, Mr. Gil Sharon began serving as a director and as Chairman of the Board of Directors of the Company.

4. **Duties of the Financial Statements Review Committee**

   Section 25 – In light of the events that occurred in the Company shortly before the date of approval of the financial statements for the third quarter of 2020 (involving dealing with the balance sheets of the subsidiary Bezeq International Ltd.), and so as to meet the statutory deadline for publishing the periodic reports, the Financial Statements Review Committee and the Board of Directors held back-to-back meetings for approving the third quarter financial statements, in such a manner that the committee forwarded its recommendation to the Board of Directors at the end of its meeting and before the start of the Board meeting. Regarding section 25C, it is noted, in addition, that the draft of the financial statements was forwarded to the directors a day before the meeting of the Board of Directors to approve the financial statements, and that the directors gave their authorization for forwarding the materials in such close proximity to the meeting and confirmed that they read the materials before the meeting convened.

5. Internal Auditor

Section 35 – Regarding internal audit hours in the Company, it should be noted that these hours include internal audit hours by outside parties and by employees of the Company's internal audit unit, which during a part of the year numbered four full-time internal auditors, in addition to the Internal Auditor. For detailed information on the audit resources, see the disclosure on the internal auditor in a reporting company in the Board of Directors report. The scope of the employment is determined according to the audit work plan, which is set based on the scope and complexity of the various company activities. As of January 7, 2019, one Internal Auditor acts in all the Significant Subsidiaries (and is an employee of the Significant Subsidiaries), as part of the consolidation of the internal audit processes of the Significant Subsidiaries. Internal audit hours at the Significant Subsidiaries include three additional employees, in addition to the Internal Auditor of the Significant Subsidiaries.

6. Transactions with interested parties

Section 38 – As disclosed to the Company, B Communications has no other activities in the Company's area of 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 today is to lead the communications 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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Chapter E:

Report on the effectiveness of internal control over financial reporting and disclosure for the year ended December 31, 2020

The information contained in this report constitutes a translation of the report published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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. Moran Kita, VP Human Resources Division[1]
3. Udi Atar, VP Residential Division
4. Eyal Kamil, VP Operations and Logistics Division
5. Itzik Ben Eliezer, VP Technologies and Network Division
6. Amir Nachlieli, Legal Counsel
7. Erez Hasdai, VP Economics and Regulation Division
8. Guy Hadass, VP Corporate Communications
9. Nir David, VP Business Division
10. Keren Laizerovitz, VP Marketing and Innovation Division

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

1. Lior Segal, Internal Auditor
2. Amit Kurland, Chief Accountant
3. 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[2] 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, inter alia, controls and procedures planned to ensure that the information that the Company is required to disclose as aforesaid, is accumulated and forwarded to the Management of the Company, including to the CEO and the most senior financial officer or to whoever fulfills those functions in practice, in order to enable decisions to be made at the appropriate time in relation to the disclosure requirements.

[1] Began serving as VP Human Resources Division on February 10, 2021; until then Ehud Mezuman served as VP of the division.

[2] Regarding the transfer of the CEO's authority in matters connected with investees of the Company to the Board of Directors – see Section 1.1.3 of the Description of Company Operations chapter in this Report.

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 units, accounts and processes the Company deems very significant 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;

The model for assessment of the effectiveness of the internal controls over financial reporting and disclosure was 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 significant processes for financial reporting and disclosure: Revenues, Purchasing, Fixed assets and Payroll.

Based on 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, 2020 are ineffective, due to material weaknesses identified in the Entity level controls and in the process of preparation and closing of the financial statements, which resulted in inadequate recognition of expenses, as set out below.

Following are details of the material weaknesses in the internal control:

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

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

In November 2020, the Board of Directors of the Company was informed of the preliminary interim findings of Bezeq International's internal auditor, who worked in conjunction with the Security Division of Bezeq International and with the support of an independent external expert. The interim findings indicated, inter alia, the existence over many years of professional errors (erroneous accounting and recording as well as deficiencies in the way of operating the controls), as well as faulty conduct, perhaps even knowingly, by employees of Bezeq International.

The total impact of the corrections to the discrepancies found in Bezeq International in the framework of inspections as at June 30, 2020, was a decrease in the Group's equity as detailed below:

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

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

3. In light of the examination's findings, Bezeq International revised its forecasts for the coming years and performed an updated valuation as of December 31, 2019, following which a further impairment loss of NIS 94 million (NIS 72 million net of tax) was recognized, as a result of the revision of the value of operations and book value of Bezeq International as at December 31, 2019.

In light of the above findings, the Group published on December 21, 2020 restated financial statements for the year 2019 and for the first and second quarters of 2020 (including the comparative figures contained in them), in order to retroactively reflect the impact of the correction's discrepancies.

On November 23, 2020, the Company's Board of Directors appointed an independent external investigator ("the External Investigator") to conduct an in-depth investigation of the matter, including the circumstances leading to the creation of the discrepancies and the processes and controls that should have prevented their occurrence.

On February 4, 2021, the External Investigator presented the findings of its investigation report ("the Investigation Report") to the Company's Board of Directors. The following are the main findings and conclusions as set out in the Investigation Report:

1. Debit supplier balances which were created as a result of payments by standing order that were not recorded as expenses in the years 2001-2003, but accumulated as a debit amount in an account in the general ledger. The majority of the debit supplier balances that were found, being vis-à-vis the parent company, Bezeq, as a related party.

   Instead, expenses were recorded during the relevant accounting period based on a cumulative, estimated and partial calculation that did not necessarily match the payments actually made, in an expenses payable account that also served in sorts as a general accounting ledger.

   In the investigation it was found that in all the examined years, the trade payables item was presented and analyzed by Bezeq International's finance department on a net basis, making it difficult for the company's internal controls to identify the aforesaid debit supplier balances.

   Additionally, it was found that some of the employees in Bezeq International's finance department were aware of the existence of the unexplained debit balances but did not act to clarify their source or deal with them in real time. Moreover, these employees did not inform either Bezeq International's management or its independent auditor about the issue.

2. Failure to recognize expenses versus revenues under service agreements with customers in the years 2018-2019: Deficient recording of expenses due to errors in distinguishing between the components of the agreements and in the manner of recording the expenses.

3. Incorrect presentation of data to the independent auditor: Over several years, the composition of the trade payables item was presented to the independent auditor on a net basis, without any breakdown into the balances created in the general ledger accounts which together comprised the net trade payables item, thereby concealing from the independent auditor the unexplained debit balances. Additionally, over several years, rows (reflecting invoices) were deliberately omitted from one of the supplier accounting ledgers, so that the ledgers should ostensibly balance out with the net trade payables item that was presented.

   In the investigation it was found that some of the employees of Bezeq International's finance department were aware of and took part in the incorrect presentation of the data to the independent auditor.

It is further noted that the Investigation Report states that the investigation findings and the sample audits conducted by the External Investigator do not indicate suspicions of embezzlement during the examined period.[3]

The management and Board of Directors of Bezeq International and the Company's Board of Directors carried out actions, checks and compensatory procedures, investing substantial efforts and resources, as detailed below, to ensure that notwithstanding the material weaknesses in internal control, the financial statements were prepared in accordance with the provisions of the law, as set forth below:

1. Bezeq International recalculated certain balances in its Statements of Financial Position for the years 2016-2019 and for the interims periods in the years 2019 and 2020, without relying on past records and on existing accounting processes, in relation to balance sheet items in which errors were discovered.
2. For the purpose of carrying out the work of correcting and publishing restated financial statements, the existing staff in Bezeq International's financial department was expanded by adding employees and managers from other accounting departments in the Company's subsidiaries. Additionally, Bezeq International performed controls and examinations on the recalculation of the balances, with the help of the external expert.
3. During the preparation of Bezeq International's financial statements for 2020, all the controls carried out by employees and managers at Bezeq International who were found to be involved in the events under investigation were mapped out and examined by employees and managers of other subsidiaries in the Bezeq Group, as well as by independent professionals with the relevant expertise, including various external professional consultants.
4. The Company's Board of Directors and the Board of Directors of Bezeq International decided to adopt the correction plan Bezeq International's management had begun implementing, which includes also the External Investigator's recommendations in the Investigation Report.
5. Bezeq International's management and board of directors retained the services of various professional consultants to assist them in the process of correcting the deficiencies..
6. The Company's Board of Directors authorized its Audit Committee to continue deliberating on the Investigation Report's findings and its recommendations, as well as to monitor implementation of the recommendations, consider the implications on audit and control issues, and examine the need to draw further conclusions and take additional steps.
7. It is emphasized that the process of correcting the deficiencies has still not been completed. The Audit Committee, the Board of Directors of Bezeq International and Bezeq's Board of Directors are frequently monitoring the correction plan and the progress in its implementation. The Company's Board of Directors has instructed Bezeq International's management to continue acting to correct the material weaknesses as soon as possible, and in any case by no later than the date of the financial statements for the first quarter of 2021.

[3] It is noted that according to the Investigation Report, due to the large number of accounting records, absence of or incompleteness of documentation and failure by the employees of the Finance Department who continue to be employed by the company to provide complete explanations on the matter, one cannot rule out unequivocally the suspicion of embezzlement in those years.

Main elements of the correction plan:

1. Entity Level Controls:

   - Bezeq International's Board of Directors decided to act within the law to terminate the employment of several employees in its finance department who were involved in the events under investigation (who are not company officers).
   - Bezeq International's management decided on changes in the organizational structure of the finance department.
   - Bezeq International is acting to fill the positions of employees whose employment is expected to terminate. As of the date of approval of the financial statements for 2020, some new employees had begun their employment in the company, but the recruitment process is still ongoing.
   - Bezeq International will conduct periodic instruction seminars on the subject of its code of ethics for the employees of the finance department.
   - Bezeq International will act to improve its anonymous reporting mechanism.

