November 17, 2019

"Bezeq" - The Israel Telecommunication Corp. Ltd.

Quarterly report for period ended September 30, 2019

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2018

Directors' Report on the State of the Company's Affairs for the period ended September 30, 2019

Interim Financial Statements as at September 30, 2019

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2019

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2018

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.

Update to Chapter A (Description of Company Operations) [1] to the Periodic Report for 2018 ("Periodic Report") of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")

1. General development of the Group's business

Section 1.1 - Group activities and business development

Section 1.1.2 - Control of the Company

On proposals to purchase shares of Internet Gold and B Communications (BCOM)- based on the reports of these companies, in April and May 2019, two proposals were received from Searchlight Group and Zeevi Group for the purchase of shares of BCOM. Subsequently, on August 8, 2019, BCOM updated the Company that further to the signing of a binding agreement with Searchlight and a company controlled by the Fuhrer family for the purchase of the shares of Internet Gold-Golden Lines Ltd. in BCOM and an investment in BCOM on June 24, 2019, all the approvals required by BCOM and its parent company, Internet Gold-Golden Lines Ltd., for this transaction have been obtained. Subsequently, on August 18, 2019, the court's approval was received for the creditors' arrangement in connection with the transaction and on November 11, 2019, approval was received from the Ministry of Communications together with a control permit for the transaction.[2] According to an update from BCOM, the target date for completion of the transaction is set for December 2, 2019. On this matter, see also Immediate Reports filed by the Company on April 8, 2019, April 10, 2019, April 17, 2019, April 19, 2019, May 2, 2019, May 14, 2019, May 20, 2019, June 12, 2019, June 23, 2019, June 24, 2019, July 29, 2019, August 8, 2019, August 18, 2019, October 6, 2019, October 22, 2019, November 3, 2019, November 11, 2019 and November 12, 2019, included here by way of reference.

Section 1.1.4 - Mergers, acquisitions and structural changes

On a request by each of the subsidiaries Pelephone, Bezeq International and DBS, to obtain approval from the Ministry of Communications for a change in corporate structure, whereby all the operations and assets of each of the subsidiaries would be transferred to a separate limited partnership, wholly owned by the Company - on September 25, 2019, notice was received from the Ministry of Communications that the request is being studied by the professional entities in the Ministry of Communications.

Section 1.1.5 - Investigation by the Securities Authority and Israel Police

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

Additionally, according to the Announcement, the State Prosecutor informed the Company's former CEO, Ms. Stella Handler, and a former advisor to Bezeq Group, that it is considering bringing charges against them, subject to a hearing, for crimes of fraud and breach of trust in their dealings with the former Director General of the Ministry of Communications, Mr. Shlomo Filber. In this context, Handler is also

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1 The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2018 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

2 Concurrently, on the same day, the subsidiaries Pelephone, Bezeq International and DBS, as license holders in Bezeq Group, received approval from the Ministry of Communications for the transfer of control as well as indirect means of control.

suspected of reporting offenses under the Securities Law and of obstruction of justice. Furthermore, according to the Announcement, Stella Handler and Shaul Elovitch are also accused of reporting offenses under the Securities Law and of obstruction of justice.

As noted in the Company's Periodic Report for 2018, the Company does not have complete information about the investigations, their content, or the material and evidence in the possession of the statutory authorities on this matter (even after receipt of the aforementioned Announcement). Accordingly, the Company is unable to assess the effects of the investigations, their findings and impact on the Company and its financial reports

Section 1.5.4 - Main results and operational data

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

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

(1) EBITDA (Earnings before interest, taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations which 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 which 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 Notes 3.1 and 5 to the Company's consolidated financial statements for the period ended September 30, 2019.

(2) Free cash flow is a financial index which 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.

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

(4) Excluding revenues from transmission services and data communication, internet services, services to communications operators and contractor and other works. Calculated according to average lines for the period.

(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.

(7) Number of active Internet lines including retail and wholesale lines. Retail - Internet lines provided directly by the Company. Wholesale - Internet lines provided through a wholesale service to other communications providers.

(*) In Q2 2018 - including permit fee payments in the amount of NIS 112 million (75% of the requirement) for the sale of the Sakia property. In Q3 2018 - including payment of purchase tax in the amount of NIS 9 million. In Q2 2019 - including payment of a betterment levy in the amount of NIS 149 million on the sale of the Sakia property. In Q3 2019 - including an amount of NIS 75 million received in respect of the betterment levy.

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

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

B. Pelephone

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

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

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers from Q3 2018), and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, or has performed no surfing activity on his phone or has not paid for Pelephone services. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. Notably, a customer may have more than one subscriber number ("line"). On the change in the definition of subscribers from Q3 2018, see comment (5) below.

(3) Average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. On the effect of the change in the definition of a subscriber from Q3 2018 on the ARPU index, see comment (5) below.

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

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

C. Bezeq International

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues (NIS million)	329	339	341	370	333	336	352
Operating profit (NIS million)	(20)	18	34	21	31	30	34
Depreciation and amortization (NIS million)	47	46	46	60	46	45	43
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	27	64	80	81	77	75	77
Net profit (NIS million)	(18)	10	25	13	20	20	24
Cash flow from current activities (NIS million)	64	48	56	106	73	54	67
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)(2)	40	34	33	25	26	44	31
Payments for leases	8	8	8	9	9	9	9
Free cash flow (NIS million) (1)	16	6	15	72	38	1	27
Churn rate (3)	7.1%	6.2%	6.6%	7.7%	5.8%	6.0%	6.0%

(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.

D. DBS

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

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

(2) Subscriber - a single household or small business customer. In the case of a business customer that has more than a certain number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is standardized. The number of business customers that are not small businesses, is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined periodically. In Q4 2018, the standardization formula was updated as a result of which the number of subscribers fell by 7,000. This is partially due to the fact that the average revenue per small business customer in the special offers (at least 100 customers per offer) increased in the past year as a result of customers moving over to packages that are richer in content at a higher price.

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

(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period.

(*) See Note 5.2 to the Company's financial statements for the period ended September 30, 2019 concerning impairment of assets.

Section 1.6 - Group Outlook

Following the extraordinary events in Q2 2019 (write-off of a tax asset, impairment loss in Pelephone assets and a capital gain recorded in respect of the sale of the Sakia property), and the inclusion of projected costs for the early retirement of employees in the forecast data, on August 29, 2019, the Bezeq Group revised its forecast published in this section in the Periodic Report for 2018 ("the Original Forecast") as follows:

- Net loss for shareholders is expected to be NIS 1.1 billion (compared with a net profit of NIS 900 million to NIS 1.0 billion in the Original Forecast.
- EBITDA is expected to be NIS 2.9 billion (compared with NIS 3.9 billion in the Original Forecast).
- CAPEX[3] is expected to be NIS 1.7 billion (no change compared with the Original Forecast).

The revised forecast for the Company includes the write-off of a tax asset balance for the losses in DBS of NIS 1.166 billion, an impairment loss in Pelephone of NIS 951 million, and the recording of a capital gain of NIS 403 million for the sale of the Sakia property (on these matters see, respectively, Notes 6, 5.1 and 7 to the Company's financial statements for the period ended September 30, 2019). Furthermore, the revised forecast includes provisions for the early retirement of employees in the Company and in the subsidiaries Pelephone, Bezeq International and DBS. Notably, of the amounts forecast for early retirement, for NIS 213 million no provisions have, as yet, actually been recorded in the financial statements and it is a forecast which might not materialize).

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, including that the forecasts also do not include the effects of the cancellation of structural separation in the Group and the merger proceedings with the subsidiaries and everything they entail (see Section 1.7.2 in the Periodic Report for 2018), if and insofar as they occur in 2019. 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 economic situation and accordingly, the Group's ability to implement its plans for 2019, and taking note of changes that may occur in the foregoing, in 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 Sections 2.20, 3.19, 4.14 and 5.19 in the Company's Periodic Report for 2018 and specifically, the risk factor detailed in Section 2.20.12 of this report with respect to the impairment in the value of subsidiaries.

The Company will report, as necessary, any deviations of more/less than 10% of the amounts stated in the forecast.

On the Group's forecast in connection with EBITDA, attention is drawn to the revised definition of EBITDA as specified in comment (1) to the table in the update to Section 1.5.4(A). As noted there, 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). On this matter it is stipulated that ongoing losses from the impairment of assets will be classified under the same items in which expenses in respect of these assets were recorded in the past. The Company believes that in view of the forecast for continuing negative cash flows and negative value of activity in DBS and Walla, and in light of the fact that impairment is expected to continue in the future, this classification is more consistent with the method of presentation based on the nature of the expense and it is also more suited to understanding the Company's business. It is further stipulated that expenses in respect of an impairment loss resulting from a one-time adjustment of the forecast for coming years, will be reclassified as Other Operating Expenses in the income statement. On this matter, see also Notes 3.1 and 5 to the Company's financial statements for the period ended September 30, 2019.

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

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

Section 1.7.2.1 - Structural separation - on a petition filed by the Company against the Ministry of Communications in the HCJ for the immediate cancellation of the structural separation in Bezeq Group

[3] CAPEX - payments (gross) for investment in property plant and equipment and intangible assets.

- on September 19, 2019, (after several extensions) the State filed its response to the petition. The State's response argued that the petition should be dismissed outright since the petition is premature, prior to completion of the examination of the issue of structural separation by the special professional team appointed for this purpose by the Director General of the Ministry of Communications. It was also argued that the petition should be dismissed in its own right in the absence of any grounds for judicial intervention in the matter, and that the conduct and decisions of the Ministry of Communications and of the Minister of Communications are very reasonable and are in the broad area of professional discretion granted to the Ministry of Communications in such matters; that the discretion of the Minister of Communications is not bound by the policy document concerning expansion of competition in the field of fixed-line communications - the wholesale market (which includes addressing the cancellation of the structural separation), in which it was explicitly stipulated that the development of the wholesale market and the possibility that it might harm competition or the public interest must be assessed, and this was done. It is also argued that in any case the Company has not complied with the terms and principles set out in the policy document and the provisions of the regulations set for its implementation in all matters related to the advancement and development of reform of the wholesale market. The hearing on the petition is set for January 30, 2020. On this matter, see also Note 6.2 to the Company's financial statements for the period ended September 30, 2019.

Section 1.7.2.2 - Marketing joint service bundles with a subsidiary - on the marketing of joint service bundles of Internet infrastructure together with ISP - on April 16, 2019, the Company submitted its comments whereby the solution is to market a reverse bundle which meets the customer's basic requirements for assurance and continuity of service, which is not limited in time and allows the customer to disconnect at any time. On this matter, it is noted that on May 26, 2019, the Company received a preliminary supervisory report on the reverse bundle, for the Company's response. According to the information in the report, its findings show that the Company ostensibly deviated from the provisions of Section 9A of its license ("Joint Service Bundle") and the regulations prescribed on this subject. On June 30, 2019, the Company submitted its response to the report whereby the Company had not deviated from the aforementioned provisions.

On July 24, 2019, the Company received hearing documents from the Ministry of Communications, in part concerning a change in the marketing formula of the "reverse bundle". According to the information in the hearing documents, the Ministry is considering changing the formula presented at the hearing on March 26, 2019, and determining, *inter alia*, that the Company will not be obligated to market a reverse bundle for ISPs that have accumulated over 100,000 wholesale BSA customers on the Company's network and have also provided accessibility to over 100,000 households to their independent optical fiber infrastructure on the Company's physical infrastructure. The Ministry will also determine that the provisions for breaking up the bundle after 12 months will be cancelled. According to the hearing, this format will enter into force after the launch of the Company's fiber project and a reasonable possibility will be provided to purchase the BSA service on the fiber network. On this matter, see also the Company's Immediate Report dated July 25, 2019, included here by way of reference. The Company submitted its comments on the hearing on September 8, 2019 in which it made clear that there is no reason to make the necessary change in the format of the bundle conditional on the launching of the Company's fiber project.

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

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

Subsection 1.7.4.4(B) - On a hearing concerning the Ipv6 protocol (Internet addresses) - on July 3, 2019, the Ministry of Communications published a decision on the hearing in which the transition to Ipv6 protocol will take place in accordance with the defined milestones. For the Company (as the holder of a domestic carrier license) and for the owners of Internet access licenses, it was determined, among other things, that within 12 months of date of the amendment of the license, a license holder will adapt the network and its components to fully support the Ipv6 protocol and in a manner that provides access for subscribers to the Ipv6 Internet protocol service from all terminal equipment that supports Ipv6 protocol; license holders will 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 - as noted in a footnote - 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.

Section 1.7.4.6 - Enforcement and financial sanctions - on April 17, 2019, a new request for information under the Consumer Protection Law was sent to the Company, stating that the Consumer Protection and Fair Trade Authority is conducting an investigation against the Company on suspicion of violation of the Consumer Protection Law, including a suspected breach on the subject of misleading consumers when a transaction is performed and the non-cancellation of transactions according to the law. The Company submitted the requested information to the Consumer Protection Authority.

Section 1.8 - Bezeq Group’s business strategy

During the first half of 2019, the Board of Directors continued to review, implement and update the Group’s business strategy which includes various streamlining processes and organizational changes. This, in part, against the ongoing decline in revenues in the domestic fixed-line sector, including a continuing decline in revenues from fixed-line telephony services and retail Internet services, as well as lower revenues in the quarter from wholesale Internet services (see update to Section 1.5.4), and the estimate is that if the streamlining measures are not implemented, the decline in the Group’s profitability will continue in forthcoming years. To address this ongoing trend, the Group companies have introduced various streamlining measures and in this context the Board of Directors granted approval to the Company and the subsidiaries Pelephone, Bezeq International and DBS to take action to implement such measures.

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

The Group’s vision -

Bezeq Group will lead Israel’s telecommunications market, provide the entire range of telecommunications products and services for the private and business markets and will strive to consistently improve its operating performance.

The Group’s strategy -

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

The estimates detailed in this section are forward-looking information which might 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 in Chapter A of the Periodic Report for 2018 and in this report.

2. Bezeq ("the Company") - Domestic Fixed-Line Communications

Section 2.6.3 - Internet infrastructure segment

According to publications in the media, on May 13, 2019, HOT announced that it is starting to market a 500 Mbs high-speed Internet service.

Subsection 2.6.3.1 - To the best of the Company's knowledge, on July 28, 2019, the Ministry of Communications adopted the recommendations of the advisory committee at that date concerning application of the universal deployment obligation on HOT. According to the committee's recommendations and the Minister's decision, HOT will be compelled to provide its services in areas without infrastructure based on a technology neutral format, i.e. without being under obligation to deploy physical infrastructure, but it will be permitted to make immediate use of any cellular network to provide its services at download speeds of 12/30 Mbps. The adopted recommendations also prescribed milestones for upgrading the network for the alternative cellular network, minimum service quality and reporting obligations.

Section 2.6.5 - Competition from IBC and other competing companies

To the best of the Company's knowledge, the acquisition of IBC by Cellcom and another investor (Israel Infrastructures Fund) was completed on July 31, 2019.

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

Subsection 2.6.6.7 on the Company's new router, Be - at the end of Q3 2019, the number of Company customers using the Be router is 272,000 (approximately 27.5% of the Company's retail Internet customers).

Section 2.7.2 – Infrastructure and domestic fixed-line communications equipment

Following are several clarifications concerning deployment of optical fibers by the Company - the main advantage of optical fiber over copper is the possibility of transmitting higher speeds. There are also operating advantages which are insignificant compared with this advantage. The reason for the Company's decision to freeze the fiber deployment is that there is no economic justification for the Company to launch the service in view of the major investments entailed in completing the deployment and operating the service on the one hand, and absence of the certainty necessary to pursue a business plan that is economically sustainable on the other. At this time, the deployment of fibers by the Company's competitors is intensifying competition in the areas of deployment with a negative impact on the Company. Nevertheless, the Company believes that due to its operational advantages, and principally the access to skilled, professional manpower, in the medium and long term its technological superiority will be maintained. The Company believes that at this point in time, placing the deployment on hold does not affect the Company's compliance with the regulations, which are currently under review by the Minister of Communications (see below the update to the call for public comments). The Company believes that from such time as a decision is made to launch services based on the fiber network, it will be possible to reach significant cover[4] of more than 50% of households in Israel within a period of 4-5 years.

The estimates detailed above are forward-looking information based on the Company's assumptions and expectations the materialization of which is uncertain. The information might be affected by various factors, including the Company's future capabilities, changes in technology, regulatory decisions, etc. or the materialization of any of the risk factors detailed in Sections 2.20, 3.19, 4.14 and 5.19 of the 2018 Periodic Report.

Call for public comments by the Ministry of Communications concerning the policy for the deployment of ultra-wide bandwidth infrastructure in Israel –

On April 8, 2019, the Company submitted its comments on the secondary call for public comments, in which it stated that this issue cannot be based on the application of a universal obligation that is not economically viable. The Company set out principles for a dynamic regulatory mechanism the application of which will facilitate and encourage large-scale deployment of ultra-high-speed Internet infrastructures on the basis of business considerations and economic feasibility, rather than coercion.

On November 5, 2019, the Ministry of Communications issued for public comment the recommendations of the inter-ministerial team which was appointed to examine the policy of deployment of fixed-line ultra-

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

broadband infrastructures in Israel. According to the recommendations of the inter-ministerial team, the key regulations recommended by the team are as follows:

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

B. To finance deployment of an optical fiber network in the statistical areas in which Bezeq announced that it will not deploy an optical fiber network ("the Incentive Areas"), a fund will be established to provide financial incentives for deployment of an optical fiber network to all households in the area ("the Universal Fund", "the Fund"). The Fund will allocate money through tenders with minimal state intervention in the allocation process, in order to avoid introducing considerations that are not relevant to the decision-making processes of the companies operating in the market and so as not to infringe upon the effectiveness of allocation of the resources. The winners of the tender bids for the allocation of the Fund's monies and the order of deployment in the Incentive Areas will be determined on the basis of the lowest offers for deployment per household in the areas in which the optical fiber network is to be deployed.

C. The Universal Fund will be financed by annual payments made by license holders under the Communications (Bezeq and Broadcasts) Law, 1982 ("the Law" or "the Communications Law") (including Bezeq) of 0.5% of their annual revenues.

E. To encourage Bezeq to undertake a wide deployment and limit the Incentive Areas, and to reduce the deployment costs in the Incentive Areas and create a high level of competition, the team recommends:

1. *To establish limitations on Bezeq's deployment in the Incentive Areas.*
2. *Bezeq will not be able to compete in the tenders for the allocation of monies from the Universal Fund.*
3. *The cost of use of Bezeq's physical infrastructures in the Incentive Areas will be set using a different method of calculation than set out in the regulations for the wholesale market and as a result will be significantly lower.*
4. *Winners of the tender for deployment in the Incentive Areas will be obligated to provide BSA service to other license holders.*

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

The team believes that implementation of the above regulations will, in the short term, lead to wide deployment of a fiber optic network, and within a reasonable time to a nationwide deployment of a fiber optic network. This will place Israel on the international forefront of fixed-line communications networks, at the same time encouraging and continuing the development of competition in the market, which will impact the quality of the networks, the quality of products and services as well as the price to the consumer.

The team's recommendations will be submitted to the Communications Officer in the Civil Administration in order to promote similar regulations in the Judea and Samaria region for which it is responsible. Notably, in order to implement the recommendations, amendments to the regulations - legislation, secondary legislation and licenses - will be necessary for providing the Ministry of Communications (and as necessary also the Finance Ministry) with the proper authority and establishing rules to apply to the companies."

Pursuant to the Ministry of Communications announcement, the public has been asked to submit its comments on the information, analysis and recommendations of the inter-ministerial team by November 25, 2019. The Company is studying the recommendations of the inter-ministerial team and it intends to submit its comments to the Ministry of Communications. Following is the link to the publication of the recommendations of the inter-ministerial team on the Ministry's website: https://www.gov.il/he/departments/publications/Call_for_bids/05112019.

