

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number: 001-33773



B COMMUNICATIONS LTD.

(Exact Name of Registrant as specified in its charter
and translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

144 Menachem Begin Road, Tel Aviv 6492102, Israel

(Address of principal executive offices)

Tomer Raved, CEO, +972-3-6796121 (phone), +972-3-6796111 (fax)

144 Menachem Begin Road, Tel Aviv 6492102, Israel

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, NIS 0.1 Par Value	BCOM	Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, par value NIS 0.1 per share 116,316,563 shares
(as of December 31, 2019)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

INTRODUCTION

Our ordinary shares are listed on the NASDAQ Global Select Market and on the Tel Aviv Stock Exchange, or TASE (symbol: BCOM). On April 14, 2010, we completed the acquisition of then 30.44% interest in Bezeq (TASE:BEZQ), Israel's largest telecommunications provider, from Ap.Sb.Ar. Holdings Ltd. (a consortium of Apax Partners, Saban Capital Group and Arkin Communications) for an aggregate cash purchase price of approximately NIS 6.5 billion. In accordance with the terms of the transaction we designated seven directors to replace the Apax-Saban-Arkin Group's representatives on Bezeq's then 11 person Board of Directors. We began consolidating Bezeq's financial results into our financial statements effective as of the closing of the acquisition.

The Bezeq Group operates the most comprehensive telecommunications infrastructure in Israel, with a broad range of telecommunications services across all of its markets. Through its wholly-owned subsidiaries, the Bezeq Group is a leading provider in Israel of fixed-line telephony services, fixed-line broadband internet infrastructure access services, Internet service provider, or ISP, services, cellular telephony services, international telephony, or ILD, services, international and domestic data transfer and network services and information and communication technology, or ICT, services, pay television services and other communications infrastructures and services. In each of these markets, the Bezeq Group holds a significant market share.

As used in this annual report, the terms "Company," "we," "us" and "our" mean B Communications Ltd. and its subsidiaries, unless otherwise indicated. As used in this annual report, "Bezeq" means Bezeq The Israel Telecommunications Corp. Ltd., "SP1" means B Communications (SP1) Ltd., "SP2" means B Communications (SP2) Ltd., "Pelephone" means Pelephone Communications Ltd., "Bezeq International" means Bezeq International Ltd. and "YES" (the trade name for DBS) and DBS mean DBS Satellite Services (1998) Ltd. Bezeq, Pelephone, Bezeq International and DBS are sometimes collectively referred to as the Bezeq Group in this annual report.

Our consolidated financial statements appearing in this annual report are prepared in New Israeli Shekels and are translated into U.S. dollars at the representative rate of exchange at December 31, 2019 (NIS 3.456 = \$1.00). The dollar amounts so presented should not be construed as representing amounts receivable, payable or incurred in dollars or convertible into dollars. All references in this annual report to "dollars" or "\$" are to U.S. dollars and all references in this annual report to "NIS" are to New Israeli Shekels.

We have a trademark registered in Israel for "B Communications." All other registered trademarks appearing in this annual report are owned by their holders.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

FORWARD LOOKING STATEMENTS

Except for the historical information contained in this annual report, the statements contained in this annual report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. We urge you to consider that statements which use the terms "anticipate," "believe," "do not believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Such forward-looking statements are also included in Item 4. "Information on the Company" and Item 5. "Operating and Financial Review and Prospects." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. We have attempted to identify significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section that appears in Item 3D. "Key Information - Risk Factors."

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The tables below as of and for the five years ended December 31, 2019 set forth selected consolidated financial data, which is derived from our audited consolidated financial statements. The audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 appear in this annual report.

Consolidated Statement of Income Data:

(Amounts in millions, except share and per share data)

	Year Ended December 31,					2019 (U.S. \$)
	2015	2016	2017 (NIS)	2018	2019	
Revenues	9,985	10,084	9,789	9,321	8,929	2,584
Depreciation, amortization and impairment	2,131	2,161	2,117	2,387	2,064	597
Salaries	1,958	2,015	2,007	1,995	1,937	560
General and operating expenses	3,876	4,021	3,906	3,394	3,276	948
Loss from impairment of assets	-	-	129	2,294	1,274	369
Other operating expenses(income)	3	21	149	635	(188)	(54)
Operating profit (loss)	2,017	1,866	1,610	(1,384)	566	164
Finance expense	689	1,054	586	620	738	213
Finance income	(154)	(123)	(69)	(89)	(266)	(77)
Profit after financing expenses (income), net	1,482	935	1,093	(1,915)	94	28
Share of losses (profit) in equity-accounted investee	(12)	5	5	3	2	1
Profit (loss) before income tax	1,494	930	1,088	(1,918)	92	27
Income tax expense (benefit)	358	442	347	(59)	1,473	426
Net profit (loss) for the year	1,136	488	741	(1,859)	(1,381)	(399)
Profit (loss) attributable to:						
Owners of the company	210	(236)	78	(1,029)	(853)	(247)
Non-controlling interests	926	724	663	(830)	(528)	(152)
Net profit (loss) for the year	1,136	488	741	(1,859)	(1,381)	(399)
Basic earnings (loss) per share	7.04	(7.92)	2.62	(35.46)	(19.76)	(5.72)
Diluted earnings (loss) per share	6.97	(7.92)	2.62	(35.46)	(19.76)	(5.72)

Statements of Financial Position data:

(Amounts in millions)

	Year Ended December 31,					2019 (U.S. \$)
	2015	2016	2017 (NIS)	2018	2019	
Cash and cash equivalents	581	762	2,386	1,104	814	236
Restricted cash	155	-	-	-	39	11
Total assets	22,122	20,145	20,639	19,375	15,587	4,510
Total current liabilities	5,199	4,256	4,111	6,908	3,627	1,049
Non-current liabilities	13,532	12,588	13,442	11,703	12,162	3,519

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The following is a summary description of some of the material risks and uncertainties that may affect our business, including our future financial and operational results. In addition to the other information in this Annual Report, the following statements should be carefully considered in evaluating our company.

Risks Directly Related to B Communications

We have a substantial amount of existing debt, restricting our financing flexibility. In the recent past, we faced a possibility of default, which we cured through a change of control transaction which we believe provided us with sufficient liquidity to service our interest payments on our outstanding debt until maturity (November 2024).

In March 2019, we announced that the aggregate material decline in the assets and the accounting equity of our company was expected to be in a cumulative range of NIS 700-800 million (as a result of all the write downs to date). Our Board of Directors decided at its meeting held on the evening of March 19, 2019, that as a result of the foregoing we should enter into a dialogue with the holders of our debentures in order to examine financial possibilities for strengthening our shareholders' equity or to obtain adjustments to the current Deeds of Trust governing the debentures. The Board further determined to withhold payments to its financial creditors until such agreements are finalized. This included payments we owed to creditors pursuant to our issued Series B and Series C Debentures. Throughout 2019, we were faced a high probability of default and considered various M&A and financing candidates.

On December 2, 2019, we closed the transaction with Searchlight II, BZQ LP ("Searchlight") and a company controlled by the Fuhrer family, T.N.R. Investments Ltd. ("Fuhrer"), whereby control of our company and Bezeq was transferred from Internet Gold – Golden Lined Ltd. ("Internet Gold") to Searchlight and Fuhrer. The purchase of control was executed pursuant to the control permit granted by the Ministry of Communications (the "MoC") to Searchlight and Fuhrer and our company on November 11, 2019 (the "Control Permit"). The transaction injected NIS 640 million into the Company, which helped to stabilize and significantly improve our position. As a result of the transaction, we fully repaid the balance of our debt obligations for our issued Series B Debentures, and we made a partial repayment in cash in the amount of NIS 614 million in respect of our obligations for our issued Series C Debentures.

The transaction also included an equity offering in Israel and a rights offering in the United States pursuant to Rule 801 of the Securities Act of NIS 70 million (including participation by Internet Gold), and also included the issuance of two new Series of Debentures: Series E Debentures (par value NIS 100 million) and Series D Debentures (par value NIS 58 million).

We historically serviced our substantial debt with dividend payments received from Bezeq. Bezeq's determination to suspend the payment of dividends could affect our ability to repay our debt when it comes due.

As of April 23, 2020, we had approximately NIS 2.036 billion (US\$ 589 million) of debt, which we historically serviced with the proceeds of semi-annual dividend payments from Bezeq equal to 100% of its half-yearly profits. Bezeq paid total cash dividends of NIS 0.6 billion, NIS 1.3 billion, and NIS 1.4 billion in the years ended December 31, 2018, 2017 and 2016, of which we received NIS 181 million, NIS 338 million and NIS 380 million. On March 6, 2018, Bezeq's Board of Directors updated its dividend distribution policy to distribute a dividend of 70% of its half-yearly profit (after tax). On March 28, 2019, Bezeq reported a NIS 1.06 billion loss for 2018 after write-offs during the year and announced that due to the losses, dividend payments would be halted for the next two years. Accordingly, we cannot expect to receive any dividends prior to 2022. However, we believe that we currently have sufficient liquidity to service the interest payments on our outstanding debt until maturity (November 2024).

We have control over Bezeq as a result of our ability to nominate a majority of its board of directors

We have control over Bezeq based on two facts: (i) we hold significantly more voting rights than any other shareholder and the remaining holdings in Bezeq are widely dispersed; (ii) Israeli law and regulations require prior ministerial approval for any person to acquire holdings in Bezeq exceeding 5%, or to take actions together with other shareholders to cause the appointment of a director in Bezeq, or to influence Bezeq's day-to-day operational decision-making policies. By these restrictions, the regulatory regime ensures that no individual or entity will interfere with the control of Bezeq by the holder of the Control Permit and that the Company is able to nominate the majority of the board of directors of Bezeq.

When our controlling shareholders, Searchlight and Fuhrer, purchased the control in Bezeq, they nominated two new representatives out of eight on Bezeq's Board of Directors. In the upcoming Annual General Meeting of Bezeq's shareholders scheduled for May 14, 2020 (the "Upcoming AGM") the nomination by our controlling shareholders of a third director is on the agenda.

Bezeq is an Israeli issuer (TASE: BEZQ) and is prohibited under Israeli and securities law from passing confidential information about its business operations to us, or to any other third-party. Only limited non-public financial information is periodically reported by Bezeq to our company, in order for us to meet our reporting requirements as issuers. Therefore, we are generally not privy to non-public information concerning Bezeq.

We, Searchlight and Fuhrer are subject to the Control Permit for holding Bezeq shares. Failure to comply with this permit or other regulatory provisions relating to the control permit may result in the revocation of the Control Permit and our rights with respect to our Bezeq interest would be adversely impacted, which would materially and adversely affect our business and financial position.

The new Control Permit required the adoption of amendments to the Articles of Association ("AoAs") of Bezeq and its subsidiaries prior to January 12, 2020 Bezeq in order to remain compliant with the requirements of our new control permit. Bezeq and its subsidiaries' AoAs were not amended on time as required and therefore we are in breach of the Control Permit, which the MoC is aware of. The amendment of Bezeq's AoA is on the agenda of the Upcoming AGM. The Company agreed with Bezeq's board of directors that the amendments of the AoAs of Bezeq's subsidiaries will be addressed immediately after the Upcoming AGM.

Pursuant to the Communications Order, we were required to obtain the prior written consent of the Prime Minister (who delegated his authority) and the Minister of Communications ("the Ministers"), in order to obtain a permit to acquire Bezeq. Under the Communications Order, no person may hold, directly or indirectly, "significant influence" over Bezeq or 5% or more of any particular class of Means of Control in Bezeq, nor may any person, together with any other person, appoint, elect or dismiss the general manager of Bezeq or cause the election, appointment or dismissal of any director of Bezeq, without the prior written consent of the Ministers. Subject to certain exceptions, prior written approval of the Ministers is also required to increase the holdings or other rights in excess of those determined in the initial approval, including by means of an agreement (including a voting agreement). No person may transfer control, "significant influence" or Means of Control in Bezeq to another, if, as a result of the transfer, the holdings of the transferee would require approval pursuant to the Israeli Communications Law or Communications Order and the transferor is aware that the transferee is not in possession of the requisite approval. For the foregoing purposes, "significant influence" means the ability to significantly influence the activity of a corporation, whether alone or together with or through others, directly or indirectly, other than as a result of holding Means of Control in that corporation or in another corporation, and including the ability derived from the corporation's articles of association, a written, oral or other kind of agreement, or from any other source. In this context, the right to appoint an officer or holding 25% of our Means of Control is presumed to confer significant influence. "Means of Control" means the right to vote at a general meeting of Bezeq, appoint a director or general manager of Bezeq, or to participate in the profits of Bezeq or a share of the remaining assets of Bezeq after payment of its debts upon liquidation.

The Control Permit includes several other conditions, including the requirement that SP2, our subsidiary which holds our interest in Bezeq, be controlled exclusively by the other parties to the Control Permit and that the parties to the Control Permit hold not less than 25% of any type of Means of Control of Bezeq and SP2.

In addition, the Control Permit requires an "Israeli Party," as defined in the Communications Order. Fuhrer is that party according to the Control Permit. The Control Permit also includes certain notice requirements regarding changes in the composition of the board of directors. If we, Searchlight, Fuhrer or any other party subject to the Control Permit fails to comply with the terms of the Control Permit or with other regulatory provisions relating to the control of Bezeq, such permit could be revoked and our rights with respect to our Bezeq interest would be adversely impacted, which would have a material adverse effect on our business and financial position.

Any event in which a receiver is appointed with respect to our holdings in SP2 or SP2's holdings in Bezeq, will constitute grounds for the cancellation of the Control Permit. In addition, in the event that the Ministers determine that a material change in the details included in the application for the Control Permit has occurred or the members to the Control Permit failed to provide requisite notifications in accordance with the Control Permit, and there is a real concern that the essential service provided by Bezeq will be harmed, the Ministers may cancel the Control Permit or set conditions for its continuation pursuant to the provisions of the Israeli Communications Law.

In the event that the Control Permit is cancelled and an application to reissue another control permit is denied, our holdings in Bezeq will become unapproved holdings pursuant to the Communications Order and we will not be able to exercise any right derived from our shares in Bezeq and we will be obligated to sell them or they will be sold by Bezeq or be liquidated.

If we do not maintain the control of Bezeq (as defined pursuant the Investment Company Act of 1940), we may be deemed to be an "investment company" under the Investment Company Act, which could materially and adversely affect our business.

Section 3(a)(1)(A) of the Investment Company Act of 1940, or the Investment Company Act, defines an investment company as any issuer that is, holds itself out as being, or proposes to be, primarily engaged in the business of investing, reinvesting or trading in securities and Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" (within the meaning of the Investment Company Act) having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. However, an issuer will be deemed not to be an investment company if no more than 45% of the value of such issuer's total assets (exclusive of government securities and cash items) consists of, and no more than 45% of such issuer's net income after taxes (for the last four fiscal quarters combined) is derived from, securities other than securities issued by companies which are controlled primarily by such issuer. Primary control is presumed if the issuer owns over 25% of the controlled company's voting securities and the issuer has control greater than that of any other person. Accordingly, so long as we maintain control of Bezeq, we will not be deemed an investment company.

If we were to no longer maintain the control of Bezeq under the Investment Company Act definition, we could be required either (i) to change substantially the manner in which we conduct our operations to avoid being subject to the Investment Company Act or (ii) to register as an investment company. An investment company that is organized under the laws of a foreign country may not register as an investment company, or publicly offer its securities through interstate commerce in the United States, unless Bezeq applies to the U.S. Securities and Exchange Commission, or the SEC for an order permitting Bezeq to register under the Investment Company Act, and to make a public offering in the United States. The SEC may issue an order granting the application if it finds that, by reason of special circumstances or arrangements, it is both legally and practically feasible effectively to enforce the provisions of the Investment Company Act against the issuer, and further finds that granting the application is otherwise consistent with the public interest and the protection of investors.

If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with certain affiliates, reporting, record keeping, voting, proxy and disclosure requirements, and meeting these requirements would be costly, if at all possible.

We are controlled by a single shareholder who can significantly influence matters requiring shareholders' approval.

As of April 23, 2020, Searchlight held, approximately 60.2% of our outstanding share capital. Accordingly, subject to legal limitations, as long as Searchlight holds a significant interest in our company, it may have the ability to influence our business and affairs, including any determinations with respect to potential mergers or other business combinations involving us, our acquisition or disposition of assets, our incurrence of indebtedness, our issuance of any additional Ordinary Shares or other equity securities, our repurchase or redemption of Ordinary Shares and our payment of dividends. Similarly, as long as Searchlight has a significant interest in our company, it will have the power to significantly influence the outcome of matters submitted to a vote of our shareholders, including the power to elect all of the members of our board of directors (except external directors, within the meaning of Israeli law), or prevent an acquisition or any other change in control of us. Because the interests of our major shareholders may differ from the interests of our other shareholders, actions taken by it with respect to us may not be favorable to our other shareholders. In addition, Fuhrer holds 11.4% of our outstanding share capital and Searchlight and Fuhrer have entered into a voting agreement for certain matters (e.g., election of directors).

Due to the material weakness pertaining to the design of Bezeq’s internal control over financial reporting, such material weakness was considered a material weakness in our reports. We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have an adverse effect on our financial results and the market price of our ordinary shares.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404(a) of the Sarbanes-Oxley Act of 2002 governing internal control and procedures for financial reporting have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources.

As a consequence of the investigations of Bezeq and several of its directors and senior officers by both the Israel Security Authority, or the ISA, and Israel’s Police, we attempted to assess these investigations through the scope of our own internal control over financial reporting. However, due to provisions of Israeli law concerning obstructing investigation proceedings both Bezeq and we are prevented from examining all matters known to us that were raised in the investigations and accordingly we are unable to fully assess the effects of the investigations on our financial statements and internal controls over financial reporting. Subject to these limitations, in last year’s annual report, we reported that in connection with our assessment of our internal controls over financial reporting that we completed the work necessary to identify a material weakness pertaining to the design of Bezeq’s internal control over financial reporting relating to certain matters, principally the subjects of the investigations.

Our management then assessed the effectiveness of our own internal control over financial reporting within the framework of the “Internal Control – Integrated Framework” (2013) issued by the Committee of Sponsoring Organizations, or the COSO. Due to the material weakness pertaining to the design of Bezeq’s internal control over financial reporting, such material weakness was also considered a material weakness in our reports. Our auditors issued a “qualified opinion” on our financial statements because of the inability to obtain sufficient supporting evidence as to the effect, if any, of the investigations’ proceedings on the consolidated financial statements.

Bezeq published its 2018 financial report on March 27, 2019. Part 5 of that report, entitled, “Report on Effectiveness of Internal Controls,” summarizes the process and results of an internal audit lead by Bezeq’s Board of Directors and senior management in their remediation efforts. Bezeq’s management concluded that that Bezeq’s internal control over financial reporting for the period ending December 31, 2018 was “effective,” given that the incidents that were identified, in the aggregate, as giving rise to a material weakness in 2017 were remediated during the reporting period. We therefore believe Bezeq’s deficiencies were remedied in the subsidiary level. Bezeq published its 2019 financial report on March 19, 2020. Part 5 of that report, entitled “Report on Effectiveness of Internal Controls,” again reached the conclusion that Bezeq’s internal control over financial reporting for the period ending December 31, 2019 was “effective”.

In conducting its assessment of internal control over financial reporting, our management based its evaluation on the framework in “Internal Control – Integrated Framework” (2013) issued by the Committee of Sponsoring Organizations, or the COSO, of the Treadway Commission. As a consequence of the investigations of Bezeq and several of its directors and senior officers by both the ISA and Israel’s Police, we attempted to assess these investigations through the scope of our own internal control over financial reporting. However, due to provisions of Israeli law concerning obstructing investigation proceedings both Bezeq and we were prevented from examining all matters known to us that were raised in the investigations and accordingly we are unable to fully assess the effects of the investigations on our financial statements and internal controls over financial reporting. Therefore, Management concluded that the Company’s internal control over financial reporting was ineffective as of December 31, 2018. The standards applicable to our assessment of our internal controls are mores stringent than the standards applicable to Bezeq.

While we believe that our current internal controls are working appropriately, we remain unable to assess our internal controls for prior periods because of ongoing criminal proceedings against Bezeq and several of its directors and senior officers. Accordingly, the Company’s internal control over financial reporting remains ineffective as of December 31, 2019 because we cannot assess the impact, if any, of the criminal proceedings on our future financial statements.

We will maintain our own constant review of internal controls. We have in the past and may in the future identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could adversely affect our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

Risks Relating to the Bezeq Group

The Bezeq Group operates in a heavily regulated industry, which can harm its results of operations. Regulation in Israel has materially adversely affected our results.

The Bezeq Group companies are subject to government control and regulation relating to the licensing of operations, setting permitted areas of operation, setting tariffs, operation, competition, payment of royalties, relations between Bezeq and its subsidiaries and a ban on ceasing or limiting its services (which could oblige Bezeq to provide services under uneconomic circumstances). The continuing governmental control and regulation has at times resulted in government intervention that Bezeq believes impedes its business activities. Bezeq is exposed to the imposition of various sanctions by the Ministry of Communications, including fines. In addition, the Minister of Communications has the authority to change the terms of the licenses of the Bezeq group companies, affect existing tariffs and marketing offerings, and impose directives on them. Significant changes in the regulatory principles applicable to the communications industry as a whole and to the Bezeq Group companies in particular, could require Bezeq to make changes to its strategic plans and harm its ability to plan its business activities for the long term.

Former Executives of Bezeq, DBS and Eurocom Communications are under criminal investigation or facing indictments subject to hearings in Israel

The Israeli Police and the Israel Securities Authority, or the ISA, have recommended indictments of several former Bezeq, DBS and Eurocom Communications executives. Our Audit Committee engaged outside U.S. counsel to conduct an assessment of our internal controls and, as applicable, those of Bezeq in connection with the preparation of our financial statements to determine whether there have been any violations of the U.S. Foreign Corrupt Practices Act or any other laws. We incurred expenses in connection with such assessment and we may also incur substantial fines, civil or criminal sanctions, including fines and sanctions against our directors and officers, or third-party claims if any of our officers or directors are held liable under criminal laws and regulations. The Israeli law system might be insufficient to defend us and preserve our rights. We could also be subjected to risks to our reputation and regulatory action on account of any unethical acts by any of our employees, directors or other related individuals. These criminal developments have also added complexity to our corporate compliance regime. The Investigation may adversely affect the market price of our ordinary shares and could have a material adverse effect on our business, financial condition and results of operations.

The Bezeq Group does not have complete information about the investigations, their content, the material and evidence in the possession of the statutory authorities on this matter. Furthermore, in view of the provisions of Israeli law and concern of obstructing the investigation, at this stage Bezeq must refrain from conducting any checks relating to matters that arose in the course of those investigations. This limits Bezeq's ability to operate, including in connection with performing audit activity and reviews for the purpose of publishing Bezeq's reports, as further described below. The lack of information and uncertainty have also led to our auditors issuing a "qualified opinion" on our financial statements because of the inability to obtain sufficient supporting evidence as to the effect, if any, of the investigations' proceedings on the consolidated financial statements.

While all the former directors of our company and the directors and executives of Bezeq who were allegedly involved in criminal actions are no longer associated with us or the Bezeq Group, the companies in the Bezeq Group may be indirectly implicated in the alleged criminal behavior.

In March 2019, we were informed by Internet Gold that the SEC had issued a Formal Order of Private Investigation with respect to Internet Gold (no longer a controlling shareholder of our company). The Formal Order authorizes an investigation of possible violations of the Foreign Corrupt Practices Act with respect to the facts uncovered in the criminal investigations in Israel.

Bezeq is subject to restrictions on intercompany relations with its principal subsidiaries, which harms its ability to compete and adversely affects its business.

Bezeq's general license obligates it to ensure that its relationships with its principal subsidiaries do not result in favoring them over their competitors. Separation is required between the managements of Bezeq and those companies, as is separation between the business, financial and marketing systems, assets and employees, which causes duplication and high administration overheads. In addition, Bezeq is currently limited in its ability to offer joint service bundles with those companies. Due to the entry of companies into direct competition with Bezeq based on the provision of service bundles to customers and the option of providing wholesale services in order to offer customers end-to-end services, the risk that this factor will affect Bezeq's operations and results of operations has increased.

The Bezeq Group companies and certain of our former officers and directors have been named in shareholder class action lawsuits related to the recent criminal investigations in Israel, and may be named in further litigation, government investigations and proceedings, which could require significant additional management time and attention, result in significant additional legal expenses or result in government enforcement actions, any of which could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows.

The Bezeq Group companies and certain of our former officers and directors have been named in shareholder class action lawsuits relating to the recent criminal investigations in Israel, and may become subject to further litigation, government investigations or proceedings arising out of the restatement. The pending litigation and settlements have been, and any future litigation, investigation or other actions that may be filed or initiated against us or our current or former officers or directors may be, time consuming and expensive. We cannot predict what losses we may incur in these litigation matters, and contingencies related to our obligations under the federal and state securities laws, or in other legal proceedings or governmental investigations or proceedings related to the restatement.

To date, we have incurred significant costs in connection with the internal investigation and pending litigation. Any legal proceedings, if decided adversely to us, could result in significant monetary damages, penalties and reputational harm, and will likely involve significant defense and other costs. We have entered into indemnification agreements with each of our directors and certain of our officers, and our amended and restated certificate of incorporation requires us to indemnify each of our directors and officers, to the fullest extent permitted by law, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was a director or officer of the Bezeq Group Companies. Although we maintain insurance coverage in amounts and with deductibles that we believe are appropriate for our operations, our insurance coverage may not cover all claims that have been or may be brought against us, and insurance coverage may not continue to be available to us at a reasonable cost. As a result, we have been and may continue to be exposed to substantial uninsured liabilities, including pursuant to our indemnification obligations, which could materially adversely affect our business, prospects, results of operations and financial condition.

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

Bezeq's operations are subject to market risks such as currency fluctuations, inflation in Israel and the general economic environment and financial condition of the capital markets in Israel and worldwide.

Bezeq measures exposure to changes in exchange rates and inflation by the surplus or deficit of assets against liabilities, based on the type of linkage. While Bezeq's exposure to changes in currency exchange rates against the shekel is low, its exposure to inflation rates is high, and therefore Bezeq takes steps to cover part of the inflation exposure. As a result, the annual rate of inflation and its distribution during the year can have a material influence on the erosion of Bezeq's tariffs and its revenues and expenses during the year, which in turn could have a material adverse impact on its operating results.

From time to time, the Bezeq Group engages in currency hedging transactions to reduce the impact on its cash flows and results of operations of currency fluctuations. The Bezeq Group recognizes freestanding derivative financial instruments as either assets or liabilities in the statements of financial position and it measures those instruments at fair value. However, accounting for changes in the fair value of a derivative instrument, such as a currency hedging instrument, depends on the intended use of the derivative instrument and the resulting designation. For derivative instruments that are not designated as cash flow hedges, changes in fair value are recognized in our income statement without any reference to the change in value of the related budgeted expenditures. These differences could result in fluctuations in Bezeq's quarterly results of operations.

Negative developments in, or the general weakness of, Israel's economy, in particular increasing levels of unemployment, may have a direct negative impact on the spending patterns of retail consumers, both in terms of the products they subscribe for and usage levels. Stability in the financial market and the strength of economies in countries around the world, have recently been subjected to high volatility. While the Israeli economy has displayed economic resilience, reflected in economic expansion, low levels of unemployment and inflation rates within government targets, the continued increase in housing prices, global economic shocks and uncertainty in the political and defense arenas may cast doubt over a continuation of these trends. In the event the local economy is negatively impacted following external or internal events, Bezeq's business results may be harmed as consequence of lower revenues (including revenues from affiliates) or due to an increase in finance costs.

The Bezeq Group's operations are vulnerable to damage or interruption, which could expose it to material risks.

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

Bezeq has a “cyber risk”, meaning a risk of occurrence of an activity intended to affect use of a computers, stored data or communication systems. This kind of an attack may lead to interference in the business, theft of information, reputational damage, damage to systems and information breach. As a leading communications company that provides diverse communications services in various segments, it is a target for and experiences cyber-attacks, which are handled by it.

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

Bezeq overseas implementation of its protection policy, including testing its level of effectiveness and Bezeq’s readiness, as part of which, Bezeq conducts periodic tests and drills at different frequencies for different scenarios (including through external companies specializing in this field). Despite Bezeq’s investments in means of reducing these risks, Bezeq reports that it is unable to guarantee that these efforts will succeed in preventing harm or interference in the systems and the information related to them.

The current novel strain of coronavirus (COVID-19) may adversely affect our operations and business.

In December 2019, COVID-19 was identified in Wuhan, China. This virus continues to spread globally and as of March 2020, has spread to over 150 countries, including Israel. The spread of this virus has resulted in the World Health Organization declaring the outbreak of COVID-19 as a “pandemic.” Many countries around the world have imposed quarantines and restrictions on travel and mass gatherings to slow the spread of the virus.

The Government of Israel initiated a total lockdown in some cities and travel between cities in the country was also heavily restricted. The lockdown or quarantine measures may result in material adverse effects to the operations of the Bezeq Group companies, including customer service, sales, installation of services, deployment, operation and maintenance of networks, if multiple employees and outsource personnel shall be prohibited from attending their positions.

We currently anticipate that the COVID-19 outbreak will have a negative effect on the operations of the Bezeq Group companies. The restrictions imposed as a result of the outbreak are likely to cause operating difficulties and have a negative impact on the Group’s ability to generate revenues due to the inability to market its products and services or its ability to provide on-site services. The spread of COVID-19 may also result in order cancellations, delinquencies and late payments, delays and delivery and installation suspensions. As a result, the Group’s business and operating results will likely be negatively affected. The extent to which COVID-19 impacts the Group’s business will depend on future developments, which are highly uncertain and cannot be predicted, including, reductions in consumer spending because of the financial impact of the pandemic.

The Bezeq Group companies could be subject to labor disruptions.

The Bezeq Group companies are subject to collective bargaining agreements that may reduce managerial flexibility and result in additional costs. The implementation of human resources and organization plans, including retirement and restructuring plans, involves coordination with the labor unions and with the employees’ committees. The implementation processes of such plans may cause unrest in labor relations and be damaging to the Bezeq Group’s ongoing activities.

Bezeq may face difficulties in obtaining some of the building and environmental permits required for the establishment and operation of its network sites, which could have an adverse effect on the coverage, quality and capacity of its network.

Bezeq is subject to the Israeli Non-Ionizing Radiation Law, which regulates the emission of electromagnetic radiation from broadcast facilities. While Bezeq is working to obtain permits to set up and operate its various broadcast installations, the difficulties it faces in this area, including difficulties stemming from the change in policy by relevant entities and amendments to statutes and standards, could have an adverse impact on the infrastructure of these installations and on the continuity of services using them, and as a result, on Bezeq’s revenues from these services. Bezeq’s third-party liability policy does not currently cover liability for electromagnetic radiation.