2. Processes

   - The work processes in which deficiencies were identified were mapped out.
   - Bezeq International has begun revising the work processes in which deficiencies were identified, including the strengthening and expansion of existing controls and creation of new controls.
   - Bezeq International has begun developing new system reports, and it is expected to incorporate developments in existing reports to support the revised work processes.
   - General ledgers accounts were cancelled at Bezeq International and specialized accounts were opened instead. In addition, Bezeq International is in the process of cleansing all the accounting ledgers.
   - Bezeq International is revising the work methods and procedures of the company's accounting system.

Disclosure of the material discrepancies between the assets and liabilities recorded in the books of Bezeq International and the actual assets and liabilities was first made by the Company in an immediate report dated November 9, 2020. The Company continued providing updates on the matter in additional immediate reports that were published in November and December 2020 and in February 2021.

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Concerning the investigations of the Israel Securities Authority and the Israel Police as detailed in section 1.1.5 of the Description of Company Operations chapter in this Report, the Company does not have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material in connection with Case 4000, further to the invitation of the Company to a hearing in this matter, as set out in section 1.1.5.2 of the Description of Company Operations chapter). Accordingly, the Company is not yet able to assess the effects of the investigations, their findings and their outcome on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any. Once the constraints on carrying out reviews and controls related to issues that arose in the investigations are lifted, the review of all matters related to subjects that arose during those investigations will be completed as required.

2. Declaration of Executives:

A. Declaration of the CEO in accordance with Regulation 9B(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. Ltd. ("the Company") for 2020, which was adjusted by way of restatement ("the Reports").

(2) To the best of my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.

(3) To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.

(4) I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:

A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure

(5) I, alone or together with others in the Company:

A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;

B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

C. 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 concerning the effectiveness of said internal controls as of the date of the Reports.

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

Date: March 24, 2021

Dudu Mizrahi, CEO;

B. Declaration of most senior financial officer in accordance with Regulation 9B(d)(2) of the Israel Securities Regulations (Periodic and Immediate Reports),1970:

I, Amit Kurland, declare that:

(1) I have reviewed the financial statements and other financial information included in the reports of Bezeq – The Israel Telecommunication Corp. Ltd, ("the Company") for 2020, which were adjusted by way of restatement ("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 of the Reports.

(3) To the best of my knowledge, the financial statements and other financial information included in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for periods presented in the Reports:

(4) I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review 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 collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure.

(5) I, alone or together with others in the Company:

A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, 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;

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 generally accepted accounting principles;

C. Assessed the effectiveness of internal controls over financial reporting and disclosure, with respect to the financial statements and other financial information included in the Reports, as of the date of the Reports. My conclusions pursuant to my said assessment were reported to the Board of Directors and are included in this report.

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

Date: March 24, 2021

Amit Kurland,
Chief Accountant

Pelephone

Pelephone Communications Ltd.

Valuation for Impairment Testing, December 31, 2020

March 2021

14 Kreminitzky St., Tel Aviv 6789912 | Tel.: 03-5617801 | Fax: 077-3181607

פרומתאוס
ייעוץ כלכלי

Foreword and Limitation of Liability

Pelephone

Pursuant to the engagement letter of December 27, 2020, signed January 14, 2021, 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 Pelephone Communications Ltd. ("**the Cellular Segment**" or "**Pelephone**" or "**the Company**") to prepare an impairment test report as of December 31, 2020, in accordance with IAS 36 ("**the Report**"). The Report is intended solely for the use of the Client and meant to be attached and presented in the financial report. This report may not be used for any other purpose, without the Firm's prior written permission.

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

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

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

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

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

Previous Valuations

Pelephone

Previous valuations conducted:

The Firm conducted a goodwill impairment test of Pelephone Communications Ltd. as at December 31, 2020. Previously conducted valuations of the Cellular Segment and the key parameters are presented below:

Details of work	EV (NIS millions)	No. of subscribers (terminal year)	ARPU (terminal year)	Discount rate (post-tax)	Terminal growth rate
Impairment test of Pelephone as at December 31, 2017	5,403	2,918	70	10.0%	2.5%
Impairment test of Pelephone as at June 30, 2018	3,907	3,062	61	10.0%	2.5%
Impairment test of Pelephone as at December 31, 2018	2,914	2,642	69	10.3%	2.5%
Impairment test of Pelephone as at June 30, 2019	1,214	2,677	62	10.3%	2.5%
Impairment test of Pelephone as at December 31, 2019	1,390	2,730	60	10.3%	2.5%
Impairment test of Pelephone as at December 31, 2020	2,332	2,716	62	10.3%	2.5%

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Information Sources

Pelephone

Key sources of information used to prepare the Report:

- Audited financial statements of Pelephone for 2017-2019, and the draft financial statement for December 31, 2020.
- Multiyear forecast for 2021-2025 prepared by the Company's management, received January 20, 2021.
- Goodwill impairment test for Pelephone as at December 31,2017; June 30, 2018; December 31, 2018; June 30, 2019; and December 31, 2019
- Other financial data and various verbal clarifications provided at our request
- Background material and market data, from websites, news print, or other public sources
- Data from the Israel Central Bureau of Statistics and from the Bank of Israel.
- Capital IQ system
- Eikon system
- Discussions and meetings held with the Company's management.

The Appraisal Company

Prometheus Financial Advisory Ltd.

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

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

Sincerely,

Prometheus Financial Advisory Ltd.

Gideon Peltz, CPA

March 24, 2021

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Executive Summary

Executive Summary

Pelephone

Brief Description of the Company

General

Pelephone Communications Ltd. was incorporated in Israel in 1985, and engages in the provision of cellular communication services as well as the sale and repair of terminal equipment.

Pelephone holds an operating license from the Ministry of Communications – a general cellular telephony license. The license is valid until 2022 with an extension option, subject to the provisions of the license, for an additional ten-year term. Subsequent ten-year renewals are also possible.

Pelephone is one of the five mobile network operators (MNOs) operating in the market, and one of the three largest and oldest cellular companies in Israel. The other MNOs – Partner, Cellcom, HOT Mobile and Xfone – are its chief competitors. The Company estimates that as at the end of the third quarter of 2020, it holds 21% of the subscriber market.

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Executive Summary

Methodology and Results

Valuation Methodology

The enterprise value (EV) of Pelephone was calculated using the discounted cash flow method (DCF).

The projected cash flows of operations were predicated on the Company's results for 2017-2019, the draft financial statement for 2020, and management's projection for 2021-2025.

Prometheus estimated, to the best of its ability, the viability of the assumptions regarding various parameters, based on existing information presented to it and on independent analysis.

Principal Assumptions

A key assumption underlying the projection is that market competition will continue to be strong in the short term, while prices will stabilize and show a certain gradual increase in the medium and long term.

- **ARPU –** Accordingly, it was assumed there will be continued ARPU erosion in 2021, a certain stabilization in 2022, and a moderate increase in subsequent years. As part of the ARPU upturn, it was also assumed there will be a gradual recovery between 2021 and 2023 in roaming revenues, which were hit by the COVID-19 pandemic.
- **Subscribers** – It was assumed that the Company's subscriber base will continue to gradually grow, in line with the Company's strategy and actual performance.
- A terminal growth rate of 2.5% and a post-tax nominal discount rate of 10.3% were used.

Valuation Results

The EV of Pelephone as at December 31, 2020 was estimated at NIS 2,332 million. According to information given to us by Bezeq, the carrying amount of this segment on its books stood at NIS 1,020 million. Therefore, it was not necessary to make a write-down of the cellular communications cash-generating unit.

Executive Summary

Sensitivity Analysis

Sensitivity Analysis of the Discount Rate and Terminal Growth Rate

The following table demonstrates the changes in the enterprise value of Pelephone, given a range of discount and terminal growth rates:

		Discount rate				
		8.3%	9.3%	10.3%	11.3%	12.3%
Terminal growth	1.5%	2,832	2,420	2,103	1,852	1,649
	2.0%	3,030	2,563	2,211	1,935	1,715
	2.5%	3,262	2,728	2,332	2,028	1,787
	3.0%	3,539	2,919	2,470	2,132	1,867
	3.5%	3,874	3,143	2,629	2,249	1,956

Conclusion

An increase (decrease) of 1% in the discount rate leads to a decrease (increase) of between NIS 535 million and NIS 241 million in the enterprise value of Pelephone. Likewise, an increase (decrease) of 0.5% in the terminal growth rate leads to an increase (decrease) ranging between NIS 159 million and NIS 108 million in the enterprise value.

Sensitivity Analysis of Changes in ARPU

The table below shows the enterprise value of Pelephone over a given range of changes in ARPU, for the forecast years:

Sensitivity of Enterprise Value to Changes in ARPU (NIS)					
	(2)	(1)	-	1	2
Enterprise Value (NIS millions)	1,558	1,945	**2,332**	2,719	3,106

Conclusion

An increase (decrease) of NIS 1 in the ARPU leads to an increase (decrease) of NIS 387 million in the enterprise value of Pelephone.

Pelephone

Sensitivity Analysis

Sensitivity Analysis - Number of Subscribers

Shown below is a sensitivity analysis of the enterprise value of Pelephone in relation to changes in the number of subscribers over the forecast years:

	Change in number of subscribers, thousands				
	100	50	-	(50)	(100)
Enterprise Value (NIS millions)	3,223	2,778	**2,332**	1,887	1,441

Conclusion

An increase (decrease) of 50 thousand subscribers* over the forecast years leads to an increase (decrease) of NIS 445 million in the enterprise value of Pelephone.

* According to the subscriber mix during the forecast years.