On this matter, see also an Immediate Report of the Company dated November 6, 2019, included here by way of reference.

On July 24, 2019, the Company received hearing documents from the Ministry of Communications, *inter alia* on the subject of determining a maximum tariff for access to ultra-wide bandwidth managed on the Company's fiber network. According to the Ministry, the hearing on this subject is part of the comprehensive fiber plan being formulated by the Ministry. The key recommendations are, among others, as follows: recommendation for setting a maximum tariff for BSA service over fiber - the maximum recommended tariff, including installation and repair of faults, for accessibility service and data transfer on the core network at a maximum broadband speed of 400 Mbps will be NIS 71 per line per month (excluding VAT); and for this service at a maximum broadband speed of 1,000 Mbps - the maximum tariff will be NIS 85 per line per month (excluding VAT). The broadband speed is calculated in the hearing documents as the total of the upload rate and download rate. The maximum broadband speed will have a different breakdown between the download and upload rates, based on the decision of the service provider using the BSA service over fiber, and it will be limited to an upload rate of 50% of the download rate. According to the hearing documents, the maximum tariff is temporary and will be applicable immediately upon provision of the service. This tariff will remain in force until a tariff is set by the Company in accordance with the regulatory guidelines to be adopted following publication of the fiber plan. It is stipulated that the Company does not currently operate an optical fiber network that reaches the homes of private customers and that provision of the BSA service will only be possible when such a network has been established, if it is established. The Company submitted its comments on the hearing on September 8, 2019, in which it stated that corrections should be made to the factual assumptions used for calculating the service tariffs proposed by the Ministry, for which the derived tariffs are much lower than they should be. The Company further stated that there is no logic or foundation to the determination that the installation prices are part of the service price and also that a basic condition for providing the service is that infrastructure is already in place in the NEP section that the end customer or the service provider has the right to use. This right is not part of the proposed regulations. The Company also noted that instead of the temporary tariff, it should be determined that from the outset tariffs for wholesale service on optical fiber will be set by the Company based on generally accepted Economic Replicability Tests around the world..

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

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

<u>Section 2.7.4 – Real estate</u>

Sakia property - On May 5, 2019, the transaction was completed and the entire outstanding consideration, in the amount of NIS 377 million (including VAT), for the sale of the property was received. Upon receipt of the outstanding payment, the Company paid half of the betterment levy in the amount of NIS 75 million, and it provided a bank guarantee for the other half of the levy, without this derogating from and/or prejudicing the steps taken and/or to be taken by the Company to cancel or reduce this levy. The Company recorded a capital gain of NIS 403 million in its financial statements for Q2 2019. The capital gain that was recorded is based on the Company's assessment and in practice it could change. On this matter, see also Note 7 to the Company's financial statements for the period ended September 30, 2019.

<u>Section 2.9.3 - Early retirement plans</u>

On November 6, 2019, as part of the implementation of its streamlining plan, the Board of Directors of the Company approved the retirement of 140 permanent employees (tenured and new permanent employees) and termination of the employment of an additional 60 employees with flexible employment status, at a total cost of NIS 143 million. This retirement is in addition to the retirement plan for employees (including transferred employees) based on previous decisions of the Board of Directors for which the Company has already recognized a liability. On this matter, see also Note 9.3 to the Company's financial statements for the period ended September 30, 2019.

Section 2.9.5 - Officers and senior management in the Company

In the matter of compensation for attendance and annual compensation payable to directors serving in the Company and its subsidiaries (hereinafter together - "Directors Compensation") - pursuant to changes in the data for the equity of the Company and some of its subsidiaries, as they appear in their 2018 audited balance sheet, changes were made in the Directors Compensation, in accordance with the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000, and a resolution passed by a general meeting of the Company's shareholders on September 17, 2018.

On May 3, 2019, the Chairman of the Board, Mr. Shlomo Rodav, informed the Company of his request and of a request from the Israel Lighterage & Supply Co. Ltd. ("Mr. Rodav" and "Lighterage", respectively), a private company in which Mr. Rodav holds 50% of the means of control and through which Mr. Rodav provides the Company with services as Chairman of the Board, in accordance with the management agreement between Lighterage and the Company, to reduce the management fees to which Lighterage is entitled under the aforesaid agreement by 20% for the whole of 2019 (in other words - retroactively from the payment in respect of January 2019). For additional information about the management agreement, see an Immediate Report of the Company dated August 12, 2018, included here by way of reference, and Section 7D in Chapter D (Additional Information about the Company) in the Company's Periodic Report for 2018. Furthermore, on May 29, 2019, the director Mr. Ami Barlev, announced that he will forgo his entitlement to any compensation payable to him for serving as a director in the Company, effective from June 1, 2019 until further notice. Subsequently, Mr. Barlev announced that he once again wishes to receive the compensation for serving as a director from September 3, 2019 and accordingly the compensation is paid to him from this date.

On the convening of a special general meeting of the Company's shareholders to re-approve the compensation policy for the Company's senior officers - on May 23, 2019, the general meeting affirmed the compensation policy in accordance with Section 267A of the Companies Law, including updating the policy, for three years, commencing January 1, 2019, as specified in the Company's Supplementary Immediate Report dated May 15, 2019 on convening the meeting, included here by way of reference.

On November 17, 2019, the Company's Board of Directors approved and made a recommendation to the general meeting of the Company's shareholders (to be convened for this purpose) to approve an amendment to the liability notes for indemnity and exemption which are 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 office holders in companies owned by the controlling shareholder). According to the proposed amendment, instead of cumulative indemnity which is limited to 25% of the Company's equity based on its last financial statements published prior to actually granting the indemnity ("the Maximum Indemnity"), the Maximum Indemnity will be limited to an amount that does not exceed 25% of the Company's equity according to its last financial statements published prior to actually granting the indemnity or to NIS 400 million, whichever is higher. This amendment will apply retroactively from the date on which the Company's equity became negative, namely from June 30, 2019 and thereafter. The Board of Directors also approved and recommended to the general meeting of the Company's shareholders to approve an amendment respectively of the relevant clause on this matter in the Company's articles of association and in the compensation policy for its senior executives.

Section 2.9.6 - Labor disputes

On notice of a strike or stoppage received by the Company on January 23, 2019 - the parties are negotiating, and subsequent to joint motions that were filed in the court, the hearings that were due to take place in the case were postponed and the Company must give notice by December 6, 2019 of an application regarding further proceedings.

Section 2.11 – Working capital

For information about the Company's working capital, see Section 1.3 in the Directors Report.

Section 2.13 - Financing

Section 2.13.4 – Credit received in the Reporting Period; and Section 2.13.5 - Company debentures

In June - September 2019, the Company raised debt in the amount of NIS 800 million by means of private loans from a financial institution and a bank with an average duration of 6.8 years and fixed shekel interest at an average rate of 3.5%. The terms of the loans are similar to other loans taken by the Company, as set out in Note 15.3 of the 2018 financial statements.

In July 2019, the Company completed a private placement of debentures (Series 11 and 12) ("the Debentures") to institutional investors, as follows: 427,891,000 debentures (Series 11) with a par value of NIS 1 each, unlinked, at an interest rate of 3.6% and an average duration of 7.7 years, and 461,740,000 debentures (Series 12) with a par value of NIS 1 each, of the Company, CPI-linked and bearing interest at a rate of 2.1% with an average duration of 8.25 years. The total consideration received by the Company for this placement (gross) is NIS 890 million. The Debentures were listed for trading on the TASE's TACT (Tel Aviv Continuous Institutional Trading System). The Company intends to register the debentures for trading on the stock exchange, subject to the statutory provisions, to publish a prospectus and to obtain the necessary permits. In the event of registration for trading of the Debentures on the TASE's main list, the interest rate that will be paid for the balance of the principal of the Debentures from the date of registration on the TASE main list, will be reduced by 0.4%. The terms of the Debentures are similar to the terms of the Debentures from the existing series of the Company (Series 6, 7, 9, and 10), as set out in Note 15.3 to the 2018 financial statements. The proceeds of the placement will be used to refinance the Company's debt. On this matter, see the Company's Immediate Reports dated June 23, 2019 and July 10, 2019 (results of an institutional tender, summary of the conditions of the debentures and trust deeds), included here by way of reference.

In September 2019, the Company made early repayment of Series 7 Debentures of the Company in the amount of NIS 444 million par value, as part of a tender offer according to a specification at a price of 101.50 agorot for each NIS 1 par value debenture. In this matter see Immediate Reports of the Company dated September 4, 2019, and September 9, 2019, included in this report by way of reference.

Section 2.13.6 - Credit rating

On April 8, 2019, Midroog Ltd. ("Midroog") affirmed an Aa2.il rating for the Company's debentures (Series 6, 7, 9, and 10) and it changed the rating outlook from stable to negative; on May 7, 2019, S&P Global Rating Maalot Ltd. ("Maalot") affirmed the Company's ilAA rating with a negative rating outlook. On these and on the aforementioned rating reports, see Immediate Reports of the Company dated April 8, 2019 (Midroog) and May 7, 2019 (Maalot).

In connection with a private placement of debentures (Series 11 and 12) of the Company (see update to Sections 2.13.4-2.13.5) - on July 10, 2019, Midroog determined the same rating (Aa2.il with a negative outlook) and Maalot also determined the same rating (ilAA, negative rating outlook) for the placement of new debentures of the Company (Series 11 and 12) with a scope of up to NIS 1 billion. On these matters and on the aforementioned rating reports, see immediate reports of the Company dated June 25, 2019 and July 10, 2019 concerning rating reports issued by Midroog and Maalot.

Furthermore, on August 6, 2019, Midroog published an issuer's comment in connection with the Company's debentures (Series 6, 7, 9, 10, 11 and 12) and left unchanged the Aa2.il rating, negative outlook, for these debentures. On this, see also an Immediate Report of the Company dated August 6, 2019.

On August 12, 2019, Maalot announced a downgrade of the rating for the Company and its subsidiaries and it issued a rating of ilAA-, negative outlook, for the Company's debentures. On this, see also an Immediate Report of the Company dated August 12, 2019.

On this matter, see also Section 3 of the Directors Report.

Section 2.13.7 - the Company's assessment for raising financing in 2019 and possible sources

On a resolution passed by the Company's Board of Directors on March 27, 2019 concerning the filing of an application for permission to publish a supplementary prospectus based on its financial statements at December 31, 2018 - in view of the fact that discussions with the ISA in the context of the draft prospectus have not been completed, the application for permission is to publish a supplementary prospectus which will be based on the Company's financial statements at a later date, after discussions with the ISA have been concluded. At this stage, as set out in the update to Sections 2.13.4-2.13.5, the Company made a private placement of debentures and it intends to register the debentures for trading on the stock exchange, subject to the statutory provisions, to publish a prospectus and to obtain the necessary permits.

On the convening of a general meeting from March 28, 2019, for which the agenda includes approval for increasing the Company's registered capital as a preliminary step towards raising potential capital through a rights issue - on April 8, 2019, the Company's Board of Directors resolved, in view of discussions with shareholders that were held on the subject and as a response to their requests, that the subject of the increase in registered capital would be removed from the agenda of the general meeting.

The Company is continuing to adjust the structure of its debt to its requirements and resources, in part by extending durations by raising long-term debt and repaying short-term debt while reducing the debt. In this context, in Q3 2019 the Company completed the early repayment of several loans from financial institutions and banks in the total amount of NIS 1.53 billion (principal). The fee paid for the early repayment was NIS 67 million. The early repayment was financed mainly by raising debt with a longer average duration over the past few months (see the update to Sections 2.13.3 and 2.13.5). Additionally, in September 2019, the Company made early repayment of Series 7 Debentures of the Company in the amount of NIS 444 million par value, as part of a tender offer as specified in the update to Section 2.13.5 above.

The following is an up-to date table of the distribution of the Company's long-term loans (including current maturities) which includes information about debt raisings, the issuances and early repayment mentioned above in the update to Section 2.13 as well as current maturities correct to September 30, 2019:

Loan term	Source of financing	Principal amount (NIS million)	Currency or linkage	Type of interest and change mechanism	Average interest rate	Effective interest rate	Interest range in 2019
Long-term loans	Banks	1,934	Unlinked NIS	Fixed	3.96%	4.16%	3.20%-6.85%
	Non-bank sources	143	Unlinked NIS	Variable, based on annual STL rate**	1.56%	1.61%	1.56%-1.75%
	Non-bank sources	4,443	Unlinked NIS	Fixed	3.39%	3.50%	3.22%-5.25%
	Non-bank sources	3,860	CPI-linked NIS	Fixed	2.28%	2.32%	2.10%-3.70%

* YSTL yield per year (810) – 0.162% (average for the last 5 days of trading in August 2019) for the interest period commencing September 1, 2019.

Section 2.14 - Taxation

The Company wrote off the deferred tax asset in respect of losses carried forward for tax purposes in DBS by way of a change in the estimate starting from the financial statements for Q2 2019, and this after the Company's assessment of the probability of utilizing the Tax Asset was no longer "more likely than not". For the purpose of assessing the probability of utilizing the Tax Asset as of June 30, 2019, the Company considered, *inter alia*, the absence of developments that occurred in its discussions with the authorities and government ministries, various developments in recent months and the impact of the passage of time.

On October 2, 2019, the Company received a letter from the Tax Authority extending by one year (i.e. until December 31, 2020), at the Company's request, the validity of the taxation ruling from September 2016 (this was a preliminary approval by the Tax Authority relating to DBS losses and it determines that following the merger between the Company and DBS (which was contingent on obtaining Ministry of Communications approval for cancellation of the structural separation), DBS losses at the date of the merger would be recognized after being offset against the Company's profits under the conditions set out in the taxation ruling and in the Company's Immediate Report dated September 18, 2016). In that letter, the Tax Authority stipulated, among other things, that the Tax Authority reserves the full authority to cancel the approval should it transpire that from the date of signing the approval until December 31, 2019, there is a material change in the business of the Company and DBS, that extension of the validity of the taxation ruling refers only to the taxation ruling from September 15, 2016, that it does not detract from the Tax Authority's authority not to extend by another year the validity of the taxation ruling beyond December 31, 2020, and that it should not be construed as confirmation that the companies are in compliance with the terms of the taxation ruling.

Regarding this section, see also Note 6 to the Company's financial statements for the period ended September 30, 2019.

Section 2.16.1 - Control of Company tariffs

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

Section 2.16.1.8 - Wholesale market - on May 5, 2019, the Company submitted its comments on a hearing on tariffs for the wholesale market. In its comments, the Company pointed to material errors in the calculation and the underlying assumption concerning tariffs for the BSA service and the obligation to link the tariff for a technician's visit to a relevant index; instead, the Company proposed a dynamic mechanism which addresses the model of demand in passive service as well (instead of the current assumption relating to demand the feasibility of which is unrealistic), and it submitted its objection to imposing the tariff retroactively.

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

Subsection 2.16.4.2 on BSA services - on June 10, 2019, the Company's appeal against dismissal of the petition against the process of supervising the Company which had led to the imposition of penalties in the amount of NIS 8.5 million, was denied.

<u>Section 2.16.8 – Economic Competition Laws</u>

Subsection 2.16.8.7 on considering a determination by the Commissioner of the Economic Competition Authority that the Company had abused its position regarding use of the Company's passive infrastructures - further to a hearing that took place on this matter, on September 4, 2019 the Company received a ruling ("the Ruling") of the Competition Commissioner concerning abuse of the Company's position in contravention of the provisions of Section 29A of the Economic Competition Law, 1988 ("the Law") as well as a demand for payment under the provisions of Section 50H of the Law for NIS 30 million from the Company and NIS 0.5 million from the Company's former CEO. The date for appealing the ruling was set (by agreement) for December 3, 2019 and the Company intends to file an appeal. Together with the ruling, the Company also received notice of the intention to apply a new charge by the Competition Authority in which the Commissioner is considering charging the Company with an additional financial sanction of NIS 8,285,810 for failure to respond to the demand to provide information and data and for providing misleading data, as part of a review carried out by the Competition Authority in connection with the ruling. The Company has been granted the right to argue its case in this matter by January 3, 2020, and it intends to exercise this right. On a motion to certify a class action which was filed subsequent to this ruling, see the update to Section 2.18.1.

Section 2.18 – Legal proceedings

<u>Section 2.18.1 - Pending legal proceedings</u>

Subsection A - On a motion to approve a class action alleging reporting omissions and the concealment of material information from the investing public - at a hearing that took place on May 22, 2019 on a motion filed by the Company for a re-hearing on the decision to certify the claim as a class action, the court proposed transferring the case for mediation but when this proposal was rejected by the plaintiff, a hearing took place on July 18, 2019 to supplement the parties arguments on the request for a re-hearing. No decision has yet been made on the request for a re-hearing.

Subsections B, H, I, K and M (stay of legal proceedings in view of the investigation by the Israel Securities Authority and Israel Police) – based on decisions of the various courts, the proceedings are stayed until October 31, 2019. At the beginning of November 2019, motions were filed in these cases for a further stay of proceedings until March 31, 2020. At this stage, on November 13, 2019, a ruling was given in relation to the proceeding in Subsection M in which the court set an internal follow-up date on April 5, 2020 and by this date the parties must give notice of where things stand.

Subsection C - on the motion from March 2018 alleging abuse of monopoly status ("Motion for Certification"), on March 28, 2019, the court ruled to stay the proceedings in the case in view of the ISA's investigation and until any other decision is made the date for filing the response to the motion for certification was extended. The Attorney General's representative was asked to update the court and the parties' attorneys on this matter within 6 months from the date of the decision. Notably, in September 2019, the Claimants filed a motion to submit a new motion for certification of a class action (a motion that was filed against the Company in September 2019, further to a ruling by the Competition Commissioner from September 4, 2019, regarding abuse of the Company's position - see description below) in the court in which this proceeding is being heard and to strike out that motion on the grounds that it is a similar, later motion. Additionally, on October 23, 2019, the Company was served with a motion by the claimants in the motion for certification to instruct an amendment to the motion for certification by adding respondents (directors and senior executives from the relevant period some of whom are currently serving in the Company) and to include additional evidence in the motion for certification. On October 30, 2019, the court gave notice that in view of its decision on the stay of proceedings in the case it does not see fit at this time to instruct that the motion to amend the motion for certification should be submitted for the Company's response and that when the stay of proceedings in this case comes to an end, the applicants must request appropriate instructions.

Subsection D - on a motion to certify a class action against the Company, alleging that the Company deliberately restricts the broadband speed for ISPs and refrains from repairing malfunctions on this matter - on April 30, 2019, the court issued a ruling in which it approved the Plaintiffs' abandonment of the motion for certification after reaching the conclusion that there are evidential difficulties in conducting a proceeding against the Company, and this after inspecting the documents they received from the Company and the Company's response to the motion.

Subsection J - on a class action that was filed in the USA against B Communications Ltd., the Company's controlling shareholder, and senior executives therein, in which DBS and officers (past and present) of DBS and the Company, were also included - on March 28, 2019, the Company received notice of a ruling issued by a US court from that same date, which accepted the applications of DBS and the senior officers (past and present) of DBS and the Company, and it dismissed the claim against them outright, due to the absence of personal jurisdiction against them.

Subsection L - on a renewed motion from April 2018 to certify an action as a class action against the Company on the subject of sending spam messages which include a link to the Company's website, and a previous motion on the same subject from March 2015, where the Company filed a motion for permission to appeal the decision to certify it as a class action - on June 6, 2019, the Supreme Court issued a judgment in which the motion for permission to appeal and the Company's appeal were accepted, and it was agreed that a motion for abandonment of the motion for renewed certification from April 2018 would be filed. Subsequently, on June 16, 2019, the motion to abandon this motion was accepted thus terminating both proceedings.