Frequent technological changes may negatively impact Bezeq’s operations and the value of its assets.

The communications sector is characterized by frequent technological changes and the shortening of the economic life of new technologies. The trend has created a need to invest significant resources in technology upgrades, has caused the lowering of barriers to entry into the sector by new competitors, increased depreciation rates, and in certain cases, resulted in the redundancy of technologies and networks owned by Bezeq (the cost of investment in which may still be recorded on its balance sheets).

Impairment charges have affected our results of operations and may continue to affect our results of operations in the future.

Pursuant to the accounting standards, our company and Bezeq prepare valuations of our subsidiaries to periodically test for impairment of goodwill and of assets regarding which there are indications of impairment. Taking note of the business position of the subsidiaries and the discrepancy, if there is any, between the carrying amount in Bezeq'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 Bezeq's books. Additionally, a significant change in circumstances that leads to a change in estimates could occur due to a high-intensity isolated event 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 time that might not materialize or could partially materialize and different perspectives affect, with varying intensity, the value of the activity, where assumptions for the long term many have a relatively large weight compared with assumptions regarding the short term. These assumptions are sensitive to values in the representative year, to the discounting interest rate and the permanent growth rate.

Bezeq and its subsidiaries have recorded significant impairment charges in recent years. Given the potential impact of the COVID-19 on the Bezeq Group's businesses as a result of the outbreak, the values or the recoverable amounts of certain assets subsequent to the reporting date may be less than their carrying amounts as of December 31, 2019. Because the outbreak may also result in uncertainties in relation to the assumptions and estimations associated with the measurement of various assets and liabilities in the financial statements of Bezeq and our company that we may not have previously recognized or disclosed, the occurrence of the outbreak has added additional risks that the carrying amounts of assets and liabilities may require certain adjustments within the next financial year. Such charges could have a material adverse effect on our results of operations in the period in which they are recorded.

Specific Risks Relating to Bezeq's Fixed-Line Communications

Competition from other providers could adversely affect the Bezeq's business, results of operations and financial condition.

The competition in the domestic fixed-line communications industry has recently intensified, both from other domestic carriers including HOT, Bezeq's principal competitor in this segment, and secondarily from other cellular operators. Competition strengthened significantly upon implementation of the wholesale market by the principal communications groups in Israel and other communications operators (holders of special or unified licenses) who compete with Bezeq in selling end-to-end service packages based on Bezeq's infrastructures at prices prescribed by the Ministry of Communications and not pursuant to commercial terms determined by negotiation. Bezeq may also face competition in the future from potential infrastructure owners. The increased competition has led to the churn of some of Bezeq's customers and has caused Bezeq to lower its prices for certain services and to an increase in the cost of acquiring new customers and retaining existing ones. The entities competing with Bezeq at present or those that might compete with it in the future, benefit from greater business flexibility than Bezeq, including the ability to cooperate with subsidiaries and affiliates for marketing joint packages of services. The ability of competitors to offer packages with tariff flexibility compared with the restrictions that prevent the Company from doing the same, harms the Company's ability to compete.

Bezeq's tariffs for fixed-line services are subject to governmental control, which could have a material adverse effect on its business.

Bezeq's tariffs for its main services (including interconnect fees) are subject to government control and intervention. The Minister of Communications is authorized to intervene in existing tariffs and marketing offers and impose directives on Bezeq. On average, controlled tariffs erode in real terms. Significant changes in Bezeq's controlled tariffs, if implemented could have a material adverse effect on Bezeq's business and results. Additionally, the restrictions applicable to Bezeq in marketing alternative payment bundles may make it difficult for Bezeq to provide an appropriate competitive solution to market changes and have placed Bezeq at a disadvantage to those competing with it in the sale of end-to-end service packages using wholesale Bitstream Access services, or BSA services, supplied by Bezeq. In the context of the implementation of a wholesale market, the Ministry of Communications has the power to set the price for which Bezeq will sell its services to license holders. The low prices set by the Ministry of Communications may adversely affect Bezeq's level of revenues and profits.

Specific Risks Relating to Pelephone

Competition from other providers has adversely affected Pelephone's business and results of operations.

Competition in the cellular telephony industry has intensified since 2012. This has led to lower prices and higher customer churn rates, which in turn has affected the results of Pelephone. Pelephone expects competition to continue to increase amid the changing legislation in Israel and consolidation in the telecommunications industry that permits certain service providers to market a combination of fixed-line telephony, fixed-line broadband internet infrastructure access, ISP and pay television services, or a "bundle", for an aggregate price which is lower than the price of the individual products and services in the bundle. These competitive forces may create further downward pressure on prices, which may result in a decrease in Pelephone's average revenue per user, or ARPU, and increase churn rates. Furthermore, the costs of establishing, maintaining and operating a mobile telephony network per subscriber is expected to be higher for Pelephone if it will not be allowed to operate under some form of network sharing model.

Currently, there are six operators with mobile telephony license in the cellular telecommunications market in Israel (Pelephone, Cellcom, Partner, Golan Telecom, HOT Mobile and XFone) and a few MVNO operators with mobile telephony licenses for hosting on another network (virtual operators). Partner and HOT Mobile operate under radio segment infrastructure sharing through a joint company. Cellcom and Golan Telecom operate under a network sharing agreement. Cellcom and XFone operate under a hosting and network sharing agreement.

Pelephone is subject to governmental control and regulation

The cellular industry in Israel is subject to legislation and standardization relating to issues such as the environment, increased competition, tariffs, product warranty and repair. Regulatory intervention in the industry may materially impact Pelephone's structure of competition and operating costs. Changes in the regulatory principles applicable to the cellular industry as a whole and to Pelephone in particular, could require Pelephone to make changes to its strategic plans and harm its ability to plan its business activities for the long term.

Pelephone's results of operations are subject to privacy concerns and hacking.

Pelephone operates information security systems to protect against unauthorized hacker access to the network and critical systems. Hacking events could impair performance or adversely affect Pelephone's business.

In May 2018, provisions concerning privacy protection came into force under the Protection of Privacy Regulations (Information Security) 2017 that are expected to significantly affect the operations of many companies. These regulations apply to various companies, including potentially Pelephone, where some of them apply to all types of databases and others are relate to the level of database security.

Pelephone's operations are subject to market risks such as currency fluctuations.

Pelephone is exposed to exchange rate risks as most of its terminal equipment, accessories, spare parts and infrastructure equipment are purchased in US dollars. While its revenues are in NIS. Any erosion of the NIS against the US dollar may affect Pelephone's profitability if it is unable to adjust selling prices promptly.

Frequent technological changes may negatively impact Pelephone's operations and finances.

The cellular market in Israel and worldwide is characterized by substantial capital investments in the deployment of infrastructure. The frequent technological changes in infrastructure and terminal equipment and the fierce competition in various market segments impose a heavy financial burden on the companies operating in the market, requiring them to update their infrastructure technology from time to time.

Pelephone provides its services through various infrastructure systems, including switches, data communications and access transmission networks, cables, computer systems and physical infrastructures. Pelephone's business is highly dependent on these systems. Pelephone has partial backup systems, however in the event of damage to some or all of the systems, whether due to a large-scale technical malfunction, natural disaster (such as an earthquake, fire, etc.), or damage to physical infrastructures (such as the introduction of viruses and cyber-attacks as set out below), significant difficulties may arise in providing of services, including in the event that Pelephone is not able to restore the systems quickly.

Information security, customer data protection and cyber risks - as a leading cellular company that provides service to hundreds of thousands of customers, Pelephone is a target for cyber-attacks aimed at harming the use of information systems or the information itself. Such attacks or hacking may cause interruption of business, theft of information/money, damage to reputation, damage to systems and information leakage.

Pelephone has experienced cyber-attacks and part of its defensive strategy includes testing of its effectiveness and readiness. Pelephone conducts various tests scenarios and attack exercises (including through external companies specializing in this area). Cyber attacks against companies, including Pelephone have increased in frequency, scope and potential harm in recent years. They may occur alone or in conjunction with physical attacks, especially where disruption of service is an objective of the attacker. The development and maintenance of systems to prevent such attacks is costly and requires ongoing monitoring and updating to address their increasing prevalence and sophistication. While, to date, Pelephone has not been subject to cyber attacks that, individually or in the aggregate, have been material to its operations or financial condition, the preventive actions Pelephone takes to reduce the risks associated with cyber attacks, including protection of its systems and networks, may be insufficient to repel or mitigate the effects of a major cyber attack in the future.

The inability of Pelephone to operate or use its networks and systems or those of its suppliers, vendors and other service providers as a result of cyber attacks, even for a limited period of time, may result in significant expenses and/or a loss of market share to other communications providers. The costs associated with a major cyber attack on Pelephone could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cybersecurity measures and the use of alternate resources, lost revenues from business interruption and litigation from customers. Any occurrence could damage Pelephone's reputation, adversely impact customer and investor confidence and result in a material adverse effect on Bezeq's results of operation or financial condition.

Pelephone's results of operations are subject to credit risk associated with consumer credit transactions.

Pelephone's sales of terminal equipment are mostly credit-based. Most of this credit, which is not covered by either insurance or sureties, is exposed to risk. The credit is spread among a large number of customers and Pelephone's collection mechanisms are efficient and competent.

Potential health risks related to cellular network sites and cellular telecommunication devices could have a material adverse effect on Pelephone's business, results of operations and financial condition.

Pelephone operates hundreds of broadcast facilities and sells electromagnetic radiation emitting terminal equipment. While Pelephone is taking measures to ensure that the levels of radiation emitted by its broadcast facilities and terminal equipment do not exceed the radiation levels permitted in the Ministry of Environmental Protection guidelines (the levels adopted are based on international standards), no assurance can be given that it will be able to do so in the future. If health risks are found to exist or if the broadcast sites or terminal equipment are found to emit radiation levels exceeding the permitted radiation standards, thereby constituting a health hazard, this may have an adverse effect due to reduced consumption of Pelephone's services, difficulty in renting sites, compensation claims for physical and property damages in substantial amounts and attempts to exercise the deeds of indemnity deposited by Pelephone with the planning authorities with respect to applicable law. Pelephone's third-party liability policies do not currently cover electromagnetic radiation and any exposure to such claims could have a material adverse impact on Pelephone's business, results of operations and financial condition.

Pelephone may face difficulties in obtaining some of the building and environmental permits required for the establishment and operation of its cellular antennas.

Pelephone is subject to the Israeli Radiation Law. Establishing and operating cellular antennas require building permits from various planning and building committees, a process that involves obtaining several approvals from State entities and local regulatory bodies. The inability to obtain and retain the necessary permits may impact the quality of Pelephone's existing network and the deployment of its new network.

Pelephone may be restricted in the conduct of its operations during periods of national emergency, which could negatively affect its business operations.

During periods of national emergency, the Minister of Communications and other governmental authorities may issue various instructions regarding the use of Pelephone's network, including the use of the network by the Israeli security forces. In addition, the Israeli Equipment Registration and IDF Mobilization Law, 1987 permits the taking and use of engineering equipment and facilities by Israel's Defense Forces. These actions could adversely affect Pelephone's business operations.

Pelephone's frequencies are exposed to interference which could impair the service quality of its services.

The frequencies used by Pelephone, 850 MHz, 1800 MHz and 2100 MHz, are exposed to interference and could impair the service quality of the networks operated by Pelephone. The factors that could cause interference include the fact that the 850 MHz frequency is also used for terrestrial television broadcasts by television stations in the Middle East on the same frequency, causing interference in Pelephone's 850 MHz UMTS/HSPA network. Furthermore, the Jordanian networks also use the same 2100 MHz frequency range that Pelephone uses and in view of the limited cooperation between the operators in Jordan and Pelephone, this could have an effect. In September 2018, there were a series of highly publicized disruptions in the cellular service of Pelephone affecting both incoming and outgoing calls, text messages and wireless internet service. There can be no assurance that these disruptions will not reoccur.

There has been a substantial decrease in international travel due to the coronavirus, which has had an adverse effect on our roaming services (inbound and outbound) and if such decrease continues for a long duration, will result in a material adverse effect on our roaming revenues and results of operations.

Specific Risks Relating to DBS

Competition from other providers and content piracy has adversely affected DBS's business and results of operations.

Competition in the broadcast sector with HOT and more recently with Cellcom and Partner TV, and including the ability to subscribe to Netflix and Amazon Prime Video directly, requires DBS to constantly invest in attracting and retaining customers, and dealing with high subscriber churn rates between the companies. Competition also increased due to the increasing use of pirated broadcasts. The broadcasting sector is also exposed to piracy by viewers in viewing broadcasts without paying subscription fees and is exposed to unlicensed public access to content to which the broadcast providers have rights. These competitive forces may create downward pressure on prices, which may result in a decrease in the DBS's ARPU and increase churn rates.

DBS's operations are subject to market risks such as currency fluctuations, economic weakness and the security situation in Israel.

A material part of DBS's expenses and investments are linked to fluctuations in the exchange rate of the USD (particularly content, satellite segments, purchase of decoders and additional logistics equipment). Therefore, sharp fluctuations in the exchange rate will have an effect on DBS's business results. In addition, the loans taken out by DBS are linked to the consumer price index and, therefore, sharp rises in inflation rates could have a material effect on DBS's business results. An economic recession increase in unemployment rates and a decrease in disposable income may lead to a decrease in the number of DBS' subscribers, a decrease in DBS' revenues and harm to its business results. In addition, an ongoing unstable security situation in large areas of Israel, which disrupts the day-to-day lives of the residents, could have an adverse effect on DBS's business results.

Technological developments and improvements may negatively affect DBS and its operations. DBS made the decision to invest in OTT.

The development of new technologies may render existing technology inferior, forcing DBS to invest large sums to retain its competitive edge. Such technological advances and developments may also facilitate increased accessibility to video content, allowing other providers to offer content viewing services without the need for heavy investment that may make it difficult for DBS to recruit new subscribers, retain existing subscribers and offer its services. In order to compete effectively, DBS may be required to invest large amounts. Alternative multi-channel broadcasting infrastructures, such as DTT, a terrestrial implementation of digital television technology using an aerial to broadcast to a conventional television antenna (or aerial) instead of a satellite dish or cable television connections, and its expansion, may have an adverse impact on the financial results of DBS.

In March 2019, the boards of Bezeq and DBS approved an outline plan for DBS switching from satellite broadcasting to online transmission (OTT) in a gradual, prolonged process, expected to be spread over a period of up to seven years. DBS's average annual investment over the planned years is expected to be similar to the average annual investment in recent years. Based on this decision, DBS will routinely monitor market conditions, competition and the technological environment, and will periodically review the feasibility of the outline plan and the need, if any, to make adjustments in it, in the pace of its execution or in the manner of its implementation, considering the needs of its customers and DBS's regulatory obligations.

DBS's board of directors' decision was made in light of the television content market trends, including the reduced entry barriers, entry of new players and the establishment of OTT transmission technologies, changes in the value chain and changes in consumption habits. Along with the differences between the old satellite transmission technology and the OTT transmission technology, the inherent advantages have required that DBS examine the need to establish OTT broadcasts. Taking into consideration, among other things, existing obligations regarding all matters relating to satellite technology, the decoder market, licensing under which DBS operates, the rights of available content and the development of faster internet speeds in the market.

As noted, the outline plan was approved for gradual and ongoing migration, and accordingly there is no certainty at this stage that the process or the migration will actually be implemented and that such migration will be carried out and completed. If the transition is carried out, it is expected to save DBS's expenses and for it to better adapt to changing market conditions.

DBS is subject to restrictions on intercompany relations with Bezeq and its other subsidiaries, which harms its ability to compete and adversely affects its business.

DBS is restricted in entering into joint ventures with Bezeq with respect to offering communications service bundles. Both HOT and Cellcom, DBS's principal competitors, are able to provide service bundles to their customers, which provide them with a significant advantage. DBS's inability to ability to offer joint service bundles to customers has had a material impact on its business and competitive ability.

There are significant risks associated with providing satellite-based broadcasting.

DBS broadcasts its multi-channel pay television via space segments on the Amos 2 and Amos 3 satellites stationed at identical points in space. Malfunction of one of the satellites, damage to one of them or the unavailability of space segments on any of the satellites (including the unavailability of a new satellite scheduled to replace a satellite that ceased to broadcast) could disrupt and materially reduce the volume of DBS broadcasts, unless an alternative is promptly found to replace unavailable space segments. While DBS has attempted to provide for redundancy and has entered into a partial backup mechanism in its agreement with Spacecom, it may not be successful in fully replacing its broadcast capabilities and would likely not be able to provide all the channels it now offers. DBS is not insured against loss of revenues caused by satellite malfunction.

DBS is dependent on Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS.

Until such time as DBS switches from satellite broadcasting to online transmission (OTT) it will be dependent on Spacecom Communications Ltd., or Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS in providing satellite broadcasts. Spacecom is also responsible for operating the space segments. Any inability by Spacecom to provide DBS with the space segments necessary for its broadcasts would negatively impact DBS's business and competitive position.

DBS is dependent on several third-party vendors and a disruption in those services could adversely affect its business.

DBS is dependent on certain providers of software, equipment, content and services, including broadcast encryption services in providing its satellite TV services. Failure to receive the products and services, or the failure to retain broadcast licenses and obtain access to new content from content providers services would negatively impact DBS's business and competitive position.

DBS depends on its broadcast centers and central computing center in Israel and is susceptible to any event that could adversely affect their condition.

Damage to a broadcast center's operations may significantly impair DBS's ability to continue its satellite TV broadcasts. DBS operates broadcast centers in Kfar Saba and Re'em Junction in order reduce the risks involved if one of its centers sustains damage and improves the survivability of some of its broadcast capabilities. In the event of damage to one of the broadcast centers, DBS will be able to continue broadcasting only a portion of its channels from the other broadcasting center. This is more significant in the event of damage to the Kfar Saba center, which is the only center with the capacity to broadcast certain of DBS's key channels. Both of the broadcast centers have identical encryption systems and therefore backup is also available for the encryption system in the event of damage to one of the broadcast centers. A significant malfunction in DBS's central computer systems would also severely impact its operational capability. While DBS has a remote backup, site designed to be activated and provide partial computer services within a few hours in the event of malfunction, it will be extremely difficult for DBS to operate efficiently without the operation of the central computer systems. Damage to DBS's logistics center could also lead to a disruption of its operations.

DBS's technology is currently inferior to that of its principal competitor

DBS's technology is inferior to that of HOT, its principal competitor. This technical inferiority prevents DBS from providing telephony and Internet services, and various interactive services, including VOD, via its infrastructure; and therefore, DBS is dependent on third parties in order to provide such services. In March 2019, the Boards of Bezeq and DBS approved an outline plan for DBS switching from satellite broadcasting to OTT in a gradual, prolonged process, expected to be spread over a period of up to seven years. DBS's average annual investment over the planned years is expected to be similar to the average annual investment in recent years. There can be no assurance that DBS will succeed in offering a competitive technology or that it will be able to increase or maintain its current subscriber base.

DBS is dependent on third-party encryption systems.

DBS encrypts the broadcasts it transmits via satellite and utilizes encoded smart cards that are installed in the decoders in subscribers' homes. Defects in the encryption system or its enforcement or a breach thereof could make it possible for unauthorized persons to view broadcasts without payment to DBS, causing a reduction in revenues and a breach of the agreements between DBS and its content suppliers. A malfunction of the encryption system or its enforcement could have a material adverse impact on DBS's operations and financial results.

DBS's frequencies are not exclusive, and are subject to interference, which could impair the service quality of its services.

The spectrum of frequencies used by DBS to transmit its broadcasts from the broadcast satellites to the satellite dishes installed in subscribers' homes is allocated in accordance with the license from the Ministry of Communications and is defined as a frequency spectrum with a secondary allocation. An Israeli entity is allowed to make authorized primary use the frequency spectrum used by DBS. If the owner of the primary allocation uses the frequency spectrum, this may cause an adverse impact on the quality and/or availability of DBS broadcasts to its subscribers, which may adversely affect the financial results of DBS. The primary allocation holder has not made use of such frequencies in a manner that has caused any real or lengthy disruptions to DBS's broadcasts. As DBS's broadcasts are wireless transmissions from broadcast centers to broadcast satellites and from them to the receiver dishes in subscriber homes, the broadcast of wireless signals in the same frequency spectrum, whether or not they originate in Israel, and extreme weather conditions of heavy rain, hail or snow could cause disruptions to the quality and/or availability of the broadcasts provided by DBS to its subscribers. Such disruptions may have an adverse effect on DBS's financial results.

Specific Risks Relating to Bezeq International

Bezeq International's operations are subject to currency fluctuations.

The primary currency in which Bezeq International operates is the NIS. While the majority of Bezeq International's revenues are derived from customers in Israel, Bezeq International uses services from providers worldwide and pays them for these services in foreign currency, primarily in US dollars. Changes in the exchange rates of the currencies in which Bezeq International operates against the NIS exposes it to rate differentials on the gap generated, which could adversely affect its profitability by increasing financing expenses, as well as its cash flows. To protect itself against currency exposure, for specific material transactions, Bezeq International engages in hedging transactions and purchases other financial instruments.

Technological developments and improvements may negatively affect Bezeq International's operations.

Bezeq International's operations are characterized by frequent technological developments. The development of technologies constituting attractive alternatives to some of Bezeq International's products, such as Skype and WhatsApp as an alternative to long-distance calling, is likely to have a materially adverse effect on its operations. Furthermore, technological developments require frequent investment in infrastructure which could impact its financial condition.

Intra-organizational information security

Bezeq International operates information security systems to protect against information leakage or unauthorized hacker access to the network or critical systems. A hacking event may impair performance or adversely affect its business, disclose sensitive information, and even expose it to financial sanctions and legal proceedings.

Risks Related to Our Ordinary Shares

Our share price has been volatile and may decrease in the future.

The market price of our ordinary shares has been subject to significant price movements and could be subject to wide fluctuations in the future in response to factors such as the following, some of which are beyond our control:

- Changes in the economic condition and financial results of the Bezeq Group;
- The amount of dividends declared by the Bezeq Group;
- Continued articles in the press concerning the criminal investigations and indictments;
- Changes in the ownership of the controlling interest in our company;
- Global economic conditions;
- Price movements in the market price of Bezeq's ordinary shares;
- Operating results that vary from the expectations of securities analysts and investors;
- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- Regulatory changes that impact pricing of services and competition in Bezeq's markets;

- Changes in market valuations of other communications companies;
- Announcements of technological innovations or new services by Bezeq or its competitors;
- Announcements by Bezeq or its competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Announcements by third parties of significant claims or proceedings against us or Bezeq;
- Additions or departures of key personnel;
- Future sales of our ordinary shares; and
- Stock market price and volume fluctuations.

Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events or hostilities in or surrounding Israel, could adversely affect the market price of our ordinary shares.

If we fail to maintain compliance with NASDAQ’s continued listing requirements, our shares may be delisted from the NASDAQ Market.

Our ordinary shares are listed on the NASDAQ Global Select Market under the symbol “BCOM.” To continue to be listed on the NASDAQ Global Select Market, we need to satisfy a number of conditions, including a minimum closing bid price per share of \$1.00 for 30 consecutive business days. On April 22, 2020, we were notified that we were not in compliance with NASDAQ’s requirement that listed securities maintain a minimum bid price of \$1.00 per share. We have until December 28, 2020, to regain compliance by meeting the applicable standard for a minimum of ten consecutive business days. If we are delisted from NASDAQ, trading in our ordinary shares would be conducted on a market where an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of, our ordinary shares.

Risks Related to Operations in Israel

Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.

The Bezeq Group companies and we are organized and based in the State of Israel and Bezeq derives substantially all of its revenues from markets within the State of Israel. As a result, political, economic and military conditions affecting Israel directly influence us. Conflicts in North Africa and the Middle East, including in Egypt and Syria which border Israel, have resulted in continued political uncertainty and violence in the region. Efforts to improve Israel’s relationship with the Palestinian Authority have failed to result in a permanent solution, and there have been numerous periods of hostility in recent years. In addition, relations between Israel and Iran continue to be seriously strained, especially with regard to Iran’s nuclear program. Such instability may affect the economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect our business, financial condition and results of operations in the future. Any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel could have a material adverse effect on our business, financial condition and results of operations.

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements.

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. As a foreign private issuer listed on the NASDAQ Global Select Market, we may follow home country practice with regard to the composition of the board of directors, compensation of officers, director nomination process and quorum at shareholders’ meetings. In addition, we may follow home country practice instead of the NASDAQ requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer’s home country certifying that the issuer’s practices are not prohibited by the home country’s laws. In addition, a foreign private issuer must disclose in its annual reports filed with the SEC each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ’s corporate governance rules.

We may be classified as a passive foreign investment company, which would subject our U.S. investors to adverse tax rules.

For U.S. federal income tax purposes, we would be classified as a passive foreign investment company, or PFIC, for any taxable year in which either: (i) 75% or more of our gross income is passive income or (ii) at least 50% of the average quarterly value of our assets for the taxable year produce or are held for the production of passive income. Based on our current and projected income, assets and activities, we believe that we are not currently a PFIC, but there can be no assurance that we will not be classified as such in the future.

If we were classified as a PFIC for U.S. federal income tax purposes, complex rules would apply to U.S. investors owning our ordinary shares. Such U.S. investors could suffer adverse U.S. tax consequences. If eligible, a U.S. investor may avoid many of the negative consequences of the PFIC rules by making a “mark-to-market” election (as explained below). For more information please see “Item 10. Additional Information – E. Taxation – United States Federal Income Taxation – Passive Foreign Investment Companies.” You are urged to consult your tax advisors regarding the application of the PFIC rules to you.

Our shareholders may have difficulties enforcing a U.S. judgment against us, our executive officers and directors and some of the experts named in this annual report or asserting U.S. securities law claims in Israel.

We are incorporated in Israel and most of our executive officers and directors named in this annual report reside outside the United States. Service of process upon them may be difficult to effect within the United States. Furthermore, all of our assets and most of the assets of our executive officers and directors and some of the experts named in this annual report are located outside the United States. Therefore, a judgment obtained against us or any of them in the United States, including one based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by an Israeli court. It also may be difficult for you to assert U.S. securities law claims in original actions instituted in Israel.

Provisions of Israeli law, the licenses of Bezeq and our articles of association may delay, prevent or make difficult an acquisition of our company, which could prevent a change of control and, therefore, depress the price of our shares.

Following our acquisition of Bezeq, we and our shareholders are required to comply with the Communications Law, the Communications Order and regulations promulgated by the Ministry of Communications.

Pursuant to the Communications Order, we were required to obtain the prior written consent of the Ministers in order to acquire Bezeq. Under the Communications Order, no person may hold, directly or indirectly, “significant influence” over Bezeq or 5% or more of any particular class of means of control in Bezeq, nor may any person, together with any other person, appoint, elect or dismiss the general manager of Bezeq or cause the election, appointment or dismissal of any director of Bezeq, without the prior written consent of the Ministers. Subject to certain exceptions, prior written approval of the Ministers is also required to increase the holdings or other rights in excess of those determined in the initial approval, including by means of an agreement (including a voting agreement). Furthermore, under the Communications Order, no person may transfer control, “significant influence” or means of control in Bezeq to another, if, as a result of the transfer, the holdings of the transferee would require approval pursuant to the Communications Law or Communications Order and the transferee is not in possession of the requisite approval. For the foregoing purposes, “significant influence” means the ability to significantly influence the activity of a corporation, whether alone or together with or through others, directly or indirectly, other than as a result of holding “means of control” in that corporation or in another corporation, and including ability derived from the corporation’s articles of association, a written, oral or other kind of agreement, or from any other source. In this context, the right to appoint an officer and holding 25% of our means of control is presumed to confer significant influence. We received explicit governmental approval to keep the Control Permit even at a level of a 25% ownership interest. “Means of control” means the right to vote at a general meeting of Bezeq, to appoint a director or general manager of Bezeq, to participate in the profits of Bezeq or a share of the remaining assets of Bezeq after payment of its debts upon liquidation.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders, including Israeli shareholders and shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are limited. Moreover, with respect to certain listed share swap transactions, the tax deferral is limited in time, and when the time expires, tax then becomes payable even if no actual disposition of the shares has occurred. These provisions of Israeli law may delay, prevent or make difficult an acquisition of our company, which could prevent a change of control and therefore depress the price of our shares.

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from those under Delaware law.

Because we are an Israeli company, the rights and responsibilities of our shareholders are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in a Delaware corporation. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his, her or its power in the company, including in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable to shareholder votes on amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of a director or executive officer of the company has a duty of fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. There is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

Item 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were organized under the laws of the State of Israel in 1999 as "Gold E Ltd." We changed our name to Goldtrade Electronic Trading Ltd. in 2000, to Smile.Communications Ltd. in 2006 and to 012 Smile. Communications Ltd. in 2007. On March 16, 2010, we changed our name to B Communications Ltd. in connection with our acquisition of Bezeq (TASE: BZEQ).

We are a public limited liability company under the Israeli Companies Law, 5739-1999 and operate under such law and associated legislation. Our principal executive offices are located at 144 Menachem Begin Road, Tel Aviv 6492102, Israel, and our telephone number is +972-3-6796121. Our website address is www.bcommunications.co.il. The information on our website is not incorporated by reference into this annual report on Form 20-F.

Prior to our October 2007 initial public offering in the United States, we were a wholly-owned subsidiary of Internet Gold, a public company traded on the NASDAQ Global Select Market and the TASE.

On April 14, 2010, we completed the acquisition of 30.44% of Bezeq's outstanding shares from Ap.Sb.Ar. Holdings Ltd. for a purchase price of approximately NIS 6.5 billion in cash and became the largest shareholder of Bezeq. The Bezeq interest was directly acquired by an indirect wholly-owned subsidiary of our company. In accordance with the terms of the transaction, effective as of the closing of the acquisition, we designated seven directors to replace the Apax-Saban-Arkin Group's representatives. We began consolidating Bezeq's financial results into our financial statements effective as of the closing of the acquisition and began reporting the consolidated results in our 2010 second quarter earnings release.

As part of our acquisition of Bezeq, we, Internet Gold, SP2, SP1, and other members of the Eurocom Group applied for a control permit of Bezeq, pursuant to the Communications Law and Communications Order. On April 13, 2010, the control permit was granted subject to the condition that SP2 is controlled exclusively by the other parties to the control permit, referred to as the Companies' Control Permit.

Through its wholly-owned subsidiaries, the Bezeq Group is a leading provider in Israel of fixed-line telephony services and fixed-line broadband internet infrastructure access services, cellular telephony services, ISP services, ILD services, international and domestic data transfer and network services and ICT, pay television services and other communications infrastructures and services. In each of these markets, the Bezeq Group holds a significant market share.