Main Changes Compared to Dec. 31, 2019 Valuation

Following are the main changes that led to an increase in value compared to the valuation as at December 31, 2019:

- Terminal equipment – An increase in terminal equipment sales projected by the Company based on actual results during 2020 (net of lockdown effects) and the Company's approved budget for 2021.
- Streamlining program for 2022-2024 – Adoption of management's forecast regarding the streamlining of salary expenses for 2022-2024.
- Lease-related savings – Company's continuing streamlining of building and site rental expenses.
- Investments – The decrease in investments compared to the valuation as at December 31, 2019 was due to:
  - Adjustment of investments following the frequencies tender award and receipt of actual results as compared to the Company's forecast.
  - Accuracy of investment estimates for the deployment of equipment for the new frequencies.

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Chapter A – Description of Pelephone's Business

Pelephone

Pelephone Communications Ltd.

Pelephone

Pelephone Communications Ltd. was incorporated in Israel in 1985, and engages in the provision of cellular communication services as well as the sale and repair of terminal equipment.

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Pelephone is one of the five mobile network operators (MNOs) operating in the market, and one of the three largest and oldest cellular companies in Israel. The other MNOs – Partner, Cellcom, HOT Mobile and Xfone – are its chief competitors. The Company estimates that as at the end of the third quarter of 2020, it holds 21% of the subscriber market.

Pelephone generates its revenue in the following areas:

- **Basic telephone services (voice)** – A bundle of services, including basic call services, call completion services and related services such as call waiting, follow-me, voicemail, conference calls, etc.
- **Internet browsing and data communication services** – Web browsing services on mobile phones over 3G, 4G and 5G networks.
- **Service for sending and receiving SMS and text messages**
- **Content services** - Pelephone offers its customers content services, such as data storage backup services (Pelephone Cloud), antivirus services, cyber protection services, etc.
- **Roaming services** – Pelephone provides roaming coverage in over 220 countries, affording its customers global availability of service. In addition, it provides incoming roaming services to customers of foreign operators staying in Israel.
- **Sale of terminal equipment** – Pelephone offers various types of mobile phones, aftermarket vehicle devices, hands-free cell-phone car kits and related accessories, all of which support its range of services. It also provides tablets, laptops, modems, speakers, smart watches, headphones and other related electronic products.
- **Maintenance and repair services** – Pelephone offers an extended warranty and repair service for the customer's cellular phone for a monthly payment. A one-off payment may also be made at the time of the repair.
- **IOT services** – Pelephone offers its customers advanced IOT solutions.

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Pelephone (cont.)

Following are key performance indicators (KPIs) tracked by Pelephone:

Exhibit 1: Pelephone - KPIs

Indicator	Note	2017	2018	2019	2020
No. of subscribers (thousands)	1	2,525	2,198	2,327	2,442
% change		5.2%	(13.0%)	5.8%	5.0%
ARPU (NIS per month)	2	61	62	63	56
% change		(4.4%)	1.9%	2.0%	(11.5%)

1.Defying the trend of declining subscriber numbers seen among the well-established operators, Pelephone recruited 115 thousand subscribers in 2020.

2.In recent years, the ARPU has been steadily declining due to increased competition following the entry of new competitors into the market (both MNOs and MVNOs), which offer various cellular communication bundles at low prices as part of a market penetration strategy. As a result of the active subscriber reclassification* carried out by Pelephone in 2018, there has been some increase in the Company's ARPU. The decline in ARPU in 2020 was primarily attributable to near-zero revenue from roaming services abroad, due to the COVID-19 pandemic.

* In 2018, Pelephone revised its definition of an active subscriber, following which 426 thousand prepaid subscribers were removed from the subscriber base. Likewise, in 2020, the Company discovered that in 2018 it had erroneously classified twelve thousand IOT subscribers as postpaid subscribers. Presented here are the post-correction data.

5G Spectrum Tender

On August 12, 2020, the Ministry of Communications published the results of the 5G Frequencies Tender. The Company was awarded frequency bands, as follows:

10 Mega in the 700 MHz range (for a period of 15 years); 20 Mega in the 2600 MHz range (for a period of 10 years; and 100 Mega in the 3500 MHz range (for a period of 10 years). The period of the license does not change by virtue of the Tender, but the agreement renewal option has been extended to 10 years. It is noted that the frequencies awarded to Pelephone are for its exclusive use, which will likely give it a competitive edge. It is also noted that companies that do not own existing networks have not been awarded frequencies.

Pelephone's winning a frequency allocation has incurred a total cost of NIS 88.2 million, with the date of payment set for September 2022. In this context, it is noted that in the framework of the Tender it was also stipulated that incentives may be received, including the receipt of a conditional grant, for the deployment of 5G sites under the terms set out in the Tender. The Company estimates that the grant to be received will total NIS 74 million.

Streamlining Plan

As a result of continued fierce competition in the cellular market and the ongoing decline in prices, Pelephone is implementing extensive streamlining measures.

In November 2019, a collective labor agreement covering the period between November 12, 2019 and June 30, 2022, was signed between the Company and the Histadrut – General Federation of Labor in Israel, allowing for the termination of 210 tenured employees and 190 non-tenured employees, in addition to not hiring new employees to replace those ending their employment.

Chapter B – Telecommunications Market

Pelephone

Telecommunications Market in Israel

General

The telecommunications market is divided into six major submarkets:

1. Cellular telephony
2. Fixed-line telephony (including interconnectivity through the Internet – VOB/VOIP)
3. Multichannel television (satellite/cable/IPTV)
4. Internet service provider (ISP)
5. International calls (ILD)
6. Broadband infrastructures (ADSL/cable/fiber)

The telecommunications market, both globally and in Israel, is characterized by rapid development and frequent changes in terms of technology and regulation. In the past, market players were usually independent telecom providers competing in a single market segment. In recent years, however, there has been a considerable trend toward mergers into telecom groups operating across multiple segments, while exploiting resulting business synergies, all subject to regulatory restrictions in the respective market sector.

Recent regulatory changes enabled the entry of additional and relatively small participants, such as virtual operators and companies that own independent infrastructure (partial) in the cellular segment.

Likewise, technological and strategic changes in the television segment enabled the entry of IPTV operators and streaming services. To date, the four major telecommunications groups – Bezeq, HOT, Cellcom and Partner, operate in all market sectors:

	Bezeq	Cellcom	Partner	Altice
Fixed-line telephony	Yes	Yes	Yes	Yes
Internet services	Yes (Bezeq + Bezeq International)	Yes	Yes	Yes
Television	Yes (through “yes”)	Yes	Yes	Yes
ILD	Yes	Yes	Yes	Yes
Mobile	Yes (Pelephone)	Yes	Yes	Yes (HOT Mobile)

In 2019, the telecommunications market revenue amounted to NIS 17.6 billion[1], a decrease of 4.7% compared with 2018, mainly due to intensifying competition and reduced prices in all sectors.

1. According to Ministry of Communications data.

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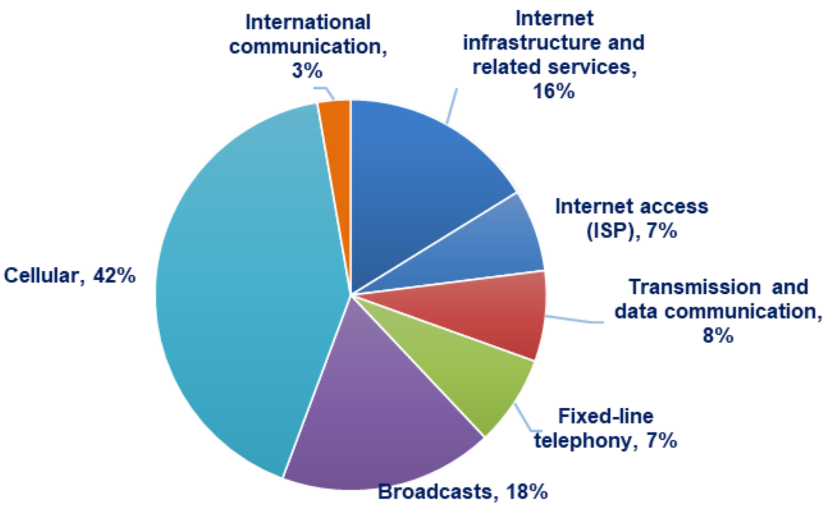
Chapter B – Telecommunications Market

Telecommunications Market in Israel

Exhibit 2: Distribution of Revenue in the Telecommunications Sector – 2019 [2]



Major Telecommunications Companies

<u>Bezeq</u>

Bezeq is active in all market sectors. It was declared a monopoly by the Antitrust Commissioner, inter alia, in the telephony infrastructure and high-speed Internet segments.

Bezeq is the only telecommunications group that holds a significant market share in each market segment and is, therefore, obligated to maintain full structural separation between the services it provides.

<u>Altice (through the HOT brand)</u>

As with Bezeq, HOT is also active in all market sectors and the structural separation obligation applies to it in the cellular and ISP segments. Unlike Bezeq, the obligation to unbundle the service bundles offered by HOT applies only between the cellular or ISP services and the other services. Therefore, it can offer a triple bundle that includes telephony, Internet infrastructure and television services.

<u>Cellcom</u>

Cellcom is a communications service provider that offers its customers mainly cellular services, fixed-line telephony, international telephony, ISP and related services, and since December 2014, television services over the Internet as well. As of the valuation date, Cellcom offers a Quattro bundle that includes television, fixed-line telephony, cellular and Internet. In a transaction completed in February 2021, HOT joined the IBC fiber optic venture with the stipulation that Cellcom, HOT and the Israel Infrastructure Fund (IIF) will jointly hold 70% of IBC, in equal parts.

<u>Partner</u>

Partner offers cellular services, fixed-line telephony, international telephony, ISP and related services. In June 2017, Partner started offering OTT television services under the Partner TV brand. That same year, it also began deployment of optical fibers, thus becoming the fourth communications group to operate in all market sectors.