In September 2019, a motion was filed in the Tel Aviv District Court to certify a claim as a class action against the Company further to a ruling by the Competition Commissioner from September 4, 2019, regarding abuse of the Company's position (on this matter, see the update to Section 2.16.8.7). The motion argues 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 section, as well as the refusal to insert cables using the continuous method and instead forcing the competitors to deploy the cables in an inferior, expensive and problematic way without real justification) caused financial loss to consumers. The definition of the group on whose behalf the class action will be filed is anyone who purchased fixed-line communications services in Israel between July 2015 and March 2018, regardless of whether or not they purchased these communication services from the Company. The Claimant estimates the total loss to the group at NIS 400 million (based on personal loss of NIS 400 per class member multiplied by one million Israeli residents who were allegedly harmed by the Company's activity) which is a loss of the reduced tariff in the communications bundles that the group members could have enjoyed were it not for the Company's alleged actions or failures. On a motion to submit this motion and to strike it out on the grounds that it is a similar later motion that was filed by claimants in another motion for certification of a class action, see the update to Section 2.18(C).

In September 2019, a motion was filed in the Jerusalem District Court to certify a claim as a class action against the Company and against another service provider ("the Defendants"). The motion concerns the entitlement of certain groups (such as the elderly and the disabled) to discounts on payments for essential services that the Defendants provide for them. In this context, it is argued that the Defendants do nothing to ensure that the rights of these people are protected, create difficulties for them and they do not credit them for overpayments. The definition of the groups in whose name the class action will be conducted is any person who is entitled to reduced payment to any of the Defendants but paid the full price over the 7 years preceding the filing of the motion without exercising their entitlement, and/or those who presently pay a reduced amount but have not received a retroactive refund for the differences for the entire period of their entitlement. According to the Claimant's estimate, the amount of the class action against the Company is estimated at NIS 90 million.

In October 2019, a motion was filed in the Haifa District Court to certify a class action against the Company and against another respondent. In the motion 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), where the total amount of the class action is stated to exceed NIS 2.5 million (the lower limit of jurisdiction of the court in which the motion was filed).

<u>Section 2.18.3 – Legal proceedings against an investee which is not a key operating segment (Walla)</u>

Subsection A and D - on a motion to certify a class action against Walla from May 2018 alleging that Walla publishes "advertising-related articles" and a motion to certify a class action against Walla and against 8 respondents on the same matter action from March 2019 - in July 2019, the court instructed that Walla should be struck out as a respondent in the motion from March 2019 and that the relevant arguments in this motion should be included in the motion from May 2018. Subsequently, in October 2019, an amended motion for certification was filed for the claim from May 2018 in which several changes were made, including extending the period of the claim and the number of consumers who were exposed to the advertising, various legal grounds were added, the loss components were altered from NIS 60 million to NIS 90 million, and relief was added relating to the removal of advertising for offensive products and the removal of prohibited sensitive advertisements.

Subsection C - on a motion to certify a class action alleging that Walla gave the prime minister favorable news coverage on its website in return for regulatory benefits granted to its controlling shareholder - the Attorney General announced that he would present himself at the proceeding and further to his request on June 26, 2019, the court ordered a six-month stay of proceedings in the case.

Section 2.20 – Discussion of Risk Factors

<u>Section 2.20.5 – Constraints concerning relations between the Company and the subsidiaries in the Bezeq Group</u>

Concerning the Tax Asset – see the update to section 2.14.

<u>Section 2.20.12 - Impairment of subsidiaries</u>

Pursuant to the accounting standards, the Company prepares valuations of its subsidiaries to periodically test for impairment of goodwill and to assess periodic impairment 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 but that might not materialize or could partially materialize and different perspectives affect, with varying intensity, the value of the measured unit, where assumptions relating to the long term 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 5 to the Company's financial statements for the period ended September 30, 2019 and Section 2.1 in the Directors Report.

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

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

In August 2019, Suny Cellular Communications Ltd. began to market the cellular services of Hot Mobile. Suny's entry into this sector could affect competition in the industry.

Section 3.7.1 - Infrastructure

Section 3.7.1.4 - Network investments - Pelephone has begun to plan and prepare an outline for implementing 5G advanced data communications services. The outline is planned to be integrated with existing infrastructures and systems. The operation of these advanced services requires receiving additional frequency spectrum that the Ministry of Communications intends to allocate in the context of the tender (see Section 3.8.2.5).

Section 3.8.2 - Frequency usage rights

Section 3.8.2.5 - Tender for mobile radio telephony services over advanced bandwidths: on July 15, 2019, the Ministry of Communications published a tender for the allocation of additional frequencies, including 5G frequencies ("the Tender"). The main points of the Tender are, *inter alia*, as follows:

Proposed frequencies in the Tender in each frequency spectrum are:

- 700 MHz - bandwidth of 30 x2 MHz;
- 2.600 MHz - bandwidth of 60 x2 MHz;
- 3,500-3,800 MHz - bandwidth of 300 MHz;

Owners of existing networks will be able to compete in the Tender. Additionally, new players will be able to compete on 100 Mega (out of 300) in the 3,500 MHz range, provided that they meet the qualifying conditions. The winners from among the new players will receive special licenses for the provision of specialist 5G services but they will not be permitted to provide cellular services for the previous generations and will only be 5G operators.

The Tender will allow bidders to compete simultaneously on all frequency spectrum and submit combined offers. Among other things, the Tender includes provisions for network coverage and quality requirements that will be formalized as part an amendment to the cellular telephony licenses of the existing operators.

Pelephone is studying the details of the Tender and at this stage it and/or the Company is unable to estimate its impact.

Section 3.9.5 – Collective agreement

On November 13, 2019, Pelephone signed a renewal of the existing collective labor agreement with the General Federation of Labor ("Histadrut") and the workers' representatives which includes streamlining measures and synergy for the period from November 12, 2019, through June 30, 2022. Under the agreement, Pelephone will be able, *inter alia*, to terminate the employment of 210 permanent employees during the agreement period, some as part of a voluntary retirement plan. Additionally, according to its plan, it will terminate the employment of a further 190 non-tenured employees in addition to the non-recruitment of employees to replace those who have ended their employment. The agreement also includes granting a lump-sum bonus to employees who are not included in the severance plan. The total estimated cost is NIS 100 million and it will be paid over the agreement period, assuming full exercise of Pelephone's rights to streamlining and fulfillment of the conditions for granting additional economic benefits to employees.

Section 3.9.5 - Announcement of a labor dispute

On this section and Section 1.8 concerning the announcement of a strike / stoppage - on September 21, 2019 the labor union of Pelephone began to impose a variety of sanctions that led to a partial shutdown of the operations of Pelephone. Subsequently, on September 25, 2019, in view of understandings reached by the parties through the mediation of the Chairman of the General Labor Federation (Histadrut) on principles relating to efficiency measures, the labor union of Pelephone announced a cessation of the sanctions. These principles will serve as the basis for formulating and signing a collective labor agreement in Pelephone.

Section 3.11.2 - Fair Credit Law

On the Fair Credit Law which applies to transactions that will be performed from September 2019 - the activity of Pelephone with respect to all aspects of the sale of handsets, devices and other equipment in installments, constitutes “credit transactions” to which the Consumer Protection Law applies. Accordingly, the Fair Credit law which applies to a “credit transaction” does not apply to these transactions, including in light of its purpose, provisions and credit transactions that were excluded from the Law after its enactment.

Section 3.15 – Material agreements

Section 3.15.3 - agreement between Pelephone and the Accountant General at the Ministry of Finance - in May 2019, the State chose to exercise its right, as conferred upon it in the 2016 agreement to provide cellular services to the Accountant General, and the agreement was extended through August 2022.

Section 3.16 – Legal proceedings

Section 3.16.1(E) - motion to certify a class action alleging that Pelephone acted in a manner that amounted to harassment of a large consumer public by making repeated telephone calls aimed at recruiting customers - on May 28, 2019 a judgment was issued dismissing the motion. In July 2019, the claimant filed an appeal on the judgment in the Supreme Court to certify the claim as a class action.

Section 3.16.1(N) - on a claim and motion for certification of a class action against Pelephone which alleges that Pelephone uses existing information in its possession regarding the location of its subscribers for its own business needs and sends them text messages pertaining to the sale of services relevant to their location - on July 8, 2019, the court authorized the applicants to abandon the motion for certification of the class action against Pelephone and it dismissed their personal claim against Pelephone.

In April 2019, a claim was filed in the Central District Court together with a motion for its certification as a class action against Pelephone and Bezeq International and against 6 other telecom companies (hereinafter together: “the Respondents”). The subject of the claim is the allegation that the Respondents neglect to inform their customers as necessary of the possible risks in use of the Internet and the option to subscribe to a free content filtering service, all this in contravention of the provisions of the Communications Law. Additionally, the Respondents provide a filtering service for websites and harmful content which, in their opinion, is inadequate. According to the petitioners, this represents, *inter alia*, a breach of the provisions of the Consumer Protection Law, breach of obligations under the Torts Ordinance, a breach of contract, and unjust enrichment. The overall loss assessment mentioned in the motion, for all the Respondents together as claimed, on the low side is tens of millions of shekels.

Section 3.19 – Discussion of Risk Factors

Section 3.19.3 – Risk factors for Pelephone

Impairment of Pelephone’s assets - in accordance with the accounting standards, Pelephone periodically tests for the impairment of assets regarding which there are indications of impairment.

Taking note of the business situation of Pelephone and the discrepancy, if there is any, between the carrying amount in the Pelephone’s accounts and its recoverable amount as a cash-generating unit, any decline in the value of the activity could lead to the recording of an impairment loss (write-off) in Pelephone’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 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 5 to the Company’s financial statements for the period ended September 30, 2019 and Section 2.1 in the Directors Report.

4. Bezeq International – International communications, Internet and NEP services

Section 4.2 – Products and services

In July 2019, Bezeq International expanded the marketing of bundles that include content services of yes in addition to Sting TV, together with Internet access services and Bezeq International's home phone line, and in addition DBS began to market the Internet access services of Bezeq International.

Section 4.8 – Human resources

On July 11, 2019, Bezeq International signed a collective agreement with the New General Federation of Labor ("Histadrut") and the workers' representatives which includes streamlining measures and synergy for the period from July 11, 2019 through December 31, 2021. According to Bezeq International's plan and as per the agreement, Bezeq International will be able, *inter alia*, to cut back the employment of up to 325 workers (of which 150 are permanent employees, some as part of a voluntary retirement plan) in addition to the possibility of not recruiting new employees instead of those who terminate their employment. The agreement also includes granting a lump-sum bonus to employees who are not included in the retirement plan. The estimated cost of the agreement is about NIS 60 million, assuming that all the rights of Bezeq International are exercised for the streamlining measures and that conditions for granting additional economic benefits to employees are satisfied.

Section 4.11.5 – Key regulatory developments

In June 2019 Bezeq International contacted the Ministry of Communications concerning the update of its engineering program to include the deployment of fiber optics, and on August 27, 2019, Bezeq International submitted to the Ministry of Communications a service file on the matter. On October 24, 2019, the Director General of the Ministry of Communications informed Bezeq International that at this time, the request to approve the service portfolio is denied. Among other reasons given, this is because it is an extraordinary request pertaining to Bezeq International's entry to a new area of activity which has implications for the entire Bezeq Group and for issues relating to the deployment of optical fibers by Bezeq Group, and that such a move requires a broad review of the implications and integration of the service in the Ministry's regulatory approach.

Section 4.12 – Legal proceedings

Subsection A - On a class action from November 2011 concerning broadband speed, on July 9, 2019 a judgment was given accepting the class action and obligating Bezeq International to pay compensation to its private internet customers, in the total amount of NIS 9 million.

Subsection D - On a motion to certify a class action concerning the tariff for outgoing international calls - on July 4, 2019, a ruling was given denying the motion.

On July 25, 2019, a ruling of the Tel Aviv-Jaffa District Court was received certifying a motion for a class action against Bezeq International. The subject of the action is the allegation that excessive amounts were collected from its Internet service customers. The court ruled that the definition of the group will be any Bezeq International customer that entered into agreement with it for a fixed period and that after the fixed period, Bezeq International collected from the customer a higher price for the services provided to it under the agreement, without receipt of prior, written notice in accordance with the Consumer Protection Law, and without having given Bezeq International their agreement to receive notices and updates by email, in the seven years preceding the motion for certification and until today. The grounds for the claim for which the motion was certified are breach of a statutory duty and unjust enrichment. Bezeq International is studying the ruling and it will respond at the times stipulated by law.

On a new motion to certify a class action that was filed against Bezeq International and Pelephone on the subject of content filtering services, see the update to Section 3.16. Notably, in 2015, a motion to certify a class action against Bezeq International was filed on similar grounds, which was certified as a class action in 2018 (described in Section 4.12(C) in the Description of Company Operations in the Company's Periodic Report for 2018).

Section 4.14 – Discussion of Risk Factors

Impairment of assets of Bezeq International

In accordance with the accounting standards, Bezeq International periodically tests for the impairment of assets regarding which there are indications of impairment.

Taking note of the business situation of Bezeq International and the discrepancy, if there is any, between the carrying amount in the Bezeq International's accounts and its recoverable amount as a cash-generating unit, any decline in the value of the activity could lead to the recording of an impairment loss (write-off) in Bezeq International'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 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 5 to the Company's financial statements for the period ended September 30, 2019 and Section 2.2 in the Directors Report.

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

Section 5.2 – Products and services

In July 2019, DBS began to market bundles that include its content services (satellite television services or Sting TV), together with Internet access services and Bezeq International's home phone line.

On the launching of the yes+ service, see the update to Section 5.18.4.

Section 5.8.5 - Operating and encryption systems

In June 2019, an assignment agreement was signed between DBS, Cisco and Synamedia in which Cisco's rights and liabilities under the agreement with DBS were transferred to Synamedia, and at the same time it was agreed that several past disputes that had emerged between DBS and Cisco will be settled between them separately.

Section 5.11 – Human resources

In Q2 2019, DBS began to implement the collective arrangement in connection with the streamlining and synergy processes. At November 17, 2019, the number of DBS employees was 1,307, a decrease of 15% compared with the number of employees at December 31, 2018.

On November 17, 2019, DBS signed an extension of its collective agreement with the New National Federation of Workers and the DBS labor union, with some changes, until December 31, 2021.

Section 5.13 - Financing

In November 2019, the Company approved a credit facility or investment in the capital of DBS in the total amount of up to NIS 250 million, for a period of 15 months, from October 1, 2019 This approval is instead of similar approval given in August 2019 (and not in addition to it).

Section 5.16.1 – Material agreements - Space segment leasing agreement

In October 2019, Spacecom reported a malfunction in the reserve attitude indicator (artificial horizon) in the Amos 3 satellite, preventing its use should the need arise, and that it is currently working together with the satellite manufacturer (Israel Aerospace Industries) to prepare an outline plan for testing the device as well as a plan to deal with the malfunction. Spacecom also announced that since it was launched, the satellite has been using the main attitude indicator without any problems and that it continues to provide complete and fully functioning service. If the main attitude indicator should stop working and the fault in the reserve attitude indicator is not repaired, the satellite will be unable to continue broadcasting (for information about backup arrangements in the event of unavailability, see this section above and Section 5.19.3.3 in the Periodic Report for 2018).

Concerning the present option that DBS has to inform Spacecom of the termination of the agreement - see Note 11 to the Company's financial statements as at September 30, 2019.

Section 5.17.1 - Pending legal proceedings

Subsection A - motion to certify a class action concerning electricity consumption by broadcasting equipment that belongs to DBS on apartment buildings - in June 2019, a ruling was received approving the compromise agreement that the parties submitted to the court at a cost of NIS 4 million to DBS. The compromise settlement also stipulates that DBS will take action to inform the apartment buildings with respect to bearing the cost of the communal electricity and will allow them to ask to disconnect the reception equipment from the communal electricity.

Subsection B - motion to certify a class action regarding advertisements allegedly sent by DBS to its customers - in June 2019, the court approved filing the action as a class action, solely on the grounds of a breach of the provisions of Section 30A of the Communications Law ("the Certification Decision"). The motion was approved with respect to non-financial loss only, while the applicants' arguments concerning financial loss were dismissed. Furthermore, the court ruled that the group will be defined as anyone who was a DBS customer from December 1, 2008 and up to the date of this ruling who received such advertisements, and had not given DBS their consent in advance to receive the advertisements. In July 2019, DBS filed a motion for permission to appeal the Certification Decision, together with a motion to stay its implementation, in the Supreme Court. In August 2019, the Supreme Court ruled a stay of implementation of the Certification Decision until a decision is made on the right to appeal. Similarly, in October 2019 the petitioners filed their appeal on the Certification Decision.

Subsection D - motion to certify a class action which includes a claim that fixed-period transactions were renewed automatically while charging customers unilaterally and without their consent - in April 2019, a judgment was handed down in which the court approved the compromise settlement.

Subsection F - on an update relating to the investigation by Israel Police and the Securities Authority, see the update to Section 1.1.5.

Subsection G, H and J (Pending legal proceedings in view of the investigation by the ISA and Israel Police) - see the update to Section 2.18.1, subsection H, I and M.

Subsection I - on a motion to certify a class action which was filed in the USA - see the update to Section 2.18 J.

Section 5.18.4 - Goals and strategy

In October 2019, DBS announced the launching of yes+ - an additional Internet-based television service which includes linear television channels, as well as VOD content and an advanced technology interface, which started as a customer trial and will then be expanded to a general service. Initially, customers will be able to utilize the service using Apple streaming devices and subsequently subscribers to the Android operating system and smart TVs will also be able access the service. The service will be provided as a stand-alone option or in parallel with the use of satellite STBs. The service includes a much broader range of content than that offered by Sting TV (on the Sting TV service, see Section 5.2.2 in the Periodic Report for 2018).

November 17, 2019	
Date	Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Shlomo Rodav, Chairman of the Board of Directors

Dudu Mizrahi, CEO

Chapter B -

Board of Directors' Report on the State of the Company's Affairs for the Period Ended September 30, 2019

We hereby present the Board of Directors' report on the state of affairs of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group"), for the nine months ended September 30, 2019 ("the Period") and the three months then ended ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2018 is also available to the reader.

For information concerning the Israel Securities Authority and the Israel Police's investigation, see Note 1.2 to the financial statements.

The auditors have drawn attention to the matter in their opinion of the financial statements.

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

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

It is noted that the Company's financial statements also include an "Others" segment, which comprises mainly online content services (through "Walla") and call center services (through "Bezeq Online"). The "Others" segment is immaterial at the Group level.

The Group's results were as follows:

	1-9.2019	1-9.2018	Increase (decrease)		7-9.2019	7-9.2018	Increase (decrease)	
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%
Profit (loss)	**(1,082)**	689	(1,771)	-	**191**	234	(43)	(18.4)
EBITDA[1]	**2,301**	2,871	(570)	(19.9)	**940**	976	(36)	(3.7)

The decrease in the above results in the Period was attributable to lower operating profit, mainly due to losses of NIS 951 million in impairment of goodwill in the Cellular Communications segment, See Note 5.1 to the financial statements. This decrease was partially offset, mainly by NIS 403 million in capital gains on the sale of a land asset in the Sakia property. See Note 7 to the financial statements. Furthermore, the change in the Group's profits was affected by the write-off of the tax asset for losses in DBS, to the amount of NIS 1,166 million, effected as a change of an accounting estimate. See Note 6 to the financial statements.

Results for the Quarter were affected by higher operating profits, wholly offset by increased finance expenses, as detailed below.