On December 2, 2019, we closed the transaction with Searchlight II BZQ LP (wholly-owned by Searchlight Capital Partners) and a company controlled by the Fuhrer family (TNR Investments Ltd.). In the transaction, control of our company and Bezeq was transferred to these entities, after the liquidation of Eurocom Communications Ltd, pursuant to which the holdings in its subsidiary Internet Gold were sold. New control permits were issued to Searchlight, Fuhrer and our Company. According to the permit, the parties must hold not less than 25% of any type of mean of control of Bezeq. Our current ownership percentage is 26.3%. Additional information on our control permit and its requirements is provided herein under the Regulatory section.

B. Business Overview

Since April 14, 2010, we have been the largest shareholder of Bezeq, Israel's largest telecommunications provider. Bezeq is the principal provider of communications services in Israel, providing a broad range of telecommunications operations and services, including domestic fixed-line, cellular and international communication services, Internet services, multi-channel television, online television transmissions (OTT), television and radio broadcasts, satellite broadcasts, customer call centers, maintenance and development of communications infrastructures, provision of communications services to other communications providers and the supply and maintenance of equipment on customer premises, which is referred to as network end point, or NEP services.

In 2018, Bezeq applied to the Minister of Communications to approve a change in Bezeq Group's legal structure so that the activity of the subsidiaries DBS, Pelephone, and Bezeq International could be transferred to a single partnership with full structural separation from Bezeq. However, after the Ministry of Communications published a hearing to examine whether to approve the request, Bezeq informed the Ministry that it had withdrawn the application so as to enable the Ministry to concentrate its resources on advancing cancellation of the Bezeq Group's structural separation.

On February 13, 2019, the Board of Directors of Bezeq approved a request by each of the subsidiaries Pelephone, Bezeq International and DBS, to obtain approval from the Ministry of Communications for a change in the corporate structure, whereby all the operations and assets of each of the subsidiaries would be transferred to separate limited partnerships, wholly owned by Bezeq (Bezeq as a limited partner, and a company (separate and different in each partnership) wholly owned by Bezeq as a general partner).

On January 28, 2020, Bezeq received a letter from the Ministry of Communications that it was not possible to approve the application at that time. The denial of the application was for reasons that Bezeq believes are mistaken including, because there is no reason to take interim decisions that might affect the issue of structural separation in the Group and change the existing range of incentives, while the obligation of structural separation applied to the Group is currently being examined by a special team at the Ministry of Communications. As part of its examination, a broad range of alternatives are being assessed - from cancellation of the obligation of separation to strengthening the separation. In addition, in the Ministry's opinion, this is a material change in the Group's operations and not a technical change of the corporate structure.

Bezeq's Board of Directors also approved a request to the Tax Authority to obtain approval to transfer the activity of the subsidiaries to such partnerships as a tax-exempt transfer under the provisions of Section 103 of the Income Tax Ordinance and a request that the assessment arrangement dated September 15, 2016, concerning spreading the losses of DBS will also apply to the partnership to which the activity will be transferred.

Previous Investigations

On June 20, 2017, the ISA launched a criminal investigation, or the Investigation. Eurocom Communications, Bezeq and DBS' offices were searched and documents were seized. The ISA informed Bezeq that the Investigation addressed suspicions of crimes under the Israeli Securities Law and Penal Code in respect of transactions relating to Eurocom. Bezeq was initially informed that the Investigation related to the purchase of DBS shares by Bezeq from Eurocom D.B.S. Ltd., a company controlled by Mr. Elovitch. The Investigation was later expanded to include transactions to provide satellite communications services between DBS and Spacecom, a company also controlled by Mr. Elovitch, and with respect to dealings between the Ministry of Communications, Mr. Elovitch and Bezeq.

As part of the Investigation, the former Chairman of Bezeq, Mr. Shaul Elovitch, the former CEO of Bezeq, Ms. Stella Handler, the former CEO and CFO of DBS and certain other senior officers in the Bezeq Group were arrested and questioned. During the course of the Investigation, some of the suspects were released from arrest with certain restrictions, which include partial restrictions on contact with employees and senior officers of Bezeq Group and Eurocom and house arrest. Some of these restrictions expired and some were later re-imposed. Restrictions were imposed on Mr. Shaul Elovitch, which include dealing with matters relating to the Ministry of Communications and DBS. He was also barred from being in contact with members of the Board of Directors, senior officers and employees of the Bezeq Group companies. Matters relating to Bezeq Group companies (excluding DBS) may only be handled by the CEOs of those companies (excluding the CEOs of Bezeq and DBS) or by Mr. David Granot, the former Acting Chairman of Bezeq's Board of Directors. Additional restrictions were imposed on Stella Handler, the former CEO of Bezeq, and she was also barred from making direct or indirect contact with members of Bezeq's Board of Directors other than Mr. Granot.

On November 6, 2017, the ISA issued a press release regarding the conclusion of the Investigation and the transfer of the investigation file to the Tel Aviv District Attorney's Office (Taxation and Economics). According to the notice, the ISA concluded that there is prima facie evidence establishing the involvement of the main suspects in the case in offenses of: (1) fraudulently receiving funds in connection with the entitlement of Bezeq's controlling shareholder to payment of NIS 170 million as part of the transaction for the purchase of DBS shares from Eurocom by Bezeq, payment that was contingent upon DBS meeting certain targets; (2) leaking material from the independent committee of Bezeq's Board of Directors that was required to examine interested party transactions (the transaction for the acquisition of DBS shares by Bezeq and the transaction between DBS and Spacecom for the purchase of satellite segments for DBS) to Mr. Shaul Elovitch and his associates; and (3) promoting Bezeq's interests in the Ministry of Communications, in violation of the Penal Code and the Israeli Securities Law. The notice also relates to the transfer of the investigation file to the District Attorney's Office and that the District Attorney's Office is authorized to decide on the continued prosecution of the matter.

Additionally, in a joint press release issued on February 18, 2018, the ISA and Israel Police announced that evidence found by the ISA during its investigation raised suspicion of additional offenses, and a new joint investigation was opened by investigators of the ISA and the Unit for Combating Economic Crime at Lahav 433, in which a number of suspects were arrested, including senior Bezeq Group executives Mr. Shaul Elovitch and Mr. Or Elovitch, Ms. Stella Handler, former CEO of Bezeq, and Mr. Amikam Shorer, the Group's former Chief Strategy and Corporate Development Officer (all of whom have been released from their arrests). The officers are suspected of offenses of fraud, administrative offenses, perverting the course of justice, bribery, offenses under the Israeli Securities Law, deception and breach of trust in a corporation, and some of them are also suspected of offenses under the Prohibition on Money Laundering Law, 2000.

On December 2, 2018, a spokesperson for the police and the ISA explained that the investigations were concerned primarily with the alleged suspicion of bribery, fraud and breach of trust committed by Prime Minister Benjamin Netanyahu and by Shaul Elovitch, the former controlling shareholder (through his ownership of Eurocom Communications), of our company and the Bezeq Group. The Israel Police and the ISA announced that they believed based on their investigation that there was sufficient evidence to substantiate the suspicions against the main parties under investigation, some of whom are former officers of Bezeq, as follows:

- that Shaul Elovitch (formerly a controlling shareholder and chairman of Bezeq's and our Board of Directors) committed bribery, obstruction of justice, reporting violations under the Securities Law and offenses under the Prohibition on Money Laundering Law.
- that Or Elovitch (a former director of Bezeq, and also of our company) and Stella Handler (the former CEO Bezeq) committed corporate fraud and breach of trust, and reporting violations under the Securities Law.
- that Amikam Shorer (a former officer of Bezeq) abetted bribery and committed corporate executive offenses, reporting violations under the Securities Law and offenses under the Prohibition on Money Laundering Law.

In February 2019, Israel's attorney general recommended that the Prime Minister, be indicted subject to a hearing. He alleged that the Prime Minister committed bribery in allegedly intervening in regulatory and other business decisions that benefited Shaul Elovitch who allegedly ensured favorable media coverage in Walla! (Bezeq's subsidiary) for the Prime Minister and his family. Both Mr. Elovitch and his wife, Ms. Iris Elovitch, were indicted in connection with the alleged bribery.

On January 28, 2020, charges were filed in the Jerusalem District Court against the former controlling shareholder of the company, Mr. Shaul Elovitch, in the Case dubbed "4000" (related to Bezeq's subsidiary, Walla! Communications) on various offenses, including bribery and reporting offenses in an immediate report

Neither we nor Bezeq have complete information about the investigations described in this section, their content, the material and evidence in the possession of the statutory authorities on this matter. Furthermore, in view of the provisions of Israeli law and concern of obstructing the investigation, both we and Bezeq must refrain from conducting any of its own investigations relating to matters that arose in the course of those criminal investigations.

In its annual report for 2017, Bezeq provided initial disclosure about a material weakness in the effectiveness of the internal control over financial reporting and disclosure. During this period and through December 31, 2018, Bezeq's management and Board of Directors pursued various broad and extensive courses of action, with the assistance of external consultants with the purpose of strengthening Bezeq's internal control. In the light of the actions carried out to remedy the material weaknesses in Bezeq and based on an assessment of effectiveness carried out by Bezeq's management under the supervision of its Board of Directors, Bezeq's Board and management concluded that the internal controls over the financial reporting of Bezeq as of December 31, 2018 and December 31, 2019 were effective.

Competitive Strengths

We believe that the following competitive strengths will enable us to retain our customer base, capitalize on growth opportunities and maintain and expand our current market share positions, which we expect to contribute to positive cash flow generation.

The Bezeq Group is a leading provider of telecommunications services and owner of telecommunications infrastructure in Israel and provides diversified telecommunications offerings across all Israeli telecom markets.

The Bezeq Group is the largest and the incumbent telecommunications provider in Israel, offering a broad range of services through its advanced, comprehensive and nationwide telecommunications infrastructure. The Bezeq Group holds a leading position in each of the markets in which it operates. As a leading provider in each of these markets, the Bezeq Group has been able to maintain its strong performance and benefit from economies of scale. In addition, such leading positions across a diverse range of telecommunications offerings reduce the Bezeq Group's exposure to market and regulatory conditions. We believe that the Bezeq Group's ability to maintain a leading position in the Israeli telecommunications market in the face of competitive and regulatory pressures reflects the underlying strength of its advanced nationwide network infrastructures, the strength of its brands and its extensive offering of high-quality content.

The Bezeq Group operates in an attractive macroeconomic environment with a developed telecommunications market.

The Israeli telecommunications market is highly developed and benefits from favorable dynamics, including high penetration rates across all telecommunications services, high penetration of postpaid contracts in the cellular telephony market, rapid adoption rates of new technologies and significant expenditures on telecommunications services by consumers and businesses. In addition, Israel is expected to experience steady population growth, which should provide a natural expansion of the addressable market. In particular, Bezeq expects such population trends will lead to a steady demand for fixed-line telephony services in Israel, especially among certain sectors of the growing population in Israel where fixed-line telephony is in widespread use. Furthermore, a relatively young population contributes to the attractiveness of the market, as such consumers typically spend more on telecommunications products and services while also driving increased demand for new technologies. We believe that the potential future growth in the Israeli telecommunications market will be driven by continued strong demand for higher bandwidth, both on the broadband internet and mobile platforms, and advanced value-added services and technologies across all telecommunications services.

The Bezeq Group owns advanced nationwide network infrastructures and is positioned at the forefront of technological innovation across all of the telecom markets in Israel.

The Bezeq Group has historically made substantial investments in its fully owned infrastructure, which is one of the most technologically advanced in Israel and enables the Bezeq Group to reach customers nationwide. Bezeq has a Next-Generation Network (NGN) based on a core IP network and deployment of an optical fiber network to street cabinets (a network topology known as Fiber to the Curb, or FTTC) and also based on an access network (a system that connects NEPs on the subscriber's premises to the network and engineering systems). Bezeq completed the deployment of the network at the end of 2015. The connection from the home, or the terminal equipment (equipment which is installed on the subscriber's premises, e.g., the actual telephone, private exchanges, fax machines, modems, routers, etc.) through which the subscriber receives the service, to the access network is based on copper cables and optical cables that connect the access systems to the backbone over optic cables (through special pipes or an above ground network) and to a limited degree through wireless systems. Today, using VDSL2 technology, it is possible to provide a bandwidth of up to 100 Mbps downstream, as well as innovative added-value services. Other advantages of the new technology are simplification of the network structure and better management ability.

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

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

In 2019, Pelephone launched its IMS based services: Voice over WiFi as an improved solution for indoor coverage, as well as Voice over LTE that enables vacating third-generation frequency resources for future LTE use. In addition, it enables Voice over LTE sequence service with Voice over WiFi. During the coming decade Pelephone will be required to continue establishing new broadcasting sites to comply with the terms of its mobile telephony license.

In the ISP, ILD, data transfer, networks and ICT services segment, Bezeq International is currently the sole ISP in Israel to own and operate its own high-speed submarine optical fiber communications cable system. The JONAH cable, which was launched in January 2012, has a capacity of over 7.0 Tbps and provides Bezeq International with greater capacity for utilization than any other ISP in Israel. In addition, Bezeq International is able to obtain such capacity at an incremental cost, while other ISPs in Israel are required to purchase capacity and rely on one of the two other cable operators in Israel (MedNautilus and Tamares). The JONAH cable is fully redundant (i.e., utilizes two equipped fiber pairs), and in addition, Bezeq International has available capacity on two alternate submarine routes to Europe.

In the multi-channel pay television segment, DBS is the only licensed provider of multi-channel television broadcasts via satellite in Israel. While DBS relies on third party providers for the provision of satellite capacity, it owns the satellite dishes that carry the signals from such satellites to subscriber residences and set-top boxes. DBS differentiates itself from its main competitor, HOT, by offering a wide range of high-quality content and by utilizing technology to be the first pay television services provider to offer new and innovative value-added services to subscribers. For instance, DBS was the first provider in Israel to offer a set-top box that combined PVR, VOD and HD capabilities in one device (branded as "yes MaxTotal"). DBS's PVR offering enables subscribers to download a movie or series to their yes MaxTotal set-top box over the Internet and watch recorded content immediately or at a later time. DBS is also the only provider in Israel that offers a multiroom service allowing subscribers to watch recorded content on multiple capable set-top boxes and in 2014 DBS introduced its TV Everywhere service, branded as yesGo, which allows subscribers to watch content from mobile devices. In 2015, DBS began to offer a HDPVR converter known as yesQuattro that allows the recording of up to 4 channels simultaneously in addition to the channel being viewed, has increased the number shows that may be recorded, and allows the automatic recording of prime-time content (6:00 PM to midnight) on two channels that the subscriber can select for seven days (known as PrimeTime service).

DBS also operates its yesGo service, which allows subscribers to view the channels included under the service that they have purchased for home television viewing and VOD content, over a variety of terminal devices (smartphones, tablets and PCs). Other providers enable VOD viewing through the Internet, such as AppleTV and Netflix,

In July 2019, DBS began marketing detachable services bundles that contain its content services (satellite or Sting TV services), together with Bezeq International's ISP and landline home telephone services.

The Bezeq Group's brands are among the strongest and most widely recognized brands in Israel and are supported by its substantial investments in marketing, strong product and service offerings, extensive distribution network and leading customer service offerings.

The Bezeq Group's brands are among the strongest and most widely recognized brands in Israel, including Bezeq, Pelephone, Bezeq International and DBS. The Bezeq Group's brands have been supported by its sustained and substantial investments in strong product and service offerings, marketing, extensive distribution network and leading customer service offerings. We believe the Bezeq Group's product and service offerings combined with its advanced technology and infrastructure are the key factors driving the association of the Bezeq, Pelephone, Bezeq International and YES brands with reliability, speed, excellent service and innovation throughout Israel. The Bezeq Group's marketing campaigns focus on and highlight various elements regarding each of its brands. For example, Bezeq focuses on the value-added services offered with its fixed-line broadband internet infrastructure access service, Pelephone highlights the speed of its network, Bezeq International focuses on providing faster Internet speed than its competitors and its strong customer service, and DBS emphasizes its large selection of high quality international content and the subscriber viewing experience associated with it. Furthermore, the Bezeq Group also provides its customers with award winning customer service offerings in order to enhance customer loyalty.

The Bezeq Group has an extensive offering of high-quality content.

Through its wholly-owned subsidiary, DBS, the Bezeq Group is able to complement its extensive telecommunications infrastructure with a wide array of high-quality content. For instance, DBS, which benefits from strong content differentiation in the pay television market, provides a leading selection of television series and movies. With respect to television series, DBS broadcasts new television series at a minimal delay, in some cases within hours from the time the content is originally aired in the United States or worldwide. DBS also has an agreement with HBO pursuant to which DBS aired all of HBO's new English language television series and movies, the majority of which were only aired in Israel on DBS. The Bezeq Group's extensive offering of high quality content distinguishes it from competitors, and we believe that such distinction will likely enhance the Bezeq Group's competitive position if and when the Israeli wholesale market develops and the Bezeq Group's competitors that do not currently offer bundled packages with pay television begin doing so.

The Bezeq Group's strong cash flow generation supports providing for investment in the business and maintenance of a conservative level of leverage.

The Bezeq Group is a highly cash generative business and has a proven track record of consistent operating cash flow generation. The Bezeq Group's stable, and in some segments, growing customer base and attractive offerings and services, together with its focus on profitability, provide it with strong revenues and operating cash flow. While generating strong cash flow, the Bezeq Group has continued to invest in its business, technologies and infrastructure through major capital expenditure programs, several of which were completed in the last four years (including, the deployment of Bezeq's NGN, Pelephone's advanced 3.5G UMTS/HSPA+4G cellular network and the launch of Bezeq International's JONAH cable).

The following table sets forth the Bezeq Group's operating cash flow and ratio of capital expenditures to revenues for the years ended December 31, 2017, 2018 and 2019.

	Year ended December 31,		
	2017	2018	2019
	(NIS in millions except percentages)		
Operating cash flow	3,525	3,512	2,924
Capital expenditure, net	1,432	1,492	1,142
Capital expenditure, net as a % of revenue	14.6%	16.0%	12.8%

Products and Services

The Bezeq Group provides a wide range of telecommunications services for its business and private customers, including domestic fixed-line telephony and fixed-line broadband internet infrastructure access services, cellular telephony services, ISP, ILD, data services, ICT solutions, multi-channel television broadcasts via satellite, customer call centers, maintenance and development of communications infrastructures, provision of communications services to other communications providers and the supply and maintenance of equipment on customer premises, also known as network end point (NEP) services.

Since May 2010, Bezeq has been permitted to offer joint service packages with its subsidiaries to private subscribers, and since July 2012, Bezeq has been permitted to offer joint service packages with its subsidiaries to business subscribers, in each case, subject to the approval of the joint service package by the Ministry of Communications and other conditions contained in Bezeq's license. The joint service packages must be capable of being "unbundled" such that each service included in a package must be offered separately and on the same terms, which effectively prevents the Bezeq Group from enhancing the attractiveness of the offer by offering a discount on the joint service packages. Joint service packages marketed by Bezeq's subsidiaries that include the services of Bezeq are also subject to similar limitations, including "unbundling" (except for a bundle offered by a subsidiary that only contains Bezeq's fixed-line broadband internet infrastructure access service).

Bezeq currently offers packages that combine a subscription to Bezeq's fixed-line broadband internet infrastructure access and to the accompanying ISP service, with the ability to choose from any ISP provider in Israel, including Bezeq International. The packages are "unbundled" and offered at the same price that the standalone services would cost if subscribed to separately. In addition, Bezeq offers packages to business customers that combine Bezeq's business data lines and the accompanying ISP service from Bezeq International. These packages are also "unbundled" and offered at the same price that the standalone services would cost if subscribed to separately. Business customers are also not required to use Bezeq International as their ISP provider and have the ability to choose any ISP provider in Israel.

These restrictions, and in particular the unbundling obligation which severely limits the Bezeq Group's ability to offer discounts on the components of the bundle, puts the Group in a competitively inferior position as compared to the competing communications groups which are not subject to similar restrictions in marketing joint bundles (other than a restriction on marketing a joint bundle of HOT-Net and other companies in the HOT Group). Bezeq's restrictions are more significantly manifested with the implementation of the wholesale BSA services and the option for ISPs to provide end-to-end services to customers at reduced prices compared with the bundles that Bezeq can market, which can be unbundled.

Below is information regarding the results of each of the Bezeq Group's main segments of operation in 2018 and 2019:

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

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

- (1) 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).
- (2) 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.
- (3) For bundles with a range of speeds, the maximum speed per bundle is considered.

- (4) 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.
- (5) Number of active Internet lines including retail and wholesale lines. Retail - Internet lines provided directly by the Company. Wholesale - Internet lines provided through a wholesale service to other communications providers.
- (*) In Q2 2018 - including permit fee payments in the amount of NIS 112 million (75% of the requirement) for the sale of the Sakia property. In Q3 2018 - including payment of purchase tax in the amount of NIS 9 million. In Q2 2019 - including payment of a betterment levy in the amount of NIS 149 million on the sale of the Sakia property. In Q3 2019 - including an amount of NIS 75 million received in respect of the betterment levy.
- (**) In Q2 2018 - land appreciation tax paid on the sale of the Sakia property was recorded as a reduction of amounts received from the sale of property, plant and equipment in the amount of NIS 80 million; in Q4 2018 - including proceeds of the Sakia sale in the amount of NIS 155 million; in Q1 2019 - including proceeds of the Sakia sale in the amount of NIS 5 million, as well as a refund of land appreciation tax that was received in the amount of NIS 5 million. In Q2 2019 - including the proceeds of the Sakia sale in the amount of NIS 323 million.

Domestic Fixed-Line Communications (Bezeq)

Bezeq is the incumbent and largest provider of fixed-line telephony and fixed-line broadband internet infrastructure access services in Israel. Its products and services include basic telephony services on domestic telephone lines and associated services and fixed-line broadband internet infrastructure access services through its nationally deployed, high quality infrastructure network. Bezeq also offers transmission and data communication services, services to other communications operators and broadcasting services. Bezeq's new high-speed next generation network, or NGN, is the most advanced fixed-line communications network in Israel. The NGN, which covers 100% of Israeli households, uses VDSL2 technology and enables Bezeq to provide bandwidth of up to 100 Mbps (download) speed, as well as innovative value-added services.

Fixed-Line Telephony Services

Bezeq had approximately 1.72 million active fixed telephone lines as of December 31, 2019. Bezeq's fixed-line telephony services include basic telephony service on domestic telephone lines and associated value-added services, such as voice mail, caller ID, call waiting, call forwarding and conference calls. Bezeq also offers its business customers national toll-free numbers which provide for full or partial payment for customer calls by the business customer.

Bezeq offers a variety of payment plans, ranging from a monthly subscription fee per fixed telephone line and charge per second of use, to various fixed-line telephony packages comprised of monthly amounts of minutes for a fixed monthly fee.

Most of Bezeq's fixed-line telephony services are subject to regulatory tariff control and the prices for such services are governed by such regulations. With respect to services that are not subject to tariff control, Bezeq is required under the Israeli Communications Law to set reasonable tariffs for such services. In addition, Bezeq is allowed to offer "alternative payment packages" for services that are subject to tariff control, with different pricing than the regulated tariff, subject to certain conditions.

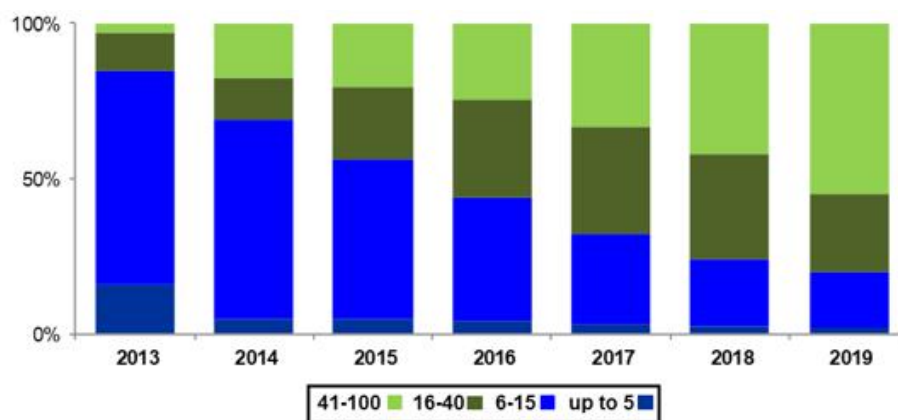
Fixed-Line Broadband Internet Infrastructure Access Services

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

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

Bezeq is obligated to provide broadband internet access services in a wholesale BSA format to service providers that provide end-to-end Internet services in this way to their customers, including infrastructure.

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



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

Transmission and data-communication services

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

Bezeq offers transmission services, including at high speeds, to communication operators and their business customers over a variety of interfaces. There is also a decline in use of Bezeq's transmission and data communication services.

Cloud and digital services

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

Other Services

Bezeq provides services to other communications operators, including cellular operators, international call operators, HOT, NEP operators, ISPs, domestic carriers, and Palestinian communications providers. Among the services provided by Bezeq are infrastructure services, infrastructure upgrades, connection to Bezeq's network, billing services, leasing of space, and services in leased premises.

Broadcast services

Bezeq operates and maintains radio transmitters which are operated by the Israel Broadcasting Corporation, Israel Army Radio (Galei Zahal) and also maintains and operates the transmitters of several regional radio stations and the DTT transmitters for the Second Authority. Bezeq is not responsible for the content of the broadcasts.

Contract work

Bezeq installs, maintains, and operates networks or subnetworks for various customers (e.g., the Ministry of Defense, HOT Telecom, radio and television broadcasting companies, cellular operators, international call operators, local authorities, municipalities, and government bodies). Bezeq has agreements with HOT Telecom to provide installation, maintenance and network hosting services using Bezeq's infrastructures.

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

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

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

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

Telephone

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

* Include non-recurring expenses resulting from implementation of collective labor agreement of NIS 59 million.

- (1) Net of immaterial sales of PP&E.
- (2) Subscriber data includes Telephone subscribers (without subscribers from other operators hosted on the Telephone network and excluding IOT subscribers from Q3 2018) and does not include subscribers connected to Telephone 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 Telephone services. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. Notably, a customer may have more than one subscriber number ("line"). The subscriber list includes subscribers who use different services (e.g. data for car media systems), from which the average revenue is substantially lower than for other subscribers. On the change in the definition of subscribers from Q3 2018, see note (5) below.

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

Cellular Telephony (Pelephone)

Pelephone is among the leading cellular telephony services providers in Israel. Pelephone provides cellular telephony services, sells handsets and other end-user equipment, and provides repair services for handsets sold by Pelephone.

Pelephone	As at and for the year ended December 31, 2019
	(in millions, except percentages)
Revenues (in NIS)	2,362
Estimated market share (as of September 30, 2019)	21.2%
Total Subscribers	2.31
Churn rate	30.7%

Services provided by Pelephone:

Package services. Package services provided by Pelephone include:

- Basic telephone services (voice) including basic voice services, call completion and auxiliary services such as call waiting, follow-me, voice mailbox, voice conference call and caller ID, MMS multimedia messages.
- Browsing and data communications services – Internet browsing using 3G and 4G mobile devices.
- Messaging service – a service for sending and receiving SMS text messages and multimedia MMS messages.
- IOT Services (Internet of Things) - Pelephone began to offer its customers advanced IOT solutions (such as smart building networks with command and control systems).
- Roaming Services - Pelephone provides its customers with roaming coverage in more than 220 countries worldwide. Pelephone also provides incoming roaming services for the customers of foreign operators staying in Israel.
- Servicing and repair services – Pelephone offers expanded repair and warranty services; for a monthly fee entitling the customer to mobile handset repair and warranty services, or for a one-time payment at the time of repair.
- Added value services - Pelephone offers its customers added value and supplementary services such as Pelephone cloud backup services, anti-virus and cyber security services, etc.
- PTT (Push to Talk) services - Pelephone began offering its business customers the most advanced PTT services worldwide, enabling fast and secure organizational communications at the push of a button.
- Pelephone provides part of these services under hosting agreements with other cellular operators that use Pelephone's network, so that they can provide services to their customers.

The mobile radio telephony segment is extremely competitive. Competition in this sector has led to high subscriber churn between the cellular operators and erosion of their revenues, and to an increase in the internet browsing volume included in the base package that has caused significant erosion of the average revenue per user (ARPU). The growth in number of postpaid subscribers in the past four years compensated for the price erosion and allowed Pelephone to maintain stable income.

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

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

The cellular market growth rate is lower due to penetration rate saturation¹. The penetration rate at September 30, 2019 was 120%.

Pelephone also offers various types of mobile phones, on-board telephones, hands-free devices and accessories that support its range of services. Pelephone also offers its customers other terminal equipment such as tablets, laptops, modems, television sets and game consoles.

Revenue from products and services

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

The following table provides a breakdown of Pelephone's revenues from products and services (NIS in millions) in the last three years:

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

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

¹ Penetration rate - the ratio between the number of subscribers in the market and the total population in Israel (excluding foreign workers and Palestinians, although they are included in the number of subscribers).

Breakdown of revenue from customers (in NIS million):

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

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

At the end of 2019, Pelephone had 2.3 million subscribers, consisting of 1.8 million postpaid subscribers and 0.4 million prepaid subscribers. Revenues from the prepaid subscribers are immaterial relative to Pelephone's total revenues. Following the update of the definition of an active subscriber, beginning the third quarter of 2018, 0.4 million prepaid subscribers were deleted from Pelephone's subscriber base.

Bezeq International

	<u>Q1</u> <u>2018</u>	<u>Q2</u> <u>2018</u>	<u>Q3</u> <u>2018</u>	<u>Q4</u> <u>2018</u>	<u>Q1</u> <u>2019</u>	<u>Q2</u> <u>2019</u>	<u>Q3</u> <u>2019</u>	<u>Q4</u> <u>2019</u>	<u>2018</u>	<u>2019</u>
Revenues (NIS million)	352	336	333	370	341	339	329	330	1,391	1,339
Operating profit (NIS million)	33	29	30	19	33	17	(21)	(86)	111	(57)
Depreciation and amortization (NIS million)	43	45	46	60	46	46	47	51	194	190
Net profit (loss) (NIS million)	24	20	20	13	25	10	(18)	(67)	77	(50)*
Cash flow from operating activities (NIS million)	67	54	73	106	56	48	64	87	300	255
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million) (1)	31	44	26	25	33	34	40	21	126	128
Payments for leases	9	9	9	9	8	8	8	8	36	32
Churn rate (2)	6.0%	6.0%	5.8%	7.7%	6.6%	6.2%	7.1%	6.3%	25.5%	26.2%

* Including non-recurring expenses resulting from implementation of collective labor agreement and impairment losses in a total amount of NIS 115 million.

- (1) Include long-term investments in assets.
- (2) The number of Internet subscribers who left Bezeq International during the period, divided by the average number of registered Internet subscribers in the period.