2.Source: Public information published by the Ministry of Communications

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Telecommunications Market in Israel - Cellular

Cellular Market - General

Cellular communication operates through two main elements – mobile phones and fixed broadcasting facilities. The mobile phone transmits and receives radio waves to and from antenna installation in the broadcasting facilities. The cellular technologies used in Israel are known as GSM/CDMA (2G), UMTS (3G), LTE (4G), and 5G.

Until 2012, four independent operators (MNOs) operated in the cellular market: Pelephone, Cellcom, Partner and Mirs (now HOT Mobile). As part of the regulatory measures taken by the Ministry of Communications to boost competition in the cellular communications market, new operators entered the market in 2012:

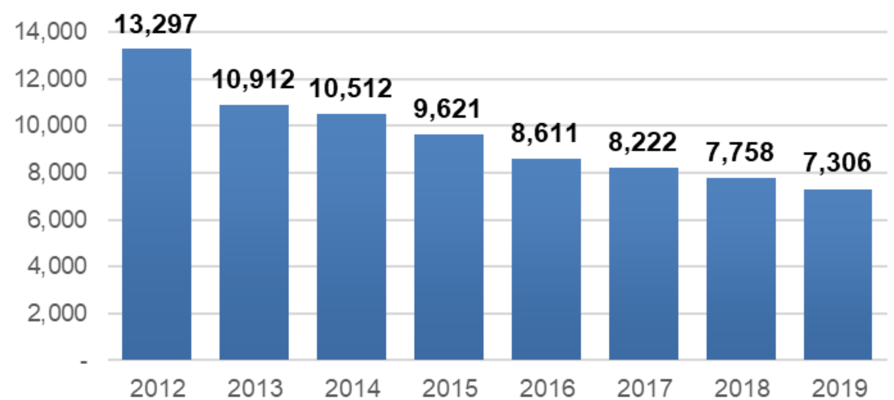
1.Operators owning infrastructure: Golan Telecom and HOT Mobile (which was acquired by HOT Group for integration in the traditional cellular market).

2.Virtual operators: Operators such as Rami Levy Communications, Telzar, U-Phone, Home Cellular, etc. To date, many of the virtual operators have been acquired by the MNOs.

The entry of new operators led to a higher churn rate in the well-established companies and an ongoing price war, which together resulted in erosion of profits for the well-established cellular companies.

There are currently six operators in Israel that hold a full license granting them the right to operate cellular antennas: Pelephone, Cellcom, Partner, HOT Mobile, Golan Telecom[3] and Marathon 018.

Exhibit 3: Revenue in the cellular market 2012-2019 (in NIS millions) [4]



The revenue in the cellular market declined from a peak level of NIS 13 billion in 2012 to NIS 7.3 billion in 2019, despite the increase in the number of subscribers.

3.On August 26, 2020, the merger deal between Cellcom and Golan Telecom was approved, since which time Golan has been operating as an MVNO using Cellcom's network.
4.Source: Public reports of the Ministry of Communications regarding revenue in the cellular market.

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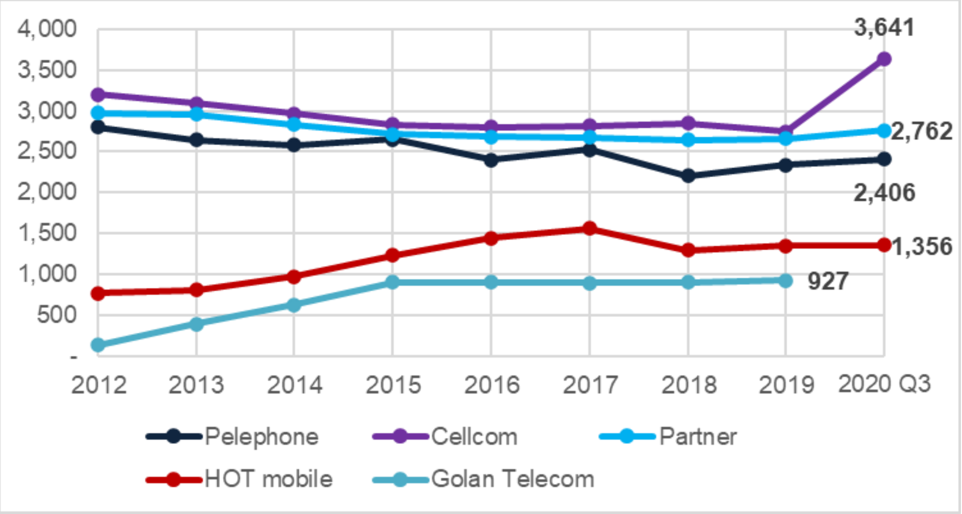
Business Environment and Competition

In 2011, the Ministry of Communications held a spectrum auction aimed at adding two new operators to the industry. In April 2011, HOT Mobile and Golan Telecom were declared winners. The new operators signed domestic roaming agreements with the established operators as an interim solution until completion of deployment of their own independent network. As part of the market penetration measures, the new operators offered bundles including web browsing, calls and SMS at a fixed monthly price (unlimited bundles). Opening the market to competition led to reduced prices and higher customer churn, resulting in a continuing decline in the business results of the long-established operators.

Aside from the new cellular operators, the market has been joined by virtual operators whose impact is insignificant.

Subscribers and ARPU

Exhibit 4: Subscriber base – MNOs [4]



As can be seen in the above chart, the steady shrinkage of the subscriber base of long-established operators has tapered off in recent years, even giving way to a slight rebound.

The increase in Cellcom's subscriber base in the third quarter of 2020 is due to the merger with Golan Telecom.

4.Source: The companies' financial statements. HOT does not release data on business subscribers; therefore, starting from 2018, only HOT's private subscribers are shown.

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Telecommunications Market in Israel - Cellular

Exhibit 5: ARPU of the MNOs [5]

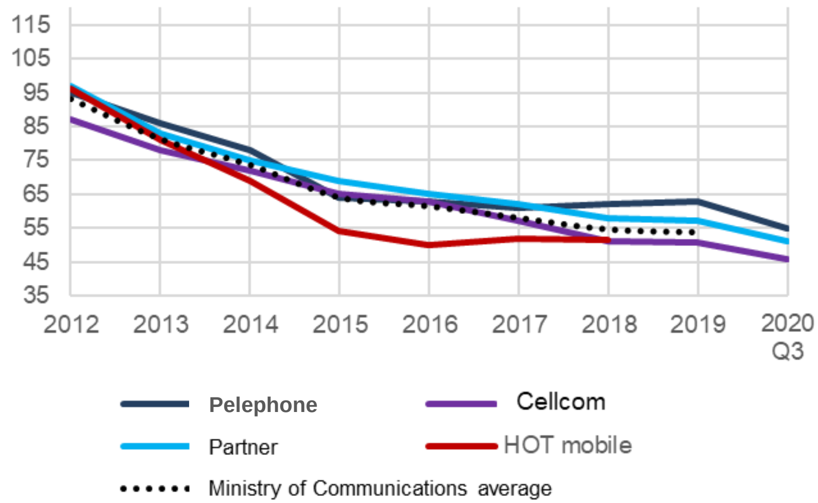
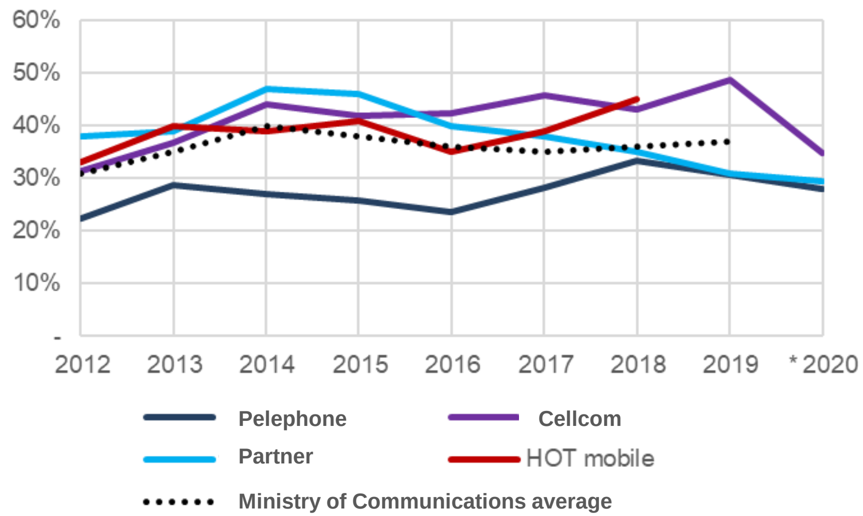


Exhibit 6: Churn rates [6]



The above chart shows that the average monthly revenue per user (ARPU) of the long-established operators has dropped 50%, from a level of NIS 87-97 in 2012 to NIS 46-55 in the third quarter of 2020. It is noted that the ARPU erosion in 2020 was mainly attributable to the COVID-19 pandemic and the steep decline in roaming revenues.

The churn rate of the MNOs increased with the entry of new competitors into the market and the facilitation of consumers' ability to switch operators. In the first three quarters of 2020, all the operators posted a decrease in churn rates.

5.Source: The companies' financial statements. Information for HOT is available only up to Q2 2018.

6.Source: The companies' financial statements. Information for HOT is available only up to Q2 2018.

***Annualized churn rate**

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Telecommunications Market in Israel - Cellular

Developments in the Cellular Communications Market

Network Sharing

In view of the competition in the cellular market and the declining ARPU, certain operators signed network sharing agreements – joint maintenance and development of cellular infrastructure aimed at cost-cutting. Following is a review of the existing agreements at the date of the valuation.