EBITDA calculations	1-9.2019	1-9.2018	7-9.2019	7-9.2018
	NIS millions	NIS millions	NIS millions	NIS millions
Operating profit	**876**	1,262	**459**	429
Depreciation, amortization and impairment	**1,425**	1,609	**481**	547
EBITDA	**2,301**	2,871	**940**	976

[1] EBITDA - In light of the continued impairment of DBS's and Walla's property, plant and equipment and intangible assets, the definition for EBITDA was updated as from the first quarter of 2019, as follows: operating profit before depreciation and amortization and continued losses from impairment of property, plant and equipment and intangible assets (see Notes 3.1 and 5 to the financial statements).

1. The Board of Directors' explanations on the state of the Company's affairs, the results of its operations, equity, cash flows, and additional matters

1.1 Financial position

	September 30, 2019	September 30, 2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Cash and current investments	**2,389**	2,925	(536)	(18.3)	The decrease was mainly recorded in Domestic Fixed-Line Communications cash balances, including due to early repayment of loans and debentures in the third quarter of 2019. For more information, see Section 1.3 - Cash Flows, below.
Current and non-current trade and other receivables	**2,505**	2,527	(22)	(0.9)	
Inventory	**94**	86	8	9.3	
Broadcasting rights	**63**	470	(407)	(86.6)	The decrease was due to the asset's impairment in DBS. See Note 5.2 to the financial statements.
Usage right assets	**1,361**	1,434	(73)	(5.1)	This decrease was mainly attributable to the Domestic Fixed-Line Communications segment.
Property, plant and equipment	**6,217**	6,789	(572)	(8.4)	The decrease was mainly due to the asset's impairment in DBS. See Note 5.2 to the financial statements.
Intangible assets	**968**	2,627	(1,659)	(63.2)	The decrease was mainly due to a NIS 951 million impairment in goodwill attributed to the Cellular Communications segment in the Period, and impairment and amortization of excess acquisition costs attributed to DBS and impairment of other intangible assets in DBS. See Note 5 to the financial statements.
Deferred tax assets	**18**	1,041	(1,023)	(98.3)	The decrease was due to a NIS 1,166 million write-off of the tax asset for DBS's losses, effected as a change of an accounting estimate in the second quarter of 2019. See Note 6 to the financial statements. The decrease was partially offset by the reversal of a tax reserve for DBS's impairment in 2018.
Deferred costs and non-current investments	**469**	519	(50)	(9.6)	The decrease includes impairment of a subscriber acquisition asset in DBS at the end of 2018, and impairment of assets in the International Communications, Internet, and NEP Services segment.
Investment property	**-**	140	(140)	(100)	The balance was reduced after completion of the Sakia land asset's sale and recognition of capital gains (see Note 7 to the financial statements).
Total assets	**14,084**	18,558	(4,474)	(24.1)	

1.1. Financial Position (Contd.)

	September 30, 2019	September 30, 2018	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Debt to financial institutions and debenture holders	**10,519**	11,947	(1,428)	(12.0)	This decrease in debt balances was due to loan and debenture repayments, including an early repayment carried out in the present Quarter (see Note 8.3 to the financial statements). These were offset by debenture issuances and new loans in the Domestic Fixed-Line Communications segment.
Liabilities for leases	**1,416**	1,467	(51)	(3.5)	
Trade and other payables	**1,503**	1,602	(99)	(6.2)	The decrease was due, among other things, to timing differences.
Employee benefits	**904**	596	308	51.7	The increase was due to an increase in provisions for an early retirement plan in the Domestic Fixed-Line Communications segment in the fourth quarter of 2018, and provisions for early retirement arrangements and a streamlining agreement in the Multi-Channel Television segment and the International Communications, Internet, and NEP Services segment, respectively, in the Period (see Note 9 to the financial statements).
Tax liabilities	**65**	100	(35)	(35.0)	
Dividend payable	**-**	318	(318)	(100)	
Other liabilities	**360**	358	2	0.6	
Total liabilities	**14,767**	16,388	(1,621)	(9.9)	
Total equity (equity deficit)	**(683)**	2,170	(2,853)	-	The equity deficit comprises 4.8% of the balance sheet total, as compared to equity comprising 11.7% of the balance sheet total on September 30, 2018. The transition to equity deficit was mainly due to losses recorded in the present Period, attributable mainly to losses from impairment of goodwill in the Cellular Communications segment and the write-off of the tax asset for DBS's losses. Equity was also down due to losses recorded in the fourth quarter of 2018.
	14,084	18,558	(4,474)	(24.1)	

1.2 Results of operations

1.2.1 Highlights

	1-9.2019	1-9.2018	Increase (decrease)		7-9.2019	7-9.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	
Revenues	**6,727**	6,995	(268)	(3.8)	**2,247**	2,301	(54)	(2.3)	The decrease was due to lower revenues across all the Group's core segments (excluding the Cellular Communications segment, where revenues increased in the Quarter).
General and operating expenses	**2,420**	2,494	(74)	(3.0)	**794**	815	(21)	(2.6)	The decrease in the present Period was mainly attributable to the Cellular Communications and Multi-Channel Television segments.
Salaries	**1,455**	1,507	(52)	(3.5)	**474**	494	(20)	(4.0)	The decrease was due to lower expenses across all the Group's core segments, following downsizing efforts.
Depreciation, amortization and impairment	**1,425**	1,609	(184)	(11.4)	**481**	547	(66)	(12.1)	The decrease in depreciation and amortization costs was mainly due to impairment of depreciable assets and excess acquisition costs in DBS in the fourth quarter of 2018. On the other hand, in the present Period and Quarter, the item included an ongoing impairment of DBS's assets (property, plant and equipment and intangible assets). See Note 5.2 to the financial statements.
Other operating expenses (income), net	**(400)**	113	(513)	-	**39**	6	33	-	The transition from net expenses to net income in the present Period was attributable to the Domestic Fixed-Line Communications segment, mainly following NIS 403 million in capital gains from the sale of a land asset in the Sakia property (see Note 7 to the financial statements). This change was partially offset by a streamlining arrangement in the Multi-Channel Television segment (in the Period) and a streamlining agreement in the International Communications, Internet, and NEP Services segment (in the Quarter), to the amount of NIS 45 million in each segment (see Note 9 to the financial statements).
Impairment loss	**951**	10	941	-	**-**	10	(10)	(100)	Loss from impairment of goodwill in Cellular Communications operations. See Note 5.1 to the financial statements.
Operating profit (loss)	**876**	1,262	(386)	(30.6)	**459**	429	30	7.0	
Finance expenses, net	**440**	327	113	34.6	**205**	109	96	88.1	This increase in net finance expenses was mainly attributable to the Domestic Fixed-Line Communications segment, mostly due to finance costs from the early repayment of loans and debentures (see Notes 8.3 and 16 to the financial statements).
Share in losses of investees	**2**	3	(1)	(33.3)	**1**	1	-	-	
Income tax	**1,516**	243	1,273	-	**62**	85	(23)	(27.1)	Taxes were up in the present Period following reversal of the tax asset recognized on DBS's losses, and recognition of NIS 1,166 million in tax expenses in the second quarter of 2019. See Note 6.1 to the financial statements. Taxable profits were also up, mainly due to capital gains recognized on the sale of a land asset in the Sakia property in the Period.
Profit (loss) for the period	**(1,082)**	689	(1,771)	-	**191**	234	(43)	(18.4)	

1.2.2 Operating segments

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

	1-9.2019		1-9.2018		7-9.2019		7-9.2018	
	NIS millions	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**
Revenues by operating segment								
Domestic Fixed-Line Communications	**3,088**	**45.9**	3,170	45.3	**1,025**	**45.6**	1,043	45.3
Cellular Communications	**1,760**	**26.1**	1,825	26.1	**612**	**27.2**	604	26.3
International Communications, Internet and NEP Services	**1,009**	**15.0**	1,021	14.6	**329**	**14.6**	333	14.5
Multi-Channel Television	**1,014**	**15.1**	1,117	16.0	**334**	**14.9**	367	15.9
Others and adjustments	**(144)**	**(2.1)**	(138)	(2.0)	**(53)**	**(2.3)**	(46)	(2.0)
Total	**6,727**	**100**	6,995	100	**2,247**	**100**	2,301	100

	1-9.2019		1-9.2018		7-9.2019		7-9.2018	
	NIS millions	**% of segment revenues**	**NIS millions**	**% of segment revenues**	**NIS millions**	**% of segment revenues**	**NIS millions**	**% of segment revenues**
Operating profit by segment								
Domestic Fixed-Line Communications	**1,846**	**59.8**	1,311	41.4	**440**	**42.9**	451	43.2
Cellular Communications*	**(2)**	**(0.1)**	2	0.1	**16**	**2.6**	(2)	(0.3)
International Communications, Internet and NEP Services	**32**	**3.2**	95	9.3	**(20)**	**(6.1)**	31	9.3
Multi-Channel Television	**(96)****	**(9.5)**	(17)	(1.5)	**(29)****	**(8.7)**	1	0.3
Others and adjustments	**(904)**	**-**	(129)	-	**52**	**-**	(52)	-
Consolidated operating profit (loss) % of Group revenues	**876**	**13.0**	1,262	18.0	**459**	**20.4**	429	18.6

* Impairment loss from Cellular Communications segment, as detailed in Note 5.1 to the financial statements, is presented under the adjustments item.

** Results for the Multi-Channel Television segment are presented after adjustment for impairment losses, as detailed in Note 5.2 to the financial statements. These impairment losses are presented under the 'Adjustments' item.

1.2.2 Operating segments (contd.)

B. Domestic Fixed-Line Communications Segment

	1-9.2019	1-9.2018	Increase (decrease)		7-9.2019	7-9.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	
Fixed-line telephony	**792**	875	(83)	(9.5)	**259**	282	(23)	(8.2)	The decrease was due to a decrease in the subscriber base and lower ARPU on phone lines.
Internet - infrastructure	**1,186**	1,200	(14)	(1.2)	**393**	401	(8)	(2.0)	This decrease in revenues was mainly due to a decrease in the number of retail internet subscriber lines, offset by higher average revenues per retail user. This was coupled with a downward trend in revenues from wholesale internet services.
Transmission, data communications and others	**902**	898	4	0.4	**304**	291	13	4.5	The increase was mainly attributable to cellular handset sales.
Digital and cloud services	**208**	197	11	5.6	**69**	69	-	-	The increase in the Period was mainly due to IP Centrex services.
Total revenues	**3,088**	3,170	(82)	(2.6)	**1,025**	1,043	(18)	(1.7)	
General and operating expenses	**418**	428	(10)	(2.3)	**144**	143	1	0.7	The change was mainly due to lower marketing and general and building maintenance expenses, offset by higher expenses on terminal equipment and materials.
Salaries	**688**	693	(5)	(0.7)	**224**	233	(9)	(3.9)	
Depreciation and amortization	**636**	633	3	0.5	**225**	218	7	3.2	
Other operating expenses (income), net	**(500)**	105	(605)	-	**(8)**	(2)	(6)	-	The change was mainly due to capital gains on real estate sales, primarily NIS 403 million in capital gains on the sale of the land asset in the Sakia property in the Period (see Note 7 to the financial statements). Furthermore, in the Period, the provision for termination of employment by way of early retirement was reduced, as compared to expenses from termination of employment by way of early retirement in the corresponding period of last year.
Operating profit	**1,846**	1,311	535	40.8	**440**	451	(11)	(2.4)	
Finance expenses, net	**454**	353	101	28.6	**207**	113	94	83.2	The increase in net finance expenses was mainly due to NIS 73 million in finance costs on the early repayment of loans and Debentures (Series 7) recorded in the present Quarter (see Note 8.3 to the financial statements). Net finance expenses were also up due to finance expenses on employee benefits. This increase was partially offset, mainly by finance expenses recognized in the same period and quarter last year, following impairment in the fair value of the amount expected to have been returned to the Company on DBS's acquisition.
Income tax	**334**	236	98	41.5	**58**	81	(23)	(28.4)	
Segment profit	**1,058**	722	336	46.5	**175**	257	(82)	(31.9)	

1.2.2 Operating segments (contd.)

C. Cellular Communications segment

	1-9.2019	1-9.2018	Increase (decrease)		7-9.2019	7-9.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	
Services	**1,292**	1,318	(26)	(2.0)	**446**	449	(3)	(0.7)	The decrease was mainly due to lower prices and migration of existing customers to cheaper plans offering greater data volumes at current market prices. This decrease in prices was partially offset by growth in the post-paid customer base.
Equipment sales	**468**	507	(39)	(7.7)	**166**	155	11	7.1	The decrease in the Period was mainly due to a decrease in the number of handsets sold, and lower income per unit due to changes in the handset sales mix. The increase seen in the Quarter was mainly attributable to growth in wholesale volumes.
Total revenues	**1,760**	1,825	(65)	(3.6)	**612**	604	8	1.3	
General and operating expenses	**1,009**	1,048	(39)	(3.7)	**348**	344	4	1.2	The decrease in the present Period was mainly due to a reduction in the cost of handset sales and continued downsizing and streamlining of operating expenses. In the Quarter, these expenses were up, mainly due to an increase in the cost of sales for handsets.
Salaries	**279**	289	(10)	(3.5)	**89**	94	(5)	(5.3)	The decrease was mainly attributable to a reduction in the workforce.
Depreciation and amortization	**469**	478	(9)	(1.9)	**157**	161	(4)	(2.5)	
Other operating expenses, net	**5**	8	(3)	(37.5)	**2**	7	(5)	(71.4)	
Operating profit (loss)	**(2)**	2	(4)	-	**16**	(2)	18	-	
Finance income, net	**31**	28	3	10.7	**8**	11	(3)	(27.3)	
Income tax	**7**	8	(1)	(12.5)	**6**	3	3	100	
Segment profit	**22**	22	-	-	**18**	6	12	200	

For information on impairment in the mobile communications sector, see Note 5.1 to the financial statements.

1.2.2 Operating segments (contd.)

D. International Communications, Internet and NEP Services

	1-9.2019	1-9.2018	Increase (decrease)		7-9.2019	7-9.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	
Revenues	**1,009**	1,021	(12)	(1.2)	**329**	333	(4)	(1.2)	In the Period, the decrease was mainly due to lower revenues from international calls and internet operations and the sale of outsourcing operations in the second quarter of 2018. This decrease was offset by higher revenues from services and equipment to businesses.
General and operating expenses	**582**	561	21	3.7	**194**	184	10	5.4	The increase was due to an increase in the cost of sales for equipment and business licenses, and an increase in domestic and international bandwidth expenses. The increase was partially offset by lower international call expenses.
Salaries	**196**	228	(32)	(14.0)	**63**	70	(7)	(10.0)	The decrease was due to a reduction in the number of employee roster and, in the Period, was also due to the sale of outsourcing operations in the second quarter of 2018.
Depreciation and amortization	**139**	134	5	3.7	**47**	46	1	2.2	The increase in the present Period was due to increased amortization of the subscriber acquisition asset and amortization of international bandwidth.
Other expenses	**60**	3	57	-	**45**	2	43	-	The increase was due to NIS 45 million in expenses recognized in the Quarter pursuant to an agreement signed by the Company and Histadrut Clalit and the workers' union in July 2019. The agreement includes streamlining and operational synergy initiatives (see Note 9.2 to the financial statements). Results were also affected by an increase in provisions for legal claims in the Period.
Operating profit (loss)	**32**	95	(63)	(66.3)	**(20)**	31	(51)	-	
Finance expenses, net	**10**	11	(1)	(9.1)	**3**	4	(1)	(25.0)	
Tax expenses	**5**	20	(15)	(75.0)	**(5)**	7	(12)	-	
Segment profit (loss)	**17**	64	(47)	(73.4)	**(18)**	20	(38)	-	

1.2.2 Operating segments (contd.)

E. Multi-Channel Television

	1-9.2019*	1-9.2018	Increase (decrease)		7-9.2019*	7-9.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	
Revenues	**1,014**	1,117	(103)	(9.2)	**334**	367	(33)	(8.9)	The decrease was mainly due to a decrease in the customer base and in ARPU.
General and operating expenses	**667**	712	(45)	(6.3)	**219**	229	(10)	(4.4)	The decrease was mainly due to a decrease in expenses for advertising and marketing, contractors and professional consultants which was offset (mainly in the Quarter) by higher content expenses.
Salaries	**156**	174	(18)	(10.3)	**50**	56	(6)	(10.7)	The decrease was mainly attributable to a reduction in the workforce.
Depreciation and amortization	**252**	239	13	5.4	**93**	81	12	14.8	The increase was mainly due to the impairment of STB boxes.
Other operating expenses, net	**35**	9	26	-	**1**	-	1	-	In the Period, the increase was mainly due to expenses recognized on an employee retirement arrangement (see Note 9.1 to the financial statements), offset by an update to the provision for legal claims.
Operating profit (loss)	**(96)**	(17)	(79)	-	**(29)**	1	(30)	-	
Finance expenses (income), net	**11**	(7)	18	-	**4**	3	1	33.3	The change in net finance expenses in the present Period was mainly due to a change in the fair value of financial assets.
Tax expenses	**2**	1	1	100	**1**	-	1	-	
Segment loss	**(109)**	(11)	(98)	-	**(34)**	(2)	(32)	-	

* The Multi-Channel Television segment's results for the Period and Quarter are presented net of impairment. See Notes 5.2 and 18 to the financial statements.
This matches the way that the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment.
Furthermore, see Note 19.3 for highlights from DBS's financial statements.

1.3 Cash flow

	1-9.2019	1-9.2018	Change		7-9.2019	7-9.2018	Change		Explanation
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	
Net cash from operating activities	**2,176**	2,598	(422)	(16.2)	**787**	883	(96)	(10.9)	The decrease in net cash from operating activities was due to lower profits and changes in working capital, including employee retirement payments. In the Period, these were partially offset by a decrease in income tax payments on final tax assessments in the corresponding period last year. This decrease in cash flow in the present Period was reported across all of the Group's core segments. The decrease in cash flow in the Quarter was mainly attributable to the Domestic Fixed-Line Communications segment.
Net cash used in investing activities	**(1,172)**	(2,543)	1,371	(53.9)	**(123)**	(232)	109	(47)	The decrease in net cash used in investing activities was mainly due to lower net investments in bank and other deposits (in the Quarter - an increase in net proceeds) in the Domestic Fixed-Line Communications segment. Furthermore, the present Period included proceeds on the sale of the Sakia property, and a refund of betterment levy received in the present Quarter (see Note 7 to the financial statements), as compared to betterment tax payments on the said sale in the same period last year.
Net cash used in financing activities	**(1,255)**	(828)	(427)	51.6	**(996)**	(166)	(830)	500	The increase in net cash used in financing activities was due to early repayment of loans and debentures in the present Quarter in the Domestic Fixed-Line Communications segment, which was partially offset by debenture issuances and new loans (see Note 8 to the financial statements). This increase was also partially offset by the lack of dividend payments in the present Period.
Net increase (decrease) in cash	**(251)**	(773)	522	(67.5)	**(332)**	485	(817)	(168.5)	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders - NIS 11,113 million.

Supplier credit: NIS 847 million. Short-term credit to customers: NIS 1,755 million. Long-term credit to customers: NIS 324 million.

<u>Working Capital</u>

As of September 30, 2019, the Group had a working capital surplus of NIS 967 million, as compared to a working capital surplus of NIS 509 million on September 30, 2018.

According to its separate financial statements, the Company had a working capital surplus of NIS 656 million as of September 30, 2019, as compared to a working capital surplus of NIS 355 million on September 30, 2018.

This increase in the Group's and the Company's working capital was mainly due to a decrease in current maturities on debentures and loans following loan and debenture repayments in accordance with the Company's amortization schedule and including an early repayment made in the present Quarter while concurrently raising longer-duration debt (see Note 8 to the financial statements). Furthermore as of the financial statements' date, there are no dividends payable. This increase was partially offset by a decrease in cash balances.