ISP, ILD, Data Services and ICT (Bezeq International)

Bezeq International is the leading provider of ISP services in Israel and one of Israel's leading providers of ILD and international and domestic data transfer and network services. Bezeq International provides comprehensive communications solutions that include ISP and related value-added services, international and domestic telephony, PBX supply and support, ICT, cloud computing services, data communications and information security, website server hosting and related managed services. Bezeq International also owns the JONAH high-speed submarine optical fiber communications cable system connecting Israel and Europe, which provides increased bandwidth (capacity and speed) and has positioned Bezeq International as the sole ISP in Israel to own and operate an advanced international network.

In the internet service provider (ISP) sector, some 80 companies have so far been granted ISP licenses, among them holders of special licenses for providing these services and special general licenses authorizing them to provide international call services, domestic operator services and MRT services.

ISP Services

In the Internet services sector Bezeq International provides Internet service provider (ISP) services for private and business customers, including requisite terminal equipment and support over DSL based transmission, configuration and cable infrastructure. and access services to Bezeq's Internet infrastructure (as part of the wholesale market); hosting services offering site and server storage services at a designated installation, including value added services (such as monitoring and control); information security services; Internet and LAN network connection security using required terminal equipment or software, including monitoring; data services including international IP based data communication solutions for business customers with global deployment; and high speed Wi-Fi services, including public hotspots. Bezeq International also markets packages that include DBS's Sting TV, an internet-based television services platform (together with internet access services). In 2019, Bezeq International expanded marketing of packages that include yes content services, in addition to Sting TV, together with ISP services and Bezeq International's home phone line, and DBS also began marketing Bezeq International's ISP services. The packages are subject to the detachability obligation Bezeq International provides these Internet services primarily via its exclusive wholly-owned Jonah submarine cable between Israel and Italy, launched in December 2011. Bezeq International is the only provider among ISPs operating in Israel to own a submarine cable. Ownership of the sub-marine cable frees Bezeq International from dependence on infrastructure providers, and also allows it to offer its customers higher quality browsing.

Voice (telephony) services

In the voice services sector Bezeq International provides international direct dialing (IDD) services to business and private customers; toll-free dialing overseas for business customers; international call hubbing and routing services - transferring international calls between foreign telecommunication providers (worldwide); phone-card services enabling prepaid and postpaid dialing from Israel overseas and from abroad to Israel, and the 1809 service that allows dialing from Israel to other countries. Furthermore, Bezeq International provides domestic telephony services.

International data services

Bezeq International provides international data communication solutions for business customers including customized global deployment. The services are provided via Bezeq International's submarine cable and the optic cables deployed from Israel to Europe over which Bezeq International has long-term user rights, and through its business partnerships with leading global telecom providers such as British Telecom, which provide its customers access to their sophisticated global network services.

In addition to the foregoing services, Bezeq International offers ITS licensees to provide Bezeq International's services and ISP licensees the use of its international capacities (through leasing or by purchasing indefeasible rights of use), over Bezeq International's submarine cable, and the user rights it acquired in European terrestrial infrastructures and in other international networks.

Business Sector-Data Services and ICT

Bezeq International provides ICT (Information and Communication Technology) solutions for business customers. Customer ICT solutions include extensive communications solutions such as server and web hosting services, technical maintenance and support services, system and networking services, outsourcing and out-tasking services, security and risk management solutions, IP based services, cloud computing services, online backup services, market and advertising services for businesses over a digital platform (Bigger) and equipment sales. Bezeq International has adopted a comprehensive solution model with a single contact person, fully responsible for dealing with the customer (one service provider, one responsibility).

Bezeq International markets and maintains communication systems for the entire the Israeli market, and PBX exchanges, telephony networks and IP communications, mainly for its business customers. As part of its service contracts, Bezeq International provides maintenance services for various PBX exchange manufacturers. These services are given for gateways, PBX exchanges and network end points (NEP) for lines used as both internal and external lines.

DBS

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

(*) See Note 9 to the 2019 Financial Statements concerning impairment of assets.

(**) Including non-recurring expenses of NIS 45 million resulting from the implementation of the collective labor agreement in DBS.

- (1) Subscriber - a single household or small business customer. In the case of a business customer that has more than a certain number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is standardized. The number of business customers that are not small businesses, is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined periodically. In Q4 2018, the standardization formula was updated as a result of which the number of subscribers fell by 7,000. This is partially due to the fact that the average revenue per small business customer in the special offers (at least 100 customers per offer) increased in 2018 as a result of customers moving over to packages that are richer in content at a higher price.
- (2) 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.
- (3) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period. The churn rate includes DBS subscribers who moved from satellite services to Sting TV and the reverse. DBS believes that the rate of movement is negligible and is not more than 1% of all DBS subscribers in the year.

Multi-Channel and online television transmissions (OTT), Pay Television (DBS)

DBS's goals are to maintain its market share and customer base, while maintaining its business and competitive position in the sector and continuing its streamlining measures.

To achieve these goals, along with efforts to reduce costs, DBS intends to invest considerable effort in marketing and sales, and in appropriate marketing strategy designed to continue attracting subscribers; and to retain existing customers; continually improve the array of services to subscribers; improving the added value offers to customers; creating differentiation and innovation in its broadcasting content, to increase the amount of content purchased by each subscriber and expand DBS's value-added services, and to invest in the development and integration of advanced technologies and new services. These efforts include DBS's drive to increase the rate of penetration of advanced services, including the PVR decoders and VOD and HD services among its subscribers as well as to also provide its content on additional platforms, such as yesGo and StingTV, in a way that will increase DBS revenues and subscriber loyalty to DBS's services.

In March 2019, the Boards of Bezeq and DBS approved an outline plan for DBS switching from satellite broadcasting to online transmission (OTT) in a gradual, prolonged process, expected to be spread over a period of up to seven years. DBS's average annual investment over the planned years is expected to be similar to the average annual investment in recent years. DBS intends to routinely monitor market conditions, competition and the technological environment, and will periodically review the feasibility of the outline plan and the need, if any, to make adjustments in it, in the pace of its execution or in the manner of its implementation, taking into account the needs of its customers and DBS's regulatory obligations.

DBS provides subscribers of its satellite broadcasts online VOD services via the internet (OTT). These services are provided for a service subscription fee (most subscribers currently have special offer subscriptions that exempt them from this fee), while some of the content is provided for an additional charge.

Connecting Satellite Subscribers to VOD services requires the use of specific types of decoders. In recent years, the number of satellite subscribers connected to VOD services and the consumption of VOD services has increased significantly due to the increased supply of available content, increase in available band width at subscribers' homes and significant increase in use of advanced decoders.

DBS also operates its online OTT yesGo service, allowing satellite subscribers to view satellite broadcasts of the channels included in this service, which they have purchased for home television viewing, as well as VOD content, via various terminal devices.

To allow reception of DBS services online, dish antennas are installed on buildings and several types of decoders are installed in the subscriber's home: decoders enabling reception of SD broadcasts only, and advanced decoders, some of which are PVR converters for recording content, some are HD Zapper decoders for receiving HD broadcasts, and some combine all the foregoing features (HDPVR decoders). DBS also markets state-of-the-art PVR decoders that enable higher resolution viewing, known as 4K or UltraHD.

Most of the PVR decoders also enable MultiRoom service through which, via a home network, content recorded on such decoders can also be viewed through other (HD Zapper or HDPVR) decoders in the subscriber's home. The majority of satellite subscribers use advanced decoders of various types (HD Zapper, HDPVR, PVR and PVR 4K decoders).

Pursuant to the provisions of the Communications Law, the terms of DBS's broadcasting license and the Council's decisions, its satellite broadcasts include a basic package or one of the core packages that every subscriber is required to purchase, as well as additional user selectable channels, either as packages or as individual channels.

Currently, most of the satellite subscribers have a special campaign subscription, the highlights of which include the offer of a vast majority of linear channels and VOD service at an all-inclusive price that reflects a price discount for most subscribers when joining. The high enrollment rate for the special campaign, decreased the average revenue per subscriber (ARPU), and this reduction, together with additional measures were intended to help DBS cope with the increasing competition and decrease in the number of subscribers. Continued enrollment is expected to cause further decline in the ARPU.

Sting TV Services

In 2017 DBS launched its online television service under the name, StingTV, which includes linear TV channels and VOD content. The service is based on the Android TV operating system which allows content to be viewed via a streamer, smart TV and other terminal devices. The service is made up of a number of content packages, with each package containing linear channels and VOD content, and subscribers can join one or more of these packages, according to their choice.

As a rule, this service is relatively low priced compared with services provided under broadcasting licenses and does not include the full range of content offered to the Satellite Subscribers. The service is primarily digital (subscribing and customer service are via online interfaces), based on subscriber self-installation (if installation of a streamer is required).

DBS	As at and for the year ended December 31, 2019
	(in millions, except percentages)
Revenues (in NIS)	1,345
Estimated market share ²	32%
Subscribers (in thousands)	555
Churn rate	21.2%

² Market share was calculated out of the foregoing total number of subscribers of DBS, HOT, Partner and Cellcom as specified below (and not out of the total number of viewers and subscribers in the market, due to lack of actual figures in this regard). The estimate of DBS's market share in 2019 and 2018 is based on the number of subscribers of DBS, Cellcom and Partner (based on their reports of the number of their subscribers at the end of the third quarter of 2019), and of HOT, where with regard to 2019 and 2018 HOT did not publish the number of its subscribers, and therefore the figures relating to HOT are estimated by DBS, taking into account past trends and existing figures for the other market participants). Nonetheless, there is no certainty that the figures assumed for HOT are accurate, and therefore it is possible that the actual market share may be different from those estimated.

Marketing, Sales and Customer Service

Under the structural separation limitations, each of the Bezeq Group companies maintains independent marketing and sales operations.

Domestic Fixed-Line Communications (Bezeq)

Bezeq has marketing, sales and service systems for its business and private customers, which include customer managers for the business sector, combined sales and service call centers around the country, technical support centers for private and business customers, Bezeq stores throughout Israel offering sales and services, as well as a virtual online shop.

Bezeq markets its services mainly through advertising in the mass media, telephone sales centers, customer managers and an array of independent dealers which are mainly ISPs, outsourced sales centers, and ISPs which, upon establishment of the wholesale market, mainly market end-to-end service packages based on Bezeq's wholesale BSA services. Bezeq also has independent service and sales channels on its website (adapted to surfing from mobile phones), a dedicated application (Bezeq Sheli, My Bezeq), and also offers an Interactive Voice Response (IVR).

Cellular Telephony (Pelephone)

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

In the past year Pelephone continued expanding its distribution network. Pelephone's subscriber service network includes online channels, including Pelephone's website and 8 call centers.

ISP, ILD, Data Services and ICT (Bezeq International)

Bezeq International has sales channels for the private market, including customer recruitment and retention call centers, a country-wide direct sales network (providing "door to door" and point of sale services), a technical support and customer service network and a distribution channel system that includes external marketing and dealership centers. The business market sales channels include customer recruitment centers and business and administration service and solution centers for business customers. Bezeq sells Bezeq International services as part of joint service bundles.

Multi-Channel Pay Television (DBS)

DBS customer service operations are carried out mainly by in-house and outsourced call centers, as well as by self-service via interactive voice response, DBS's website and set-top boxes. Field technical support and installations are performed by DBS technicians and subcontractors.

DBS's sales operations are carried out via door-to-door sales personnel, call centers and third-party dealers. DBS focuses its marketing strategy on media campaigns with high presence on television as well as other medias such as radio, newspapers, Internet and billboard commercials, using well-known international actors and marketing special offers. DBS's campaigns highlight its role as a global technology pioneer with leading value-added services (VOD, PVR, HD, MultiRoom, streamer and mobile applications). DBS also highlights its relationships with other well-known, popular brands.

Networks

Domestic Fixed-Line Communications (Bezeq)

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

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

Bezeq slowed the pace of deployment of the fibers significantly in 2017. Bezeq is focusing its efforts on examining the readiness of the new technologies, which will allow it to provide the service more extensively, and on investments in the existing network with the purpose of increasing the bandwidth, quality and survivability of the network. On March 28, 2018, Bezeq applied to the Ministry of Communications to regulate the ultra-high-speed segment so as to enable national deployment of these speeds. On December 23, 2018, the Ministry of Communications contacted Bezeq for clarifications, according to which the Ministry requires further information to complete its examination with respect to implementation of 35B technology (expansion of the xDSL technology with which speeds of up to 300 Mbps can be reached, depending on the quality of the copper infrastructure) in terms of provision of services in an orderly and proper manner without materially harming competition, including the option of laying down conditions to ensure the absence of such harm.

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

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

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

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

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

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

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

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

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

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

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

On December 15, 2019, Bezeq forwarded the comments to the team's recommendations stipulating that in order to effectively promote deployment of the fiber network, several amendments to the proposed outline are required: The tariffs for use of Bezeq's infrastructure (ducts and/or dark fiber) in the Incentive Areas; the regulation is unreasonable and contracts the principles of the law and economics; Bezeq must be allowed to participate in tenders in the Incentive Areas; amendment must be made regarding the Company's rate of deployment and time constants for connection of customers.

Tariffs for service on the ultra-wide bandwidth fiber infrastructure

Tariffs for BSA service on Bezeq's network - on July 24, 2019, Bezeq received hearing documents from the Ministry of Communications, regarding determining a maximum tariff for access to ultra-wide bandwidth managed on Bezeq's fiber network. According to the Ministry, the hearing on this subject is part of the comprehensive fiber plan being formulated and includes a recommendation for setting a maximum tariff for BSA service over fiber. 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 Bezeq in accordance with the regulatory guidelines to be adopted following publication of the fiber plan. It is clarified that the Company does not currently operate a fiber optic network that reaches the homes of private customers and it will only be possible to provide the BSA service once such a network has been established, if at all. Bezeq submitted its comments on the hearing on September 8, 2019, stating that corrections should be made to the factual assumptions used to calculate the service tariffs proposed by the Ministry, where the derived tariffs are much lower than they should be. Bezeq further stated that there is no logic or foundation to the determination that the installation prices are part of the service price and that a basic condition for providing the service is that infrastructure is already in place in the NEP section that the end customer or the service provider has the right to use, an issue which Bezeq claims is not regulated in this hearing. Bezeq also noted that instead of the temporary tariff, it should be determined that from the outset tariffs for wholesale service on optical fibers will be set by the Company based on generally accepted Economic Replicability Tests around the world.

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

Shared use of fiber optic infrastructure in existing residential buildings

On January 5, 2020, Bezeq received the hearing documents on joint use of fiber optic infrastructure in existing residential buildings. The hearing documents set out the principles under consideration to regulate vertical deployment of the fiber optic infrastructure in existing residential buildings (and further indicate that regulation of such deployment in new residential building is also being reviewed). According to the hearing document, the Ministry believes that provisions should be established to compel joint deployment of fiber optics infrastructure to be deployed in existing residential buildings in a FTTH configuration with appropriate compensation for the operator that deploys the infrastructure. According to the proposed arrangement in the hearing documents, domestic operators that intend to deploy fiber optic infrastructure in an existing residential building where there is no fiber infrastructure will be required to offer all other domestic operators joint use of fiber infrastructure that it deploys in the building in return for participation in the costs of setting up the infrastructure or another commercial agreement between them. The domestic operator that deploys the fiber optic infrastructure will be required to do so in a way that allows joint use thereof by at least one domestic operator, in addition to the operator/operators that have agreed with the joint operator on joint use of the fiber infrastructure before its deployment. The joint operator will own the infrastructure and will be responsible for ongoing maintenance and repair of faults throughout the life of the infrastructure. The Hearing Documents also indicate that the fiber infrastructure to be deployed from the communication cabinet on the floor to the subscriber's apartment is, apparently, part of the "internal wiring", as defined in the Communications Law, and accordingly, the subscriber will be permitted to purchase the internal wiring from the license holder according to the provisions of that section, and similarly in respect of payment for this segment, and the proposed arrangement will not apply to existing residential building in which fiber optic infrastructure was deployed prior to start of the arrangement. On January 30, 2020, Bezeq filed its comments to the hearing that it agrees with the starting point regarding the great importance of regulating vertical deployment to promote deployment of a fiber network and provide ultra-wide bandwidth services in Israel, and there is therefore no rationale or justification to exempting fiber optic infrastructures deployed in building until now from the joint principle. Additionally, the existing deployment covers a substantial percentage of apartments in the relevant buildings for joint use.

Bezeq's IT

Bezeq's IT system supports four main areas: marketing and customer Management, engineering infrastructures of the telecommunications networks, company resources management, and company-wide systems. The IT system is large and complex and supports critical work processes and handles very large volumes of data. This system consists of a large number of systems and subsystems some of which are information systems which started being developed many years ago, while others are modern and were developed and applied recently. Most of the systems operate in open computer environments.

Cellular Telephony (Pelephone)

Pelephone has a resilient and advanced network system in Israel, allowing it to offer its services with nationwide coverage and consistent high quality. Pelephone's cellular telephony license is valid until September 8, 2022. During the years ended December 31, 2019, 2018 and 2017, Pelephone had net capital expenditures of NIS 292 million (approximately \$84 million), NIS 306 million and NIS 309 million, respectively, for its network infrastructure.

Pelephone currently operates communications networks using the 4G LTE, UMTS/HSPA and the 4G LTE technology is based on GSM standards. The advantages of this technology are greater data communication capacity and faster download rates than with the 3G technologies. All the terminal devices that support this technology also support the 3G technologies and the transition between the technologies is seamless.

UMTS/HSPA is a digital technology based on the GSM standard. This technology is globally widespread and enables subscriber identification and services to be provided through a SIM card, which can be moved from one handset to another. The advantage of this technology is that it supports download speeds of up to 42 Mbps and upload speeds of up to 5.7 Mbps. This communication network is Pelephone's primary network.

Pelephone's networks cover substantially all of the population in Israel. Pelephone is continuing to expand and improve the coverage, capacity and quality of its 3.5G UMTS/HSPA+ network. Pelephone's network architecture is based on two mobile telephone switching offices (MTSOs), each one with an IP based core network that can support all the traffic in the network.

At present, Pelephone's network infrastructure is based at two switch farms that are connected to more than 2,200 sites. Pelephone's network is interconnected with the networks of Bezeq and HOT in several locations across Israel. Pelephone's network is also connected to all of the cellular networks in Israel, the eight Israeli ILD operators, the fixed-line telephone network of Paltel and the cellular network of Wataniya, and indirectly to the cellular network of Jawwal in the Palestinian Authority.

Pelephone's transmission network is made up of leased lines (fiber optic) from Bezeq and Pelephone's own microwave links. Pelephone's UMTS base stations are connected using a hybrid connection (ATM for voice calls through Bezeq's SDH network and IP for data calls through Bezeq's metro Ethernet network).

Frequency usage rights

There is a shortage of frequencies for public use in Israel (among other things, because of the designation of numerous frequencies for security uses). As a result, the government limits the number of licenses granted for using frequencies. A tender is expected to be conducted in 2020 for allocation of additional frequencies to the cellular operators.

Under its mobile telephony license and the Wireless Telegraph Ordinance, Pelephone has rights of use of frequencies in the 850 MHz and 2100 MHz spectrums for operating its UMTS/HSPA network, and in the 1800 MHz spectrum for operating its LTE technology network. During the course of 2017, Pelephone returned two 1 mega bandwidth frequencies in the 850 Mhz spectrum to the national pool of frequencies and towards the end of April 2017 it received a temporary allocation of 5 mega bandwidth on the 1800 Mhz spectrum. This allocation has use restrictions and is for a limited period. On December 30, 2019, the Ministry of Communications reallocated the temporary allocation of this band until December 31, 2020 under terms and restrictions, to allow Pelephone to prepare for the expected changes involved in switching frequencies in the first giga spectrum.

Switching frequencies in the first giga spectrum

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

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

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

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

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

On July 15, 2019, the Ministry of Communications published a tender for the allocation of additional frequencies including frequencies for 5G. The highlights of the Tender are, inter alia, as follows:

Proposed frequencies in each frequency range are:

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

Operators of existing networks may compete in the Tender.

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

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

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

The Tender includes options for receiving the following incentives:

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

Based on the terms of the Tender, the date of payment for the frequencies was set in February 2022. Bidding in the Tender is expected to take place during the first half of 2020. Pelephone intends submitting a bid in the Tender. At this stage, Pelephone is unable to estimate the effects and outcome of the Tender.

Trademarks

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

Software, computer systems and databases

Pelephone uses software and computer systems, some under purchased licenses and others which were developed by Pelephone's IT department. Many of these licenses are limited in time and are periodically renewed. The primary systems used by Pelephone are Oracle Applications' ERP system and Amdocs's customer management and billing system. Pelephone is also upgrading its CRM system (customer management) on the state-of-the-art Salesforce cloud platform.

Infrastructure sharing agreements and providing right of use of networks

As previously indicated, infrastructure sharing allows consolidation of the cellular operators' sites and substantially reduces the operating and maintenance costs of the radio sites of each operator. Pelephone is not party to a network sharing agreement, therefore it does not benefit from the savings of a shared radio network, but on the other hand it has exclusive control of its cellular network, maintenance of its technological channel and the scope of its investments. Furthermore, the inventory of frequencies in Pelephone's network is smaller than that of the competitors' networks.

Construction and Operation of Sites: Permits, Licenses.

Once a new coverage area has been identified, Pelephone's technical staff determines the optimal base station location and the required coverage characteristics. The area is then surveyed to identify network sites. In urban areas, typical sites are building rooftops. In rural areas, masts are usually constructed. Technical staffs also identify the best means of connecting the base station to the network. Once a preferred site has been identified and the exact equipment configuration for that site decided, Pelephone begins the process of obtaining necessary approvals.

The construction and changing of most of these network sites requires building permits from local or regional authorities, as well as a number of additional permits from governmental and regulatory authorities, such as construction and operating permits from the Ministry of Environmental Protection, permits from the Civil Aviation Authority, in certain cases, and permits from the Israeli Defense Forces.

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

ISP, ILD, Domestic Services and ICT (Bezeq International)

In December 2011, Bezeq International completed the deployment of a new high-speed submarine optical fiber communications cable system connecting Israel and Europe, which was launched in January 2012 and has increased bandwidth (capacity and speed) at affordable rates and positioned Bezeq as the sole Internet service provider in Israel to own and operate such infrastructure. This high-speed optical fiber system named JONAH, covers 2,300 kilometers across the Mediterranean, is fully redundant (i.e., utilizes two equipped fiber pairs) and leverages Alcatel-Lucent's advanced submarine communications networking technology. The cable system can operate at 100 gigabits-per-second data transmissions to enable data capacity of over 7.0 Tbps between Tel Aviv and Bari, Italy. This ultimate data capacity could allow the simultaneous download of 100,000 MP3 files in one minute and the streaming of 15,000 HDTV channels. The system integrates Alcatel-Lucent OALC-5 cable, optimized with coherent submarine fiber (CSF), repeaters and the 1620 Light Manager submarine line terminal which is designed to accommodate 10G/40G/100G wavelengths in the same platform, enabling seamless capacity upgrades on a flexible grid for channel spacing without traffic interruption. This solution, which features advanced optical coherent technology, offers a pathway to multi-terabit capacity using 100G channels, far exceeding the maximum capacity achievable with 40G. This protects the investment from the risk of obsolescence or capacity limitations due to changes in transmission technology. Bezeq International's submarine optical fiber communications cable is extended from Bari terrestrially through Interoute's network to major European cities such as London, Frankfurt and Milan.

In parallel with the completion of the deployment of JONAH in the fourth quarter of 2011, Bezeq International invested in the purchase of a submarine fiber pair connecting Israel to Cyprus, known as the ARIEL cable, which extends to Marseilles, France via the ALEXANDROS submarine cable. In addition, Bezeq International holds multiple 10Gbps capacity indefeasible rights of use via the MedNautilus submarine cable system. Bezeq International's capacity on the JONAH, ARIEL and MedNautilus submarine cables allows the delivery of faster connectivity to Israel and the Mediterranean region, fostering the delivery of innovative IP-based services for which capacity and speed are critical elements to meet end-users' demand. Bezeq International is the only telecom operator in Israel that provides three different routes of multiple 10Gbps to Europe.

In July 2014, Bezeq International launched the "Bigger" service for the business sector in which it offers an innovative digital platform for managing the marketing and advertising of small and medium size businesses.

Bezeq International	As at and for the year ended December 31, 2019
	(in millions, except percentages)
Revenues (in NIS)	1,339
ISP	
Estimated market share	30%
Churn rate	26.2
ILD	
Estimated market share	27%

PBX services

Bezeq International markets and maintains communication systems for the entire Israeli market, and PBX exchanges, telephony networks and IP communications, mainly for its business customers. As part of its service contracts, Bezeq International provides maintenance services for various PBX exchange manufacturers. These include services for gateways, PBX exchanges and network end points (NEP) for lines used as both internal and external lines.

Breakdown of Bezeq International's revenue (in NIS millions):

	2017	2018	2019
Internet services	670	659	632
% of total revenues	43.56%	47.35%	47.23%
Voice services and communications (PBX, ICT, Data) for business	867	732	707
% of total revenues	56.44%	52.65%	52.77%
Total revenues	1,537	1,391	1,339

Bezeq International is not dependent on any single customer and it does not have one customer that provides 10% or more of its total revenues.

Breakdown of revenue from private and business customers (in NIS million):

	2017	2018	2019
Revenue from private customers	488	468	441
Revenue from business customers	1,049	923	898
Total revenue	1,537	1,391	1,339

Multi-Channel Pay Television (DBS)

DBS is the sole DTH provider in Israel. DBS operates a hybrid platform of satellite and IPTV OTT. DBS's IP platform, based on progressive download technology, enables DBS to provide its VOD service, which was launched in March 2010 using OTT technology, with a versatile and user-friendly interface in HD quality incorporated into the electronic program guide.

DBS owns the satellite dishes and other endpoint devices that carry and receive the signals from such satellites to subscriber residences and set-top boxes. In addition, DBS leases some of the set-top boxes and cards that decode the coded signals received from the satellite to its subscribers, while other set-top boxes and cards are provided to subscribers for a deposit (an immaterial number of set-top boxes are sold to subscribers).

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

	2017	2018	2019
Revenue from broadcasts and multi-channel television services to subscribers	1,629	1,431	1,316
Percentage of revenue	99%*	97%*	98%*

* The revenues balance is mainly due to payments from channels for broadcasting by DBS.

Competition in the Israeli Telecommunications Market

The market is characterized by competition among communications groups (Bezeq's Group, Hot Group, Cellcom Group and Partner Group) operating in parallel in several segments (fixed-line and cellular telephony, fixed-line and cellular Internet services, multi-channel television and international calls). In addition to the communications groups, competitors such as Golan Telecom, MVNO cellular operators, international operators and ISPs, including service providers in the wholesale market, also operate in the market.

The competition between the communications groups is reflected by increased use of service bundles (including various combinations of several different communication services). Communications groups market joint service bundles consisting of different communication services of the companies in each group. As a rule, the marketing of the joint bundle enables the communications group to offer its customers a comprehensive solution that does away with the need to subscribe to several different providers, and to offer more attractive tariffs than purchasing each service separately (in some cases with "cross-subsidization" among the bundle components). These trends were reinforced with implementation of a wholesale BSA service, allowing operators that do not own infrastructure and those that are not part of a communications group to offer a full end-to-end service bundle (including infrastructure) to their customers.

Providing customers with comprehensive services that meet their different needs is becoming easier due to technological convergence, regulatory changes and regulation through a single general license granted to different communications operators, enabling communications services that required separate licenses in the past to be provided under the same license. Stricter restrictions apply to Bezeq Group in marketing service bundles than to the other Groups, as set out below.

On January 29, 2020, Partner reported that it had received an offer from HOT and its controlling shareholder to acquire 100% of its issued share capital. Later, Partner announced that its Board of Directors resolved to review all of its business options. On March 31, 2020, HOT retracted its proposal. On February 16, 2020, Electra Consumer Products Ltd. ("Electra") reported that it is negotiating with Cellcom for Cellcom to acquire Electra's holdings in Golan Telecom. On the same day, Pelephone submitted a conditional bid to acquire full ownership and control of Golan Telecom. On February 18, 2020, Electra report that it has signed a binding memorandum of understanding with Cellcom, Golan Telecom and the Board of Directors and CEO of Golan Telecom for the sale of all Golan Telecom shares to Cellcom, subject to compliance with the preconditions that include mainly obtaining approval from Competition Commissioner and Ministry of Communications and the absence of any material adverse change.

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

Fixed-Line Telephony Services Market

Wholesale market

The wholesale market enables communications providers to compete with Bezeq while using its physical infrastructure, including infrastructure segments, and its services, at controlled prices that are not set by Bezeq. The wholesale market allows communications providers to offer their subscribers broadband services and end-to-end service packages, including access infrastructure.

Telephony

Bezeq estimates that at the end of 2019, its market share in the fixed-line telephony market was approximately 53% of the private sector and 71% of the business sector, an increase of 1% in the private market and maintaining its market share in the business market, compared with 2018.

Bezeq and HOT Telecom both own nationally-deployed fixed-line telephony infrastructures and are in fierce competition with each other, which is manifested by HOT combining Internet infrastructure, telephony and cable television, and possibly cellular services as well, to households. HOT also markets telephony services to business customers.

Bezeq also faces competition from license-holders for domestic fixed-line communication services, including VoB, which provide the service on Bezeq's broadband access service, including the wholesale BSA service.

Since July 2017, Bezeq has provided telephony services on its network in a resale format to unified license holders that are permitted to provide domestic carrier services. At present, the number of subscribers for this service is negligible.

Since August 2018, Bezeq offers a wholesale telephony service in a similar format to that of the service portfolio, at the tariffs of the Use Regulations

Competition in telephony from the cellular companies

Bezeq believes that the continued substitution of fixed lines by mobile lines is one of the causes of the reduction in the average traffic per line, and of the growing removal rate of telephone lines.

In 2019, the trends that began in 2012 continued, marking a leap in competition in the cellular communications market in Israel. The activity of the new infrastructure operators, Golan and HOT Mobile, and to a lesser extent the activity of virtual cellular operators, continued the trend of erosion of prices and maintained the high level of mobility of customers between the companies.

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

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

VoC services

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

As a result of the Ministry of Communications' decision to provide an exemption to cellular operators from requiring a general license or a permit to set up and operate access points, the cellular operators can use Wi-Fi access points as part of their networks to provide services. This provides them with a transition to providing cellular telephony services over a Wi-Fi network and assists in diverting loads to this network from their cellular network.

Internet infrastructure segment

Bezeq estimates that at the end of 2019 its market share in the Internet infrastructure market was approximately 63% (compared with 69% at the end of 2018). The competition in this field is also active.

Competition from HOT Group – HOT's Internet infrastructure is deployed nationwide, through which a range of communication services and interactive applications can be provided. The HOT network is currently the main alternative to competition with Bezeq's infrastructure in the private sector. HOT was compelled to provide wholesale services, including BSA services, and to the best of Bezeq's knowledge, it has started selling wholesale BSA services on its network since mid 2018. In 2019, HOT started to market a 500 Mbs high-speed Internet service.