- HOT Mobile – Partner: In November 2013, Partner and HOT Mobile announced an agreement to establish a partnership to maintain, develop and operate a single advanced cellular network for both companies, each of which will hold half of the rights therein ("PHI Networks"). In April 2016, the agreement was modified to provide that half of the network's costs will be divided equally, while the other half will be divided according to the traffic volume used. In January 2019, the agreement was amended to indicate that the partnership's decisions will be adopted with the full consent of both companies.
- Golan Telecom – Cellcom: On January 3, 2017, a collaboration was announced between Cellcom and Golan Telecom for the joint development of networks and technologies. The agreement received regulatory approval in March 2017.
- Xfone – Cellcom: On March 20, 2017, the Ministry of Communications approved an agreement between Cellcom and 018 Xfone Ltd. ("**Xfone**") for sharing Cellcom's 4G network and providing hosting services on the 2G and 3G networks. On November 16, 2020, Cellcom announced that Xfone failed to transfer payment in respect of the network sharing agreement. Subsequently, Cellcom reported on January 31, 2021 that it received a notice from Xfone regarding cancellation of the agreement. Cellcom rejected the allegations raised in the notice of cancellation. Further to the aforesaid report, Cellcom announced on February 8, 2020, that a claim was filed against Xfone in the amount of NIS 34 million for payments not transferred to it in respect of the network sharing agreement, along with a motion to enforce the agreement. As of the date of the valuation, a decision has yet to be issued in the claim filed.
- Migration of Cellcom, Golan Telecom and Xfone to a shared network: On March 19, 2018, the Ministry of Communications approved an agreement between Cellcom, Golan Telecom and Xfone to set up an infrastructure operating company owned equally by the parties. The company is responsible for operating a 3G network, as well as operating and deploying a 4G network for the operators.

Telecommunications Market in Israel - Cellular

Regulation

Elimination of Purchase Tax on Cellular Phones

In April 2017, the Finance Minister announced an economic program that would include, inter alia, the elimination of import duties and purchase taxes. As part of the program, the Finance Ministry issued a temporary order for the abolition of the 15% purchase tax on the value of imported cellular devices. Following this step, revenue from end user equipment declined.

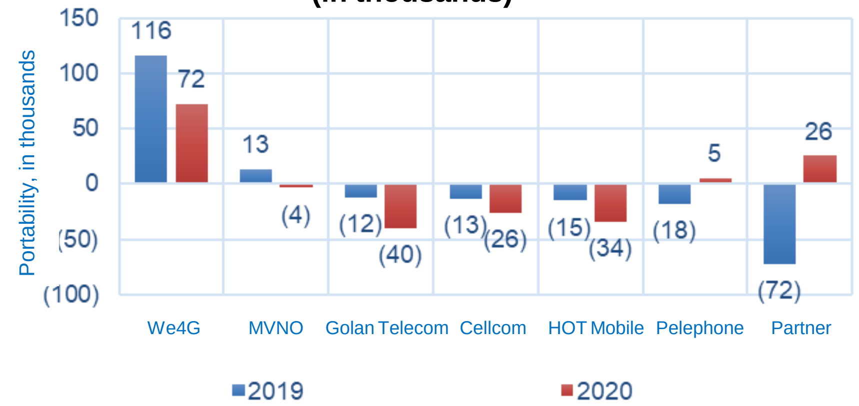
Mergers and Acquisitions

- **Cellcom-Golan Telecom** – On August 26, 2020, Cellcom reported that it acquired the issued capital of Golan Telecom from Electra Consumer Products, Golan and Gil Sharon for NIS 545 million, plus net financial asset balances of Golan as of the transaction date.
- **HOT Mobile – Fox-Wizel** – On March 10, 2021, Fox-Wizel reported that it will set up a limited partnership to operate a chain of stores for marketing and selling cellular terminal equipment and related accessories. Fox expects the partnership to set up some 30 stores over the first 3 years of operations, as well as a website during the third quarter of 2021.

As of the date of the valuation, it is not possible to assess the impact of the above events, if any, on the valuation.

Effect of Xfone Joining the Market

Exhibit 7: Subscriber Number Portability (Net) for 2019-2020 (in thousands) [7]



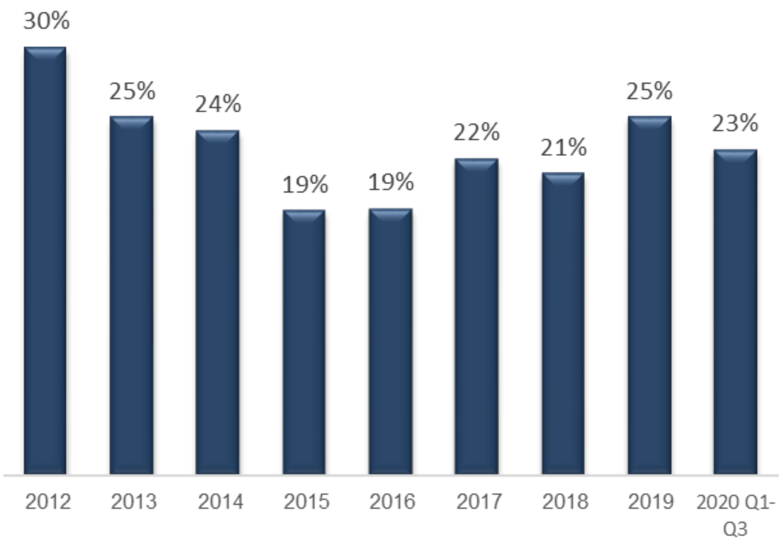
On April 10, 2018, Xfone launched the operation of its We4G cellular brand by marketing a lifetime 40 GB package at NIS 29 per month. The company consistently raises the price of the lifetime package, but with a concomitant increase in web browsing volume, and as of the Report date, the package price is NIS 36 per month for 200 GB. The competitive pricing has led to an erosion of prices of the long-established operators, mainly Cellcom's. Until November 2020, Xfone led in subscriber number portability, driving the market to low price levels. As of the Report date, Xfone has transitioned to a net negative portability balance.

7. Data from the subscriber portability system.

Pelephone

Telecommunications Market in Israel - Cellular

Exhibit 8: Average EBITDA margin of the well-established operators in Israel [8]



The overall EBITDA margin for the well-established operators fell 11% between 2012-2016. The moderate increase in the last three years stems primarily from the adoption of IFRS 15 and IFRS 16. Without this effect, the EBITDA margin of the well-established operators would probably not have changed materially in the past two years.

Cellular Market - Conclusion

The cellular segment has been highly competitive in recent years. This has led to a decline in revenue, high churn rates, and a greater rate of transitions between companies than before the reforms in this market.

In our estimation and that of market participants, in view of the continued stiff competition and lack of regulatory intervention, the ARPU is not expected to improve significantly in the foreseeable future.

8.Source: Financial statements of Bezeq, Cellcom and Partner.

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Chapter C – Analysis of Financial Statements

Chapter C – Analysis of Financial Statements

Balance Sheet – Cellular Operations

Presented below are balance sheet statements of Pelephone for the years 2017-2019 (audited data) and for 2020 (draft financial statements):

NIS million	2017	2018	2019	2020
Assets	Audited	Audited	Audited	Draft
Current assets	1,128	913	843	899
Non-current assets	2,143	3,211	3,245	3,472
Total assets	**3,271**	**4,124**	**4,088**	**4,371**
Liabilities + capital				
Current liabilities	442	619	667	719
Non-current liabilities	94	806	767	1,022
Equity	2,735	2,699	2,654	2,629
Total liabilities + capital	**3,271**	**4,124**	**4,088**	**4,371**

Analysis of Main Items

Assets

Current assets: Current assets of operations grew significantly in 2020 mainly due to an increase in cash versus a decrease in trade receivables.

Non-current assets: Publication of the frequencies tender increased total non-current assets by NIS 159 million, as a result of the procurement of frequencies and recording of a future deployment grant. Further growth was recorded in right-of-use assets following renewal of lease contracts.

Loan to Bezeq: The total loan granted to Bezeq grew from NIS 570 million in 2017 to NIS 1,035 million in 2020.

Liabilities

Current liabilities: Total current liabilities in 2020 increased due to the recording of advances received as part of a Ministry of Education tender and the renewal of lease agreements that increased the item ‘current maturities of leases.’

Non-current liabilities: Total non-current liabilities rose as a result of a liability in respect of the frequencies tender, and in respect of prepaid revenue in the amount of the deployment grant asset. In addition, an increase was recorded for lease liabilities, in parallel with an increase recorded on the assets side.

Chapter C – Analysis of Financial Statements

Profit and Loss – Cellular Operations

Pelephone's operating income statements for years 2017-2019 (audited reports) and as of December 31, 2020 (draft):

NIS millions	2017 Audited	2018 (1) Audited	2019 (1) Audited	2020 (1) Draft
Revenues from services	1,782	1,755	1,709	1,591
Year-on-year change		(1.5%)	(2.6%)	(6.9%)
Revenues from sales of terminal equipment	763	688	653	595
Year-on-year change		(9.9%)	(5.1%)	(8.9%)
Total revenues	**2,545**	**2,443**	**2,362**	**2,186**
Year-on-year change		**(4.0%)**	**(3.3%)**	**(7.5%)**
Salary	384	379	373	324
% of revenue	15.1%	15.5%	15.8%	14.8%
General and operating expenses*	1,706	1,669	1,696	1,577
% of revenue	67.0%	68.3%	71.8%	72.1%
Amortization and depreciation	383	402	382	358
% of revenue	15.1%	16.5%	16.2%	16.4%
Total operating expenses	**2,474**	**2,450**	**2,451**	**2,259**
% of revenue	**97.2%**	**100.3%**	**103.8%**	**103.3%**
Operating profit	**72**	**(7)**	**(89)**	**(73)**
% of revenue	**2.8%**	**(0.3%)**	**(3.8%)**	**(3.3%)**
Adjusted EBITDA	**455**	**395**	**292**	**286**
% of revenue	**17.9%**	**16.2%**	**12.4%**	**13.1%**
CAPEX	308	306	292	330
% of revenue	12.1%	12.5%	12.4%	15.1%
Adjusted EBITDA less CAPEX	**146**	**88**	**0**	**(45)**
% of revenue	**5.8%**	**3.6%**	**0.0%**	**(2.0%)**

(1) Since 2018, the Company reports according to IFRS16, which does not include payments for leases under general and operating expenses. The discrepancies compared to the Company's reports for the years 2018-2020 are due to the fact that the above report includes payments for leases.