1.4 Disclosure on the Company's projected cash flows

According to Regulation 10(b)(14) to the Securities Regulations (Periodic and Immediate Reports), 1970, and given the relevant warning sign of a deficit in equity in the Company's separate statements and in the consolidated statements, the Company hereby presents its projected cash flow statement, disclosing the sources and uses of cash for the period starting October 1, 2019 and ending December 31, 2021.

Projected cash flows	From Oct. 1, 2019 through December 31, 2019	From Jan. 1, 2020 through December 31, 2020	From Jan. 1, 2021 through December 31, 2021
Company - Separate	**NIS millions**	**NIS millions**	**NIS millions**
Cash and cash equivalents at the beginning of the period	*** 242**	**427**	**1,435**
Sources - Company			
Net cash from operating activities	**483**	**1,844**	**1,948**
Proceeds from the sale of property, plant and equipment	29	240	27
Proceeds from redemption of bank and other deposits	781	937	-
Miscellaneous	2	2	4
Cash flows from investing activities	**812**	**1,179**	**31**
Debenture issuance and new loans	325	** 900	400
Cash flows from financing activities	**325**	**900**	**400**
Total sources - Company	**1,620**	**3,923**	**2,379**
Sources from investees			
Loans from investees	170	50	156
Repayment of loans to investees	15	90	-
Miscellaneous	1	3	-
Total cash from investees	**186**	**143**	**156**
Total sources	**1,806**	**4,066**	**2,535**
Projected liabilities (expected uses) - Company			
Acquisition of fixed assets and investment in intangible assets	(219)	(862)	(939)
Cash used in investing activities	**(219)**	**(862)**	**(939)**
Repayment of bank loans	(118)	(344)	(222)
Repayment of debentures (public)	(661)	(589)	(597)
Repayment of private debentures and non-bank credit	(317)	** (562)	(98)
Principal and interest payments on leases	(29)	(112)	(110)
Interest payments and other finance expenses	(197)	(379)	(312)
Miscellaneous	(27)	(14)	(29)
Cash used in financing activities	**(1,349)**	**(2,000)**	**(1,368)**
Total uses - Company	**(1,568)**	**(2,862)**	**(2,307)**

* The Company has NIS 1,718 million invested in deposits and money market funds that are available for short-term use.

** In light of the Company's current estimates, the projection for debenture issuances and new loans and the projection for (early) repayment of private debentures and non-bank credit facilities include an assumption concerning continuation of the plan for extending the debt's duration in 2020.

Projected cash flows	From October 1, 2019 through December 31, 2019	From January 1, 2020 through December 31, 2020	From January 1, 2021 through December 31, 2021
Company - Separate (contd.)	**NIS millions**	**NIS millions**	**NIS millions**
Uses for investees			
Investment in a subsidiary	(25)	(165)	(150)
Loans to subsidiaries	-	-	(8)
Interest payment	(28)	(31)	(36)
Total cash used in investees	**(53)**	**(196)**	**(194)**
Total uses	**(1,621)**	**(3,058)**	**(2,501)**
Cash and cash equivalents at the end of the period	**427**	**1,435**	**1,469**

Assumptions underlying the projected cash flows:

1. Company projections concerning cash flows from operating activities and cash flows for investing activities:

A. The Company's and its investees' projections for the period starting October 1, 2019 and ending December 31, 2019 are based on the Company's and its investees' budget, with such adjustments as dictated by actual performance and changing circumstances.

B. The cash flow projections for the Company and its investees for 2020 and 2021 are based on current assessments for said years, prior to formulating the budget for the Company and its investees for 2020. The companies are currently working to formulate its budget and work plans for 2020, and any changes in the goals, targets, and focus of the Group's companies may affect these assessments.

C. The projected cash flows for the Company and its investees are based, among other things, on the performance of the Company and its investees in recent years and assessments concerning trends expected in the telecom market in the coming years. These include assessments concerning market competition, prices, consumer preferences, regulatory arrangements, technological developments, and the economy at large. Operating, sales and marketing expenses have been adjusted to match the projected scope of operations. As such, the projection includes assumptions concerning streamlining initiatives in the Company's and its investees' workforce and the associated retirement and salary costs.

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

2. Material liabilities due for maturity in the first six months of the projected cash flow period

Principal repayments in the period between October 1, 2019 and December 31, 2020 according to the Company's amortization schedules:

October 2019 - a NIS 56 million repayment of bank loans.

November 2019 - a NIS 62 million repayment of bank loans and a NIS 17 million repayment of private debentures and non-bank credit.

December 2019 - a NIS 661 million repayment of public debentures.

Early repayments in the period between October 1, 2019 and December 31, 2020:

In December 2019, the Company plans to effect the early repayment of private debentures and non-bank credit facilities to the total amount of NIS 300 million.

Sources for settling liabilities

The Company has sufficient sources to settle its liabilities, through cash generated from operating activities, cash balances and investments in deposits and money market funds which can be utilized in the short term, and by raising debt from bank and non-bank sources.

3. The Board of Directors has reviewed and approved the sources included in the disclosure concerning projected cash flows, having found the scope of each source and its expected timing to be reasonable. The Board of Directors has also reviewed whether any restrictions applicable to the receipt of dividends, loans, and loan repayments from investees and is satisfied that they are expected to be received 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 originally taken into account.

2. Disclosure Concerning the Company's Financial Reporting

2.1 Disclosure of valuations

The following table discloses valuations pursuant to Regulation 8B to the Securities Regulations (Periodic and Immediate Reports), 1970.

Pelephone's valuation is included in these financial statements by way of reference to the Company's financial statements as of June 30, 2019, published on August 29, 2019.

	DBS - Extremely Material Valuation (1) Attached to the financial statements as of September 30, 2019	Pelephone - Extremely Material Valuation (2) Attached to the financial statements as of June 30, 2019
Subject of valuation	Net disposal value of DBS Satellite Services (1998) Ltd.'s assets, to test for impairment of intangible assets.	Pelephone's EV to test for impairment of goodwill attributed for its operations in the Company's financial statements pursuant to IAS 36.
Date of valuation	September 30, 2019; the valuation was signed on November 10, 2019.	June 30, 2019; valuation signed on August 25, 2019.
Value prior to the valuation	Negative amount of NIS (68) million.	NIS 2,165 carrying amount of Pelephone's net operating assets * (NIS 1,027 million - balance of goodwill).
Value set in the valuation	Negative amount of NIS (148) million.	NIS 1,214 million. The Company concluded that there is impairment requiring a write-down of NIS 951 million in goodwill recognized in the Company's books.
Assessor's identity and profile	Prometheus Financial Advisory Ltd. The valuation was performed by a team headed by Mr. Gideon Peletz, CPA, who holds a BA in Accounting and Economics from the Tel Aviv University. Mr. Peletz has extensive experience performing valuations, financial statement analyses, preparing expert opinions, and providing various financial advisory services for companies and businesses. The assessor has no dependence on the Company. The Company has undertaken to indemnify the assessor for damages exceeding three times their fee, unless they acted maliciously.	
Valuation model	NRV	Discounted Cash Flow method (DCF)
Assumptions used in the valuation	Assumptions concerning the NRV of DBS's assets	Discount rate - 10.27% Permanent growth rate - 2.5% Scrap value from total appraised value - 96%

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

(1) Despite the negative value of DBS's operations, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 4.3 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.

(2) The period that elapsed between the effective date of Pelephone's valuation and the approval date of this report exceeds 90 days. As of September 30, 2019, Pelephone tested for signs of impairment. As of the reporting date, no signs have been identified which may indicate possible additional impairment in the cash-generating unit referred to as the Cellular Communications segment.

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

2.2 Testing for impairment in the International Communications, Internet and NEP Services segment

Following on Section 3.2 to the Company's Board of Directors' Report of December 31, 2018, concerning a material valuation of Bezeq International, the latter performed a formal review to test for signs of impairment as of September 30, 2019. This review was performed in accordance with IAS 36 and in view of the small difference measured as of December 31, 2018 between the value of Bezeq International's operations (NIS 1,061), and the carrying amount of its net operating assets (NIS 828 million). As of the financial statements' date, no signs were found for impairment. It is clarified that the value of these operations are affected by assessments and forecasts concerning a long list of factors with various levels of influence on the value of operations, and that cash flows in the representative year significantly affect EV and changes in assessments concerning these cash flows significantly affect the valuation.

It is further clarified that internet operations are a key source of profit for Bezeq International, and changes in market trends in this segment, with no corresponding offsetting effect in Bezeq International's other operations, may materially affect the valuation.

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

2.4 For information on **material events subsequent to the financial statements' date**, see Note 20 to the financial statements.

3. Details of debt certificate series

On April 8, 2019, Midroog Ltd. ("Midroog") maintained its Aa2.il rating for the Company's Debentures (Series 6,7,9, and 10) and changed its outlook from stable to negative (see immediate report, ref. no. 2019-01-032406). Furthermore, on May 7, 2019, S&P Global Ratings Maalot Ltd. ("Maalot") affirmed its ilAA/Negative rating for the Company (see immediate report, ref. no. 2019-01-039834).

On August 6, 2019, Midroog posted an issuer comment concerning the Company's debentures, while maintaining its Aa2.il/Negative rating for the debentures (see immediate report, ref. no. 2019-01-067917).

On August 12, 2019, Maalot announced that it was downgrading the Company and its subsidiaries, and of the Company's debentures, to ilAA-/Negative following continued erosion in its operating results (see immediate report, ref. no. 2019-01.068886). The rating reports are included in this Board of Directors' Report by way of reference.

In September 2019, the Company settled NIS 444 million par value of the Company's Debentures (Series 7) by way of early repayment pursuant to a purchase offer made according to a specification at a price of 101.50 agorot per NIS 1 par value of debentures (see Note 8.3 to the financial statements).

4. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of September 30, 2019, see the Company's reporting form on the MAGNA system, dated November 18, 2019.

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

Shlomo Rodav Chairman of the Board	Dudu Mizrahi CEO

Signed: November 17, 2019

Part C:
Condensed Consolidated Interim Financial Statements as at September 30, 2019 (Unaudited)

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.

Contents		Page

Somekh Chaikin
8 Hartum Street, Har Hotzvim
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Review Report to the Shareholders of
“Bezeq” -The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of “Bezeq” -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of September 30, 2019 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “Interim Financial Reporting”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 1% of the total consolidated assets as of September 30, 2019, and whose revenues constitute 1% of the total consolidated revenues for the nine-month and three-month periods then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our abovementioned conclusion, we draw attention to Note 1.2 which refers to Note 1.2 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the former controlling shareholder and other senior officers, and the transfer of the investigation file to the District Attorney's Office. And as mentioned in that note, regarding the joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433 and the publication of the prosecuter's office announcement, by which it is considering charging the former controlling shareholder and other senior officers with criminal charges, subject to a hearing. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

In addition, without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 10.

Somekh Chaikin

Certified Public Accountants (Isr.)

November 17, 2019

Condensed Consolidated Interim Statements of Financial Position

		September 30, 2019	September 30, 2018	December 31, 2018
		(Unaudited)	(Unaudited)	(Audited)
Assets	**Note**	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents		**639**	1,408	890
Investments		**1,750**	1,517	1,404
Trade receivables		**1,746**	1,792	1,773
Other receivables		**317**	312	267
Inventory		**94**	86	97
Total current assets		**4,546**	5,115	4,431
Trade and other receivables		**442**	423	470
Broadcasting rights, net of rights exercised		**63**	470	60
Right-of-use assets		**1,361**	1,434	1,504
Fixed assets		**6,217**	6,789	6,214
Intangible assets	5.1	**968**	2,627	1,919
Deferred tax assets	6	**18**	1,041	1,205
Deferred expenses and non-current investments		**469**	519	462
Investment property	7	**-**	140	58
Total non-current assets		**9,538**	13,443	11,892
Total assets		**14,084**	18,558	16,323

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

Condensed Consolidated Interim Statements of Financial Position (Contd.)

		September 30, 2019	September 30, 2018	December 31, 2018
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**Note**	**NIS million**	**NIS million**	**NIS million**
Debentures, loans and borrowings	8	**1,126**	1,798	1,542
Current maturities of liabilities for leases		**427**	443	445
Trade and other payables		**1,503**	1,602	1,690
Employee benefits	9	**365**	330	581
Provisions	10	**143**	106	175
Current tax liabilities		**15**	9	-
Dividend payable		**-**	318	-
Total current liabilities		**3,579**	4,606	4,433
Loans and debentures	8	**9,393**	10,149	9,637
Liability for leases		**989**	1,024	1,106
Employee benefits	9	**539**	266	445
Derivatives and other liabilities		**178**	212	174
Liabilities for deferred taxes		**50**	91	56
Provisions		**39**	40	38
Total non-current liabilities		**11,188**	11,782	11,456
Total liabilities		**14,767**	16,388	15,889
Total equity (deficit)		**(683)**	2,170	434
Total liabilities and equity		**14,084**	18,558	16,323

Shlomo Rodav
Chairman of the Board of Directors

Dudu Mizrahi
CEO

Yali Rothenberg
Bezeq Group CFO

Date of approval of the financial statements: November 17, 2019

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

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 13)	**6,727**	6,995	**2,247**	2,301	9,321
Costs of activity					
General and operating expenses (Note 14)	**2,420**	2,494	**794**	815	3,379
Salaries	**1,455**	1,507	**474**	494	1,992
Depreciation, amortization, and impairment losses (Notes 3.1 and 5)	**1,425**	1,609	**481**	547	2,189
Other operating expenses (income), net (Note 15)	**(400)**	113	**39**	6	634
Impairment loss (Note 3.1 and 5)	**951**	10	**-**	10	1,675
Total operating expenses	**5,851**	5,733	**1,788**	1,872	9,869
Operating profit (loss)	**876**	1,262	**459**	429	(548)
Financing expenses (income) (Note 16)					
Financing expenses	**481**	383	**224**	127	516
Financing income	**(41)**	(56)	**(19)**	(18)	(81)
Financing expenses, net	**440**	327	**205**	109	435
Profit (loss) after financing expenses, net	**436**	935	**254**	320	(983)
Share in losses of equity-accounted investees	**(2)**	(3)	**(1)**	(1)	(3)
Profit (loss) before income tax	**434**	932	**253**	319	(986)
Taxes on income (Note 6)	**1,516**	243	**62**	85	80
Profit (loss) for the period	**(1,082)**	689	**191**	234	(1,066)
Earnings per share (NIS)					
Basic earnings (loss) per share (NIS)	**(0.39)**	0.25	**0.07**	0.08	(0.39)

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

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	**2018**	**2019**	**2018**	**2018**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Profit (loss) for the period	**(1,082)**	689	**191**	234	(1,066)
Remeasurement of a defined benefit plan	**(35)**	-	**(33)**	-	16
Items of other comprehensive income (loss) (net of tax)	**-**	23	**(5)**	(3)	26
Total comprehensive income (loss) for the period	**(1,117)**	712	**153**	231	(1,024)

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

Condensed Consolidated Interim Statements of Changes in Equity (Equity Deficit)

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company					
Nine months ended September 30, 2019 (Unaudited):						
Balance as at January 1, 2019	**3,878**	**384**	**390**	**(59)**	**(4,159)**	**434**
Loss for the period	**-**	**-**	**-**	**-**	**(1,082)**	**(1,082)**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**-**	**(35)**	**(35)**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(1,117)**	**(1,117)**
Balance as at September 30, 2019	**3,878**	**384**	**390**	**(59)**	**(5,276)**	**(683)**
Nine months ended September 30, 2018 (Unaudited):						
Balance as at January 1, 2018	3,878	384	390	(85)	(2,423)	2,144
Profit for the period	-	-	-	-	689	689
Other comprehensive income for the period, net of tax	-	-	-	23	-	23
Total comprehensive income for the period	-	-	-	23	689	712
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(686)	(686)
Balance as at September 30, 2018	3,878	384	390	(62)	(2,420)	2,170
Three months ended September 30, 2019 (Unaudited)						
Balance as at July 1, 2019	**3,878**	**384**	**390**	**(54)**	**(5,434)**	**(836)**
Profit for the period	**-**	**-**	**-**	**-**	**191**	**191**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**(5)**	**(33)**	**(38)**
Total comprehensive income for the period	**-**	**-**	**-**	**(5)**	**158**	**153**
Balance as at September 30, 2019	**3,878**	**384**	**390**	**(59)**	**(5,276)**	**(683)**
Three months ended September 30, 2018 (Unaudited)						
Balance as at July 1, 2018	3,878	384	390	(59)	(2,336)	2,257
Profit for the period	-	-	-	-	234	234
Other comprehensive loss for the period, net of tax	-	-	-	(3)	-	(3)
Total comprehensive income for the period	-	-	-	(3)	234	231
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(318)	(318)
Balance as at September 30, 2018	3,878	384	390	(62)	(2,420)	2,170

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

Condensed Consolidated Interim Statements of Changes in Equity (Equity Deficit) (Contd.)

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company					
Year ended December 31, 2018 (Audited)						
Balance as at January 1, 2018	3,878	384	390	(85)	(2,423)	2,144
Loss in 2018	-	-	-	-	(1,066)	(1,066)
Other comprehensive income for the year, net of tax	-	-	-	26	16	42
Total comprehensive income (loss) for 2018	-	-	-	26	(1,050)	(1,024)
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(686)	(686)
Balance as at December 31, 2018	3,878	384	390	(59)	(4,159)	434

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

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit (loss) for the period	**(1,082)**	689	**191**	234	(1,066)
Adjustments:					
Depreciation, amortization, and impairment losses	**1,425**	1,609	**481**	547	2,189
Impairment loss of assets	**951**	10	**-**	10	1,675
Share in losses of equity-accounted investees	**2**	3	**1**	1	3
Financing expenses, net	**395**	329	**171**	105	445
Capital gain, net	**(472)**	(7)	**(11)**	(1)	(15)
Taxes on income (Note 6)	**1,516**	243	**62**	85	80
Change in trade and other receivables	**26**	200	**8**	66	241
Change in inventory	**(5)**	6	**4**	(7)	(5)
Change in trade and other payables	**(133)**	(140)	**43**	(30)	(138)
Change in provisions	**(32)**	12	**(5)**	(3)	81
Change in employee benefits	**(156)**	44	**(58)**	(40)	489
Change in other liabilities	**(17)**	(18)	**(11)**	(2)	-
Net income tax paid	**(242)**	(382)	**(89)**	(82)	(467)
Net cash from operating activities	**2,176**	2,598	**787**	883	3,512
Cash flow used for investing activities					
Purchase of fixed assets	**(851)**	(889)	**(300)**	(308)	(1,216)
Investment in intangible assets and deferred expenses	**(302)**	(301)	**(104)**	(95)	(390)
Investment in bank deposits and securities	**(1,965)**	(2,124)	**(185)**	(190)	(2,338)
Proceeds from bank deposits and others	**1,616**	907	**379**	344	1,244
Proceeds from the sale of fixed assets	**64**	43	**15**	12	160
Proceeds on account of sale of the Sakia property (Note 7)	**328**	-	**-**	-	155
Receipt (payment) of permit fees, betterment levy, and purchase tax*	**(74)**	(121)	**75**	(9)	(121)
Receipt (payment) of betterment tax*	**5**	(80)	**-**	-	(80)
Miscellaneous	**7**	22	**(3)**	14	34
Net cash used in investing activities	**(1,172)**	(2,543)	**(123)**	(232)	(2,552)

* For the sale of the Sakia property, see Note 7

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

Condensed Consolidated Interim Statements of Cash Flows (Contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow from financing activities					
Issue of debentures and receipt of loans (Note 8)	**1,688**	320	**1,188**	-	891
Repayment of debentures and loans (Note 8)	**(2,333)**	(232)	**(1,971)**	(50)	(1,567)
Payments of principal and interest for leases	**(322)**	(330)	**(115)**	(109)	(422)
Interest paid	**(211)**	(209)	**(21)**	(5)	(421)
Costs for early repayment of loans and debentures (Note 8.3)	**(73)**	-	**(73)**	-	-
Dividends paid	**-**	(368)	**-**	-	(686)
Miscellaneous	**(4)**	(9)	**(4)**	(2)	(46)
Net cash used for financing activities	**(1,255)**	(828)	**(996)**	(166)	(2,251)
Increase (decrease) in cash and cash equivalents, net	**(251)**	(773)	**(332)**	485	(1,291)
Cash and cash equivalents at beginning of period	**890**	2,181	**971**	923	2,181
Cash and cash equivalents at end of period	**639**	1,408	**639**	1,408	890

The attached notes are an integral part of the condensed consolidated interim 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 condensed consolidated financial statements of the Company as at September 30, 2019 include those of the Company and its subsidiaries (jointly referred to as "the Group"). The Group is a principal provider of communication services in Israel (see also Note 18 – Segment Reporting).