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

Competition from ISPs and communications groups - operating the wholesale market enables ISPs and related companies (holders of a single license) to offer customers service bundles that also include Internet infrastructure based on Bezeq's infrastructures and services (in exchange for controlled tariffs to be paid by the communications providers to Bezeq). Moreover, if and insofar as the mechanism for preventing a 'margin squeeze' is implemented, similar to the one described in the Ministry of Communications hearing, Bezeq's ability to market promotional offers of its retail services will also suffer, in terms of both time to market (TTM) and prices at which the services are offered.

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

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

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

Transmission and data communications

In addition to Bezeq, other companies operating in this segment are Cellcom, Partner and various internet companies. To the best of Bezeq's knowledge, Cellcom has deployed and set up a transmission network which it uses for its own needs and to compete with Bezeq's services in the transmission and data communications market. Partner also operates in the transmission and data-communication service segment combined with telephony and Internet to business customers.

Cellcom and Partner use Bezeq's physical infrastructures as part of the wholesale service to compete with Bezeq in this segment and/or for self-consumption. Also operating in the segment are the infrastructure owners IBC (at the reporting date, in a negligible volume) and HOT (deployed nationwide). These infrastructure owners are permitted to use Bezeq's physical infrastructure.

Competition from IBC and other competing infrastructure

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

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

On January 13, 2020, a hearing document dealing with granting IBC the option of providing a reverse bundle service private end customers and other services to large business customers was published (“the Hearing Document”). According to the Hearing Document, the Ministry is considering to approve IBC’s requests as follows: (1) To permit it to operate on cooperation with access providers whereby IBC and the access provider sign an agreement together with the end customer for the access provider to provide Internet access services and IBC Internet infrastructure services and IBC to provide associated services (“Reverse Bundle Services”) to the end customer, and (2) to allow IBC to sell its services to companies in the business sector and to serve as an ISP providing services in the business market, under its special license. According to the Hearing Document, the applications will be approved with conditions (including approval to market Reverse Bundle Services for a limited period of five years or a volume of 400,000 end subscribers, whichever is earlier, equal marketing to access providers and end subscribers, and maintaining the structural separation obligation and prohibition on preference), in a manner that translates into increased competition in the fixed-line infrastructure market, while reducing the differences compared to the regulation applicable to its competitor IBC. The Hearing Document also indicates that since the government’s decision stipulates that IBC will engage with license holders only and not directly with private consumers (other than large business customers with the Minister of Communications’ approval), and if the hearing recommendations are formulated into a final decision, it will be necessary to amend government’s decision in this regard and appropriate amendments in the IBC license will also be required. On February 3, 2020, Bezeq submitted its comments focusing on (1) the material difference between the purpose behind establishment of the IBC venture and the current cumulative situation. Bezeq believes that in this situation, it will not be possible to continue to operate by provision of further relief to IBC. (2) the fact that the transaction for the sale of Cellcom’s fiber network to IBC and IBC allegedly being based on the same network as the main platform for it to comply with the terms of its license and to provide Internet services to end customers apparently change the rules of the game. Bezeq believes that since at present the details of the transaction and its implications have not been fully disclosed to it and do not mention the Hearing Document at all, a hearing cannot be held without receiving full and complete information in this regard. Accordingly, Bezeq applied to receive complete information and the Ministry’s comments to the new circumstances that have been created. It was further clarified that in this situation, and before receiving the required details and clarification, any move that offers changes and benefits to IBC is invalid, lacks transparency and is not adopted or implied on the basis of complete information.

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

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

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

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

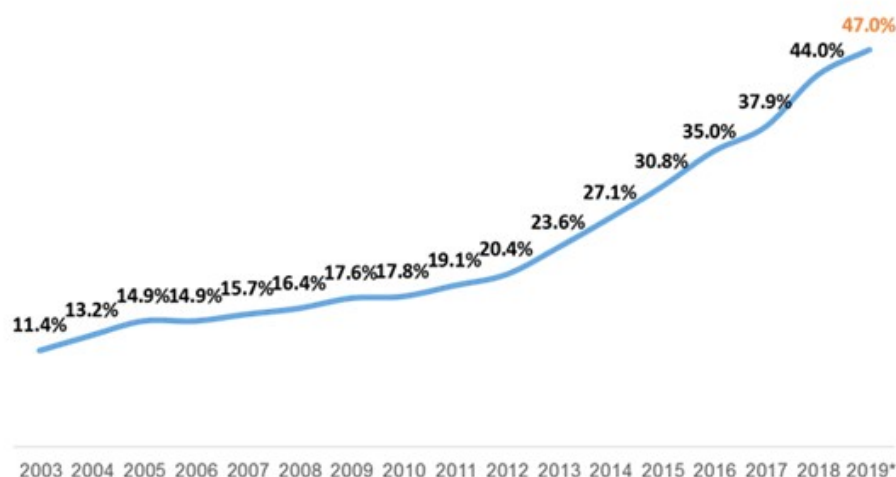
Wholesale market

At the beginning of 2015, Bezeq started providing a wholesale BSA service to service providers, whereas as at the end of 2019, the number of wholesale internet lines on Bezeq’s network was 592,000, which constitutes 38% of all Bezeq subscribers. In this regard, it is noted that these lines also include lines that were not on Bezeq’s network in the beginning (new or from a competitor’s network). There are only few subscribers to the wholesale telephony services.

Fixed-line telephony

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

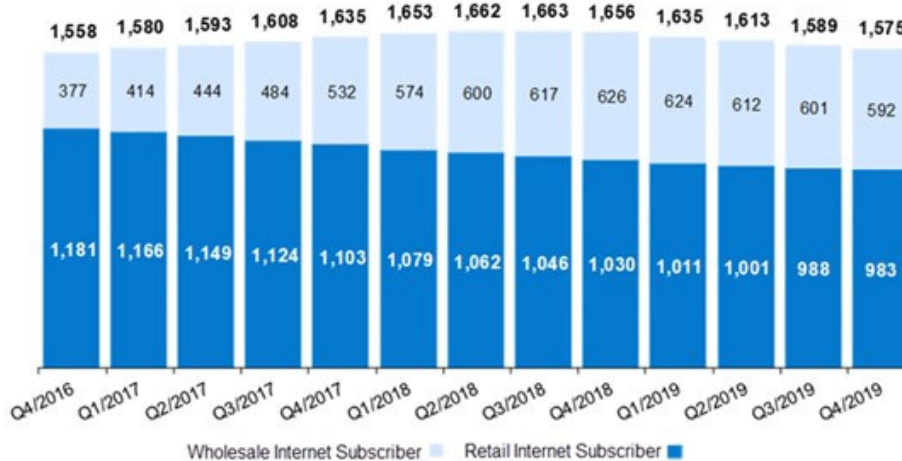
Graph - Rate of households without a fixed-line home telephone line



Internet Access-Infrastructure and ISP Services

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

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



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

- Bezeq launches new communications services, value added applications (such as smart home, smart facilities, integration services, etc.), bundles of products and services, and joint bundles to broaden the scope of use of subscriber lines, respond to customer needs and strengthen its technological innovation image. Bezeq invests in enhancement and modernization of its infrastructure so as to enable it to provide advanced services and products for its subscribers.
- Bezeq is working on the penetration of a high-speed internet infrastructure service and on increasing the number of its customers for the service. NGN enables customer upgrades to higher speeds, and the creation of added value for the customer by means of broader consumption of content, leisure and entertainment applications.
- Bezeq works constantly to improve the quality of its services and to maintain its customers, as well as to simplify and automate processes, and to adapt its operations to the structure of competition in its segment.
- Bezeq has simplified its tariff structure and offers its customers alternative payment packages, tracks and campaigns.
- Bezeq offers consumption adapted packages and tracks to promote subscription to the telephony service.
- Bezeq is acting to reduce its operating expenses and is focusing on investing in growth activities as a means of decreasing maintenance expenses. Nevertheless, Bezeq's ability to adjust its expenses in the short and medium term is limited due to the structure of its costs, which are mainly rigid in the short and medium term (in particular depreciation expenses and expenses related to salaries and salary incidentals, as well as operating costs such as infrastructure maintenance and building leasing and maintenance)..
- In April 2018, Bezeq launched its new router - Be. This is an advanced router with an innovative design and cutting-edge capabilities including, among others, smart Wi-Fi which provides quality, continuous browsing on home Internet, cyber protection and preparation for a smart home. The router and services are managed by a dedicated application. At the end of 2019, the number of Bezeq customers using the Be router was 321,000 (approximately 33% of the Bezeq's retail Internet customers).

The transmission and data communications segment

The transmission and data communications segment for business customers and communications providers is characterized by a rapid increase in the customers' broadband consumption, but in general by lower prices per given volume of traffic. This stems both from development of the technology allowing greater bandwidth at lower prices than in the past, and from competition in this area. There is also a decline in use of Bezeq's transmission and data communication services by communications providers, in part as a result of the trend of entry of communications groups. This trend is expected to increase due to the use of physical infrastructure (as part of the wholesale services provided by Bezeq) also for cellular requirements.

ISP Market

The market is saturated with competitors, the major competitors are Bezeq International, Cellcom, Partner and Hot Net. Bezeq International estimates that its share of the ISP market at September 30, 2019 was 30%. Competition in 2019 was reflected by price erosion. Developments in this market in 2019 include:

- Continuation of the service bundle sales trend, particularly in view of the wholesale sales model operations (provider + infrastructure) in 2019.
- Increasing the competitors' foothold in the fiber optic infrastructure sector and their ability to provide high-speed internet services.
- Increasing competition among ISPs of reverse bundle packages.
- Increase in Triple bundle sales trend that include, IP and infrastructure services, in addition to television services, in an inseparable service package.

Cellular Telephony Services Market

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

Pelephone's strategic goals are to continue the growth of its customer base while promoting and marketing integrated communication packages and synergies with the Group's companies, further development of network innovations and technologies, and providing excellent service. Further streamlining and improvement of the cost structure.

In 2020, a number of factors are expected to affect Pelephone's activities, the main ones being: 1) Continuing competition and increasing value to the customer: Pelephone expects that in 2020, the subscriber churn between the companies will continue, and that the competition will focus on increasing value and browsing volume in the packages offered to the customer. 2) Cellular network and product innovations: In 2020, Pelephone expects to continue promoting a few services and products that will allow it to increase its revenues and image advantage against the competitors, such as: Cyber, IOT, Big Data, and PTT services and to continue focusing on large-scale launches of devices. 3) Increase in Pelephone subscribers' consumption of services: Pelephone expects that as a result of the increase in browsing volume offered in its packages, the upward trend of online data communications consumption will continue. 4) Digital transformation: In 2020, Pelephone is expected to continue to develop and expand its online service and sales channels. 5) Frequencies Tender: A tender will be held in 2020 to allocate additional frequency ranges to the cellular operators and Pelephone is expected to deploy network equipment that support the allocated frequencies, if it wins an allocation under the tender. 6) Synergies with the Bezeq Group's subsidiaries: In 2019, Pelephone began to implement synergetic processes with the Bezeq Group's subsidiaries. These processes are expected to continue in 2020.

Cellular network and product innovations

Infrastructure sharing

Infrastructure sharing allows consolidation of the cellular operators' sites and substantially reduces the operating and maintenance costs of the radio sites of each operator. Infrastructure sharing in the market is as follows:

- Partner and HOT Mobile operate under radio segment infrastructure sharing through a joint company that received a special ten-year license for providing radio cellular infrastructure services to cellular operators.
- Cellcom and Golan Telecom engaged in a network sharing agreement.
- Cellcom and XFone engaged in a hosting and network sharing agreement.

Virtual operators - MVNO

While several MVNO licenses have been granted to virtual operators, only a few MVNO licenses are active.

The cellular telecommunications market is dynamic with frequent technological developments in all areas of operation (handsets, telecommunications network technologies and value-added services). These developments impact the segment of operation on a number of levels.

Establishment of cellular networks using advanced technologies

Technology developments and the desire to widen the range and quality of services offered to the customer, require the cellular operators to periodically upgrade their network technologies. As of 2019, Pelephone's LTE network is deployed in most parts of the country, and Pelephone continues to deploy its network in accordance with a regulated plan. Expanding capacities and speeds with LTE technologies and development of the next cellular generations depends on the allocation of frequencies.

Pelephone operates three technologies: MIMO4x4, Beam Forming and Quam 256, enabling improved performance and increased browsing speed on fourth generation websites. In 2017, Pelephone began integrating Carrier Aggregation technology (frequency aggregation - that enables optimal utilization of the frequency spectrum and increases browsing speed) at some of its sites.

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

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

Smartphones

The introduction of smartphones continues to increase the consumption of data transmission services, coinciding with the increase in supply of apps and video services. In addition, there has been an increase in the rate of smartphones that support LTE technology, a technology that allows better browsing. This increase has led to a further increase in consumption of 4G Data.

Below is a breakdown of the number of subscribers of Pelephone and of its competitors in 2019 and 2018 (in thousands of subscribers, approximate).

		<u>Pelephone</u>	<u>Cellcom</u>	<u>Partner</u>	<u>HOT Mobile (2)</u>	<u>Golan Telecom</u>	<u>MVNO and other operators (1)</u>	<u>Total subscribers in market</u>
As of December 31, 2018	No. of subscribers	2,205	2,851	2,646	1,579	906	476	10,663
	Market share	20.7%	26.7%	24.8%	14.8%	8.5%	4.5%	
As of September 30, 2019	No. of subscribers	2,310	2,767	2,651	1,629	923	639	10,919
	Market share	21.2%	25.3%	24.3%	14.9%	8.5%	5.8%	

- (1) Most of the MVNOs and other operators (including XFone) are private companies which do not publish figures regarding the number of their subscribers and these figures are based on estimates.
- (2) Hot Mobile's subscriber data for the third quarter of 2019 are based on an estimate.
- (3) The number of subscribers as of September 30, 2019 and December 31, 2018, are based on public reports issued by Cellcom, Partner, HOT Mobile and Golan Telecom (in Electra's financial reports).

In recent years, the Ministry of Communications has adopted several regulatory measures aimed at increasing competition in the cellular communications market. The proliferation of cellular operators in the market led to extreme competition, which continued, and even intensified due to the entry of another operator (XFone) in 2018. This ongoing trend led to high subscriber churn between operators and to a decline in prices of cellular service packages, resulting in significant erosion of rates and profit margins, on the private customer market as well as the business customer market.

To compensate for the erosion of package prices, Pelephone adopted a growth strategy along with streamlining measures and adjusted cost structure.

ILD Market

As of the end of 2019, there are more than ten participants in the market (including Bezeq International, Cellcom, Partner, Golan Telecom and HOT Mobile). Bezeq International estimates that its market share for outgoing international calls at December 31, 2019 is 27%, an increase compared with its market share of 23.3% at December 31, 2018.

The international telephony market in Israel has in recent years seen a decline in call volume, (incoming and outgoing), mainly due to the service bundles offered by the cellular companies that include international calls as well as the multiple free applications that enable calls via the web. In 2019, there was a significant erosion in the international call market.

In 2019 the internet access market recorded negative subscriber recruitment rates, primarily due to the entry of online television operators (OTT) that market "triple" packages containing internet provider and infrastructure services, in addition to television services. Furthermore, many subscribers switched from retail market packages to wholesale market packages. At the same time, as a result of the increase in traffic and bandwidth demand due to a change in the subscriber usage mix (primarily real time viewing and listening), Bezeq International is required to increase its operating capacity and international capacity for which it purchases usage rights.

Communication solutions for the business sector

In the ICT sector Bezeq International competes with competitors such as Binat, Teldor, IBM and others. In 2019, Bezeq International continued to establish its position in the ICT market and gained recognition and endorsement from leading global suppliers in the market.

NEP services - the traditional telephone exchange sector includes a large number of competitors and fierce competition which has given rise to erosion of service prices.

Bezeq International promotes its business with emphasis on differentiating it from its competitors as the owner of its own international infrastructure (Jonah cable) for its customers' traffic providing high quality browsing performance, as well as its leading customer service. The fact that, unlike some of its competitors, Bezeq International is unable to offer its services as part of a non-detachable communications services bundle, adversely affects its operations.

Pay Television Services Market

Currently, there are several competing groups in the market. DBS's main competitors are HOT, which was declared a monopoly in the multi-channel television broadcasting sector and holds the largest share of the market, Cellcom, which holds the largest share of the market among the players that do not have broadcasting licenses, as well as Partner and Netflix. Over the past year DBS's share of this market has decreased, mainly due to the increased competition.

The following is a breakdown of DBS's subscriber numbers and market shares, to the best of its knowledge, as at December 31, 2017, 2018 and 2019:

2017		2018		2019	
Subscribers (in thousands)	Market share	Subscribers (in thousands)	Market share	Subscribers (in thousands)	Market share
587	37%	574	34%	555	32%

There are several operators in the subscriber television broadcasting sector operating in a number of key categories:

Broadcasting licensees under the Communications Law operating in the multi-channel television sector - DBS and HOT, that provides cable television services, and has a pronounced monopoly under the Antitrust Law in the multi-channel television broadcasting sector. DBS and HOT provide linear channel and VOD services.

Online OTT multichannel television providers - Cellcom (has been operating for a few years) and others that started operating in 2018 include, Pelephone, Triple C Cloud Computing Ltd., STINGTV (offered by DBS), Next (offered by HOT, in collaboration, via Rami Levy Marketing. These services combine VOD content and linear channel viewing (including the DTT content that is transmitted via the system or online) and can be viewed via a special decoder or via an apps downloaded on a range of terminal devices.

Online television content streaming providers – The online television content streaming providers are mainly international providers such as Netflix, Apple TV services (that charges per viewing) and Amazon Prime services, which provide VOD content viewing options. Currently, some of this content is not translated into Hebrew.

Competition in the market focuses on broadcasting content, price of services, quality of services, as well as offering of additional services, such as HD and 4K broadcasts, VOD services and state-of-the-art terminal equipment and advanced user interfaces. Competition also involves offering additional communication services together with video content.

DTT network

There is a digital terrestrial television broadcasting system (DTT), known as Idan+, through which certain channels are broadcast to the public free of charge.

At present the channels broadcasts via the Broadcasting Corporation (CAN 11, CAN Education and Channel 33), the commercial channels (Keshet and Reshet), Channel 20, Music Channel (Channel 24), Channel 23 and the Knesset Channel (Channel 99). A DTT operator is entitled to broadcast additional channels, including radio channels, thematic channels (for which most broadcasts are devoted to a topic set out in the Digital Television Broadcasting Law, 2012 (the "Broadcasting Law") and dedicated mini-channels that comply with conditions relating to special purpose set out in their license or are devoted primarily to one topic.

There are broadcasting fees for these channels, however the Ministers of Communications and Finance may decide that the government will subsidize broadcasting fees applicable for subject-based channels and niche channels.

Under the Broadcast Distribution Law, a broadcaster whose broadcasts are part of the "open broadcasts" (ie, television channels transmitted via the digital stations), will provide each content provider consent to the transmit its broadcasts via the Internet free of charge, however, without derogating copyrights and production rights pursuant to the law and subject to certain conditions set out in the law, including obtaining a license from the copyright holders and performers (including through the broadcasting entity). With regard to the commercial channels, the applicability of the foregoing arrangement was deferred for five years (until January 2022), during which special arrangements will apply, including granting a license to any registered content provider that applies for one, at the best price and under the best terms granted by the commercial channel to other content providers under another broadcasting license that is valid when the license is granted, and all as set out in the interim provisions of the Law.

HOT, Partner and Cellcom offer their services together with the other media services they provide, including as part of non-detachable bundles (such as the Triple bundles providing landline and mobile telephony and TV services).

Competition in the sector increased significantly in 2019, mainly due to the entry and establishment of local and international online television service providers, which operate at relatively low prices. These providers that operate via the internet, without requiring designated infrastructures, and also without regulatory supervision, have an adverse impact on DBS's competitive position. DBS believes that this intensification of the competition could have a significant adverse effect on its operations and results. In 2019, Cellcom and Partner, as well as Netflix's operations in Israel, became further established in the television sector.

Competition in the television sector is fierce with a relatively large number of players, some of which operate at very low-price levels, increasing the competition in the sector. Increasing the number of subscribers in the current state of competition is mainly possible by recruiting new subscribers from the competitors, requiring substantial resources to be invested in retention of existing subscribers and recruitment of new subscribers.

The total market share of the broadcasting licensees, DBS and HOT, is being eroded and DBS's share is estimated to be 49% of households in Israel. Cellcom's market penetration rate is estimated to be 9.5% and Partner's market penetration rate is estimated to be 7% of the total households in Israel. DBS does not have information regarding the number of subscribers to the international companies operating in the market or the number of DTT viewers, and DBS believes that most of them are, in addition, also subscribers of the local TV providers operating in the market. DBS estimates that the increasing of the total market share of these players has been slowed down due to the fact that a large part of the remaining households are not potential audiences

Regulatory

The Israeli Communications Law and the Communications Order provide that acquiring Bezeq requires a control permit from the Ministers. As part of our acquisition of Bezeq, we, Searchlight, Fuhrer, SP2, SP1, applied for authorization for a control permit of Bezeq, pursuant to the Israeli Communications Law and Communications Order. On November 11, 2019, the Control Permit was granted. According to the Communications Order, we are not allowed to transfer our control permit or any Means of Control which will result in a decrease of our minimum holding requirement in Bezeq without the prior consent of the Ministers. The foregoing includes a transfer of the Bezeq interest in one transaction or a series of transactions, by one party or together with the other parties to the Control Permit. However, the parties may transfer the Means of Control of Bezeq among themselves, subject to compliance with certain conditions set forth in the Control Permit.

According to the Control Permit, the parties (through SP2) must hold not less than 25% (or a lower rate at the Ministers' approval, in accordance with section 3(A2) of the Communications Order) of any type of Means of Control (as described below) of Bezeq. We retained a 26.34% ownership interest in Bezeq following the closing of the transaction and we still retain this ownership interest level

Our SP2 subsidiary owns most of our Bezeq shares. In accordance with the Control Permit, SP2 is required to notify the Ministers of any changes in the composition of its board of directors. We, Searchlight and Fuhrer are also required to notify the Ministers of any "Unapproved Holdings" in Bezeq (as described below) immediately upon becoming aware of such event. We, Searchlight and Fuhrer are also required to notify the Ministers in the event a shareholder becomes a "principal shareholder" (namely, holds, directly or indirectly, over 5% of our issued and outstanding share capital) and regarding any 1% or more change in the holdings of a "principal shareholder" within 48 hours of becoming aware of such change. Our Articles of Association require our shareholders to notify us within a specified period of time after crossing any such threshold.

Under the Communications Order, no person may hold, directly or indirectly, "significant influence" over Bezeq or 5% or more of any particular class of Means of Control in Bezeq. The Communications Order defines "holding" as the holding, acquisition, transfer and encumbrance of the Means of Control in Bezeq, defines "significant influence" as the ability to substantially influence the activity of a company, either alone or together with others or using others, directly or indirectly, which arises by virtue of the possession of Means of Control therein or in another corporation, including where such ability is pursuant to the corporation's articles of association, or pursuant to an agreement (whether written or oral) with the controlling shareholder. "Means of Control" is defined under the Communications Order as the right to vote at a general meeting of Bezeq, to appoint a director or general manager of Bezeq, or to participate in the profits of Bezeq or a share of the remaining assets of Bezeq after payment of its debts upon liquidation. Additionally, no person, together with any other person, appoint, elect or dismiss the general manager of Bezeq or cause the election, appointment or dismissal of any director of Bezeq, without the prior written consent of the Ministers. A person shall be deemed to have "significant influence" if (i) he has the right to appoint a director or the chief executive officer; or (ii) if that person holds 25% or more of the Means of Control of a corporation. Additionally, no person, together with any other person, may appoint, elect or dismiss the general manager of Bezeq or cause the election, appointment or dismissal of any director of Bezeq, without the prior written consent of the Ministers. We received explicit governmental approval to keep the Control Permit even at a level of a 25% ownership interest.

Subject to certain exceptions, the prior written approval of the Ministers is also required to increase the holdings or other rights in excess of those determined in the initial approval, including by means of an agreement (including a voting agreement). Furthermore, under the Communications Order, no person may transfer control, “significant influence” or Means of Control in Bezeq to another, if, as a result of the transfer, the holdings of the transferee would require approval pursuant to the Israeli Communications Law or Communications Order and the transferee is not in possession of the requisite approval. Any such unauthorized holding or acquisition is referred to as “Unapproved Holdings.”

The Communications Order provides that in the event that a person holds “significant influence” or Means of Control in Bezeq, to a degree that requires the Ministers’ prior approval, without receiving prior approval for such Unapproved Holdings (including as a result of the realization of a pledge over Means of Control), such person must report such Unapproved Holdings in writing to Bezeq and must submit an application to the Ministers for approval of such Unapproved Holdings all within 48 hours. Such application is required to be in the form of the questionnaire annexed to the Communications Order and must be accompanied by a power of attorney authorizing Bezeq’s board of directors to sell the applicant’s Exceptional Holdings (unless the Ministers have granted an exemption from providing a power of attorney). Following the submission of the application and all relevant documents, the Ministers have 60 days to inform the applicant and Bezeq as to their decision.

In addition to the possibility of obtaining a retroactive approval as described above, the Communications Order establishes the following procedure for the sale of Unapproved Holdings: (i) with respect to a person who has not applied for approval by the Ministers, as described above, such person must sell his Unapproved Holdings within seven days; (ii) with respect to a person whose permit has been revoked or has expired, and who has not submitted a new application, such person must sell his Unapproved Holdings within 14 days after the date of the revocation or expiration, as the case may be; and (iii) with respect to a person who has applied for approval by the Ministers, including a party whose permit has been revoked or has expired and who has submitted a new application, and whose application has been rejected, such person must sell his Unapproved Holdings within 60 days after the date on which the Ministers informed such person that his application has been rejected. If a person does not sell his Unapproved Holdings as detailed in sub-sections (i)-(iii) and Bezeq holds a power of attorney from such person as required by the Communications Order, Bezeq will sell the Unapproved Holdings within 60 days, on a stock exchange, in Israel or abroad, or through an off-exchange transaction. The proceeds of the sale will be delivered to the holder, less expenses involved in the sale.

In accordance with the Israeli Communications Law and Communications Order, and as set forth in our Articles of Association, a holder of Unapproved Holdings (including a holder that submitted an application for approval which was submitted to the Ministers, whether such application was rejected or has not yet been approved) will not be entitled to any rights in respect of its holdings in Bezeq, including with regard to the receipt of dividends, unless and to the extent permitted under the Communications Order. Accordingly, a holder of Unapproved Holdings will not have any voting rights at a general meeting of shareholders. Each shareholder participating in a general meeting of shareholders is required to certify to us prior to the vote or, if the shareholder is voting by a proxy or any similar instrument, on such proxy card or similar instrument, as to whether or not his holdings in our company or his vote require the approval of the Ministers pursuant to the Israeli Communications Law and Communications Order. In addition, no director may be appointed, elected or removed from office by virtue of the vote of a holder of Unapproved Holdings. If a director is appointed, elected or removed from office by virtue of the vote of a holder of Unapproved Holdings, such appointment, election or removal from office shall have no effect.

The holding of control, “significant influence” or 5% or more of any particular class of Means of Control without the required approval or in violation of the terms of the approval constitutes a criminal offense and could subject the holder to criminal penalties as follows: (i) a person transferring control of Bezeq or acquiring and holding control over Bezeq without the required approval is subject to three years imprisonment or a fine currently in the amount of NIS 2.26 million as well as an additional fine for each day the offense continues (currently in the amount of NIS 14,000 per day); (ii) a person holding “significant influence” or more than 5% of the Means of Control of Bezeq without the required approval is subject to six months imprisonment or a fine currently in the amount of NIS 226,000 as well as an additional fine for each day the offense continues (currently in the amount of NIS 14,000 per day); and (iii) a person transferring “significant influence” or Means of Control of Bezeq, knowing that as a result of the transfer, the holdings of the transferee require approval pursuant to the Israeli Communications Law or the Communications Order, without being first shown the appropriate approval by the transferee, shall be subject to a fine currently in the amount of NIS 226,000.

SP2 must at all times be held by an “Israeli Party,” as defined in the Communications Order, to the following extent:

- At least 19% of each of the Means of Control of SP2 must be held by an Israeli Party at all times; or
- At least 19% of the rights to vote at the general meeting of shareholders of SP2 and the rights to appoint directors of SP2 must be held by an Israeli Party at all times; and
- The right to appoint at least one-fifth of the directors of Bezeq and Bezeq’s subsidiaries and not less than one director of each such company will be held by an Israeli Party at all times, provided that the percentage of the Israeli Party’s direct or indirect shareholdings in Bezeq is not less than 3% of any of the Means of Control of Bezeq. Indirect shareholdings will be calculated as the product of the Israeli Party’s lowest rate of holdings in each of the Means of Control in SP2, multiplied by the percentage of the holdings of the parties to the Control Permit in each of the Means of Control in Bezeq.

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

Since Fuhrer was deemed the Israeli party, it was resolved in the Control Permit that Fuhrer shall refrain from transferring means of control of Bezeq without the prior written approval from the Ministers, if such transfer decreases its holdings of means of control of any kind in Bezeq to a lower rate than required in the Communications Order.

The new Control Permit following the Searchlight-Fuhrer transaction determined that provided Searchlight and Fuhrer are joint controlling shareholders of our company and that Searchlight and Fuhrer hold a stake in our company of at least 35% of each type of means of control of our company, they may transfer some of the means of control in our company, on condition that their holdings do not exceed 50% and that:

- Other than Searchlight and Fuhrer, there is no other controlling shareholder of B Communications or entity that holds 17% and more in our company.
- Searchlight’s holding in our issued capital exceeds that of Fuhrer.
- Transfer of means of control will only be implemented according to one or more of the methods included in section 3(A3) of the Communications Order.

The parties to the Control Permit may not be controlled by any foreign country, foreign government company or a foreign company controlled by a foreign government company. The Control Permit will terminate if the foregoing condition ceases to exist with respect to any such party without the approval of the Ministers. The Ministers may authorize a foreign government company to hold an interest in any such party, provided that the foreign government company’s aggregate direct or indirect holdings in Bezeq do not exceed 5% of any type of Means of Control of Bezeq and that it does not control such party.

According to the Communications Order a “principal shareholder” or a person with “significant influence” in Bezeq shall not be; (i) a hostile state, a citizen or resident of a hostile state, a corporation registered or incorporated in a hostile state or a corporation controlled by a citizen or resident of a hostile state; or (ii) a government corporation, unless approved by the Ministers.