* This item includes other income (expenses).

Analysis of Main Items

Revenue

- Revenue from cellular services: Pelephone's revenues from cellular services totaled NIS 1,591 million in 2020, down 6.9% from NIS 1,709 million in 2019. The decrease was mainly due to a sharp drop in roaming revenues in the wake of the COVID-19 pandemic, which led to a significant drop in travelers abroad.
- Revenues from sales of terminal equipment: Revenues from sales of terminal equipment in 2020 were down 8.9% from 2019. The decline was mainly attributable to the prolonged closure of points-of-sale and the trade and movement restrictions imposed on the public due to the COVID-19 pandemic.

In conclusion, revenue from cellular operations in 2020 totaled NIS 2,186 million, down 7.5% from NIS 2,362 million in 2019.

Profit and Loss – Cellular Operations

Expenses, EBITDA, CAPEX, and Operating Cash Flows

Pelephone's **expenses** decreased in 2020 from 2019. The Company recorded a savings in salary expenses following the placement of some employees on unpaid leave and following implementation of the streamlining plan. Terminal equipment costs fell in line with declining revenues.

EBITDA rose as a percentage of revenues from 12.4% in 2019 to 13.1% in 2020. Pelephone recognized an **adjusted operating loss** of NIS 73 million, accounting for 3.3% of total revenues.

Operating cash flow (before changes in working capital and tax expenses), as expressed in **adjusted EBITDA less CAPEX**, decreased from zero in 2019 to a negative operating cash flow of NIS 45 million in 2020, primarily due to acceleration of investments for 5G deployment. **In conclusion, in 2020, the Company's revenues were hit by the effects of the COVID-19 pandemic, but lower operating expenses during this period enabled the Company to maintain better EBITDA margins than in 2019.**

Pelephone

2019 Forecast versus Actual Results – Cellular Operations

Forecast vs. Actual – 2020 (NIS millions)	Forecast*	Actual	Difference
Revenue from services	1,705	1,591	(113)
Sale of terminal equipment	570	595	25
Total revenue	**2,274**	**2,186**	**(88)**
Total operating expenses	2,308	2,259	(49)
% of revenue	101.5%	103.3%	
Operating profit	**(33)**	**(73)**	**(39)**
% of revenue	(1.5%)	(3.3%)	
Amortization and depreciation	366	358	(8)
Adjusted EBITDA	**333**	**286**	**(47)**
% of revenue	14.6%	13.1%	
Investments (CAPEX)	299	330	31
% of revenue	13.2%	15.1%	
EBITDA - CAPEX	**33**	**(45)**	**(78)**
% of revenue	1.5%	(2.0%)	

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

Shown on the left is the Company's forecast for cellular operations in 2020, prepared at the end of 2019, versus the actual results, based on known data for the end of the period, and the draft financial statements for this year.

Revenue: Revenue from operations was NIS 113 million lower than the Company's forecast for this year, primarily due to a sharp decline in roaming revenues, resulting from the trade and movement restrictions imposed on the public amid the COVID-19 pandemic.

- **Expenses, EBITDA, CAPEX, and operating cash flow: Expenses** of the operations were NIS 49 million lower than the Company's forecast, mainly due to lower salary expenses following the placement of employees on unpaid leave and implementation of a streamlining plan. **Adjusted EBITDA and operating profit** fell below the forecast, owing to the matching of expenses with revenues. Actual **investments** increased by NIS 31 million due to the advancement of investments in 5G deployment. In terms of operating cash flow (before changes in working capital and tax expenses), as expressed in **EBITDA less CAPEX**, a negative difference of NIS 78 million was measured compared to the Company's forecast, as a result of the moving forward of investments and the adverse impact of the COVID-19 pandemic.

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Chapter D - Valuation

Chapter D - Valuation

Valuation Methodology

Value in Use

As part of our report, we surveyed the principal market of the asset. We also acted to identify a potential investor. Based on our tests, we did not identify a potential market participant. In addition, since Pelephone is part of a complete communications group (Bezeq), it benefits from the advantages inherent in its value, such as a joint management for Bezeq's subsidiaries, HQ services, convenient debt terms based on Bezeq's rating, etc. In view of this, we believe that the fair value of Pelephone cannot be higher than its value in use. Therefore, the approach we took in the valuation is the value in use.

Subscriber Base

The revenue from Pelephone's prepaid subscribers is immaterial compared to its total revenue. Pelephone's management decided to revise the definition of an active subscriber so as not to include IOT subscribers, and to add a separate reference to prepaid subscribers, by which a prepaid subscriber is to be included in the active subscriber base once credit is purchased, and to be removed from the active subscriber base if no outgoing use is made for six months or more.

The change went into effect at the beginning of the third quarter of 2018, following which 426 thousand prepaid subscribers were removed from Pelephone's active subscriber base. Said subscriber removal led to an NIS 11 increase in ARPU.

This reduction in subscriber count did not affect Pelephone's revenue and cash flows or the assumptions and results of this valuation.

Revenue

Revenues from services

<u>Subscribers</u>

While well-established cellular operators have been experiencing a loss of subscribers in recent years, Pelephone has been enjoying subscriber base growth over the past three years, mainly due to successful implementation of its growth strategy that includes, among other things, extensive deployment of points of sale.

A net positive cumulative recruitment of 261 thousand subscribers was assumed for the years 2021-2025, this figure being obtained by deducting an assumed 51 thousand prepaid subscribers from an assumed 312 thousand postpaid subscribers. We would note that the subscriber base growth in 2021-2025 is based on the Company's forecast, in light of the accuracy of its forecasts for the previous year and the revision of the forecasts in view of the market conditions. In conclusion, the total subscriber base will grow from 2,442 thousand subscribers as at December 31, 2020 to 2,716 thousand at the end of 2025.

Valuation Methodology

ARPU

Erosion of ARPU is assumed in 2021 primarily due to the continued impact of the coronavirus pandemic on roaming revenues. ARPU is then assumed to increase moderately from 2022 onwards, following a gradual recovery in roaming revenues. Likewise, a gradual increase is assumed in the price levels of service bundles on the market. In 2025, ARPU is assumed to converge to a slightly lower level than in 2019.

As a result of these assumptions, total revenue from services will grow from NIS 1,591 million in 2020 to NIS 2,005 million in 2025.

Pelephone

Pelephone – Key Assumptions – KPIs in the Cellular Services

Projected KPIs

Year	2020 A	2021 E	2022 E	2023 E	2024 E	2025 E
Subscribers (thousands)						
Subscribers, end of period	2,442	2,528	2,531	2,596	2,656	2,716
Rate of change		3.5%	0.1%	2.6%	2.3%	2.3%
ARPU (NIS per month)						
Weighted ARPU	56	55	57	59	61	62
Rate of change		(1.3%)	3.3%	3.4%	3.9%	2.1%

Note:

The weighted ARPU includes revenue for terminal equipment services.

Revenues from sales of terminal equipment

It was assumed that in 2021, the total revenue from terminal equipment sales will be NIS 41 million higher than in 2020, amounting to NIS 636 million, in light of the Company's assessment that the closure of points of sale in 2020 following the imposition of lockdowns led to low results that were actually not representative of a complete year. It was also assumed that an erosion of prices and quantities will start from 2022, and level off towards 2025. We would note that this assumption was based on the management's forecast.

Revenue - conclusion

NIS millions	2020 A	2021 E	2022 E	2023 E	2024 E	2025 E
Revenue from the sale of terminal equipment	595	636	621	606	592	578
Revenues from services	1,591	1,636	1,722	1,804	1,920	2,005
Total revenue	**2,186**	**2,272**	**2,342**	**2,410**	**2,512**	**2,582**
Rate of change		**3.9%**	**3.1%**	**2.9%**	**4.2%**	**2.8%**

Based on the aforementioned assumptions, total revenues from cellular operations will grow from NIS 2,186 million in 2020 to NIS 2,582 million in 2025.

Pelephone

Pelephone – Key Assumptions

Operating expenses (NIS millions)

Projected operating expenses (excluding amortization and depreciation) of the cellular operations in 2020-2025:

NIS millions	2020 A	2021 E	2022 E	2023 E	2024 E	2025 E
Salary expenses*, **	324	325	312	303	296	296
Percentage of revenue	14.8%	14.3%	13.3%	12.6%	11.8%	11.5%
General and operating expenses	1,347	1,365	1,361	1,372	1,390	1,405
Percentage of revenue	61.6%	60.1%	58.1%	57.0%	55.3%	54.4%
Lease payments	230	250	239	238	233	230
Percentage of revenue	10.5%	11.0%	10.2%	9.9%	9.3%	8.9%
Total operating expenses (adjusted)	**1,901**	**1,941**	**1,912**	**1,913**	**1,918**	**1,931**
Percentage of revenue	86.9%	85.4%	81.6%	79.4%	76.4%	74.8%
Annual change		**2.1%**	**(1.5%)**	**0.1%**	**0.3%**	**0.7%**

* Including other income (expenses), net

Salary expenses

The decrease in salary expenses is primarily the result of the streamlining plan in accordance with the collective labor agreement signed with the Histadrut – General Federation of Labor**. We adopted the management's forecast for 2022-2024, in view of the Company's progress in implementing the streamlining plan. The Company assumed further streamlining in 2025, which was not adopted by us, since in our estimation there is uncertainty at this point regarding realization of the plan in that year.