1.2 Investigations of the Israel Securities Authority and the Police Force

For information about the investigations of the Israel Securities Authority and the Police Force, see Note 1.2 to the Annual Financial Statements.

On September 1, 2019, the Prosecutor's Taxation and Economic Division announced that it had notified the former controlling shareholder of Bezeq Group and other senior officers of the Company and of DBS in the relevant period, that it is considering filing an indictment against them subject to a hearing, on suspicion of offenses of serious fraud, breach of trust, and reporting offenses under the Israel Securities Law ("the Announcement"). According to the Announcement, the hearing letter refers to suspicions in various cases, including impairing the work of the independent committee of the Company's Board of Directors that was addressing the Company's acquisition of DBS shares, fraud related to the receipt of compensation in the Company's acquisition of DBS, and impairing the work of the independent committee of the Company's Board of Directors that was addressing the agreement between DBS and Spacecom Ltd.

In addition, according to the Announcement, the Prosecutor's Office informed the Company's former CEO and the former adviser to Bezeq Group that it is considering bringing charges against them, subject to a hearing, for offenses of fraud and breach of trust in their dealings with the former Director General of the Ministry of Communications. In this connection, the former CEO is also suspected of a reporting offense under the Israel Securities Law and obstruction of justice.

In addition, according to the Announcement, the former CEO and former controlling shareholder are also accused of reporting offenses under the Israel Securities Law, and of obstruction of justice.

As set out in Note 1.2.3 to the Annual Financial Statements, the Company does not have full information about the investigations, their content, the materials, and the evidence in the possession of the legal authorities (even after the Announcement). Accordingly, the Company is unable to assess the effects of the investigations, their findings, and their results on the Company, as well as on the financial statements, and on the estimates used in the preparation of these financial statements, if any. Once the constraints on carrying out reviews and controls related to issues that arose in the Investigations are lifted, the review of all matters related to subjects that arose during those investigations will be completed as required.

1.3 Control in the Company

On August 8, 2019, B Communications Ltd., the controlling shareholder, linked, of the Company, which is controlled by Internet Gold - Golden Lines Ltd. ("Internet Gold"), informed the Company that, following the signing of a binding agreement with Searchlight Partners Capital LP ("Searchlight") and a corporation controlled by the Fuhrer family for the acquisition of shares of Internet Gold at B Communications and another investment in B Communications on June 24, 2019, all the approvals required by the organs of B Communications and the parent company, Internet Gold, for the approval of the transaction have been obtained. Subsequently, on August 18, 2019, the court approved the creditors' arrangement for the transaction, and on November 11, 2019, the Ministry of Communications approved the transaction and a control permit was received (on the same day, the subsidiaries Pelephone, Bezeq International, and DBS, as license holders in Bezeq Group, also received approval from the Ministry of Communications for the transfer of control and indirect means of control). In accordance with the update of B Communications, the target date for finalizing the transaction is scheduled for December 2, 2019.

2. Basis of Preparation

2.1 The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting, and Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as at December 31, 2018 and the year then ended, and their accompanying notes ("the Annual Financial Statements"). The notes to the condensed interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on November 17, 2019.

2.4 Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgments and use estimates, assessments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

Other than as set out below, the judgments made by management, when applying the Group's accounting policies and the key assumptions used in assessments that involve uncertainty, are consistent with those applied the preparation of the Annual Financial Statements.

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	Principal assumptions	Possible effects	Reference
Measurement of recoverable amounts of cash-generating units	Expected cash flows from cash-generating units	Recognition of impairment loss	Note 5
Assessment of indications of impairment in cash-generating units	Whether the developments in the period constitute indications of impairment of cash-generating units	Assessment of the recoverable amount of cash-generating units	Note 5
Provisions and contingent liabilities, including levies	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 7

In addition, see Note 6 on the write-off of the tax asset for the losses of DBS due to a change in estimate.

3. Reporting Principles and Accounting Policy

The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements, except as described in this section below.

3.1 Presentation of impairment loss of assets

An impairment loss arising from a non-recurring adjustment of forecasts for the coming years is classified as other expenses in the statement of income. On the other hand, an impairment loss of assets arising from the continuous adjustment of non-current assets of the Group companies to their fair value, less disposal costs (arising due to the expected negative cash flow and negative operating value of those companies) is classified 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, as from the first quarter of 2019, impairment of the broadcasting rights in DBS and Walla is presented under "operating and general expenses", while impairment of fixed assets and intangible assets is presented under "depreciation, amortization and impairment" in the statement of income.

3.2 Initial application of new standards

IFRIC 23, Uncertainty Over Income Tax Treatments

As from January 1, 2019, the Group applies the interpretation of IFRIC 23, Uncertainty Over Income Tax Treatments. IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Application of IFRIC 23 did not have a material effect on the Group's financial statements.

4. Group entities

4.1 A detailed description of the Group entities appears in Note 14 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

4.2 Further to Note 14.1.2 to the Annual Financial Statements about the application of each of the subsidiaries Pelephone, Bezeq International, and DBS for approval to change the corporate structures, according to which the full operations and assets of each of the subsidiaries will be transferred to a separate limited partnership, wholly-owned by the Company, on September 25, 2019, notice was received from the Ministry of Communications that the application is being reviewed by the professional entities at the Ministry of Communications.

4.3 DBS Satellite Services (1998) Ltd. ("DBS")

4.3.1 On March 13, 2019, the Company’s Board of Directors approved a resolution of the Board of Directors of DBS to approve a plan for migration from satellite broadcasts to broadcasts over the internet, in a gradual, long-term process that is expected to spread over seven years. In October 2019, DBS announced the launch of another internet TV service (yes+), which includes linear TV channels, as well as VOD content and an advanced technological interface.

4.3.2 As at September 30, 2019, DBS has an equity deficit in the amount of NIS 123 million and a working capital deficit in the amount of NIS 302 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.

Further to Note 14.2.3 to the Annual Financial Statements, on February 13, 2019, the Company provided DBS, through a letter of undertaking, a credit facility or capital investments in the amount of NIS 250 million, which DBS can withdraw for a period of 15 months from that date. Insofar as the Company elects to provide credit, the repayment date of the credit will not be earlier than the end of the term of the credit facility.

The letter of undertaking was replaced by new letters of undertaking in a total amount of NIS 250 million in May 2019 and then in August 2019, with each letter of undertaking replacing the preceding one (and not in addition to). The last letter of undertaking is valid for 15 months as from July 1, 2019 until September 30, 2020.

In March 2019, the Company invested NIS 70 million in DBS, NIS 50 million in July 2019, and another NIS 25 million in October 2019, in accordance with the undertakings set out above.

On November 17, 2019, the Company's Board of Directors approved an irrevocable undertaking of the Company to DBS to provide a credit facility or a capital investment of NIS 250 million for 15 months, as from October 1, 2019 and until December 31, 2020, instead of the undertaking of August 2019.

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 above, will be adequate for the operations of DBS for the coming year.

4.3.3 See Note 5.2 below for information about the impairment of assets recognized by DBS in the financial statements as at September 30, 2019.

5. <u>Impairment</u>

5.1 Impairment in the cellular communications segment

As at the date of the financial statements for the second quarter of 2019, Pelephone has updated its forecasts for the coming years. At the same time, Pelephone identified indications of a possible impairment, partially due to its performance in the first half of 2019 and in view of the decrease in expectations for market recovery (strengthening of the sixth operator).

As a result, the Company estimated the recoverable amount of the cash-generating cellular communications unit as at June 30, 2019.

The value in use of the cellular communications cash-generating unit for Bezeq Group was calculated by discounting future cash flows (DCF) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value. The cash flow forecast is based, among other things, on Pelephone's performance in recent years and assessments regarding the expected trends in the cellular market in the coming years (competitive dynamics, price level, regulation, and technological developments).

The main assumption underlying the forecast is that competition in the market will continue with high intensity in the short term and that a stable and certain gradual increase in prices will occur in the medium to long term. The revenue forecast is based on assumptions regarding the number of Pelephone subscribers, average revenue per user, and sales of terminal equipment. The expense forecast is based, among other things, on streamlining of fixed expenses (which does not result in restructuring) and, in particular, on assumptions regarding the extent of the decrease in the number of Pelephone employees and the related salary expenses. The other operating expenses and level of investments were adjusted to the forecasted scope of Pelephone's operations

The nominal capital price taken into account for the valuation is 10.3% (after tax) (in 2018, 10.3%). In addition, a permanent growth rate of 2.5% was assumed (in 2018 - 2.5%). The valuation is sensitive to changes in the permanent growth rate and the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to the average revenue per user (ARPU) and number of users at the end of the range of the forecast in particular (a change of NIS 1 in ARPU results in a change in the value of operations amounting to NIS 285 million).

It should be noted that Pelephone has operating losses, therefore the value in use of the cellular communications cash-generating unit is based entirely on Pelephone's projections for improved profitability in the coming years.

The valuation was prepared by an external appraiser. Based on the valuation as described above, the value of Pelephone's operations amounted to NIS 1,214 million, compared with the value in the Company's financial statements in the amount of NIS 2,165 million. Accordingly, in the second quarter of 2019, the Company recognized a loss from impairment of goodwill attributable to the cellular communications cash-generating unit in the amount of NIS 951 million. The balance of goodwill attributable to the cash-generating cellular communications unit after recognition of impairment is NIS 76 million and the unit's recoverable amount is the same as its carrying amount.

As at September 30, 2019, Pelephone assessed the existence of indications that may indicate impairment. As at the reporting date, no indications have been identified that may indicate further possible impairment in the cellular communications cash-generating unit.

5.2 Impairment in the multi-channel television segment

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

Accordingly, in the nine- and three-months period ended September 30, 2019, the Group recognized an impairment loss of NIS 287 million, and NIS 80 million, respectively. 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 3.1 above.

Attribution of impairment loss to Group assets:

	Impairment loss of assets	
	Nine months ended September 30, 2019	**Three months ended September 30, 2019**
	(Unaudited)	**(Unaudited)**
	NIS million	**NIS million**
Broadcasting rights - less rights utilized (the expense was presented under operating and general expenses)	**154**	**41**
Fixed assets (the expense was presented under depreciation and impairment expenses)	**98**	**30**
Intangible assets (the expense was presented under depreciation and impairment expenses)	**36**	**10**
Rights of use in leased property (reduced expense presented as depreciation, amortization, and impairment expenses)	**(1)**	**(1)**
Total impairment recognized	**287**	**80**

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

5.3 Assessment of indications of impairment in the international communications and internet services segment

Further to Note 11.6 to the Annual Financial Statements regarding Bezeq International's impairment assessment, Bezeq International performed a routine assessment for indications of impairment as at September 30, 2019, in accordance with the provisions of IAS 36 and noting the low gap measured on December 31, 2018 between the value of Bezeq International's operations and the carrying amount of its net operating assets. As at the date of the financial statements, there were no indications of impairment.

6. Income Tax

6.1 Further to Note 7.5 to the Annual Financial Statements regarding the deferred tax asset for the losses in DBS in the amount of NIS 1,166 million, the Company wrote off the tax asset by way of revising the estimate as from the financial statements of the second quarter of 2019, and accordingly, the Company recognized tax expenses in the amount of NIS 1,166 million in the statement of income for the three months ended June 30, 2019, after the Company’s assessment of the probability of using the tax asset was no longer more likely than not. For the purpose of assessing the probability of utilization of the tax asset as at June 30, 2019, the Company considered, among other things, the absence of developments in its discussions with authorities and government agencies, various developments in recent months, and the effect of the passage of time.

6.2 Further to Note 7.5 to the Annual Financial Statements regarding the Company’s petition to the High Court of Justice against the Ministry of Communications for immediate cancellation of the structural separation in Bezeq Group, on September 19, 2019, the State filed its response to the petition (after several extensions). In the State’s response it is argued that the petition should be dismissed in limine since it is premature at this time, prior to completion of the examination of the issue of structural separation by the special professional team appointed for the purpose by the Director General of the Ministry of Communications. It was further argued that the petition should be dismissed on its own right, in the absence of any grounds for judicial intervention in the matter, and that the conduct and decisions of the Ministry of Communications and of the Minister of Communications are very reasonable and are within the broad area of professional discretion granted to the Ministry of Communications in such matters, and that the discretion of the Minister of Communications is not bound by the policy document concerning expansion of competition in fixed-line communications - the wholesale market (which includes cancellation of the structural separation), in which it was explicitly stipulated that the development of the wholesale market and the possibility that it may impair competition or the public interest must be assessed, and this was done. It was further alleged that the Company did not comply with the terms and principles set out in the policy document and the provisions of the regulation set for its implementation, in all matters related to advancing and developing the reform in the wholesale market. The petition is scheduled for a hearing on January 30, 2020.

6.3 Further to Note 7.7.1 to the Annual Financial Statements regarding the validity of the tax decision of September 15, 2016, on October 2, 2019, the Company received a letter from the Tax Authority (“the Approval”) extending, at the Company’s request, the validity of the tax decision for one year (until December 31, 2020). In the Approval, the Tax Authority clarifies, among other things, that the Tax Authority has full authority to revoke the Approval if it emerges that as from the signing date of the Approval until December 31, 2019, there has been a material change in the business of the Company and DBS, that the extension of the validity of the tax decision refers to the tax decision of September 15, 2016 in the outline set out in the tax decision only, that it does not derogate from the Tax Authority's authority not to extend the validity of the tax decision beyond December 31, 2020, and that it does not contain any confirmation that the companies are in compliance with the terms of the tax decision.

7. Investment Property

Further to Note 13 to the Annual Financial Statements regarding the Company's agreement for the sale of a real estate asset in the Sakia property, on May 5, 2019, the transaction was completed and the entire balance of the consideration for the sale of the asset in the amount of NIS 323 million (plus VAT) was received. This completed the receipt of the consideration for the transaction in a total amount of NIS 511 million.

Upon receipt of the balance of the consideration, the Company paid the demand for betterment tax in the amount of NIS 149 million, and in July 2019, it received a refund of half of the amount of the payment, against which it provided a bank guarantee, without this derogating from and/or impairing the steps taken and/or to be taken by the Company to cancel or reduce this fee.

The Company included capital gain of NIS 403 million in its financial statements for the second quarter of 2019. Recognition of the capital gain is based on the Company's estimates of the amount to be paid to the authorities. It should be noted that if the Company's estimates do not materialize, the final capital gain will be between NIS 250 million and NIS 450 million.

8. Debentures, Loans, and Borrowings

8.1 In June 2019 and September 2019, the Company raised debt in the amount of NIS 800 million, through a private loan from an institutional entity and from a bank, with an average duration of 6.8 years and at a fixed NIS interest rate of 3.5%. The terms of the loan are similar to those of other loans taken by the Company, as set out in Note 15.3 to the Annual Financial Statements.

8.2 In July 2019, the Company completed a private placement of Debentures (Series 11 and 12) to institutional investors. The debentures were listed for trading on the TACT-Tel Aviv Continuous Institutions Trading system of the Tel Aviv Stock Exchange Ltd. The total consideration (gross) that was received amounted to NIS 889.6 million, as set out below:

	Gross consideration (NIS)	Annual weighted interest	Linkage terms
Series 11	427,891,000	3.6%	Unlinked
Series 12	461,740,000	2.1%	Linked to the increase in the CPI

The debenture principal will be repaid in five equal payments between 2026 and 2030. The interest is payable twice a year as from December 1, 2019.

The Company intends to continue to take steps to list the debentures for trading on the TASE, subject to the law, the publication of a prospectus, and the receipt of the required permits. If the Debentures (Series 11 and 12) are listed on the main list of the TASE, the interest rate payable on the principle of the debentures as from their listing date on the main list, will decrease by 0.4%.

The terms of the debentures are similar to the terms of the debentures from the Company's existing series (Series 6, 7, 9, and 10) as set out in Note 15.3 to the Annual Financial Statements. The consideration the issuance is earmarked for refinancing the Company’s debt as described in Note 8.3 below.

8.3 In the third quarter of 2019, the Company completed the early repayment of a number of loans from financial institutions and banks in the total amount of NIS 1.53 billion (principal).

In addition, in September 2019, the Company completed the early repayment of the Company's Debentures (Series 7) in the amount of NIS 444 million par value, as part of a tender offer according to specifications at a price of 101.50 agorot per NIS 1 par value debenture.

The early repayment was mainly financed from debt raised at longer average durations in recent months, as set out in Notes 8.1 and 8.2 above.

Due to the early repayments as set out above, the Company recognized financing costs of NIS 73 million, which were included in the statement of income for the third quarter of 2019.

9. Employee Benefits

9.1 On March 14, 2019, DBS signed a collective arrangement with the National Labor Federation and the employees' representatives regarding streamlining and synergy procedures, commencing on June 1, 2019 until December 31, 2021 ("the Arrangement"). According to the Arrangement, in the Arrangement years, DBS will be entitled to terminate the employment of up to 325 employees. In addition, according to the Arrangement, DBS may also streamline by not recruiting employees to replace employees whose employment has terminated. Following the Arrangement and the submission of the efficiency plan outline to the employees' representatives, DBS recognized expenses of NIS 45 million, mainly severance benefits. The expenses were included under other operating expenses in the statement of income for the first quarter of 2019.

On November 17, 2019, DBS signed an extension to its collective agreement with the New National Labor Federation and the employees’ representatives of DBS, with certain revisions, until December 31, 2021.

9.2 On July 11, 2019, Bezeq International signed a collective agreement with the General Labor Federation and the employees’ representatives. The Agreement includes streamlining and synergy processes for the period from July 11, 2019 to December 31, 2021. Under to the agreement, Bezeq International may streamline up to 325 employees (of which 150 are permanent employees, some as part of voluntary early retirement), in addition to the option of not recruiting employees to replace the employees who are terminating their employment. The agreement also includes a one-time bonus for employees who are not included in the retirement plan. Following the agreement and the submission of the efficiency plan outline to the employees' representatives, the Company recognized expenses of NIS 45 million, mainly severance benefits and other employee benefits. The expenses were included under other operating expenses in the statement of income for the third quarter of 2019.

9.3 On November 6, 2019, as part of its streamlining plan, the Company's Board of Directors approved the retirement of 140 permanent employees (permanent and new permanent) and the termination of employment of another 60 employees with flexible employment status, at a total cost of NIS 143 million. In view of the above, the Company is expected to include an expense of NIS 137 million in its financial statements for the fourth quarter of 2019.

It should be noted that this retirement is in addition to the employee retirement plan (including transferred employees) in accordance with previous decisions of the Board of Directors as described in Note 18.5 to the Annual Financial Statements, for which the Company has already recognized a liability.