In the event the Ministers find that the information they were provided in the application for the control permit is incorrect, that there has been a material change in the details provided by the parties to the Control Permit which justifies its cancellation, or such parties failed to submit a required report, and the Ministers determine that there is probable cause to believe that the provision of the services that Bezeq is required to provide pursuant to its general license (including basic telephone, infrastructure, transmission and data transmission services and ancillary services) or the grounds for determining that any such service has been harmed, the Ministers may take action to cancel the Control Permit. Upon its cancellation, all the shareholdings purchased under the Control Permit will be deemed Unapproved Holdings as described above.

If we or any other party subject to the Control Permit fails to comply with the terms of the Control Permit or with other regulatory provisions relating to the control of Bezeq, such permit could be revoked and our rights with respect to our Bezeq interest would be adversely affected.

Any event in which a receiver is appointed with respect to our holdings in SP2 or SP2’s holdings in Bezeq will constitute grounds for the cancellation of the Control Permit. In the event that the Control Permit is cancelled and an application to reissue a Control Permit is denied, our holdings in Bezeq must be liquidated within 15 to 60 days (depending on the cause for such cancellation) pursuant to the Communications Order.

The provisions of the Control Permit are subject to the terms of the Communications Order and Israeli Communications Law, as they may be amended from time to time.

The new control permit required us to adopt further amendments to our Articles of Association in order to remain compliant with the requirements of our new control permit. Our Articles of Association were also amended as follows:

- Article 1 added a definition for any control permit issued by the Israeli Minister of Communications to a shareholder of ours in connection with the control over our company.
- Article 44 was amended to add a new paragraph (e) that provides that no Joint Appointment (as defined in the Communications Order) may be made without the prior written approval of the Ministers (i.e., the Israeli Prime Minister and Israeli Minister of Communications), and any such Joint Appointment that is not approved by the Ministers will be null and void.
- Article 44, paragraph (g), which describes our shareholders' obligation to comply with Israeli regulatory requirements that are applicable to us, was amended to include a reference to the control permit (to the extent relevant) issued by the Communications Minister to a shareholder of ours.

As mentioned above, the Control Permit required the adoption of amendments to the AOA's of Bezeq and its subsidiaries prior to January 12, 2020 in order to remain compliant with the requirements of our new control permit. Bezeq and its subsidiaries' AOA's were not amended on time as required and therefore we are in breach of the Control Permit, which the MoC is aware of. The amendment of Bezeq's AOA is on the agenda of the Upcoming AGM. Bezeq's Board of Directors agreed that the amendments of the AOA's of its subsidiaries will be addressed immediately after the Upcoming AGM.

The Concentration Law

In December 2013, the Knesset passed the Concentration Law, which regulates the following principal matters: (i) limitations on the control over companies with publicly held debt or equity securities through a pyramidal ownership structure by imposing a limitation on the number of public companies (tiers) in such pyramidal structure; (ii) authorizes financial regulators to set forth limitations on the amount of credit that financial institutions are permitted to provide to a corporation or a group of companies under the control of the same controlling shareholder; and (iii) limitations on the holdings by a significant non-finance company in a significant finance company or the holdings of both kinds of companies under common control; and (iv) requires governmental authorities responsible for the award of rights in public assets (including in the communications field) in certain events to consider control concentration factors and industry-specific competitive factors. As a result of the Searchlight-Fuhrer transaction, the pyramidal ownership structure was removed and the Company and Bezeq are not subject to any limitation related to a pyramidal structure.

Regulatory Requirements Relating to the Bezeq Group

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

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

Structural separation

The Communications Law grants the Israeli Telecommunication Ministry the authority to order accounting segregation between different services provided by the same group or company and to demand separate companies for the provision of different services, including separation of services to a license holder from services to a subscriber, and provisions regarding implementation of the separation.

Bezeq's domestic carrier license stipulates that it must maintain structural separation between itself and its subsidiaries. This requires the managing of Bezeq and that of its subsidiaries to be fully segregated.

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

On February 14, 2019, Bezeq petitioned the Supreme Court against the Ministry of Communications asking to cancel the structural separation in Bezeq Group immediately, after the Ministry failed to accept Bezeq's requests. Bezeq believes all conditions justifying and requiring cancellation of the structural separation under the policy document dated May 2, 2012 concerning the need for increased competition in the fixed-line communication wholesale market have been met.

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 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 on its merits.

On December 31, 2019, the Company filed its answer to the response of the State, explaining that the policy document establishes a clear commitment for respondents to cancel the structural separation obligation, which they should have done since its conditions have now been met, and Bezeq's request to issue a conditional order should be accepted.

On January 30, 2020, a hearing was held. The State notified the court that the professional team's recommendations will be filed within four months and a revised notice for the State will be submitted to the court by June 15, 2020.

Marketing of joint service bundles with a subsidiary to ease the effect of the structural separation restriction

Bezeq was permitted to offer subscribers joint service bundles with its subsidiaries, subject to approvals by the Ministry of Communications and several terms enumerated in the Domestic Carrier license, including:

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

These limitations, and in particular the unbundling obligation, which severely limits the Group's ability to offer discounts on the components of the bundles, puts the Group in a competitively inferior position compared to the competing communications groups, which are not subject to similar limitation in marketing bundles (other than a limitation on marketing a joint bundle of HOT-Net and other companies in HOT Group). On February 5, 2019, the Ministry published a hearing that it is considering revising the HOT Telecom and HOT-Mobile licenses to allow them to market joint service bundles to the business sector, with certain restrictions). Bezeq's limitation is more significantly manifested with implementation of the wholesale BSA services and the option for ISPs to provide full end-to-end services (infrastructure + service provider) to customers at reduced prices compared to the unbundlable bundles that Bezeq can market on which the following restrictions are imposed:

- Marketing joint service bundles with DBS - On March 27, 2017, the Ministry of Communications notified Bezeq that it would not approve Bezeq's request to market joint service bundles with DBS, given that the Ministry will, in the near future, be completing several regulatory measures that will allow more complete implementation of the wholesale market reform, including regulation of telephony resell, new regulations relating to Bezeq's retail tariffs, regulation of a mechanism to reduce profit margins and regulation of the conditions for marketing reverse bundles. According to the Ministry's notice, it is therefore willing to review requests of this kind for joint service bundles which include internet, telephone and television, in at least six months' time, after it has examined the effect of the above measures on the market and is certain that Bezeq satisfies the regulatory requirements. On February 15, 2018, the Ministry addressed Bezeq's announcement regarding its intention to send interested customers a link to the Sting site, expressing its position that marketing DBS internet-based television ("Sting") by Bezeq is not in conformance with the structural separation provisions of Bezeq's license.

- Marketing joint service bundles of internet infrastructure together with ISP - In 2017, further to the Ministry's demand, changes were made to the bundle sales format, mainly splitting the bundle after a year. In 2018, Bezeq submitted a request to the Ministry to replace the existing bundle marketing with a marketing model under which Bezeq issues a tender to select a single IPS provider that is not a subsidiary as the sole marketer of Bezeq offering bundles for an unlimited time (because of the damage incurred by customers due to the requirement to split the bundle). In December 2018, the Ministry rejected Bezeq's request, noting that in its opinion marketing a bundle through the wholesale marketing track is the correct channel.

On January 23, 2019, the Ministry of Communications distributed a letter regarding the reverse bundle stipulating that the provisions of the service providers' licenses obligate them to contact the service subscribers prior to disconnecting them from the services and that disconnecting subscribers and reconnecting them to a reverse bundle in a single bill is a violation of the Ministry's decision. Subsequently, on March 4, 2019, Bezeq received notice from the Ministry of Communications that in a meeting held with Bezeq's representatives, the Ministry is considering changing the reverse bundle format, mainly granting Bezeq the possibility of renewing the contract with subscribers in a single bill after a short cooling off period during which the bill will actually be split, and of canceling the mechanism set out in the Ministry's decision dated March 16, 2017.

On March 25, 2020, Bezeq received a letter from the Director General of the Ministry of Communications including a temporary decision concerning changing the marketing arrangements for the reverse. In accordance with the decision, the need to split the reverse bundle after a year is cancelled and Bezeq can contact customers at any time to renew the reverse bundle. Bezeq will have to offer as part of the reverse bundle all suppliers. It was noted in the letter that the decision was given at the outbreak of the coronavirus in Israel and accordingly the validity of the decision is limited to three (3) months.

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

On July 24, 2019, Bezeq 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 Bezeq will not be obligated to market a reverse bundle for ISPs that have accumulated over 100,000 wholesale BSA customers on Bezeq's network and have also provided accessibility to over 100,000 households to their independent optical fiber infrastructure on Bezeq'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 Bezeq's fiber project and a reasonable possibility will be provided to purchase the BSA service on the fiber network. Bezeq 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 Bezeq's fiber project.

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

There are more limitations on cooperative ventures between Bezeq and the Bezeq Group companies, both under competition laws and conditions laid down by the Competition Commissioner in approvals of mergers between Bezeq and the Group Companies, which prohibit discrimination in favor of Group Companies when providing certain services, and by power of the orders of Bezeq's license, which oblige it to provide its services equally to all.

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

Partnership Structure

In August 2018, Bezeq announced that it was filing an application for the approval in principle by the Minister of Communications to change the legal structure of the Bezeq Group so that it will continue to operate in its present format as a public company for the provision of fixed-line domestic telecommunications services, and at the same time, establish a wholly owned registered partnership to which the assets, licenses, and activities of DBS, Pelephone and Bezeq International, will be transferred and will continue to maintain the complete structural separation from Bezeq. The purpose of the change is to adapt the structure of the subsidiaries to the technological, economic and competitive realities in the telecommunications market in order to promote the telecommunications market in Israel and to support reasonable profitability of the Bezeq Group for the benefit of its employees and shareholders. The new legal structure is expected, subject to the approval of the Tax Authority, to enable the offset of losses from the profits of the entire Bezeq Group. The request does not change Bezeq's position regarding the cancellation of the structural separation.

On December 13, 2018, Bezeq received an update from the Ministry of Communications wherein the Ministry's professional staff discussed the request and decided to ask for public comments on the matter. In a subsequent notice, the Ministry indicated that along with the application submitted by Bezeq to change its legal structure, it is reviewing all structural separation obligations in Bezeq and HOT groups and the need to revise them, including regulations to provide a solution for the discriminatory issues in the use of infrastructure. The Ministry noted that it is weighing whether the above application regarding the legal structure of Bezeq can be approved prior to the completion of the foregoing review. In the notice, the Ministry indicated that this application gives rise to concern that approval thereof at the present time could lead to strengthening of the Bezeq Group's competitive advantages in the retail level at the expense of the different competitors. According to the notice, approval of the application at present will increase Bezeq's incentive to discriminate against competitors in the use of its infrastructure and thereby leverage its advantage in the infrastructure segment over the service provision segment and strengthen the Group's retail power, which in any event is already strong, prior to examination of the appropriate balances. The notice further indicated that in view of the foregoing, the Ministry is deliberating whether it is possible to approve the application at present and under which terms. Bezeq withdrew its application shortly thereafter.

On February 13, 2019, Bezeq's Board of Directors approved a request by each of Bezeq's subsidiaries, Pelephone, Bezeq International and DBS, to obtain approval from the Ministry of Communications for a change to the corporate structure, whereby the entire business and assets of each of the subsidiaries would be transferred to separate limited partnerships wholly owned by Bezeq (Bezeq as a limited partner, and a company (separate and different in each partnership) wholly owned by Bezeq, as General Partner).

On January 28, 2020, Bezeq received a letter from the Ministry of Communications that it was not possible to approve the application at that time. This was for reasons that Bezeq believes are mistaken including, because there is no room to take interim decisions that might affect the issue of structural separation in the Group and change the existing range of incentives, while the obligation of structural separation applied to the Group is currently being examined by a special team at the Ministry of Communications. As part of its examination, a broad range of alternatives are being assessed - from cancellation of the obligation of separation to strengthening the separation. In addition, in the Ministry's opinion, this is a material change in the Group's operations and not a technical change of the corporate structure.

Bezeq's Board of Directors also approved a request of Bezeq to the Israel Tax Authority to obtain approval to transfer the business of the Subsidiaries to the said partnerships as a tax-exempt transfer in accordance with the provisions of section 103 of the Income Tax Ordinance and a request that the assessment arrangement dated September 15, 2016 concerning spreading the losses of DBS will also apply to the partnership with which it will be merged.

Wholesale services

Recently a wholesale market model has started being implemented in Israel, as part of which the obligation to sell wholesale services to other communications operators was imposed on owners of a country-wide fixed-line access infrastructure (Bezeq and HOT) to allow other communications operators to use Bezeq's infrastructure at prices set out in regulations. As part of this, the Ministry of Communications established service portfolios setting out the format for provisions of the services by the infrastructure owners:

Wholesale BSA service

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

Wholesale service use of physical infrastructures

This service allows service suppliers without infrastructure to use Bezeq's physical transfer communication cables infrastructure and dark fibers. Moreover, in the amendment to the Communications Law, as applied in the Economic Arrangements Law, (and separate from the wholesale service portfolio regarding use of physical infrastructures), Bezeq was required to allow other licensed domestic carriers, which are not necessarily suppliers without infrastructure, to use its passive transfer communication cable infrastructure to perform any telecommunications activity and provide any telecommunications services under their licenses. The same amendment also grants Bezeq the right to use physical infrastructure of other companies.

Wholesale telephony service

This service allows service providers that do not own infrastructure to offer their customers telephony service at wholesale tariffs using Bezeq's network. Until August 2018, the temporary arrangement allowed Bezeq to provide the service in a resale format, meaning a format in which the service provider purchases a line and call minutes from Bezeq and receives a range of services (such as technical services) from Bezeq. According to the Ministry of Communications' notice, as from August 2018, Bezeq is required to provide the service in a wholesale format, meaning a service format in which the service is provided through Bezeq's switch, but the call also goes through the service provider's switch, both as an isolated service and as a supplementary service to the BSA service. Since August 2018, Bezeq is prepared to provide resale services at wholesale prices (without technical services), although with this service the call does not pass through the service provider's switch. The maximum tariffs which Bezeq may charge for providing the services are laid down in regulations. The regulatory provisions regarding the wholesale market, as well as its implementation and, affect a material part of the Group's activities

To the best of Bezeq's knowledge, the sale of wholesale services on the HOT network has been launched and Bezeq believes that at this stage, the volume of wholesale subscribers on the HOT network is not high.

Policy document

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

Further to the policy document, the Ministry of Communications established service portfolios setting out the format for provisions of the services by the infrastructure owners. The maximum tariffs that Bezeq is permitted to charge for these services were determined by the Minister of Communications with the agreement of the Minister of Finance in the Communications (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network) Regulations, 2014, or the Use Regulations. Tariffs for HOT's wholesale services were first published on June 26, 2017. To the best of Bezeq's knowledge, the volume of whole subscribers on HOT's network is negligible. The volume of wholesale subscribers on HOT's network is negligible at this stage, although Bezeq believes that it has recently increased.

BSA services

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

In the initial period of provision of the service, the Ministry conducted an oversight proceeding at Bezeq, which led to imposition of NIS 8.5 million in fines. Bezeq paid the amount of the fines and petitioned the court against this proceeding, which was dismissed in January 2018. On March 14, 2018, Bezeq filed an appeal against dismissal of the petition, which has not yet been decided. In addition, disputes erupted between Bezeq and the service providers regarding implementation of the service portfolio. These disputes concern the payments owing to Bezeq for the service and division of responsibility for installation and malfunctions.

In order to receive BSA services, it is necessary to connect to the service provider who receives the service from Bezeq to Bezeq's network. On January 16, 2019, despite the operational difficulties indicated by Bezeq, the Ministry of Communications ordered Bezeq to immediately allow connection of the service providers to the multi-service access gateway (MSAG), in addition to its obligation to allow connection to the core and collection segment, according to the service provider's election.

The Ministry held hearings on various issues related to implementation of this service. The main hearings on the matter dealt with mechanisms for reviewing and revising the demand forecast for the purpose of updating the wholesale market tariffs (in which a decision was made regarding reduction of the tariffs of the BSA service component, and the tariff was reduced in regulations), revising the service level (SLA) requirements, the procedure for movement of customers between operators, etc. Decisions have not yet been made in all the hearings.

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

Wholesale service use of physical infrastructures

The service portfolio entered into force on July 31, 2015 and accordingly, Bezeq allows suppliers without infrastructure to use its physical available-for-transfer communication cable infrastructure and the available dark fibers out of Bezeq’s available optic cables, while in order to connect to the service provider’s infrastructure to Bezeq’s infrastructure, the service provider must set up a passive infrastructure near Bezeq’s passive infrastructure facility. The work on Bezeq’s infrastructures is performed by the service providers through contractors on their behalf, pursuant to the Ministry of Communication’s decision and dismissal of Bezeq’s petition against it. Since the service is in a format that did not exist before, differences of opinion arise from time to time.

On April 16, 2018, the Ministry of Communications announced that after reviewing the comments of Bezeq and an ISP, it made a decision and ordered that Bezeq must allow the service providers to insert communications cables through Bezeq’s telecom manhole which is located at the opening of the conduit leading to private land, and to perform any necessary work in the manhole for this purpose, all without derogating from the service providers’ responsibility to obtain the landowner’s permission.

On January 16, 2019, the Ministry of Communications issued a decision regarding the service portfolio for mutual use of passive infrastructures, according to which pursuant to reviewing the comments received in the hearing published by the Ministry on August 9, 2018, it decided in the first stage to focus on regulating execution of the work of another domestic carrier (holder of a domestic carrier license, including an infrastructure owner, that uses the physical infrastructure of another license holder). Later, the Ministry intends to establish a uniform service portfolio, which will apply to all use situations, including mutual use, of physical infrastructures, but at the present time, it will apply to the infrastructure owners in parallel with the provisions applicable to all domestic carriers. The director’s provision and the service portfolio amendment that were attached to the decision stipulate unlike the original service portfolio, that for deployment, the operator using the infrastructure of the infrastructure owner will not be required to set up a passive infrastructure facility, even in the last manhole (the last manhole before the building). The infrastructure of another domestic carrier will be connected to the infrastructure of the infrastructure owner by the passive infrastructure component (conduit/duct pipes, etc.) to be installed between the passive infrastructure of the operator using the infrastructure (manhole, telecom cabinet, junction box, etc.) and the passive infrastructure facility of the infrastructure owner. The definition of the physical infrastructure available to an operator using infrastructure was expanded and includes communications rooms as well. The amendment and provision also anchor the right of the infrastructure owner to payment for the guidance activity to the employees of the operator using the infrastructure.

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

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

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

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

Use of Bezeq's physical infrastructure by infrastructure owners

In the amendment to the Communications Law, as applied in the Economic Arrangements Law, the obligation of a licensed domestic carrier to allow other licensed domestic carriers (which are not necessarily license holders without infrastructure) access to its passive infrastructure (excluding the passive infrastructure of a licensed domestic carrier owned by IEC and which it requires, for the purpose of its operations as the holder of a critical service provider license) for performance of any telecommunications operation and provision of any telecommunications service under its license. This means allowing IBC to use Bezeq's passive infrastructure and as from October 1, 2017 also HOT Telecom, at tariffs which according to the amendment to the Law are to be set by the Minister of Communications with the agreement of the Minister of Finance by April 1, 2018, whereas until these tariffs are set, the tariffs set in the Use Regulations will apply, and subsequent to setting the tariffs, retroactive settling of accounts will be carried out between Bezeq and HOT Telecom only. At present, tariffs and a special service portfolio have not yet been established.

On August 13, 2018, a hearing and draft regulations were published on determining the maximum payments for mutual use by infrastructure owners of access service to passive infrastructure, according to which the Minister is considering determining that the tariff will be the same as for the payments currently defined in the Use Regulations for a domestic carrier which is a special general license holder. A letter attached to the hearing dated August 9, 2018, concerning the service portfolio described above states that the Ministry is considering not setting maximum or minimum payments for service to be provided by other domestic carriers for which no payment was defined. On September 9, 2018, Bezeq submitted its comments on the hearing to determine the payments (together with an expert economic opinion), in which it argued that the distinction must be maintained between operators that do not own infrastructures and infrastructure owners, and certainly those governed by the obligation of universal service.

Wholesale telephony service

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

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

In a letter dated January 29, 2019, Bezeq offered the Ministry of Communications another technological solution for the provision of wholesale telephony services. In view of the fact that this solution was intended to be temporary and implemented for a limited period, until replacement of the switch, and taking into account its estimation regarding the relatively low potential of customers of the service, Bezeq repeated its claim that the wholesale telephony services in the engineering outline defined in the service portfolio in a carrier preselection format on a telco-grade level was and still is impossible to implement on Bezeq's switch.

On January 31, 2019, the Ministry replied that it does not intend to approve compliance with the service portfolio in advance, because after coordination with the service providers and launching of the service, the Ministry will review whether the breach has ceased, and it would not accept a solution that does not provide a full solution for the provisions of the service portfolio and is not based on the accepted engineering standards in communications networks.

Bezeq sent an appropriate characterization to the service providers. The negotiations with the Ministry of Communications and the service providers have not yet been finalized. In parallel, Bezeq is taking measures to complete its order for a new switch.

Bezeq reports that it believes that the implementation of wholesale telephony will impair its financial results. Bezeq also reports that it is unable to estimate the extent of the impact, which could be significant, given that it depends on different variables, including the volume of demand for the service, the price levels of substitute products currently available on the market (such as VoB), etc.

Supervisory reports and financial sanctions

On October 19, 2017, the Ministry of Communications sent Bezeq a final supervision report regarding implementation of a wholesale telephony service, or the Supervision Report, according to which Bezeq violated the provisions by failing to provide the wholesale telephony service on May 17, 2015. Concurrently with the Supervision Report, and after Bezeq had been found to have violated the provisions of the Use Regulations and Bezeq's license, Bezeq was notified of the Ministry's intention to impose a financial sanction on Bezeq in the amount of NIS 11,343,800. The Notice also stated that Bezeq must take affirmative action to comply with the instructions of the Ministry of Communications, since the Ministry is considering initiating another proceeding in the same matter. Bezeq submitted its arguments in writing against the intention to impose a financial sanction and against the amount of the financial sanction. Subsequently, on August 8, 2018 Bezeq received a "Supplementary Supervisory Report to the Final Supervisory Report Concerning Non-implementation of the Wholesale Telephony Service" as well as an "Updated Notice of its intention to apply financial sanctions concerning implementation of the broadband reform in which the Ministry of Communications announced its intention to apply financial sanctions of NIS 11,327,540 against Bezeq for the violation, as from August 1, 2018. The notice further states that the Ministry intends to take additional enforcement measures if the breach continues. On October 4, 2018, Bezeq submitted its position on the hearing whereby financial sanctions should not be imposed on it. On December 27, 2018, Bezeq received notification from the Ministry of Communications that the Director General of the Ministry decided to impose a NIS 11,163,290 sanction on Bezeq for its alleged breach of the provisions regarding implementation of wholesale telephony services. Bezeq filed a petition against the decision.

Additional regulatory aspects relevant to the entire Group or several Group companies

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

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

Non-discrimination in the offering of benefits and special tariffs. Due to the different positions expressed by the Ministry of Communications in the past, communications companies may be restricted under certain circumstances in their ability to offer benefits and special tariffs to their new customers or to prevent a subscriber from switching to plans marketed to new customers. The Ministry of Communications announced its intention to hold a hearing regarding revision of the provisions of the licenses regarding price discrimination between subscribers in a manner that is also consistent with the changes and developments in the market.

On December 9, 2019, the Tel Aviv-Jaffa District Court issued a ruling addressing the changing positions of the Ministry of Communications on the matter and believes that the Ministry's position should not be adopted, since there are several major flaws in formulating its opinion and the manner in which it was adopted (lack of a factual foundation, lack of consultation with the Competition Authority, lack of reasoning, lack of coherence and failure to hold a hearing). The ruling dismissed the motions to certify class actions and an appeal was filed against it.

Amendments of licenses and additional legislation

Call center response times

The amendment to the licenses of Bezeq, Pelephone and Bezeq International prescribes provisions concerning the obligation to route calls on certain matters to a professional human responder, call waiting times as well as provisions concerning call center work hours, the recording and documenting of calls and reporting obligations.

The amendment came into force on date of entry into effect of the Consumer Protection Law (July 25, 2019) dealing, inter alia, with waiting time for a human response. The DBS broadcasting license was amended in the same way. The amendments led to an increase in costs for operating the call centers of the Group's companies. It should be noted that in November 2019, the Ministry of Communications issued a demand for information as part of the oversight activity to all communications companies on the issue of waiting times for a human response at call centers. A similar demand was addressed to DBS in January 2020.

Bezeq is making preparations to implement the amendments, which could lead to an increase in the costs of operating the call centers of the Bezeq Group's companies.

Hearing on the subject of IPv6 protocol (internet addresses)

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

Consumer legislation and privacy protection laws

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

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

Enforcement and financial sanctions

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

The Ministry of Communications has recently made extensive use of the oversight powers and has issued notice of its intention to impose fines on Bezeq for ongoing regulatory matters as well as matters pertaining to implementation of the wholesale market.

Moreover, provisions enabling administrative enforcement by means of imposing fines or an administrative warning are anchored in an amendment to the Telegraph Ordinance under the Economic Arrangements Bill.

Restrictions on providing credit to business groups

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

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

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

Hearing on millimeter waves

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

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

Hearing on asymmetry

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

Regulatory restrictions

The Communications Law, Communications Order (which applies to Bezeq) and some of the communications licenses of the Bezeq Group companies contain a restriction on granting of rights to a third party on assets used to provide the critical service or on the assets of the license, as the case may be, including the need to obtain regulatory approval to create charges on these assets. In some cases, such as Pelephone's cellular operator's license, and Bezeq International's unified license, there are exceptions permitting the creation of charges in favor of banks without the need for the regulator's advanced approval, provided that the charge agreement includes instructions to ensure that the services rendered under the license will not be affected if the bank exercises the charge. In addition, under the provisions of the law and the communications licenses, the license and the resulting rights are not transferable and they cannot be pledged or confiscated (with certain exceptions).

Contractual restrictions

Bezeq has provided undertakings to certain financing entities not to pledge its assets without simultaneously creating a charge of the same class, rank and amount (negative charge), subject to specific exceptions.

Bezeq

Control of Bezeq's tariffs

The control of Bezeq's tariffs as described below has a number of implications. Bezeq's tariffs are subject to regulatory intervention and from time to time, Bezeq is exposed to significant changes in its tariff structure and tariff levels. The review mechanism for the controlled tariffs, as defined in the authorizing legislation and the regulations, results in a real average erosion of the tariffs over the years. Control of the tariffs could make it difficult for Bezeq to provide an appropriate and competitive response to market changes and to offer competitive prices on short notice. Furthermore, the restrictions on granting discounts on tariffs limit Bezeq in participation in certain tenders.

The following are the main control arrangements over Bezeq's prices:

- Under the Communications Law, the Minister of Communications is entitled, with the approval of the Minister of Finance, to determine payments (including maximum payments or minimum payments) for services from a license holder. The payment can be determined on the basis of (1) the cost, according to the calculation method instructed by the Minister plus a reasonable profit; or (2) reference points deriving from: payment for services provided by the license holder; payment for comparative services; payments in other countries for such services.
- Tariffs fixed in regulations - the tariffs for Bezeq's controlled services (telephony and others) which are stipulated in the regulations, were updated in accordance with a linkage formula less an efficiency factor provided in the regulations, so that on average, Bezeq's controlled tariffs erode in real terms. After five years without any update to the regulation tariffs, on May 23, 2018, the Ministry of Communications announced an update of Bezeq's tariffs stipulated in the regulations, effective from June 1, 2018, based on the update formula set out in the Communications (Telecommunications and Broadcasts) (Calculation and Linkage of Payments for Telecommunications Services), 2007, so that the tariffs for the services provided by Bezeq which are stipulated in the regulations will be reduced by 11.88%, except for the fixed monthly payment for the telephone line, which will remain unchanged. According to the Ministry's announcement and in Bezeq's estimate, the implication of this tariff change is an annual decline of NIS 16 million in Bezeq's revenues.
- The Ministers of Communications and Finance are authorized to prescribe interconnect payments or for the use by a license holder of the telecommunication facilities of another license holder, and to provide instructions.
- If tariffs that are neither at the maximum nor minimum levels are determined for supervised services, Bezeq may offer an alternative payments package for a bundle of telecommunication services at such fixed payments, provided that the Ministers of Communications and Finance do not oppose the package. The Gronau report states that an alternative payment package will be approved only if it is worthwhile for 30% or more of subscribers who use the services offered in the package, and that the smaller the market share of the Bezeq Group in fixed-line telephony is, the higher the maximum discount rate permitted in an alternative payment package will be.

- If maximum or minimum payments are determined according to Sections 5 or 15 the Communications Law, for telecommunication services provided to another license holder, Bezeq may indiscriminately offer any other license holder an alternative payments package for the bundle of services at maximum or minimum payments, and such services together with services for which payment has not been determined according to Sections 5 or 15 to the Law, provided the Ministers are not opposed or approved the package.
- Bezeq may request a reasonable payment for a service for which a payment is not determined according to Sections 5 or 15, or for which a maximum or minimum payment has been determined. The Minister of Communications may require Bezeq to notify him of any payment Bezeq intends to request as set out above and of any change in the payment prior to the provision of the service or the change. If the Minister of Communications determines that Bezeq intends to request an unreasonable payment, or a payment that raises suspicion of harming competition, the Minister may set (for a period not exceeding one year) the maximum payment it may request for the service or separation of the payment for the service from the payment for the bundle of services.

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

- To convert the existing supervisory method that sets fixed rates (FIX) to maximum rates; the main telephony services (telephone line - NIS 57.92 including VAT, and 1.87 agorot including VAT for calls) will be set in relation to the updated costs structure; for most of the additional services, the present tariff will become the maximum tariff and price control will be lifted for some of the services.
- To remove price control from the main telephony services - telephone line and calls, and from additional services that are currently supervised in the form of fixed tariffs, and to set a maximum price for a “supervised bundle” which will include a telephone line and call minutes which Bezeq will offer customers who wish to subscribe to this service, similar to the alternative payments package currently offered by Bezeq for which there is most demand.

Similarly, it was proposed that only existing subscribers of the alternative payments package for the “Kav Kal” (Light Line) service will be able to continue to receive it. The Ministry of Communications is also considering determining that price control will be lifted on PRI channels and the price control on their call components will be canceled. Bezeq submitted its comments on the hearing, opposing the proposed tariffs. Bezeq believes that the change in the control mechanism being considered in the hearing, insofar as this change is implemented, will negatively affect its financial results. Bezeq believes that its retail tariffs will be affected in parallel also as a result of the setting of wholesale prices for telephony services.

On March 18, 2019, the Ministry published a hearing to regulate the maximum payments for the wholesale services of the infrastructure owners between 2019-2022. According to the hearing, the Ministry intends to revise the prices based on the assumptions concerning the scope of demand, the equipment price trends and the effect of the costs of providing the service in the economic model. Bezeq is studying the hearing documents. Until completion of the hearing process (and after the secondary hearing on the subject), the Ministry of Communications will extend the applicability of the maximum payments for wholesale services to 2018, so as to continue to apply from 2018 onwards. Prior to extension, the Ministry published a hearing noting that the key trends in the market, including the demand trends and decrease in equipment prices, indicate that the cost of providing the wholesale services is declining over time.