* Not including option-based payments.

** See page 15.

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Pelephone

Pelephone – Key Assumptions

Operating expenses (cont.)

General and operating expenses

Pelephone's general and operating expenses item comprises all the Company's expenses other than salary expenses, lease payments (site and building rental, vehicle leasing) and depreciation. Key expense components included under this item are cost of terminal equipment sales, site and building maintenance expenses (electricity, municipal property tax, etc.), on-site transmission costs, frequency fees, roaming expenses and interconnect payments.

- Cost of terminal equipment sales and services – an expense in line with trends on the revenue side.
- Site and building maintenance – in line with the number of sites and buildings.
- Interconnect expenses – a variable expense in line with the number of subscribers and traffic per subscriber.
- Frequency fees – It was assumed that expenses for payment of frequency fees will increase from 2025, based on the Company's assessments concerning the terms of the 5G Frequencies Tender.
- On-site transmission costs – Pelephone uses Bezeq's transmission lines. It was assumed there will be a price reduction similar to the price reductions measured in the past at the end of the transmission contracts.

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Pelephone – Key Assumptions

EBITDA (adjusted)

Based on the above assumptions regarding the operating revenue and expenses, it was assumed that the adjusted EBITDA will grow from NIS 286 million in 2020 (13.1% of revenue) to NIS 651 million in 2025 (25.2% of revenue). The decline in EBITDA margin in 2019 is due in part to recognition of expenses for the streamlining plan that year.

NIS millions	2017 A	2018 A	2019 A	2020A	2021 E	2022 E	2023 E	2024 E	2025 E
Adjusted EBITDA	**455**	**395**	**292**	**286**	**331**	**430**	**497**	**593**	**651**
% of revenue	17.9%	16.2%	12.4%	13.1%	14.6%	18.4%	20.6%	23.6%	25.2%

Tax expenses

A corporate tax rate of 23% was assumed based on the current statutory tax rate in Israel.

CAPEX

The Company's expenditures include ongoing expenditures in the network, capitalization of subscription procurement costs, capitalization of salaries, investments in network maintenance and upgrade, and other investments. It was assumed that the 5G network will be set up gradually and that payment for the frequencies will be made in 2022. In addition, the Company expects to receive a deployment grant in 2022 for meeting deployment targets set by the tender. Capital expenditures during the forecast years are in line with Pelephone's forecast. In the terminal year, we estimated an investment level of 13.6% of the turnover, based on the average CAPEX margin for the past ten years. The period for calculating the average was derived from the investment cycle in the communications market, which is built on replacement of broadcasting technology once every 7-10 years.

Operating working capital

The operating working capital of the operations was estimated based on the average working capital as a percentage of the revenue in the last three years.*

* Working capital net of interest-bearing customer debt for the sale of terminal equipment in installments.

Pelephone – Key Assumptions

Discount rate

According to the CAPM model, the appropriate discount rate for Pelephone's operations is 7.3% (for further information, see Appendix A). Since we estimated that the risk in this operating segment did not decrease relative to December 31, 2019, a discount rate of 10.3% (equivalent to 12.2% before tax) was used, in line with that used in the EV valuation starting from the valuation made as at December 31, 2018.

Terminal growth rate

Price hikes are expected in the market in the long term, as well as a natural increase in the number of subscribers and the development of new revenue channels, such as the Internet of Things (IOT). It was assumed that the terminal growth rate will be 2.5%, the same as that used in the EV valuation starting from 2017.

Chapter D - Valuation

Pelephone

Pelephone – Projected Cash Flows

NIS millions	2020 A	2021 E	2022 E	2023 E	2024 E	2025 E	TY
Revenues from services	1,591	1,636	1,722	1,804	1,920	2,005	
Sale of terminal equipment	595	636	621	606	592	578	
Total revenue	**2,186**	**2,272**	**2,342**	**2,410**	**2,512**	**2,582**	**2,647**
Year-on-year % change	(7.5%)	3.9%	3.1%	2.9%	4.2%	2.8%	2.5%
Salary expenses	(324)	(325)	(312)	(303)	(296)	(296)	
% of revenue	14.8%	14.3%	13.3%	12.6%	11.8%	11.5%	
General and operating expenses*	(1,347)	(1,365)	(1,361)	(1,372)	(1,390)	(1,405)	
% of revenue	61.6%	60.1%	58.1%	57.0%	55.3%	54.4%	
Lease payments	(230)	(250)	(239)	(238)	(233)	(230)	
% of revenue	10.5%	11.0%	10.2%	9.9%	9.3%	8.9%	
Total operating expenses (excluding amortization and depreciation)	**(1,901)**	**(1,941)**	**(1,912)**	**(1,913)**	**(1,918)**	**(1,931)**	
% of revenue	86.9%	85.4%	81.6%	79.4%	76.4%	74.8%	
EBITDA	**286**	**331**	**430**	**497**	**593**	**651**	**667**
% of revenue	13.1%	14.6%	18.4%	20.6%	23.6%	25.2%	25.2%
Total amortization and depreciation	(358)	(356)	(342)	(356)	(369)	(386)	(360)
Adjusted operating profit	**(73)**	**(25)**	**89**	**141**	**224**	**265**	**307**
% of revenue	(3.3%)	(1.1%)	3.8%	5.8%	8.9%	10.2%	11.6%
Tax revenues (expenses)		-	(15)	(32)	(52)	(61)	(71)
Tax rate		-	16.5%	23.0%	23.0%	23.0%	23.0%
CAPEX		(281)	(387)	(392)	(351)	(339)	(360)
% of revenue		12.4%	16.5%	16.3%	14.0%	13.1%	13.6%
Positive (negative) cash flows from changes in working capital		(52)	(1)	(0)	(1)	(1)	(0)
Cash flows		**(2)**	**29**	**72**	**190**	**251**	**236**
Discount period		0.5	1.5	2.5	3.5	4.5	4.5
Discounted cash flows		**(2)**	**25**	**56**	**135**	**161**	**1,956**

* Including other income (expenses), net

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Chapter D - Valuation

Pelephone – Valuation Results

Valuation Summary

Valuation Results	NIS million
Enterprise value from model years	376
Enterprise value from terminal year	1,956
Total enterprise value	**2,332**

In conclusion, Pelephone's enterprise value as at December 31, 2020, based on the above assumptions is NIS 2,332 million. According to information given to us by Bezeq, the carrying amount of this segment in its books was NIS 1,020 million; therefore, a write-down was not necessary.

Development of Pelephone's EV (compared to our previous valuations)

Description	NIS millions
Pelephone valuation as at December 31, 2017	5,403
% change	(15.9%)
Pelephone valuation as at June 30, 2018	3,907
% change	(27.7%)
Pelephone valuation as at December 31, 2018	2,914
% change	(25.4%)
Pelephone valuation as at June 30, 2019	1,214
% change	(58.3%)
Pelephone valuation as at December 31, 2019	1,390
% change	**14.5%**
Pelephone valuation as at December 31, 2020	**2,332**
% change	67.8%

Pelephone – Valuation Results

Sensitivity Analysis of Discount Rate and Terminal Growth Rate

The following table shows the changes in the enterprise value of Pelephone, given a range of discount and terminal growth rates:

		Discount Rate				
		8.3%	9.3%	10.3%	11.3%	12.3%
Terminal Growth Rate	1.5%	2,832	2,420	2,103	1,852	1,649
	2.0%	3,030	2,563	2,211	1,935	1,715
	2.5%	3,262	2,728	2,332	2,028	1,787
	3.0%	3,539	2,919	2,470	2,132	1,867
	3.5%	3,874	3,143	2,629	2,249	1,956

Conclusion

An increase (decrease) of 1% in the discount rate leads to a decrease (increase) of between NIS 535 million and NIS 241 million in the enterprise value of Pelephone. Likewise, an increase (decrease) of 0.5% in the terminal growth rate leads to an increase (decrease) in the range of NIS 159 million to NIS 108 million in the enterprise value.

Sensitivity Analysis of ARPU Changes

Shown below is the change in Pelephone's enterprise value for changes in ARPU over the forecast years:

	Increase (Decrease) in ARPU, NIS				
	(2)	(1)	-	1	2
Enterprise Value (NIS millions)	1,558	1,945	**2,332**	2,719	3,106

Conclusion

An increase (decrease) of NIS 1 in the ARPU leads to an increase (decrease) of NIS 387 million in the enterprise value of Pelephone.

Pelephone – Valuation Results

Sensitivity Analysis of Number of Subscribers

Shown below is the change in Pelephone's enterprise value for changes in the number of subscribers over the forecast years:

	Change in Number of Subscribers (thousands)				
	100	50	-	(50)	(100)
Enterprise Value (NIS millions)	3,223	2,778	**2,332**	1,887	1,441

Conclusion

An increase (decrease) of 50 thousand subscribers* in the terminal year leads to an increase (decrease) of NIS 445 million in the enterprise value of Pelephone.

* Based on the subscriber mix in the forecast years.