9.4 On November 13, 2019, Pelephone renewed the existing collective agreement with the General Labor Federation and the employees' representatives, which includes streamlining and synergy processes for the period from November 12, 2019 through to June 30, 2022. Under the agreement, Pelephone may, among other things, terminate the employment of 210 tenured employees in the agreement period, some as early retirement. In addition, according to its plan, it will terminate the employment of another 190 non-tenured employees, and will not recruit employees to replace them. The agreement also includes a one-time bonus for employees who are not included in the retirement plan. The estimated cost is NIS 100 million, which will be paid over the agreement period, assuming full exercise of the rights of Pelephone to streamline and the fulfillment of conditions for providing additional financial benefits to the employees.

10. Contingent Liabilities

During the normal course of business, legal claims were filed against Group companies or there are pending claims against the Group ("in this section: "Legal Claims").

In the opinion of the managements of the Group companies, based, among other things, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 137 million, where provisions are required to cover the exposure arising from such Legal Claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at September 30, 2019 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 4.8 billion. There is also additional exposure of NIS 4.7 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 linked to the CPI and are stated net of interest.

For updates subsequent to the reporting date, see section 10.4 below.

10.1 Following is a detailed description of the Group's contingent liabilities as at September 30, 2019, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provisions	Additional exposure	Exposure for claims that cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	**120**	**4,658**	**872**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	**-**	**-**	**3,828(2)(1)**
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	**-**	**3**	**-**
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the Authorities (including property taxes). See also Note 7.	**17**	**20**	**8**
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	**-**	**63**	**15**
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	**-**	**61**	**-**
Total legal claims against the Company and subsidiaries		**137**	**4,805**	**4,723**

(1) Including exposure of NIS 2 billion for a motion for certification as a class action filed by a shareholder against the Company and officers in the Company, referring to alleged reporting omissions by the Company regarding the wholesale market and the reduction of interconnect fees, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method used to calculate the damage). On August 27, 2018, the court certified the claim as a class action. On October 28, 2018, the Company filed a motion for a rehearing of the certification ruling. Subsequently, the court decided to stay the proceedings until a ruling is made on the motion for a rehearing.

In the hearing on May 22, 2019 of the motion filed by the Company for another hearing, the Court proposed transferring the case to mediation. The plaintiff rejected the proposal. On July 18, 2019, a hearing was held to complete the parties' arguments in the motion for a re-hearing. A ruling on the motion for a re-hearing has not yet been handed down.

(2) Two motions for certification of a class action amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers in the Group and companies in the group of the Company's controlling shareholders regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint motion is expected to be filed instead of these two motions. The proceedings are stayed until October 31, 2019, due to the investigation (as described in Note 1.2) and at the request of the Attorney General. At the beginning of November 2019, the Attorney General filed a motion to stay the proceedings until March 31, 2020.

10.2 Further to Note 19.3 to the Annual Financial Statements, regarding a class action filed in the United States against B Communications, Ltd., the controlling shareholder of the Company, and its officers, to which DBS and officers (both past and present) in DBS and in the Company were added, as well as motions filed by the defendants for the dismissal in limine of the motion and the claim, on March 28, 2019, the Company was notified of the ruling of the US court on that date, which accepted the petitions of DBS and of the officers (both past and present) in DBS and in the Company, and dismissed the case in limine due to the absence of jurisdiction against them.

10.3 For further proceedings against the Group companies and officers, see Notes 19.2 and 19.4 to the Annual Financial Statements (the proceedings were stayed until October 31, 2019). At the beginning of November 2019, motions were filed to stay the proceedings until March 31, 2020. See also Note 19.5 to the Annual Financial Statements (following the request of the Attorney General, on June 26, 2019, the court ordered a stay of proceedings of six months for the case).

10.4 Subsequent to the reporting date, a claim amounting to NIS 80 million was filed against the Group companies, and a claim without a monetary estimate. As at the approval date of the financial statements, the chances of the claims cannot yet be assessed. In addition, claims with exposure of NIS 13 million came to an end.

11. Agreements

Further to Notes 20.1 and 20.2 to the Annual Financial Statements, since Space Communications Ltd. ("Spacecom") did not enter into an agreement which entered into force with a satellite manufacturer for the construction of the Amos 8 satellite by June 5, 2019, DBS has the option of notifying Spacecom of the termination of the agreement between the parties by March 5, 2020, and the agreement will come to an end on February 26, 2021. If DBS does not exercise the opt out option, and Amos 8 does not start operations by February 1, 2022, then the satellite agreement will terminate at the end of the life of Amos 3, which Spacecom estimates to be on January 31, 2026.

It should be emphasized that the total amount of agreement that was presented for the space segments under Note 20.1, as presented in the Annual Financial Statements, is NIS 822 million, and a total of NIS 236 million of this amount will not be exercised if the satellite agreement ends on January 31, 2026, as aforesaid.

12. Equity

Further to Note 22.1 to the Annual Financial Statements regarding the approval of the Board of Directors to convene a general meeting to approve an increase in the Company's registered share capital, on April 8, 2019, the Board of Directors of the Company resolved to remove the issue of ah increase in the registered share capital from the agenda of the general meeting, due to discussions with shareholders and the response to their requests.

For further information, see Note 22.2.1 to the Annual Financial Statements regarding the resolution of the Board of Directors of the Company on March 27, 2019 to cancel the Company's dividend distribution policy.

13. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Domestic fixed-line communications (Bezeq Fixed-Line)					
Internet - infrastructure	**1,126**	1,147	**372**	381	1,525
Fixed-line telephony	**775**	855	**253**	275	1,130
Transmission and data communication	**571**	578	**191**	191	769
Cloud and digital services	**208**	197	**69**	69	260
Other services	**167**	156	**58**	45	199
	2,847	2,933	**943**	961	3,883
Cellular telephony - Pelephone					
Cellular services and terminal equipment	**1,265**	1,286	**438**	438	1,713
Sale of terminal equipment	**459**	507	**157**	155	688
	1,724	1,793	**595**	593	2,401
Multi-channel television - DBS	**1,013**	1,117	**333**	367	1,473
International communications, ISP, and NEP services - Bezeq International	**969**	987	**316**	323	1,338
Others	**174**	165	**60**	57	226
	6,727	6,995	**2,247**	2,301	9,321

14. General and Operating Expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Terminal equipment and materials	**540**	527	**183**	167	737
Interconnectivity and payments to domestic and international operators	**576**	585	**193**	197	789
Maintenance of buildings and sites	**203**	213	**70**	74	286
Marketing and general	**361**	426	**120**	135	555
Consumption and impairment of content (Note 3.1)	**485**	480	**149**	155	653
Services and maintenance by sub-contractors	**201**	207	**63**	68	277
Vehicle maintenance	**54**	56	**16**	19	82
	2,420	2,494	**794**	815	3,379

15. Other Operating Expenses (Income), Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital gain (mainly from the sale of real estate (Note 7)	**(472)**	(7)	**(11)**	(1)	(1)
Expenses (income) for severance pay in voluntary redundancy	**(21)**	99	**3**	6	559
Provision for claims	**3**	21	**2**	1	91
Expenses for severance due to the efficiency arrangement in DBS (Note 9.1)	**45**	-	**-**	-	-
Expenses for severance due to the efficiency agreement in Bezeq International (Note 9.2)	**45**	-	**45**	-	
Profit from sale of an associate	**-**	-	**-**	-	(14)
Others	**-**	-	**-**	-	(1)
Total operating expenses (income), net	**(400)**	113	**39**	6	634

16. Financing Expenses (Income), Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**268**	279	**94**	95	370
Costs for early repayment of loans and debentures (Note 8.3)	**73**	-	**73**	-	-
Financing expenses for employee benefits	**72**	11	**42**	4	9
Linkage and exchange rate differences	**31**	43	**-**	13	63
Financing expenses for lease commitments	**22**	17	**9**	7	26
Change in fair value of financial assets at fair value through profit or loss.	**9**	-	**3**	-	-
Other financing expenses	**6**	10	**3**	3	5
Changes in liability for contingent consideration for a business combination	**-**	23	**-**	5	43
Total financing expenses	**481**	383	**224**	127	516
Income for credit in sales	**23**	23	**8**	8	30
Linkage and exchange rate differences	**-**	-	**5**	-	-
Other financing income	**18**	15	**6**	10	27
Change in fair value of financial assets at fair value through profit or loss.	**-**	18	**-**	-	24
Total financing income	**41**	56	**19**	18	81
Financing expenses, net	**440**	327	**205**	109	435

17. Financial Instruments

17.1 Fair value

17.1.1 Financial instruments at fair value for disclosure purposes only

The table below shows the differences between the carrying amount and the fair value of financial liabilities. The methods used to estimate the fair values of financial instruments are described in Note 31.8 to the Annual Financial Statements.

	September 30, 2019		September 30, 2018		December 31, 2018	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and institutions (unlinked)	**3,882**	**4,037**	4,734	4,897	4,235	4,324
Debentures issued to the public (CPI-linked)	**3,490**	**3,655**	4,129	4,342	3,464	3,602
Debentures issued to the public (unlinked)	**2,226**	**2,327**	1,659	1,694	2,215	2,214
Debentures issued to financial institutions (CPI-linked)	**471**	**498**	15	15	8	8
Debentures issued to financial institutions (unlinked)	**430**	**454**	256	268	202	211
	10,499	**10,971**	10,793	11,216	10,124	10,359

17.1.2 Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, with details of the evaluation method. The methods used to estimate the fair value are described in Note 31.7 to the Annual Financial Statements.

	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: Investment in marketable securities at fair value through profit or loss	**313**	3	18
Level 2: forward contracts	**(160)**	(170)	(135)
Level 3: contingent consideration for a business combination	**-**	20	-

18. Segment Reporting

18.1 Operating segments

	Nine months ended September 30, 2019 (Unaudited):						
	Domestic fixed-line communications	Cellular communications*	International communications and internet services	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	2,847	1,724	969	1,013	174	-	6,727
Inter-segment revenues	241	36	40	1	7	(325)	-
Total revenues	3,088	1,760	1,009	1,014	181	(325)	6,727
Depreciation and amortization	636	469	139	252	11	(82)	1,425
Segment results – operating profit (loss)	1,846	(2)	32	(96)	4	(908)	876
Financing expenses	473	15	12	16	1	(36)	481
Financing income	(19)	(46)	(2)	(5)	-	31	(41)
Total financing expenses (income), net	454	(31)	10	11	1	(5)	440
Segment profit (loss) after financing expenses, net	1,392	29	22	(107)	3	(903)	436
Share in losses of associates	-	-	-	-	(2)	-	(2)
Segment profit (loss) before income tax	1,392	29	22	(107)	1	(903)	434
Income tax	334	7	5	2	2	1,166***	1,516
Segment results – net profit (loss)	1,058	22	17	(109)	(1)	(2,069)	(1,082)

* The impairment loss in the cellular communications segment described in Note 5.1 is presented under adjustments.

** Results of the multi-channel television segment are presented net of the impairment loss set out in Note 5.2. 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 19.3 for condensed selected information from the financial statements of DBS.

*** See Note 6 for information about the write-off of the tax assets for the losses of DBS.

18.1 Operating segments (contd.)

	Nine months ended September 30, 2018 (Unaudited):						
	Domestic fixed-line communications	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	2,933	1,793	987	1,117	165	-	6,995
Inter-segment revenues	237	32	34	-	9	(312)	-
Total revenues	3,170	1,825	1,021	1,117	174	(312)	6,995
Depreciation and amortization	633	478	134	239	16	109	1,609
Segment results – operating profit (loss)	1,311	2	95	(17)	(25)	(104)	1,262
Financing expenses	376	14	12	10	-	(29)	383
Financing income	(23)	(42)	(1)	(17)	-	27	(56)
Total financing expenses (income), net	353	(28)	11	(7)	-	(2)	327
Segment profit (loss) after financing expenses, net	958	30	84	(10)	(25)	(102)	935
Share in losses of associates	-	-	-	-	(3)	-	(3)
Segment profit (loss) before income tax	958	30	84	(10)	(28)	(102)	932
Income tax	236	8	20	1	-	(22)	243
Segment results – net profit (loss)	722	22	64	(11)	(28)	(80)	689

18.1 Operating segments (contd.)

	Three months ended September 30, 2019 (Unaudited):						
	Domestic fixed-line communications	**Cellular communications***	**International communications and internet services**	**Multi-channel television ****	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	**944**	**595**	**316**	**333**	**59**	**-**	**2,247**
Inter-segment revenues	**81**	**17**	**13**	**1**	**3**	**(115)**	**-**
Total revenues	**1,025**	**612**	**329**	**334**	**62**	**(115)**	**2,247**
Depreciation and amortization	**225**	**157**	**47**	**93**	**4**	**(45)**	**481**
Segment results – operating profit (loss)	**440**	**16**	**(20)**	**(29)**	**6**	**46**	**459**
Financing expenses	**214**	**7**	**4**	**7**	**1**	**(9)**	**224**
Financing income	**(7)**	**(15)**	**(1)**	**(3)**	**-**	**7**	**(19)**
Total financing expenses (income), net	**207**	**(8)**	**3**	**4**	**1**	**(2)**	**205**
Segment profit (loss) after financing expenses, net	**233**	**24**	**(23)**	**(33)**	**5**	**48**	**254**
Share in losses of associates	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Segment profit (loss) before income tax	**233**	**24**	**(23)**	**(33)**	**4**	**48**	**253**
Income tax	**58**	**6**	**(5)**	**1**	**2**	**-**	**62**
Segment results – net profit (loss)	**175**	**18**	**(18)**	**(34)**	**2**	**48**	**191**

* The impairment loss in the cellular communications segment described in Note 5.1 is presented under adjustments.

** Results of the multi-channel television segment are presented net of the impairment loss set out in Note 5.2, 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 19.3 for condensed selected information from the financial statements of DBS.

18.1 Operating segments (contd.)

	Three months ended September 30, 2018 (Unaudited):						
	Domestic fixed-line communications	**Cellular communications**	**International communications and internet services**	**Multi-channel television**	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	961	593	323	367	57	-	2,301
Inter-segment revenues	82	11	10	-	1	(104)	-
Total revenues	1,043	604	333	367	58	(104)	2,301
Depreciation and amortization	218	161	46	81	5	36	547
Segment results – operating profit (loss)	451	(2)	31	1	(12)	(40)	429
Financing expenses	122	4	4	3	(1)	(5)	127
Financing income	(9)	(15)	-	-	-	6	(18)
Total financing expenses (income), net	113	(11)	4	3	(1)	1	109
Segment profit (loss) after financing expenses, net	338	9	27	(2)	(11)	(41)	320
Share in losses of associates	-	-	-	-	(1)	-	(1)
Segment profit (loss) before income tax	338	9	27	(2)	(12)	(41)	319
Income tax	81	3	7	-	-	(6)	85
Segment results – net profit (loss)	257	6	20	(2)	(12)	(35)	234

18.1 Operating segments (contd.)

	Year ended December 31, 2018 (Audited)						
	Domestic fixed-line communications	Cellular communications	International communications and internet services	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,883	2,401	1,338	1,473	226	-	9,321
Inter-segment revenues	313	42	53	-	15	(423)	-
Total revenues	4,196	2,443	1,391	1,473	241	(423)	9,321
Depreciation and amortization	850	655	194	323	21	146	2,189
Segment results – operating profit (loss)	1,224	(2)	116	(56)	(36)	(1,794)	(548)
Financing expenses	502	22	16	16	-	(40)	516
Financing income	(32)	(56)	(1)	(27)	-	35	(81)
Total financing expenses (income), net	470	(34)	15	(11)	-	(5)	435
Segment profit (loss) after financing expenses, net	754	32	101	(45)	(36)	(1,789)	(983)
Share in profits (losses) of associates	-	-	1	-	(4)	-	(3)
Segment profit (loss) before income tax	754	32	102	(45)	(40)	(1,789)	(986)
Income tax	187	8	25	3	-	(143)	80
Segment results – net profit (loss)	567	24	77	(48)	(40)	(1,646)	(1,066)

* Results of the multi-channel television segment are presented net of the impairment loss set out in Note 11.4 to the Annual Financial Statements. The impairment loss is presented as part of the adjustments. In addition, see Note 19.3 for condensed selected information from the financial statements of DBS.

18.2 Adjustment of profit or loss for reporting segments

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Operating profit for reporting segments	**1,780**	1,391	**407**	481	1,282
Financing expenses, net	**(440)**	(327)	**(205)**	(109)	(435)
Adjustments for the multi-channel television segment	**47**	-	**50**	-	-
Profit (loss) for operations classified in other categories and other adjustments	**-**	(25)	**2**	(12)	(36)
Share in losses of associates	**(2)**	(3)	**(1)**	(1)	(3)
Impairment loss of assets	**(951)**	-	**-**	-	(1,638)
Amortization of surplus cost for intangible assets	**-**	(104)	**-**	(40)	(156)
Profit (loss) before taxes on income	**434**	932	**253**	319	(986)

19. Condensed Financial Statements of Pelephone, Bezeq International, and DBS

In the fourth quarter of 2018, Pelephone, Bezeq International, and DBS decided to change the presentation method in the statement of income to a classification method based on the nature of the expense, similar to the method used in the Group's reports. The comparative figures for the nine- and three-months period ended September 30, 2018 were reclassified according to the new classification method.

19.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**1,019**	948	913
Non-current assets	**3,106**	3,133	3,211
Total assets	**4,125**	4,081	4,124
Current liabilities	**642**	656	619
Long-term liabilities	**762**	729	806
Total liabilities	**1,404**	1,385	1,425
Equity	**2,721**	2,696	2,699
Total liabilities and equity	**4,125**	4,081	4,124

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,292**	1,318	**446**	449	1,755
Revenues from sales of terminal equipment	**468**	507	**166**	155	688
Total revenues from services and sales	**1,760**	1,825	**612**	604	2,443
Costs of activity					
General and operating expenses	**1,009**	1,048	**348**	344	1,402
Salaries	**279**	289	**89**	94	379
Depreciation and amortization	**469**	478	**157**	161	655
Total operating expenses	**1,757**	1,815	**594**	599	2,436
Other operating expenses, net	**5**	8	**2**	7	9
Operating profit (loss)	**(2)**	2	**16**	(2)	(2)
Financing expenses (income)					
Financing expenses	**15**	14	**7**	4	22
Financing income	**(46)**	(42)	**(15)**	(15)	(56)
Financing income, net	**(31)**	(28)	**(8)**	(11)	(34)
Profit before income tax	**29**	30	**24**	9	32
Income tax	**7**	8	**6**	3	8
Profit for the period	**22**	22	**18**	6	24

19.2 Bezeq International Ltd.

Selected data from the statement of financial position

	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**476**	471	513
Non-current assets	**787**	862	831
Total assets	**1,263**	1,333	1,344
Current liabilities	**304**	341	345
Long-term liabilities	**172**	230	222
Total liabilities	**476**	571	567
Equity	**787**	762	777
Total liabilities and equity	**1,263**	1,333	1,344

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**1,009**	1,021	**329**	333	1,391
Costs of activity					
General and operating expenses	**582**	561	**194**	184	776
Salaries	**196**	228	**63**	70	297
Depreciation and amortization	**139**	134	**47**	46	194
Other expenses, net	**60**	3	**45**	2	8
Total operating expenses	**977**	926	**349**	302	1,275
Operating profit (loss)	**32**	95	**(20)**	31	116
Financing expenses (income)					
Financing expenses	**12**	12	**4**	4	16
Financing income	**(2)**	(1)	**(1)**	-	(1)
Financing expenses, net	**10**	11	**3**	4	15
Share in the profits of equity-accounted investees	-	-	-	-	1
Profit (loss) before income tax	**22**	84	**(23)**	27	102
Income tax	**5**	20	**(5)**	7	25
Profit (loss) for the period	**17**	64	**(18)**	20	77

19.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**198**	285	220
Non-current assets	**283**	1,328	286
Total assets	**481**	1,613	506
Current liabilities	**500**	586	575
Long-term liabilities	**104**	71	112
Total liabilities	**604**	657	687
Capital (capital deficit)	**(123)**	956	(181)
Total liabilities and equity	**481**	1,613	506

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**1,014**	1,117	**334**	367	1,473
Costs of activity					
Operating expenses, general, and impairment	**693**	712	**211**	229	956
Depreciation, amortization, and impairment losses	**173**	239	**50**	81	323
Salaries	**162**	174	**52**	56	233
Other operating expenses (income), net	**35**	9	**1**	-	17
Impairment loss	**-**	-	**-**	-	1,100
Total operating expenses	**1,063**	1,134	**314**	366	2,629
Operating profit (loss)	**(49)**	(17)	**20**	1	(1,156)
Financing expenses (income)					
Financing expenses	**16**	8	**7**	3	15
Financing income	**(5)**	(17)	**(3)**	-	(27)
Financing expenses for shareholder loans	**-**	2	**-**	-	1
Financing expenses (income), net	**11**	(7)	**4**	3	(11)
Profit (loss) before income tax	**(60)**	(10)	**16**	(2)	(1,145)
Income tax expenses	**2**	1	**1**	-	3
Loss for the period	**(62)**	(11)	**15**	(2)	(1,148)

20. Subsequent Events

20.1 Further to Note 33.3 to the Annual Financial Statements regarding the resolution of the Company's Board of Directors on March 27, 2019 to apply for a permit to publish a prospectus for completion, which is based on the Company's financial statements as at December 31, 2018, since the discussions with the Israel Securities Authority have not been completed, the application for a permit is for the publication of a prospectus for completion that will be based on the Company's financial statements at a later date after completion of the discussions with the ISA. At this stage, as set out in Note 8.2 above, the Company has executed a private placement of debentures and it intends to continue to take steps to list the debentures for trading on the TASE, subject to the law, the publication of a prospectus, and the receipt of the required permits.