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

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

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

On May 19, 2019, the Ministry of Communications sent Bezeq 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, Bezeq 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, Bezeq submitted its comments on the supervisory report stating Bezeq 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.

Bezeq's Domestic Carrier license

Bezeq operates under a Domestic Carrier license which enumerates the services Bezeq must provide and its duty of universal service. Bezeq is required to provide its services to all on equal terms for each type of service, irrespective of location or unique cost. While the license is unlimited in time; the Minister may modify or cancel the license or make it contingent. The license and any part of it cannot be transferred, no charge can be imposed on it, nor can it be subject to attachment.

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

Provisions are stated for the duty of interconnect to another public switching network and the option of use by another license-holder; a duty to provide infrastructure services to another license-holder on reasonable and equal terms is also provided, as well as refraining from preferring a license-holder that is a company with an interest.

Provisions have been made for the operation of Bezeq's network in times of emergency, including the obligation to operate it in a manner that prevents its collapse in emergencies. Bezeq is required to provide telecommunication services and set up and maintain the terminal equipment infrastructure for the security forces in Israel and abroad, as provided in its agreements with the security forces. Bezeq is required to appoint a security officer and to comply fully with the security instructions contained in the appendix to the license. Bezeq provides special services to the security forces. Bezeq is required to ensure that each purchase and installation of hardware in its telecommunications installations, except for terminal equipment, will be made in full compliance with instructions given to Bezeq according to Section 13 of the Communications Law.

Extensive reporting duties to the Ministry of Communications are imposed on Bezeq. In addition, the Director General of the Ministry of Communications has the authority to enter facilities and offices used by Bezeq and to seize documents.

The Domestic Carrier license includes restrictions on the acquisition, maintenance and transfer of means of control pursuant to the Communications Order and on cross-ownership, which are mainly a ban on cross-holding by entities in which those with an interest in another material Domestic Carrier as noted in the license, and restrictions on a cross-holding by entities with Domestic Carrier licenses or general licenses in the same segment of operation.

Bezeq submitted a bank guarantee of US\$ 10 million to the Director General of the Ministry of Communications to secure fulfillment of the terms of the license and for indemnifying the State for any loss it incurs due to their violation by Bezeq. The Director General at the Ministry of Communications is authorized to impose a fine for violation of any of the terms of the license.

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

The Communications Order

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

The main provisions of the Communications Order are these:

- Restrictions on the transfer and acquisition of means of control in a company, which includes a ban on holding 5% or more of means of control of a certain kind without the prior written approval of the Prime Minister and the Minister of Communications, or the Ministers.
- Transfer or acquisition of control in a company requires the approval of the Ministers. The Control Permit establishes the minimum holding percentage in each of the means of control in Bezeq by the holder of the Control Permit. A transfer of shares or an issuance of shares that causes the ownership percentage of the Control Permit holder to fall below the minimum percentage is prohibited without the prior approval of the Ministers, subject to permitted exceptions (among them are an issuance to the public under a prospectus or sale or private placement to institutional investors).
- Holdings not approved will be considered “exceptional holdings” and the Order states that exercise of a right by power of exceptional holdings will not be valid. The Order also contains provisions authorizing the Ministers and Bezeq to submit an application for the enforced sale of exceptional holdings to the courts.

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

“Israeli” requirements are enumerated for the controlling shareholder in Bezeq: for an individual – he is an Israeli Entity (as defined in the Order); for a company – it is incorporated in Israel, the center of its business is in Israel, and an Israeli Entity holds at least 19% of the means of control in it.

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

Certain actions of Bezeq require the approval of the Minister of Communications, including the voluntary liquidation, a settlement or arrangement between Bezeq and its creditors, a change or reorganization of the structure of Bezeq, a merger and split of Bezeq.

Authority with respect to real estate

Pursuant to the provisions of Section 4(F) of the Communications Law, the Minister of Communications granted Bezeq certain powers in connection with real estate, as set out in Chapter Six of the Law. The law distinguishes between land owned by the State, the Development Authority, the Jewish National Fund, a local authority or a company lawfully established and owned by one of them, and a road, or Public Land”), and other land, or Private Land. With regard to Public Land, Bezeq and any person authorized by it, can enter it to perform network deployment and maintenance works and to provide telecommunication services, provided that the deployment is executed according to the provisions of the Planning and Construction Law. The amendment to the Communications Law and the Planning and Construction Law in the Economic Arrangements Law cancel the duty to obtain the approval of the local Planning and Construction Committee, so certain actions do not require a building permit if performed by a license holder that was granted powers under section F of the Communications Law, if carried out according to an approved plan.

A network on Private Land will be deployed according to the provisions of the Planning and Construction Law and requires the consent of the landowner, the lessee in perpetuity or the protected tenant, as the case may be. Under the provisions of the Telecommunications (Installation, Operation and Maintenance) Regulations, 1985, if Bezeq is of the opinion that providing a telecommunications service to an applicant requires the installation of a telecommunications device on the applicant’s premises (or shared premises), Bezeq may request that the applicant, as a prerequisite for providing the requested service, allocate a suitable place on the premises for installation of the device, for the sole use of Bezeq, and it may use the device to provide service to other applicants as well.

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

Immunity and exceptions to liability

The Minister of Communications granted Bezeq immunity from certain liabilities for damages listed in Chapter Nine of the Communications Law, in accordance with his authority to grant immunity to a general license-holder. In addition, Section 13 of the Communications Law contains exceptions to criminal and civil liability for an act done in fulfillment of a directive to provide services to the security forces in that section.

Regulations and rules under the Communications Law

Regulations in three additional and important areas currently apply to Bezeq: (1) cessation, delay or restriction of telecommunications actions and services; (2) installation, operation and maintenance; and (3) ways of supervising the actions of the license-holder.

Economic competition laws

The Competition Commissioner (formerly, the Antitrust Commissioner) declared Bezeq a monopoly in the following areas:

- Basic telephone services, provision of communications infrastructure services, and transfer and transmission of broadcasting services to the public.
- Provision of high-speed access services through the access network to the subscriber.
- Provision of high-speed access services for ISPs through a central public telecommunications network.

The Commissioner's declaration of Bezeq as a monopoly constitutes prima facie evidence of its content in any legal proceeding, including criminal proceedings. Bezeq has adopted an internal compliance procedure containing internal rules, guidelines and an internal reporting and control system, the purpose of which is to ensure that the activities of Bezeq and its employees are carried out in accordance with the provisions of the Economic Competition Law.

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

- Bezeq and any person authorized by it (in this section: "Bezeq") will not impose any restriction on consumption of fixed-line Internet infrastructure services stemming from the accumulated browsing volume of the customer, and will not cause the option granted to a customer to use any service or application provided over the internet to be restricted or blocked.
- Bezeq will deduct amounts for provision of multi-channel television services from the Internet provider payments for connection to Bezeq's network.
- Bezeq will sell and provide internet infrastructure services and television services under equal terms to all Bezeq customers (the sale of Internet infrastructure services as part of a service bundle will not be considered sale under unequal terms).
- Bezeq and DBS will cancel all exclusive arrangement regarding non-original productions and will not be party to such exclusive arrangements (except with regard to a third party who is the broadcast license owner at the date of the decision). In addition, for two years from approval of the merger (which have passed in the meanwhile), Bezeq will not prevent any entity (other than anybody who is a broadcast license owner at the date of the decision) from purchasing rights in original productions (does not apply to new productions).

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

As part of the merger approval of Walla and Bezeq of September 12, 2010, terms were imposed restricting discrimination in favor of Walla vis-à-vis its competitors.

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

On March 7, 2018, Bezeq received notification from the Competition Authority that in accordance with the authority under section 43(A)(5) of the Economic Competition Law, the Competition Commissioner is considering determining that Bezeq abused its position in contravention of section 29A(a) and Section 29A(b)(3) of the Law, and imposing financial sanctions on Bezeq and its CEO for an alleged breach of the provisions of Section 29 of the Law and the foregoing sections. According to the notice, the evidence in its possession indicates that Bezeq allegedly made use of its market strength as a result of its control of the passive infrastructure and has placed obstacles in the way of new players who wish to use Bezeq's passive infrastructure to install communications networks that will be used to compete with Bezeq in providing communications services to consumers, such that this was likely to deter them and prevent them from setting up an independent fixed-line communications network or at least to delay them and limit the scope of the network. According to the notice, Bezeq's actions raise concerns of harm to the end consumer. The alleged violative acts by Bezeq are blocking access to private areas and demanding the cutting of fibers. In the light of the foregoing, the Competition Commissioner is considering whether in respect of the two violations Bezeq abused its monopoly position, contrary to the provisions of the Law, and is considering imposing an overall fine of NIS 30,953,000 on Bezeq and NIS 736,800 on Bezeq's CEO. On August 5, 2018, an oral hearing took place at the Competition Authority prior to which Bezeq and its CEO submitted their position in writing. The position submitted to the hearing included arguments and evidence that there had been no fault in Bezeq's actions and it had not breached the Economic Competition Law, and there is therefore no reason to apply any enforcement powers by virtue of the law (including sanctions) and that the determination being considered should not be published. In this context, Bezeq and its CEO pointed out factual errors that were included in the Competition Authority's notice with respect to the methods of inserting cables in the conduits. Since the hearing commenced, Bezeq has received additional requests for information from the Competition Authority, and Bezeq replied to them. Subsequently, on March 12, 2019, the Authority notified that the errors raised and the findings of other tests conducted did not change her intention to exercise the powers as set out above. Bezeq and its former CEO were granted the right to present their arguments to the Commissioner about the additional findings by May 12, 2019.

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

- Imposition of an independent and increased obligation on officers to oversee and prevent breaches of the Law.
- Exacerbation of criminal punishment for a cartel - five years' imprisonment without requiring aggravating circumstances.
- Increasing the maximum amount for imposition of financial sanctions up to NIS 100 million (for each breach).
- Another definition of a monopoly based on a market power test (in addition to the alternative of anybody that holds a market share of over 50%).
- Increasing the aggregate sales turnover that requires merger notices to NIS 360 million.

The Telegraph Ordinance

The Telegraph Ordinance regulates the use of the electromagnetic spectrum and applies to Bezeq's use of radio frequencies as part of its infrastructure. The set-up and operation of a system that uses radio frequencies is subject, under the Telegraph Ordinance, to grant of a license, and the use of radio frequencies is subject to the designation and allocation of a suitable frequency. The Telegraph Ordinance imposes license fees and fees for the designation and allocation of frequencies. The Government deals with the shortage of radio frequencies for public use in Israel (partly due to the allocation of a large number of frequencies for security purposes), by limiting the number of licenses granted for the use of frequencies and providing incentives for efficient use of frequencies.

On March 22, 2018, the Economic Arrangements Bill (Amendments for Implementation of the Economic Policy for the 2019 Fiscal Year) 2018, was published, which includes an amendment to the Wireless Telegraph Ordinance. The amendment regulates a series of powers (some of which already exist in legislation or secondary legislation) with regard to wireless devices or base stations that are subject to the Ordinance and licensing, the power to grant licenses, power to determine that import and production of devices that comply with the conditions prescribed will not be subject to a license, but rather confirmation of conformity in a short track, powers to exempt from application of the Order, and power to apply the provisions of the Ordinance to devices for transmission of communication signals by electric wire. The powers of the frequencies committee and the supreme frequencies committee, and administrative enforcement are also regulated in the amendment (monetary sanctions).

Setting up communications facilities

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

The classification of the facilities according to their technical variables and physical dimensions, which affect the determination of safety ranges for protection against the effects of radiation and the extent to which they protrude on the landscape, determine which facilities will be included in Part A of the NOP 36 and which in Part B of the Plan.

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

NOP 36A. Part A of NOP 36 deals with guidelines for erecting small and miniature broadcasting installations. Bezeq has obtained building permits for most of the small broadcast installations in accordance with NOP 36A. From time to time, a need arises to add broadcast installations which require that building permits be obtained in accordance with NOP 36A. Given the exemption granted under the orders of the Planning and Construction Law and of the Communications Law, Bezeq believes that it is not obliged to obtain building permits for miniature broadcasting installations, which are “wireless access facilities” under those laws.

In 2008, a draft amendment to NOP 36A (NOP 36/A/1) was tabled. The draft amendment mainly deals with changing the guidelines for the licensing of small and miniature broadcast installations, including determination of different licensing tracks (fast and standard) depending on the location and the public safety range of each installation, and indemnification arrangements for compensation claims under Section 197 of the Planning and Construction Law was submitted to the government. No decision has been made on the subject since then. If adopted, the draft amendment may give rise to practical difficulties which could impede Bezeq’s ability to provide the public with some of the services it is required by law to provide.

NOP 36B. Part B of NOP 36 contains guidelines for setting up large broadcasting facilities. In the January 2008 draft plan (which was presented to the government for approval in August 2010, but is yet to be approved), the definition of a large broadcast facility was changed so that the licensing of broadcast facilities which prior to the proposed amendment were classified as large, would be according to NOP 36/A/1 (if and when approved). The change in definition for small and large broadcasting facilities may give rise to practical difficulties which could impede Bezeq’s ability to provide the public with the services it is required by law to provide.

The January 2008 draft contains a transition provision which is expected to allow the grant of a license for existing broadcast installations even if they do not meet the requirements of NOP 36B, subject to certain terms and restrictions, provided that they are in compliance with the safety restrictions described in the Plan. The January 2008 draft also proposes to include a provision requiring the permit applicant (including for existing sites) to provide the local committee with a deed of indemnity for compensation under Section 197 of the Planning and Construction Law, if a court rules against the committee.

NOP 36B has not yet been approved by the government and there is no certainty as whether it will be approved.

NOP 56. NOP 56 came into force in June 2008, and regulates the manner of erection and licensing of communications facilities in the Administered Territories. The Plan contains transition provisions for facilities erected with a permit for small installations. The Plan also includes a requirement for production of a communications license and receipt of the consent of the Commissioner of Government Property at the Civil Administration.

Bezeq has obtained the licensing for 71 installations in the Administered Territories (a few other sites have not been organized). Moreover, in November 2016, Bezeq received a notice from the Civil Administration (Communications Staff Officer) that it must also organize the licensing of the facilities on the customer’s premises (as opposed to the foregoing facilities in Bezeq’s possession). Bezeq estimates that there are dozens of sites and it has started organizing the licensing according to the requirements of the Communications Staff Officer.

Exemption from a permit to add antennas to existing lawful broadcasting facilities. The addition of an antenna to an existing, lawful broadcasting facility is exempt from a permit, subject to meeting a combination of conditions and exclusions, which are set out in the Planning and Building (Works and Buildings that are Exempt from a Permit) Regulations, 2014. Bezeq is taking the required steps to add antennas to its broadcast facilities according to the mechanism set out in these regulations.

Pelephone

Statutory provisions relating to the environment applicable to Pelephone's operations. The broadcast sites used by Pelephone are "radiation sources" as defined in the Non-Ionizing Radiation Law. The erection and operation of these sites, excluding those listed in the addendum to the law, requires a radiation permit.

The law prescribes a two-step licensing mechanism for obtaining a radiation source operating permit under which the applicant first applies for a permit to construct a radiation source, or the Erection Permit, which may be in effect for no more than three months and may be extended by the Commissioner for up to nine months, then for a permit to operate the radiation source, or the Operating Permit, which has term of five years or as otherwise determined by the Minister for Environmental Protection.

The issuance of an Erection Permit is contingent upon the assessment of the maximum radiation levels to which human beings and the environment are expected to be exposed from the radiation source when in operation, including in the event of a malfunction, and the required measures for limiting the levels of exposure of human beings and the environment to the expected radiation from the radiation source when operating, including implementation of technological means that are in use, or the Limiting Measures.

The issuance of an Operating Permit is contingent upon application of the Limiting Measures and to measuring the levels of exposure of human beings and the environment to the radiation generated while the radiation source is operating. The law further provides that the Operating Permit is contingent upon presentation of a license under the Communications Law and in certain cases, a construction permit pursuant to the Building and Planning Law. The Ministry of Environmental Protection supervises and monitors broadcast sites to check that they comply with the provisions of the Law. The law includes a punitive chapter under which the construction or operation of a source of radiation in contravention of the provisions of the permit and the construction or operation of a source of radiation without a permit, after having been warned in writing by the Commissioner, are strict liability offenses.

The regulation of the maximum permissible human exposure levels to radiation from a source of radiation and the safety ranges from communication broadcasting installations, including a limit on the placing of radiation masts on roof terraces, is pending in the Knesset's Interior Committee for Environmental Quality, as part of a proposed amendment to the regulations under the Non-Ionizing Radiation Law.

In January 2009, the Radiation Supervisor at the Ministry of Environmental Protection published guidelines regarding safety ranges and maximum permitted exposure levels with respect to radio frequency radiation, including from cellular antennas. Discussions are underway regarding these ranges following the World Health Organization's International Agency for Research on Cancer (IARC) announcement to the effect that radio frequency electromagnetic fields associated with the use of mobile phones may be carcinogenic to humans.

Cellular phones also emit non-ionizing radiation (also known as electromagnetic radiation). Consumer Protection Regulations (Information regarding Non-Ionizing Radiation from a Cellular Telephone) 2002, specify the maximum permitted radiation level for a cellular phone which is measured in units of Specific Absorption Rate (SAR) and requires that Pelephone informs its customers of such measurements. All the cellular phones that it markets comply with the relevant SAR standards.

Pelephone's environmental risk management policy. Pelephone conducts periodic radiation tests to ascertain its compliance with permitted operating and international standards. These tests are outsourced and carried out by companies authorized by the Ministry of Environmental Protection. Pelephone applies an internal enforcement procedure for monitoring implementation of the provisions of the Non-Ionizing Radiation Law, under the supervision of a senior manager.

Transparency for consumers. Pelephone is required to publicize and inform customers about the radiation sources that it operates and the mobile handsets that it supplies. The Radiation Supervisor of the Ministry of Environmental Protection publishes information on the Ministry's website concerning active cellular broadcast facilities and Pelephone publishes information on its website regarding the SAR levels emitted from cellular phones and Ministry of Health regulations regarding preventive steps to be taken when using cellular phones.

Communications Law. The cellular services provided by Pelephone are subject to the provisions of the Communications Law and its regulations. The law authorizes the Director General of the Ministry of Communications to impose financial sanctions for violations of the provisions of the law and of orders and directives issued thereunder, and for violations of the terms of the license.

Wireless Telegraph Ordinance. The Telegraphy Ordinance regulates the use of the electromagnetic spectrum, including Pelephone's use of radio frequencies as part of its infrastructure. Setting up and operating a system using radio frequencies requires a license and the use of radio frequencies is subject to designation and allocation of a suitable frequency. The Telegraph Ordinance imposes license fees and fees for designation and allocation of frequencies.

Pelephone's mobile telephony licenses. Pelephone's mobile telephony license and its general license for providing cellular services in Judea and Samaria are valid through September 2022. The primary provisions of Pelephone's mobile telephony license include:

- Under certain circumstances, the Minister may modify the terms of the license, restrict or suspend it, and in certain instances revoke it.
- The license is non-transferable and contains restrictions on the acquisition or transfer (including by way of a charge), directly or indirectly, of control or of 10% or more of any means of control in Pelephone, including a pledge on said means of control, unless the Minister has given prior consent.
- Pelephone is obliged to provide interconnect services to all other operators on equal terms and it must refrain from any discrimination in carrying out such interconnect service.
- Pelephone is required to refrain from granting infrastructure service priority to an affiliate licensee company (as defined in the license) over another licensee.
- Pelephone may not sell, lease or mortgage any of the assets used for the implementation of the license without the consent of the Minister of Communications, other than certain exceptions as set out in the license.
- In times of emergency, whoever is statutorily competent shall have the authority to issue instructions on Pelephone's mode of operation and/or manner of provision of services.
- The license stipulates the types of payments Pelephone may bill its subscribers for cellular services and the reports that it is required to submit to the Ministry of Communications. The license also determines the Minister's power to intervene in tariffs, in certain cases.
- The license obligates Pelephone to provide services at a minimum standard of service.
- To secure Pelephone's undertakings and to compensate and indemnify the State of Israel for any damage that may be caused by Pelephone's acts, Pelephone is required to furnish NIS 84 million of bank guarantees to the Ministry of Communications.

Ministry of Communications' decision regarding amendments to the license. In January 2017, the Ministry of Communications issued new guidelines that include dozens of changes to the cellular operators' license regarding various issues relating to their ongoing handling of customers (including the way billing data is presented, method for joining services, pro rata charges, options for cancelling services, etc.). The applicability dates range from immediate applicability and up to six months from the date of issuance of the guidelines. Pelephone is reviewing these amendments and is preparing to apply them. Implementing the guidelines will require substantial preparation from operational, mechanical and other aspects.

Site construction licensing. Pelephone's cellular service is provided through cellular sites deployed throughout Israel in accordance with engineering requirements. The constant need to upgrade and improve the quality of cellular services necessitates setting up cellular sites, configuration changes and changes in existing deployment of antennae.

Pelephone uses two main types of broadcasting sites and with two tracks: macro sites that require a building permit from planning and construction committees (see reference to NOP 36A) and wireless access devices which are exempt from a building permit under the Communications Law and the Building and Planning Law.

Building permits for erecting a cellular broadcasting facility under NOP 36A. Licensing for the construction of cellular broadcasting sites that require building permits is governed under NOP 36A, which came into force in 2002. The licensing procedure under NOP 36A requires that the following permits be obtained: a. An erection and operating permit from the Ministry of Environmental Protection; b. approval of the Civilian Aviation Administration in certain cases; c) IDF approval.

In addition, by law, as a condition for obtaining a permit for erecting a cellular communications broadcasting facility a deed of indemnity must be submitted to the local committee for impairment compensation claims. As at Reporting Date, Pelephone has deposited 650 such indemnity notes with various local councils.

Notwithstanding the current format of NOP 36A, Pelephone (and to the best of its knowledge, also its competitors) encounter difficulties in obtaining some of the required permits, and in particular permits from planning and construction authorities.

In view of the criticism against NOP 36A by various entities, a proposed amendment of NOP 36A was published about ten years ago ("Proposed New NOP 36/A"), which is more stringent and onerous than the current version, and could make the options for obtaining construction permits for cellular sites using this track more difficult. The amendment to NOP 36A has not progressed in recent years, however the need and desire to amend NOP 36A remains.

In two administrative petitions filed against cellular companies, including Pelephone, with the Haifa District Court, the legality of building permits granted under NOP 36A for cellular broadcasting installations are being questioned. The petitioners' main arguments, in both petitions, were that the frequencies used by the cellular companies do not match the frequencies stipulated in NOP 36A. On April 12, 2018, a judgment was handed in one of the petitions accepting the arguments of the cellular companies and of the appeals committee, that was represented by the Haifa District Prosecutor's Office, and which determined that notwithstanding the use of frequencies that were changed during the development of the cellular infrastructure, the building permits are valid. On October 17, 2018, a judgment was handed in the other petition relating to the same matter, under which a contradictory ruling was made regarding the interpretation of the NOP and the alleged invalidity of the building permits granted (however, no demolition orders were issued). Appeals were filed with the Supreme Court against both judgments, and as yet they have not been heard.

As part of the "pergola reform" - Amendment 101 to the Planning and Building Law, 1965, on August 1, 2014, the Planning and Building (Works and Buildings that are Exempt from a Permit) Regulations, 2014, entered into force. Regulation 34 provides that the addition of an antenna to an existing, lawful broadcasting facility is exempt from a permit, subject to compliance with a combination of conditions and exclusions, including consistency with the plans and the applicable spatial instructions, to be determined by the local planning committees. This exemption regulation is not practical due to one of the conditions therein, and has not been used.

Access devices exempt from building permits. The second track under which Pelephone sets up broadcasting sites is the access installation track. The access installations are subject to obtaining specific radiation permits, but are exempt from obtaining a construction permit provided that they are erected under the conditions that are set out in the exemption provision (section 266C to the Law).

Some local authorities have disputed the applicability of the exemption provision on cellular network access installations and their use. Pelephone's position on the applicability of the exemption was accepted in a number of rulings and decisions by local affairs courts and the use of such facilities and the supporting equipment was approved. Appeals have been filed against some of these rulings and decisions, with the Supreme Court.

Furthermore, a judgement was handed by the Supreme Court in the petition regarding this exemption and other matters relating to granting of permits for access installations tracks. Due to this petition and the opinions of various people, in 2010 a draft Planning and Building Regulations (Construction of a Cellular Wireless Communication Access Installation) 2010 was published.

On October 24, 2018, the Planning and Building Regulations (Installation of Wireless Access Facility for Cellular Communications) 2018, were published. The Regulations restrict and provide additional contingent conditions on the establishment of a wireless access facility that is exempt from building permit. Among other conditions, the Regulations stipulate that the safety horizontal range for public health will not exceed 4 meters, or 6 meters in the event of combining wireless access facilities of more than one license holder or combining wireless access facilities of the same license holder that transmit over two separate technologies, if one of them is a new generation technology. The regulations also allow modifications to an existing facility, replacement of an existing facility with another facility or relocation of an existing facility, provided that afterwards, the same facility remains on the same roof, or that the replacement of the facility does not change the number of installations on the same roof. Furthermore, the regulations allow, under a shortened licensing process, for the relocation of up to two existing facilities to the roof of another building, and the erection of up to ten new facilities by the same license holder in one calendar year. The regulations further stipulate that a facility may not be relocated to the roof of a building that has seven or more broadcasting installations, and that no new installation may be erected on a roof with several broadcasting facilities, unless the roof area exceeds 500 square meters.

On December 23, 2018, the High Court of Justice issued a ruling regarding the exemption for a wireless access facility. The judgment states that in view of the significant changes that have been made in the regulatory foundation and factual basis since the petitions were filed, it appears that the petitions are no longer applicable and are to be dismissed, while the Petitioners' fundamental arguments are reserved. The Access Installation Regulations as published, severely restrict the option of using the building permit exemption track for erecting cellular access installations.

Pelephone currently operates 446 wireless access installations.

In specific enforcement proceedings, that are adopted from time to time, additional arguments arise as to the manner in which the exemption may be used, including compliance with the regulating standards. If Pelephone facilities fail to comply with the conditions set out in the Regulations, there will be exposure, with regard to those facilities, for the need to dismantle or adjust the installations.

On March 27, 2018, an exemption provision was added to the building and planning (Exemption of Permit) regulations for a micro broadcasting facility, as defined in the regulations. The regulations further stipulate that the installation of a micro- broadcasting facility and its external components on an existing building or facility is exempt from a building permit, subject to compliance with cumulative conditions.

Pelephone's ability to maintain and preserve the quality of its cellular services as well as its coverage is based partly on its ability to construct cellular sites and install information equipment, including broadcasting sites. The difficulties encountered by Pelephone in obtaining the permits and approvals required may have an adverse effect on the existing infrastructure, network performance and on the construction of the additional cellular sites required by the network. There are also deployment difficulties in Judea and Samaria, where a special system of laws applies.

The inability to resolve these issues in a timely manner is liable to prevent the achievement of the service quality targets laid down in the mobile telephony license. A few sites constructed years ago still lack approvals from the Civil Aviation Administration and the IDF, even though applications for such approvals were submitted a long time ago. Furthermore, there are administrative or other delays in some of the building and planning committees for issuing building permits for sites. Consequently, Pelephone operates several broadcasting sites that have not yet been granted the requisite building permits.

Construction of a broadcasting site without a building permit constitutes a breach of the law and in some cases, it has led to the issuing of demolition orders of sites or the filing of indictments or instigation of civil proceedings against Pelephone and some of its officers.

Pelephone has succeeded in most of the above cases in refraining from demolition or delaying implementation of the demolition orders as part of arrangements made with the planning and building authorities in order to attempt to regulate the missing licensing. These understandings did not require admission of guilt and/or conviction of Pelephone's officers. Notwithstanding, there is no certainty that this situation will continue in future, or that there will be no further cases where demolition orders will be issued and indictments will be filed because of building permits, including against officers.

Like other cellular operators in Israel, Pelephone might be required to dismantle broadcasting sites before the requisite approvals and permits have been obtained, on the dates stipulated in the law. Pelephone uses access installations to provide coverage and capacity for highly populated areas. If legal grounds are established requiring the simultaneous demolition of sites in a given geographic area, service in that area may deteriorate until alternative broadcasting sites can be established.

Standardization. Pelephone complies with the 2015 version of Israeli ISO 9001 requirements for mobile radio telephony (cellular) services and undergoes periodic inspections by the Institute of Quality & Control (IQC) for verifying compliance with the standard. The current IQC approval is valid until December 2019.

Material Agreements. On July 14, 2016 a new online tender was held by the Ministry of Finance Accountant General for the provision of mobile telephony services to State employees. Pelephone, which has provided various mobile telephony services to the State and its employees for several years after winning previous RFPs also participated in this RFP and was awarded the tender. As a result, Pelephone will continue to be the primary provider of mobile telephony services for State employees.

On July 31, 2016 Pelephone and the government entered into an agreement under which Pelephone will provide mobile telephony services for an estimated 100,000 governmental employees for three years, with the government having an option to extend the agreement for up to 45 months in addition to the 36 basic months. In May 2019 the State decided to exercise its option to extend the agreement and it was extended until August 2022.

Bezeq International

On February 21, 2016, Bezeq International's license was amended by the Director General of the Ministry of Communications and was replaced by a unified general license for providing telecommunications services, or the Unified License. The Unified License, which is valid until May 2, 2025, covers all the services that Bezeq International was permitted to provide to date. Pursuant to Ministry of Communications requirements, Bezeq International provided a bank guarantee of NIS 5 million in compliance with the terms of the Unified License.

Since 2013, the Ministry of Communications has conducted hearings with regard to the re-regulation of the international telecommunications market. Originally, the proposed regulation enabled any fixed-line domestic operator or mobile telephony operator to provide international telecommunications services as part of the service bundles they offer to their subscribers, with conditions, as well as international data transmission and configuration services. Resolutions adopted subsequent to this hearing could have a significant impact on the structure of competition in the international telecommunications sector, and consequently also on the results of Bezeq International's operations. According to Bezeq International, it is unable to estimate the scope of the new regulations that are expected to be adopted subsequent to the hearing.

DBS

Operations of the broadcasting licensees are subject to extensive communications regulation, particularly the Communications Law, a strict licensing and monitoring regime and Ministry of Communications policy decisions. These operations are also under the ongoing supervision of the Council, which sets policy, makes rules and monitors many areas of the sector, including broadcasting content, compliance regarding original Israeli productions, broadcasting ethics, consumer protection and approval of the channels broadcast. Providing multi-channel television services by non-licensed broadcasters is not subject to the foregoing supervision.