Appendices

Appendix A

Pelephone

WACC – Pelephone

Calculation of Discount Rate – Cellular Operations

Symbol	Parameter	Value	Comments
D/V	Debt to asset value ratio	0.30	*Based on the median of comparison companies*
E/V	Equity to asset value ratio	0.70	(D/V) = 1 - (E/V)
D/E	Debt to equity ratio	0.44	(D/E) = (D/V) / (E/V)
βUL	**Unlevered beta of comparison companies**	**0.66**	*In order to estimate the beta of the Company, we reviewed a group of similar companies. As there were no publicly traded companies with operations identical to the operations under assessment, we chose companies that are partially similar to said operations yet differ from each other, in 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 of the Company	23.0%	*Long term tax rate for the company under assessment.*
βL	**Levered beta of the Company**	**0.88**	**βL= βUL*{1+(1-Tax)*(D/E)}**
Rf	Risk-free interest rate	1.4%	*Nominal yield to long-term maturity on NIS-denominated government bonds, for a period of 15 years, as of Dec. 31, 2020.*
MRP	Market risk premium	5.4%	*The risk premium in the Israeli market, based on Damodaran data as of August 2020.*
SRP	Specific risk premium	3.2%	*Size-based premium according to Duff and Phelps data for 2019, for mid-cap firms.*
Re	**Cost of equity**	**9.4%**	**RE = Rf + βL * MRP + SRP**
Rd	**Cost of Company debt**	3.3%	*Long-term cost of debt for the operations, based on the yield to maturity as of the valuation date of AA-rated bonds.*
WACC	**Weighted average cost of capital**	**7.3%**	**WACC = Re *(E/V) + Rd*(D/V)*(1-TAX)**

The above table presents the calculation of the discount rate applied to the operations as of December 31, 2020. As we believe the risk inherent in this segment of operations has not decreased compared to December 31, 2018, we used a 10.3% discount rate, the same as that used in Pelephone valuations made starting from December 31, 2018.

Additional information on comparison companies:

Company	Unlevered Beta	D/V*
Partner Communications Company Ltd.	0.88	0.16
Cellcom Israel Ltd.	0.68	0.45
Telenor ASA	0.60	0.30
Telefónica Deutschland Holding AG	0.54	0.39
United States Cellular Corporation	0.64	0.31
Orange Belgium S.A.	0.72	0.09
Median	**0.66**	**0.30**

* The debt of the comparison companies was restated to neutralize the effect of IFRS 16, so as to maintain consistency with the valuation.

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Appendix B

Book Value - Pelephone

Book Value - Pelephone

Breakdown of the book value of Pelephone as of December 31, 2020, as given to us by Bezeq:

Item	Value (NIS millions)
Assets*	3,058
Liabilities	(2,114)
Excess cost-goodwill for Pelephone recorded in Bezeq's books	76
Total book value **of Pelephone in Bezeq's books**	**1,020**

* Pelephone's net operating assets exclude interest-bearing customer debt in respect of terminal equipment sales in installments (financial instrument).

Appendix C – Summary of main changes in the key working assumptions used in the December 31, 2020 valuation compared to the June 30, 2019 valuation

Appendix C – Required Disclosures

Changes compared to the impairment testing of Pelephone as at June 30, 2019

Description	NIS millions
Pelephone valuation as at June 30, 2019	1,214
Pelephone valuation as at December 31, 2020	2,332
% change	92.1%

Summary of the main changes in the key working assumptions used in the valuation for June 30, 2019 compared to that for December 31, 2020:

Revenue from services

ARPU – In 2020, amid the COVID-19 pandemic, the Company's roaming revenues dropped by NIS 150 million. It was assumed that roaming revenues will gradually rebound and make a full recovery in 2024. A comparison between the terminal years of the valuations for June 6, 2019 and December 31, 2020 shows average ARPU increasing by NIS 0.5, primarily due to a growing share of postpaid subscribers in the Company's subscriber mix.

Terminal equipment sales

In light of the results in 2020, and after evaluating the impact of the lockdowns and closure of sales points on the Company's operations in the sector, it was assumed that terminal equipment sales will increase compared to the forecast used in the June 30, 2019 valuation. This increase amounts to an aggregate NIS 370 million in revenues over the forecast years, NIS 88 million of which will be generated in 2024.

Salary expenses

In the June 30, 2019 valuation, the Company's salary expenses in the terminal year were estimated at NIS 346 million compared to NIS 296 million for the terminal year in the December 31, 2020 valuation. The forecasts as at June 30, 2019 did not include streamlining measures for the years 2022-2024 due to uncertainty regarding realization of the streamlining plan. Moreover, the salary streamlining plan for 2019-2021 was only partially adopted in the June 30, 2019 valuation. With the consultation of the Company's management, streamlining tantamount to structural change (as per IAS36 and IAS37) was not included, and accordingly, synergistic savings, which were not actually achieved before the report date, were not taken into account. In view of the Company's progress in implementing the streamlining plans, both plans were adopted in full.

Lease expenses

The Company's lease expenses decreased from NIS 244 million in the terminal year of the June 30, 2019 valuation to NIS 230 million in the terminal year of the December 31, 2020 valuation. This was the result of adopting the Company's forecast for the streamlining of rental expenses.

Appendix C – Required Disclosures

Changes compared to the impairment testing of Pelephone as at June 30, 2019 (cont.)

General and operating expenses

In the valuation, Pelephone's 'general and operating expenses' item comprises all the Company's expenses other than salary expenses, lease payments (site and building rental, vehicle leasing) and depreciation. We adopted management's forecast according to which the Company will be able to decrease most of the operating expenses (network maintenance, transmission costs, rent, etc.). However, the cost of terminal equipment sales is expected to rise. The combined effect of all the changes has led to an increase in expenses of NIS 46 million in the terminal year compared to the June 30, 2019 valuation. Following are the key working assumptions used to establish the future development of these expenses (the working assumptions in the valuation as at June 30, 2019 and December 31, 2020 are the same, unless stated otherwise):

Cost of sales of terminal equipment – It was assumed that expenses will increase over the forecast years, compared to the June 30, 2019 valuation, in line with the change in terminal equipment revenues.

Cost of services of terminal equipment – It was assumed that expenses will decrease over the forecast years, compared to the June 30, 2019 valuation, in line with the change in revenues from terminal equipment services.

Interconnect payments – A variable expense in line with the number of subscribers and traffic per subscriber.

Roaming expenses – Roaming expenses are low for the years 2021-2023 in the current forecast, in line with the decline in revenues as a result of the COVID-19 pandemic. An increase is assumed in roaming expenses, in step with the trajectory for the return to routine assumed for roaming revenues.

CAPEX

The Company's CAPEX includes investments in the gradual setup of the 5G network and new frequencies over several years starting from 2020. In view of the tender results and the preparation of a detailed deployment plan, investments fell by NIS 90 million over the forecast years, and by NIS 10 million in the terminal year. We adopted the Company's forecast regarding the required investments.

Pelephone

Appendix D – Summary of main changes in the key working assumptions used in the December 31, 2020 valuation compared to the December 31, 2019 valuation

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Appendix D – Required Disclosures

Changes compared to the impairment testing of Pelephone as at December 31, 2019

Description	NIS millions
Pelephone valuation as at December 31, 2019	1,390
Pelephone valuation as at December 31, 2020	2,332
% change	67.8%

Summary of the main changes in the key working assumptions used in the valuation for June 30, 2019 compared to that for December 31, 2020:

Revenue from services

ARPU – In 2020, amid the COVID-19 pandemic, the Company's roaming revenues dropped by NIS 150 million. It was assumed that roaming revenues will gradually rebound and make a full recovery in 2024. In the December 31, 2019 valuation, the ARPU in the terminal year was estimated at NIS 60 compared to NIS 62 in the impairment test as at December 31, 2020. However, the change was primarily due to a growing share of postpaid subscribers in the Company's subscriber mix.

Terminal equipment sales

In light of the results in 2020, and after evaluating the impact of the lockdowns and closure of sales points on the Company's operations in the sector, it was assumed that terminal equipment sales will increase compared to the forecast used in the December 31, 2019 valuation. This increase amounts to an aggregate NIS 370 million in revenues over the forecast years, NIS 87 million of which will be generated in 2024.

Salary expenses

In the December 31, 2019 valuation, the Company's salary expenses in the terminal year were estimated at NIS 312 million compared to NIS 296 million for the terminal year in the December 31, 2020 valuation. The forecasts as at June 30, 2019 did not include streamlining measures for the years 2022-2024 due to uncertainty regarding realization of the streamlining plan. In view of the Company's progress in implementing the streamlining plan, this plan was included in the current forecast.

Lease expenses

A decrease in lease expenses was assumed, in line with the Company’s forecast for continued streamlining of rental expenses. The Company's lease expenses decreased from NIS 249 million in the terminal year of the December 31, 2019 valuation to NIS 230 million in the terminal year of the December 31, 2020 valuation.

Appendix D – Required Disclosures

Changes compared to the impairment testing of Pelephone as at December 31, 2019 (cont.)

General and operating expenses

In the valuation, Pelephone's 'general and operating expenses' item comprises all the Company's expenses other than salary expenses, lease payments (site and building rental, vehicle leasing) and depreciation. We adopted management's forecast according to which the Company will be able to decrease most of the operating expenses (network maintenance, transmission costs, rent, etc.). However, the cost of terminal equipment sales is expected to rise. The effect of all the changes has led to an increase in expenses of NIS 41 million in the terminal year compared to the December 31, 2019 valuation. Following are the key working assumptions used to establish the future development of these expenses (the working assumptions in the valuation as at December 31, 2019 and December 31, 2020 are the same, unless stated otherwise):

Cost of sales of terminal equipment – It was assumed that expenses will increase over the forecast years, compared to the December 31, 2019 valuation, in line with the change in terminal equipment revenues.

Interconnect payments – A variable expense in line with the number of subscribers and traffic per subscriber.

Roaming expenses – Roaming expenses are low for the years 2021-2023 in the current forecast, in line with the decline in revenues as a result of the COVID-19 pandemic. An increase is assumed in roaming expenses, in step with the trajectory for the return to routine assumed for roaming revenues.

CAPEX

The Company's CAPEX includes investments in the gradual setup of the 5G network over several years starting from 2020. In view of the tender results and the preparation of a detailed deployment plan, investments fell by NIS 145 million over the forecast years, and by NIS 6 million in the terminal year. We adopted the Company's forecast regarding the required investments.