20.2 See Note 9.1 for information about the extension of the collective agreement signed by DBS on November 17, 2019.

20.3 See Note 9.3 for information about the approval of the Company's Board of Directors on November 6, 2019 for the early retirement plan.

20.4 See Note 9.4 for information about Pelephone’s renewal of the collective agreement on November 13, 2019.

Condensed Separate Interim Financial Information at September 30, 2019

Contents	Page

Somekh Chaikin
8 Hartum Street, Har Hotzvim
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To:

The Shareholders of “Bezeq”- The Israel Telecommunication Corporation Ltd.

Subject: Special auditors’ report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq”- The Israel Telecommunication Corporation Ltd. (hereinafter – “the Company”) as of September 30, 2019 and for the nine-month and three-month periods then ended. The separate interim financial information is the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 24 million as of September 30, 2019, and the loss from this investee company amounted to NIS 9 million and NIS 2 million for the nine-month and three-month periods then ended, respectively. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our abovementioned conclusion, we draw attention to Note 6.1, which refers to Note 1.2 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the former controlling shareholder and other senior officers, and the transfer of the investigation file to the District Attorney's Office. And as mentioned in that note, regarding the joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433 and to the publication of the prosecuter's office announcement, by which it is considering charging the former controlling shareholder and other senior officers with criminal charges, subject to a hearing. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

In addition, without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 5.

Somekh Chaikin

Certified Public Accountants (Isr.)

November 17, 2019

Condensed Separate Interim Information of Financial Position

	September 30, 2019 (Unaudited) NIS million	September 30, 2018 (Unaudited) NIS million	December 31, 2018 (Audited) NIS million
Assets			
Cash and cash equivalents	**242**	975	527
Investments	**1,735**	1,520	1,384
Trade receivables	**692**	707	699
Other receivables	**232**	233	201
Eurocom DBS Ltd, an affiliate	**-**	20	-
Loans granted to investees	**73**	100	100
Dividend receivable	**-**	60	-
Total current assets	**2,974**	3,615	2,911
Trade and other receivables	**164**	100	152
Fixed assets	**5,034**	4,978	4,993
Intangible assets	**235**	226	227
Goodwill	**265**	265	265
Investment in investees	**3,534**	7,143	5,557
Loans granted to investees	**32**	90	90
Right-of-use assets	**242**	321	294
Non-current investments and other	**134**	134	126
Deferred taxes	**24**	-	45
Investment property - See Note 6.4	**-**	140	58
Total non-current assets	**9,664**	13,397	11,807
Total assets	**12,638**	17,012	14,718

The accompanying additional information is an integral part of these condensed separate interim financial information

Condensed Separate Interim Information of Financial Position (contd.)

	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,104**	1,776	1,520
Trade and other payables	**738**	712	788
Employee benefits	**275**	272	524
Current maturities of liabilities for leases	**105**	112	116
Provisions (Note 5)	**96**	70	132
Dividend payable	**-**	318	-
Total current liabilities	**2,318**	3,260	3,080
Debentures and loans	**9,393**	10,128	9,630
Loan from an investee	**835**	755	815
Employee benefits	**450**	225	404
Liability for leases	**152**	223	192
Derivatives and other liabilities	**173**	199	163
Deferred tax liabilities	**-**	52	-
Total non-current liabilities	**11,003**	11,582	11,204
Total liabilities	**13,321**	14,842	14,284
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**331**	328	331
Deficit	**(5,276)**	(2,420)	(4,159)
Total equity (capital deficit) attributable to equity holders of the Company	**(683)**	2,170	434
Total liabilities and equity	**12,638**	17,012	14,718

Shlomo Rodav Chairman of the Board of Directors	**Dudu Mizrahi** CEO	**Yali Rothenberg** Bezeq Group CFO

Date of approval of the financial statements: November 17, 2019

The accompanying additional information is an integral part of these condensed separate interim financial information

Condensed Separate Interim Information of Profit or Loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 2)	**3,088**	3,170	**1,025**	1,043	4,196
Costs of activity					
Payroll	**688**	693	**224**	233	912
Depreciation and amortization	**636**	633	**225**	218	850
Operating and general expenses (Note 3)	**418**	428	**144**	143	596
Other operating expenses (income), net (Note 4)	**(500)**	105	**(8)**	(2)	614
Total operating expenses	**1,242**	1,859	**585**	592	2,972
Operating profit	**1,846**	1,311	**440**	451	1,224
Finance expenses (income)					
Financing expenses	**473**	376	**214**	122	502
Financing income	**(19)**	(23)	**(7)**	(9)	(32)
Financing expenses, net	**454**	353	**207**	113	470
Profit after financing expenses, net	**1,392**	958	**233**	338	754
Company's share in (losses) earnings of investees, net	**(2,140)**	(33)	**16**	(23)	(1,633)
Profit (loss) before income tax	**(748)**	925	**249**	315	(879)
Income tax	**334**	236	**58**	81	187
Profit (loss) for the period attributable to the owners of the Company	**(1,082)**	689	**191**	234	(1,066)

Condensed Separate Interim Information of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit (loss) for the period	**(1,082)**	689	**191**	234	(1,066)
Items of other comprehensive income (loss), net of tax	**(35)**	23	**(38)**	(3)	42
Total comprehensive income (loss) for the period attributable to the owners of the Company	**(1,117)**	712	**153**	231	(1,024)

The accompanying additional information is an integral part of these condensed separate interim financial information

Condensed Separate Interim Information of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit (loss) for the period	**(1,082)**	689	**191**	234	(1,066)
Adjustments:					
Depreciation and amortization	**636**	633	**225**	218	850
Share in losses (profits) of investees, net	**2,140**	33	**(16)**	23	1,633
Financing expenses, net	**370**	332	**161**	100	447
Capital gain, net	**(470)**	(5)	**(10)**	(1)	(11)
Income tax expenses	**334**	236	**58**	81	187
Change in trade and other receivables	**3**	(40)	**(10)**	10	(16)
Change in trade and other payables	**(41)**	20	**48**	38	30
Change in provisions	**(36)**	11	**-**	(4)	73
Change in employee benefits	**(234)**	44	**(87)**	(34)	487
Miscellaneous	**(11)**	(2)	**(4)**	(2)	5
Net cash from operating activities due to transactions with subsidiaries	**-**	8	**9**	-	19
Net income tax paid	**(238)**	(353)	**(81)**	(80)	(432)
Net cash from operating activities	**1,371**	1,606	**484**	583	2,206
Cash flows from investment activities					
Investment in intangible assets and other investments	**(95)**	(84)	**(30)**	(25)	(113)
Proceeds from the sale of fixed assets	**60**	37	**14**	8	152
Proceeds from the sale of the Sakia property	**328**	-	**-**	-	155
Investment in bank deposits and securities	**(1,965)**	(2,124)	**(185)**	(190)	(2,324)
Proceeds from bank deposits and others	**1,614**	896	**379**	338	1,233
Purchase of fixed assets	**(519)**	(547)	**(190)**	(199)	(742)
Receipt (payment) of betterment levies, permit fees and purchase tax for the Sakia property	**(74)**	(121)	**75**	(9)	(121)
Receipt (payment) of betterment tax for the sale of the Sakia property	**5**	(80)	**-**	-	(80)
Investments in a subsidiary	**(120)**	(100)	**(50)**	(100)	(100)
Miscellaneous	**7**	23	**(2)**	14	20
Net cash from investment activities due to transactions with subsidiaries	**90**	86	**-**	6	146
Net cash flows from (used in) investment activities	**(669)**	(2,014)	**11**	(157)	(1,774)

The accompanying additional information is an integral part of these condensed separate interim financial information

Condensed Separate Interim Information of Cash Flows (contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow from financing operations					
Issue of debentures and receipt of loans	**1,688**	320	**1,188**	-	891
Repayment of debentures and loans	**(2,326)**	(225)	**(1,971)**	(50)	(1,544)
Payment of early repayment fees	**(73)**	-	**(73)**	-	-
Dividends paid	**-**	(368)	**-**	-	(686)
Interest paid	**(210)**	(208)	**(20)**	(5)	(419)
Payment of principal and interest for lease	**(86)**	(90)	**(25)**	(28)	(99)
Miscellaneous	**-**	-	**-**	-	(37)
Net cash from financing activities due to transactions with subsidiaries	**20**	185	**-**	-	220
Net cash used for financing activities	**(987)**	**(386)**	**(901)**	**(83)**	**(1,674)**
Increase (decrease) in cash and cash equivalents, net	**(285)**	(794)	**(406)**	343	(1,242)
Cash and cash equivalents at beginning of period	**527**	1,769	**648**	632	1,769
Cash and cash equivalents at the end of the period	**242**	975	**242**	975	527

The accompanying additional information is an integral part of these condensed separate interim financial information

Notes to the Condensed Separate Interim Financial Information

1. Manner of preparing financial information

1.1 Definitions

"The Company": Bezeq The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2018.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial information for the year ended December 31, 2018 and in conjunction with the condensed interim consolidated financial statements as at September 30, 2019, ("the Consolidated Financial Statements").

The accounting policies used in preparing these condensed separate interim financial information are in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2018.

2. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Internet - infrastructure	**1,186**	1,200	**393**	401	1,596
Fixed-line telephony	**792**	875	**259**	282	1,156
Transmission and data communication	**729**	734	**245**	243	977
Cloud and digital services	**208**	197	**69**	69	260
Other services	**173**	164	**59**	48	207
	3,088	3,170	**1,025**	1,043	4,196

3. Operating and general expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**98**	103	**35**	38	143
Marketing and general	**110**	131	**37**	42	183
Interconnectivity and payments to communications operators	**74**	80	**25**	25	108
Services and maintenance by sub-contractors	**58**	60	**21**	20	83
Vehicle maintenance	**26**	24	**9**	9	37
Terminal equipment and materials	**52**	30	**17**	9	42
	418	428	**144**	143	596

4. Other operating expenses (income), net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Expenses (revenues) for severance pay in voluntary redundancy	**(22)**	93	**3**	-	547
Capital gain from the sale of property, plant and equipment (mainly real estate)	**(470)**	(5)	**(10)**	(1)	(11)
Others	**(8)**	17	**(1)**	(1)	78
Total operating income, net	**(500)**	105	**(8)**	(2)	614

5. Contingent liabilities

5.1 During the normal course of business, legal claims were filed against the Company or there are various legal proceedings pending against it ("in this section: "Legal Claims").

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of these litigations, the financial statements include appropriate provisions in the amount of NIS 96 million, where provisions are required to cover the exposure arising from such litigation.

Furthermore, other claims have been filed against the Company as class actions with respect to which the Company has additional exposure beyond the aforesaid amounts, which cannot be quantified as the exact amounts of the claims are not stated in the claims.

At September 30, 2019

Balance of provisions	Amount of additional exposure for which probability of realization cannot be foreseen	Exposure for claims that cannot yet be assessed
NIS million		
96	708	4,590 (1) (2)

* CPI-linked and prior to addition of interest.

(1) Including exposure of NIS 2 billion for a motion for certification as a class action filed by a shareholder against the Company and officers in the Company, referring to alleged reporting omissions by the Company regarding the wholesale market and the reduction of interconnect fees, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method used to calculate the damage). On August 27, 2018, the court certified the claim as a class action. On October 28, 2018, the Company filed a motion for a rehearing of the certification ruling. Subsequently, the court decided to stay the proceedings until a ruling is made on the motion for a rehearing.

In the hearing on May 22, 2019 of the motion filed by the Company for another hearing, the Court proposed transferring the case for mediation. The plaintiff rejected the proposal. On July 18, 2019, a hearing was held to complete the parties' arguments in the motion for a re-hearing. A decision has not yet been handed on the motion for a re-hearing.

(2) Two motions for certification of a class action amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers in the Group and companies in the group of the Company's controlling shareholders regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint motion is expected to be filed instead of these two motions. The proceeding was stayed due to the investigation described in Note 1.2 to the Consolidated Financial Statements and at the request of the Attorney General, until October 31, 2019. At the beginning of November 2019, the Attorney General filed a motion to continue the stay of proceedings until March 31, 2020.

5.2 Further to that stated in Note 11.3 to the condensed annual separate financial information regarding a class action filed in the United States against B Communications, Ltd., the Company's controlling shareholder and officers, to which (current and former) officers of DBS and the Company were joined, and motions filed by the defendants for summary dismissal of the motion and the claim, on March 28, 2019 the Company was notified of the decision of the US court of the same date that the motions filed by DBS and the officers (current and past) of DBS and the Company for the summary dismissal of the motion and the claim, were accepted on grounds of lack of personal jurisdiction.

5.3 See Notes 11.2 and 11.4 in the separate annual financial information regarding additional proceedings against the Company. (The proceedings have been stayed at this stage, until October 31, 2019. At the beginning of November 2019, the State filed a motion to continue the stay of proceedings until March 31, 2020).

For further information concerning contingent liabilities see Note 10 to the Consolidated Financial Statements.

6. Events in and subsequent to the Reporting Period

6.1 For further information concerning investigations by the Israeli Securities Authority and Israel Police, see Note 1.2 to the Consolidated Financial Statements.

6.2 With regard to impairment loss with respect to Pelephone and DBS and assessment of the signs of impairment in the international telecommunications and Internet services sector, see Note 5 to the consolidated financial statements.

6.3 On February 13, 2019, the Company provided, by way of a memorandum of undertaking, DBS with a credit facility or capital investments for a total amount of NIS 250 million, which DBS may withdraw over a period of 15 months from said date. If the Company will decide to provide such credit, the repayment date of the said credit will not be earlier than the end of the credit facility period.

This undertaking was replaced by new memoranda of undertaking, for a total amount of NIS 250 million, in May 2019 and again in August 2019, where each memorandum of undertaking replaces an earlier one (and is not in addition thereto), the last of which is valid for a period of 15 months as of July 1, 2019 through September 30, 2020.

In March 2019, the Company invested in DBS an amount of NIS 70 million and in July 2019 a further amount of NIS 50 million and in October 2019 an additional amount of NIS 25 million, based on the memoranda of undertaking as set out above.

On November 17, 2019, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment in the amount of NIS 250 million, for a period of 15 months, as of October 1, 2019 through December 31, 2020, thereby replacing the undertaking given in August 2019.

See Note 4.3.2 to the Consolidated Financial Statements.

6.4 For further information concerning the Company’s engagement in an agreement for the sale of the Sakia property, see Note 7 to the consolidated financial statements.

6.5 For further information with regard to early repayments, debt raising and a private placement carried out by the Company, see Note 8 to the consolidated financial statements.

6.6 For further information concerning the writing off of the tax asset with respect to DBS losses, by altering the estimate, see Note 6 to the consolidated financial statements.

6.7 For further information concerning application for approval to issue a prospectus, see Note 20 in the consolidated financial statements.

6.8 For further information regarding provisions for employee retirement subsequent to Reporting Date, see Note 9.3 to the consolidated financial statements.

Chapter E:

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2019

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

Quarterly report on the effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 38C(a) of the Periodic and Immediate Reports Regulations, 1970:

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

For this matter, the members of Management are:

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

In addition to the said members of Management, the following serve in the Group's headquarters

1. Yehuda Porat, Head of Security Unit
2. Lior Segal, Internal Auditor
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 and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

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

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

In the quarterly report on the effectiveness of internal control over financial reporting and disclosure that was attached to the Periodic Report for the period ended June 30, 2019 ("the Last Quarterly Report on Internal Control"), the internal control was found to be effective.

Up until the reporting date no event or matter was brought to the attention of the Board and Management that would change the assessment of the effectiveness of the internal control as produced in the Last Quarterly Report on Internal Control;

At the reporting date, based on the assessment of the effectiveness of internal control in the Last Quarterly Report on Internal Control, the internal control is effective.

Concerning the investigations of the Israel Securities Authority and the Israel Police see section 1.1.5 of the Chapter, Description of Company Operations in the 2018 Periodic Report and updates to this section in this report, and the Company's Immediate Reports referred to in that section, the Company does not have complete information about the Investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter. Accordingly, the Company is unable to assess the effects of the investigations, their findings and their effect 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 38C(d)(1) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970:

I, Dudu Mizrahi, declare that:

1. I have reviewed the quarterly report of Bezeq – The Israel Telecommunication Corp Limited, ("the Company") for the third quarter of 2019 ("the Reports").
2. To the best of my knowledge, the reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the reporting period.
3. To the best of my knowledge, the financial statements and other financial information in the Reports fairly present in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
4. I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:
   - A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;
   - B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involve other employees who have a significant role in the Company's internal control over financial reporting and disclosure
5. I, alone or together with others in the Company:
   - A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010 is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports.
   - B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.
   - C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was reported to me that would change the conclusions of the Board of Directors and Management concerning the effectiveness of internal controls over the Company's financial reporting and disclosure.

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

Date: November 17, 2019

Dudu Mizrahi, CEO;

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

I, Yali Rothenberg, declare that:

1. I have reviewed the interim financial statements and other financial information included in the reports for the interim period of Bezeq – The Israel Telecommunication Corp Limited, ("the Company") for the third quarter of 2019 ("the Reports" or "the Reports for the Interim Period").
2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports.
3. To the best of my knowledge, the interim financial statements and other financial information in the Reports for the Interim Period fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the dates and periods presented in the Reports:
4. I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of the internal control over financial reporting and disclosure:
   A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as they refer to the interim financial statements and other financial information included in the Reports for the Interim Period, which are reasonably likely to adversely affect the Company's ability to record, process, summarize or report financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law
   B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involve other employees who have a significant role in the Company's internal control over financial reporting and disclosure
5. I, alone or together with others in the Company:
   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under our supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports
   B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles
   C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was reported to me in respect of the interim financial statements and to any other financial information included the Reports for the Interim Period, that would change in my opinion the conclusions of the Board and Management concerning the effectiveness of the internal control over the Company's financial reporting and disclosure.

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

Date: November 17, 2019

Yali Rothenberg,
CFO Bezeq Group