Further to the Minister of Communications decision in 2017 adopting most of the recommendations of the advisory committee on the regulation of satellite and cable broadcasting and content, that was published in 2016, and the review of portions thereof by special purpose taskforces, a number of measures were legislated or are in the process of legislation:

In July 2018, a Communications Law (Telecommunications and Broadcasts) memorandum was published. Based on the memorandum's provisions, its goal is to change the regulatory format of the multi-channel television market and adapt it to technological developments, so that regulation will apply to audio-video content providers transmitting content to the Israeli public with total revenue from NIS 350 million, regardless of the type of technology used for transmitting the content, thereby encouraging competition and reducing the regulatory burden. According to the memorandum, the basic package will be canceled, and license holders will be allowed to offer content packages, provided that any channel offered in the package will also be offered separately, and the existing powers with regard to a basic package will be preserved. If the memorandum is enacted as proposed, regulation is expected to apply to both DBS's satellite operations and its online services. This is the beginning of a legislative process and there is no certainty that the Memorandum will become binding legislation in its proposed form or at all.

In February 2018, Amendment No. 44 to the Second Authority Law was enacted, according to which a license holder broadcasting a commercial channel, including a license holder that broadcasts a niche channel, will be under Second Authority supervision and subject to compliance with the conditions set out in the Law. The Law also imposed different regulatory rules on various types of commercial licensees and empowers the Minister of Communications to decide that these licensees will not be charged transfer fees for a period of five years.

In 2018, a government bill was discussed in the Knesset which deals with sports content, including granting license for content producers or a significant sports operator to broadcast a sports channel.

Tariff control

The broadcasting license provides provisions regarding the types of fees the licensee may collect from its subscribers for services provided under the license, and those fixed in DBS price list. The vast majority of satellite subscribers subscribe to campaigns offering DBS services, including various combination content packages, related services, and receipt and installation of terminal equipment, at prices below the listed price.

The vast majority of subscribers join special offers, which offer the services of DBS, including different combinations of content packages, related services, as well as the receiving and installation of terminal equipment at prices which below the listed price for all components of the special offer and they appear in the DBS price list. The Council chairperson may intervene in campaigns or reductions offered by DBS if he/she finds that they are misleading to the public or discriminate between subscribers.

Under Section 6(49) of the Communications Law, the license may stipulate maximum prices that can be charged to subscribers. To date, no such prices had been set.

Obligation to invest in local productions

Under the provisions of the broadcasting license and the Council's decisions, in 2019 and 2020, DBS is required invest an amount no less than 8% of its revenue from subscription fees in local productions, and according to the Communications Regulations and the decisions of the Council, DBS is required to invest various amounts of such investments in different genres of local productions.

In November 2019, the Council decided to defer until 2021 the applicability of its earlier decision according to which the required rate of investment in local productions will increase to 9%. The Council further decided that in 2020, and based on developments, the Council will hold another hearing to review the current legislative status and the financial position of the licensees, including the hedge formula set out in the Council's previous decision, and will give instructions as it deems appropriate.

Requirement to transmit channels

In accordance with the requirements under the law and license, DBS is required to allow the producers of channels set out in the law to use its infrastructures to transmit broadcasts to its subscribers, and this in exchange for payment ("Transmission Fee") to be determined in the agreement, and lacking agreement - in exchange for a payment to be determined by the Minister, after consulting with the Council, while mini niche channels are exempt from paying Transmission Fees to HOT and DBS. In February 2018, an Amendment to the Law was passed regulating the Minister's power to require that broadcasts by small providers be transmitted in accordance with the Second Authority Law (that do did not have designated licenses prior to the amendment to the Law), while taking under consideration the satellite capacity of satellite broadcasting licensees. According to the amendment to the Second Authority Law, 2018, holders of small and niche channel licenses that were holders of niche licenses under the Communications Law are exempt from paying transmission fees to HOT and DBS, for a period of 5 years from date of the amendment

Content of the broadcasts and obligations with respect to subscription

The broadcasting license sets out provisions that relate to the content of DBS's broadcasts, including an obligation to obtain the Council's approval of the channels broadcast by DBS. The Communications Law forbids holders of broadcasting licenses to broadcast commercials, other than a few exceptions. The broadcasting license also includes provisions regarding the subscriber service terms, including discrimination prohibition.

Ownership of broadcast channels

Pursuant to the Communications Rules, DBS, including its affiliates as defined in the Communications Rules, may own up to 30% of the domestic channels it broadcasts (compared with the 20% applicable to HOT.) DBS is restricted under the Communications Law from owning a new program producer.

General provisions regarding the broadcasting license

The Minister and the Council have parallel authority to amend the broadcasting license. The Minister was authorized to cancel or postpone the broadcasting license for causes set out in the Communications Law and the broadcasting license. The Communications Law and broadcasting license stipulate restrictions on the transfer, attachment and encumbrance of the broadcasting license and any of the assets of the broadcasting license. The broadcasting license requires receipt of the approval of the Minister for specific changes in the holding of the means of control in DBS and imposes a reporting requirement regarding the holders of the means of control; hurting competition by way of an agreement, arrangement or understanding with a third party in terms of provision of broadcasts and services is prohibited, unless approved in advance and in writing by the Council; the obligation to file reports to the Ministry of Communications was defined as well as conditions regarding the regulation of the activity of the licenses; an obligation was stipulated to provide bank guarantees to the Ministry of Communications in the amount of NIS 30 million (principal), such amount was increased to NIS 40 million at present.

Offering service bundles. Under the broadcast license, DBS may offer joint service bundles that include service provided by Bezeq and service by DBS, subject to obtaining Ministry of Communications approval (and if no objections are raised within the period specified in the license, such approval will be deemed granted) and subject to conditions, the most important of which are the "unbundling" obligation, and the existence of a corresponding bundle marketed by a licensee that is unrelated to Bezeq. A joint service bundle that includes Bezeq's Internet infrastructure service only, does not require Ministry of Communications approval and the unbundling obligation does not apply.

DBS believes that in view of the development of competition between the communications groups and the growing importance of the supply of comprehensive communications services, the adverse impact of such restrictions on DBS's results may increase if the restrictions on Bezeq's collaboration with DBS remain in place.

Regulation of the transmission of video content via media infrastructures

To the best of DBS's understanding, OTT services (such as those offered by Cellcom, Partner, Netflix, and DBS) are not subject to the current regulation on multi-channel satellite TV broadcasting or other regulation under the Communications Act. DBS believes that the VOD services that it provides via the internet are also not subject to the foregoing regulations. Nonetheless, from the Council's various decisions it appears that the Council believes it is authorized to also regulate DBS's VOD services.

If the foregoing regulation of the transmission of video content via the internet will be implemented, it could affect the foregoing services provided by DBS.

A preliminary draft bill, in Israel's Knesset, named Communications Law (Telecommunications and Broadcasts) (Content Suppliers Regulation) was published in July 2018.

According to the proposed bill, the purpose of the new amendment to the law and the need for it are to change the current regulation structure in the multi-channel television market and adapt it to technological developments, so that regulation will be applied to audio-video content providers (having a minimum amount of revenues) transferring/broadcasting content to the Israeli public, while encouraging competition and reducing the regulatory burden.

Suppliers

The Bezeq Group has important relationships with several suppliers of hardware, software and related services that are used to operate its businesses. During 2019, no supplier accounted for more than 5% of the Bezeq Group's total annual purchases, nor did any supplier account for more than 10% of total purchases in a specific segment of operation.

Bezeq

Most of the equipment purchased by Bezeq for data communication, switching, transmission and radio systems has been specially modified or developed for its use, and the ability to obtain support other than through the manufacturer is limited. Bezeq relies on manufacturer support from a number of its key suppliers for certain of its systems and may have difficulty replacing them. Bezeq's key suppliers include:

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

Agreements with the key suppliers are generally long-term and usually include a warranty period for a specified period, followed by another period of maintenance or support. Where necessary, Bezeq may enter into an agreement with a supplier for the supply of support and/or maintenance services for further periods. These agreements usually contain various forms of recourse for Bezeq should the supplier breach the agreement.

Pelephone

Pelephone sells a wide range of cellular handsets and auxiliary accessories (such as batteries, hand-free kits, earphones, data cables and chargers). Pelephone also maintains spare parts to supply repair services to its customers and an inventory of used handsets. Pelephone purchases handsets and accessories from a variety of suppliers and importers. Contractual engagements with most of the suppliers are based on framework agreements, which also set forth the technical support provided by the supplier for the equipment and spare parts and turnaround time for repairs. These agreements generally do not include a commitment of Pelephone to acquire a minimum quantity of devices and acquisitions are made by means of purchase orders. Generally, if an agreement with a particular supplier of equipment is cancelled, Pelephone can increase the quantity purchased from other suppliers or purchase equipment from a new supplier.

On October 1, 2016, a new agreement came into effect with Apple Distribution International for the purchase and distribution of iPhones, under which Pelephone agreed to purchase a minimum annual quantity of phones over an additional period of three years at the manufacturer's current prices on the date of purchase. Pelephone believes that similar to prior years, these quantities will constitute a significant portion of the devices it expects to sell during the term of the contract.

Other significant suppliers of Pelephone are Apple Samsung, with which Pelephone does not have an agreement requiring the purchase of a minimum annual quantity, and purchases are made on the basis of orders that Pelephone places from time to time, similar to the other brands.

Pelephone's purchases from each of the suppliers, Apple and Samsung, in 2019 accounted for more than 10% of Pelephone's purchases from all of Pelephone's suppliers⁴⁵, however less than 5% of the Group's (consolidated) purchases from all of its suppliers. The distribution of the purchase of terminal equipment among the suppliers is such that it does not create any significant dependence on a particular supplier or model of equipment.

The cellular infrastructure equipment for the UMTS/HSPA and LTE networks is manufactured by LM Ericsson Israel Ltd. which is a supplier of Pelephone for the deployment of the fourth-generation radio network (LTE). Ericsson is also a material supplier of Pelephone in the field of microwave transmission. Pelephone has long-term agreements with Ericsson for maintenance, support and upgrading of software for the UMTS/HSPA and an agreement for the acquisition of the 4G LTE networks with Ericsson, and in its opinion, it may become dependent on Ericsson for the support for this network and its expansion. In addition, the cellular network uses transmission, for which Bezeq is Pelephone's main supplier.

Bezeq International

Bezeq International is dependent upon Bezeq for domestic capacity to provide its services. Most of the international capacity that Bezeq International uses is transmitted via its wholly owned submarine cable. As backup, Bezeq International uses capacity purchased from Med Nautilus and the Cyprus Telecommunications Authority (CYTA). Under its agreement with Med Nautilus, Bezeq International purchased indefeasible rights of use to a particular non-specific part of the communication capacity transferred by the undersea cable system operated by Med Nautilus between Israel and Europe for a period of up to 15 years from the date on which it started using this capacity (with an option to extend the period of use). The periods of use are at least until 2022 – 2027, depending on the date of the start of use of the capacity. Bezeq International paid for these rights of use in a lump sum payment shortly before the date on which it started using the capacity.

DBS

Terminal Equipment.

DBS installs a receiver dish and other terminal equipment in its subscribers' homes, including decoders enabling reception of broadcasts and smart cards for decoding the encrypted broadcasts. The decoders are leased to subscribers for a fixed leasing fee paid during the entire period the services are received or are lent to subscribers.

DBS purchases the decoders for its satellite services under supply agreements with the decoder manufacturer and decoder vendor, that imports and supplies DBS with HD Zapper and 4K PVR decoders, where the types of decoders must match DBS's broadcasting and distribution system. Support services for these decoders are provided by a third party.

OTT Terminal equipment

Sting TV and yes+ services can be viewed via a wide range of terminal equipment, including various streamer models. DBS purchases streamers from various suppliers and rents them to subscribers. Unlike the decoders designed to receive satellite broadcasts, which require development and adjustments that involve time and costs, streamers are usually off-the-shelf products that require relatively minor adjustment.

Broadcasting equipment and computer and communications systems. DBS has its central broadcasting center in Kfar Saba and a secondary broadcasting center close to Re'em Junction from where it transmits its broadcasts. The broadcasting centers operate reception and broadcasting equipment, as well as computer and communication systems. The secondary broadcasting center is operated by a third party which provides DBS secondary broadcasting center operating and maintenance services under a contract which is valid until the end of 2023 (with DBS having an option to extend that can be exercised six months before the agreement terminates).

Operating and encryption systems. DBS purchases from Synamedia development, integration, encryption, maintenance and warranty services with regard to the operating system of the satellite transmission network and acquires similar services from Synamedia with regard to the OTT system, based on framework agreements signed by DBS and Synamedia in January 2020. These services are provided for various DBS systems, terminal equipment, and for viewing cards and other hardware components required for receiving these services, and DBS receives relevant user licenses for the systems and terminal equipment.

Under the framework agreement, for these services and products, DBS pays Synamedia lumpsum payments and periodic payments, part of which are in a fixed amount and part are based on the number of decoders, and with regard to part of the payments, minimum annual amounts were fixed in the agreement. The agreement with Synamedia regarding the satellite system is valid until February 2026 (with an automatic extension mechanism unless one of the parties decides to terminate the agreement, subject to prior notice as set in the agreement with Synamedia), with an option for early termination of the agreement by DBS in the event that it discontinues its satellite broadcasts as part of the migration.

Under the framework agreement with regard to the OTT system, DBS's existing OTT solution will be upgraded, and it will be supplied with products and services, including the foregoing.

With regard to the services and products provided under this agreement, DBS will pay monthly installments where the agreement stipulates a minimum monthly amount for a set volume of services provided, as well as possible additional amounts that may vary depending on the types and scope of use of services provided to DBS, and development services that DBS is entitled to order under the agreement.

The term of the agreement for the OTT system is until December 2024 (with an automatic renewal mechanism for two-year terms, unless one of the parties announces otherwise, according to the dates set in this regard in the agreement). DBS has the right to exit the agreement regarding the OTT system, starting from January 2023 and thereafter, subject to prior notice and an exit fee (at a descending rate based on the duration of the remaining term of the agreement).

DBS is dependent on the continuous supply of these services, for both the satellite system and the OTT system.

Computerized billing system. DBS uses software and computer systems for managing its subscriber agreements, including its billing and collection system. In this context, DBS engaged in agreements for licenses, development services and technical support with NetCracker Technology Solutions Ltd and NetCracker Technology EMEA Limited (together: "NetCracker").

DBS is dependent upon NetCracker's system and services due to their importance for managing and monitoring services and content purchased by subscribers and for billing its subscribers. System malfunctions or shutdown of these services to DBS could cause operational difficulties until the fault is repaired or the system/supplier is replaced. As at Reporting Date, part of the agreement components are renewed annually and some are valid until the end of 2023.

Space segment leasing agreement

Under the 2013 agreement with Spacecom, as amended, DBS leases Amos satellite space segments ("Spacecom Agreement").

Under the provisions of the Spacecom Agreement, DBS leases space segments on the satellites, Amos 3 (the estimated end of life of which is at the beginning of 2026), and on Amos 7, in which Spacecom owns the right to lease space segments under its agreement with the owner of the rights in this satellite, and which was leased to DBS until February 2021. In February 2020 Spacecom exercised the option granted by the owner of the rights in the satellite, to extend the Amos 7 lease for an additional year, in accordance with DBS's lease term, until February 2022.

According to the Spacecom Agreement, Spacecom has undertaken to make the best possible efforts to position a new satellite, Amos 8, by February 2021, in which case as of that date, DBS will lease space segments on Amos 3 and Amos 8 and after the end of Amos 3's life, only on Amos 8. As Amos 8 will not be positioned until February 2022, DBS will lease space segments on Amos 3 until the end of its life, and will have the right, if it so chooses, to lease space segments on Amos 8 as soon as it is positioned. In DBS's estimate, considering, among other things, that Spacecom has not announced that it has engaged in an agreement for the construction of Amos 8 and based on information received from Spacecom, positioning of Amos 8 is not expected before February 2022, if at all. Consequently, even though the term of the original agreement with Spacecom is until 2028, based on the provisions of the Spacecom Agreement, the Spacecom Agreement will come to early termination at the end of the lifespan of Amos 3, which to the best of DBS's knowledge, is expected to be at the beginning of 2026, without any compensation and in accordance with the provisions of the agreement (subject to additional early termination options as set out therein).

Leased space segments - under the Spacecom Agreement, throughout the term thereof (and subject to non-availability incidents) DBS will lease 12 space segments from Spacecom on the relevant satellites, according to distribution as set in the Agreement, for the various periods. As of the end of the Amos 7 satellite lease, DBS is expected to lease ten space segments of Amos 3. The agreement also regulates the availability of alternative segments to the leased space segments during the term of the agreement, under the terms and restrictions set in the agreement.

Cost - the estimated total nominal cost for the duration of the term of the lease (from 2017) is US\$ 263 million, reflecting an average annual cost of USD 21.9 million, subject to discount and reimbursement mechanism as set out in the Spacecom Agreement.

Early termination of the Agreement - the Spacecom Agreement provides a right for early termination without cause, subject to prior notice of 12 months and payment of a consideration based on a mechanism set out in the Agreement. The Agreement also provides DBS rights for early termination of the Agreement in February 2021 due to delay in the agreement for construction of Amos 8 coming into effect. DBS informed Spacecom that it would not exercise this right.

Leasing of space segments on Amos 3 only, is expected to involve a lack the advantages for this satellite, as is leasing of only ten space segments on Amos 3, unless an agreement can be reached with Spacecom regarding the leasing of two additional segments on Amos 3 or leasing additional space segments on other satellites.

Leasing fees in 2019 amounted to US\$ 21.9 million.

DBS is materially dependent on Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS. Spacecom is also responsible for operation of the space segments.

Property

Bezeq

Bezeq's real estate assets derive from two sources: assets transferred to Bezeq by the State in 1984 under the Asset Transfer Agreement, and assets in which the rights were purchased or received by Bezeq after that date, including assets that it leases from third parties.

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

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

Right	Number of Assets	Plot Area (thousand sq. m.)	Built Area (thousand sq. m.)	Notes
Ownership, lease or right of lease	307	852	101	Of this, 302 properties cover an area of 823 thousand sq. m. and 80 thousand sq. m. built up are for communication needs, and the remainder for administration needs. 16 are jointly owned with the Ministry of Communications and/or Israel Postal Company Ltd., with whom an agreement was signed to define and regulate the rights of the parties in these properties (see Section 2.17.2.3). The parties operate as required by the orders of the agreement, and inter alia, to separate joint debits and systems.
Possession (authorized/possession rights by law)	40	1.5	0.8	Assets in Israeli settlements in the Administrated Territories, all for communication needs. There is no written regulation of the contractual rights for these properties, but in the Company's opinion this does not create material exposure.
Lease	329	30.6	65	Of which, 314 properties on a 14,000 sqm. built area for communication needs, and the remainder for administration needs. Of which, 2,000 sq. m. built up are sublet.
Miscellaneous rights in 'residential rooms'	2,352	N/A	26 (based on estimate)	These are rooms for cables and installations for residential communications. For most of the assets, the rights are for use granted to the Company under the Communications Law and its regulations, and there is no written rights arrangement with the property owners. In the Company's estimation and based on past experience, this does not create material exposure.
Right of capital lease	An asset in Sakia (near the Mesubim Junction)	70 net	-	The property was sold in 2019.

Registration

At present, Bezeq's rights in a considerable number of its real estate assets are not registered in the Lands Registry and therefore they correspond to contractual rights. Bezeq is in the process of registering in its name those properties which can be registered in the Lands Registry.

Real estate settlement agreement

On March 10, 2004, a settlement agreement among Bezeq, the Administration and the State of Israel, or the Settlement Agreement, was validated as a court decision. The Settlement Agreement concerns most of the real estate assets transferred to Bezeq under the asset transfer agreement signed for commencement of Bezeq's business activity. The Settlement Agreement provides that the assets remaining in Bezeq's possession have the status of capitalized leases, and subject to the execution of individual lease contacts, Bezeq will be entitled to make any transaction in the properties and to enhance them. The Settlement Agreement sets out a mechanism for payment to the Administration for enhancement actions in the properties (if undertaken), beyond the rights according to plans approved by 1993 as set out in the Settlement Agreement, at the rate of 51% of the increase in value of the property following the enhancement (and less part of amounts paid for a betterment levy or to the administration for an increase in value, if a betterment levy was paid). The Settlement Agreement also states that 17 assets must be returned to the State, through the Administration, on various dates (up to 2010), and on the terms enumerated in the Settlement Agreement. Bezeq returned 15 properties and two additional properties will be returned after Bezeq receives substitute replacement properties, as provided in the Settlement Agreement.

Sale of real estate

Bezeq is continuing to take measures to sell properties which are inactive and/or can be vacated relatively easily without incurring significant expenses, based on a list presented to Bezeq's Board of Directors from time to time. The migration to the NGN is allowing Bezeq to increase the efficiency of the network and to sell some of the real estate assets that will be vacated as a result of the migration.

During the past year, Bezeq sold real estate assets that were inactive or could be vacated relatively easily, some of which sales were material in prior years (in 2019, other than the sale of the Sakia property described below, such sales were not material). Bezeq completed the sale of most of the properties (in terms of value) which met this definition and also intends to complete the sale of the remaining properties of this type in the forthcoming years. Selling these remaining properties is likely to generate additional capital gains for Bezeq in material amounts (although at a substantially lower amount than the capital gains recorded by Bezeq in recent years).

Property in Sakia

On January 21, 2018, Bezeq signed an agreement for the sale of the Sakia property to Naimi Towers Ltd for a total of NIS 497 million plus VAT, whereas this amount may increase up to a total of NIS 550 million if the buyer, according to its rights under the agreement, postpones the payment date of up to two thirds of the consideration to December 31, 2022.

On May 21, 2018, Bezeq received a demand for permit fees from the ILA with respect to a property improvement plan approved prior to signing the agreement, in which Bezeq was required to pay NIS 148 million plus VAT ("the Demand"). Bezeq filed an objection to the Demand on legal grounds. On January 1, 2019, the ILA dismissed all of Bezeq's claims on legal grounds, and in this situation, if the dispute settlement mechanism of the Settlement Agreement fails to end the dispute, Bezeq will file a financial claim requesting the court to instruct the ILA to return to Bezeq the permit fees which it paid, and to require the ILA to pay the Betterment Levy demand, as defined below. In parallel, Bezeq filed an assessment appeal against the Demand. On August 5, 2018, Bezeq received a demand from the Or Yehuda Local Planning Committee for payment of a betterment levy of NIS 143.5 million for the sale of the property ("Demand for Betterment Levy"). On September 17, 2018, Bezeq filed an appeal on the Demand for Betterment Levy, and sent the ILA a demand for payment of the full amount of the betterment levy according to the ILA's undertaking in the compromise settlement. On January 20, 2019, the ILA dismissed Bezeq's demand to pay the betterment levy. The amount of the permit fees to be determined at the end of the proceedings could also affect the amount of the betterment levy that Bezeq will be required to pay the planning committee. Bezeq estimates that the permit fees and the betterment levy it will be required to pay will be lower and possibly even substantially lower than the total amount of the demands.

On September 4, 2018, the ILA and Bezeq signed a lease agreement relating to the Sakia property.

Bezeq recorded a capital gain of NIS 403 million in its financial statements for Q2 2019, based on its estimate regarding the permit fees and the betterment levy it will be required to pay. If Bezeq's estimates are not realized, the final capital gain will be between NIS 250 million and NIS 450 million.

Relocation of Bezeq's offices

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

Pelephone

The premises Pelephone uses for setting up its communications sites and network centers, are spread throughout the country and are leased for varying periods (in many cases, for 5 years with an option to extend for a further 5 years).

Pelephone's headquarters are located in Givatayim, Israel and cover a total area of 17,800 square meters. The lease for these premises expires on December 31, 2020. Pelephone has an option to terminate the lease, under certain circumstances. Pelephone leases 56 service and sale centers throughout Israel and has additional lease agreements for warehouses, offices and telephone call centers that it uses for its operations.

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

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

Bezeq International

Bezeq International's property plant and equipment include switching and internet equipment, submarine cable, PBX equipment and leased routers, office equipment, computers, software licenses, and leasehold improvements. Bezeq International has five server farms throughout the country.

Bezeq International has Veraz SoftSwitch switches. These switches are used to route Bezeq International's voice traffic. The value-added services, including dialing cards, are based on an intelligent network (IN).

Bezeq International's technological infrastructures, which support voice, data and internet systems, are deployed at six sites, inside and outside Israel, inter alia, to provide services with high survivability.

Bezeq International has long-term agreements for the lease of the two main buildings in which it is based. With regard to one of the buildings, the lease period is until March 2024, with several exit options for Bezeq International during this period. The term of the lease on the other building is until December 2021 (with three equal extension options until 2027). Bezeq International has other lease agreements for warehouses (including a main logistics center) and for buildings where it operates the call centers that it uses for its operations.

DBS

DBS leases several real estate properties for its operations. DBS's head office and its main broadcasting center are located in rented premises in Kfar Saba, for which the lease term ends in 2024 (with options granted to DBS for extension of the lease, subject to the terms of the agreement, until 2034). The remainder of the lease term for the other premises that DBS leases ranges between six months and three and a half years (these terms are based on the assumption that DBS will exercise the options granted to extend the leases).

Intellectual Property

Trademarks

We are the registered owner of the trademark “B Communications” in Israel.

The Bezeq Group uses a variety of trade names and trademarks in its business. Bezeq has approximately 190 trademarks that are registered or are in the process of being registered in Israel, including its denominative trademark “Bezeq,” the trademark “NGN Next Generation Network” and its logo “B.” Pelephone owns a number of trademarks registered in Israel, including its denominative trademark “Pelephone.” Bezeq International owns a number of trademarks registered in Israel, including its denominative trademark “Bezeq International” and the trademark “Private NGN.” DBS owns a number of trademarks registered in Israel, including its denominative trademark “YES.”

Broadcast Rights and Copyrights

DBS has the broadcast rights of two types of video content.

- Content purchased from third parties, including content and channels, that own the broadcasting rights thereto; DBS is working to adapt, as far as possible, broadcasting rights that it acquired to enable it to broadcast via the various media that it operates, including via the internet;
- Content which DBS invests in producing (in full or in part), and in addition to the actual right to include the content in its broadcasts, DBS generally also has rights in such content, at the rates specified in agreements with the producers. In most instances, DBS is also entitled to issue authorizations to use the rights and share the revenues stemming from additional use of the content, in addition to DBS broadcasting thereof

The broadcast and distribution of content by DBS over various media involves payment of royalties to the owners of copyrights and performance rights to music, sound recordings, scripts and directing of content, and for secondary broadcasting included under the Copyright Law, 2007 and the Performers and Broadcasters Rights Law, 1984. Such royalties are paid to several organizations operating in Israel, for collecting royalties on behalf of the owners of the intellectual property rights, under blanket licenses. Royalty payments under these licenses are, at times, based on a fixed payment and sometimes on various pricing methods, and with respect to some of the organizations, DBS may be required to pay additional amounts as royalties for transmitting content via certain media, and in amounts that DBS estimates are not expected to be material.

Given the many content providers from whom DBS purchases broadcasting rights, DBS does not have a main content provider and is not materially dependent on any single content provider. Nonetheless, the Israeli sports broadcasting sector is dependent on the acquisition of broadcasting rights of local sports channels (which are broadcast as part of the base package and separately) from Sport Channel Ltd. and Charlton Ltd., which have a long-term agreement. The fees under these agreements are generally based on a fixed monthly payment, according to the number of subscribers to DBS’s broadcasts.

Employees

On December 31, 2019, we had four employees. Our direct employees are all located in Israel and are not represented by any labor union. Since our inception, we have not experienced any labor-related work stoppages and believe that our relations with our employees are good.

As of December 31, 2019, the Bezeq Group employed 10,212 persons, of whom 5,256 persons were employed by Bezeq, 2,202 persons were employed by Pelephone, 1,419 persons were employed by Bezeq International and 1,335 persons were employed by DBS.

Bezeq

The number of Bezeq employees as at December 31, 2019 was 5,256 (compared with 5,494 employees at the end of 2018). The decrease in the number of employees in 2019 compared with 2018 stems primarily from streamlining as a result of continued improvement of processes and technological developments in the interface with the customers. 92% of Bezeq’s employees are employed under a collective agreement (out of which 61% are permanent employees and the remainder are non-permanent employees). The remainder of Bezeq’s employees (8%) are employed under personal agreements, not under collective agreements.

Pursuant to the provisions of Concentration Law and of the Regulations to Promote Competition and Reduce Market Concentration (Reliefs for the Number of External Directors), 2014 (the “Regulations”), that provide the required ratio of external and independent directors in a tier company, and in accordance with the opinion of Bezeq’s Board of Directors, to take measures to reduce the number of directors on Bezeq’s Board of Directors, the Board of Directors of Bezeq was reduced to 9 directors (instead of 13). As of September 2019, Bezeq’s Board of Directors is comprised of only eight (8) directors due to the resignation of an independent director. Additionally, following the Searchlight-Fuhrer transaction, Bezeq is no longer subject to the limitations of a tier company and is not required to maintain such ratio.

Bezeq's Board is hereafter composed of three external directors; one independent directors; one director on behalf of the employees; and three ordinary directors.

The members of the senior management and members of the Bezeq Group's headquarters are employed under personal agreements which include pension coverage, payment of bonuses based on targets, and advance notice months before retirement.

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

In December 2006, a special collective agreement was signed between Bezeq, the union and the Histadrut, or the Special Collective Agreement, regulating labor relations in Bezeq following the transfer of control in Bezeq from the State to Ap.Sb.Ar. Holdings Ltd., Bezeq's previous controlling shareholder, and set a new organizational structure for Bezeq.

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

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

The Special Collective Agreement also defines the "new permanent employee", whose terms of employment differ from those of a veteran permanent employee of Bezeq (under the collective agreement): his wage model is according to Bezeq's wage policy and market wages; at the end of his employment in Bezeq he is entitled to increased severance pay only (depending on the number of years of employment). As part of the retirement arrangements, Bezeq may, at its discretion, terminate the employment of 203 permanent employees (including new permanent employees) each year (relevant for 2017-2021).

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

In 2019, 212 permanent employees retired under the early retirement plan.

In December 2018, Bezeq approved plan for early retirements in order to carry out the streamlining program for 2019, which mainly consists of the retirement of 243 tenured employees in accordance with the terms of the collective labor agreement between Bezeq, the labor union and the Histadrut (New General Federation of Workers) dated December 2006.

In addition, Bezeq approved a provision for the early retirement program, until the end of the Collective Agreement period (end of 2021), for all employees of Bezeq who were transferred to Bezeq from the Ministry of Communications (94 employees). The balance of the unpaid provision for the retirement liability as at December 31, 2019 is NIS 264 million.

Agreements with alternative entities that replaced the Makefet Fund in everything relating to early retirement arrangements of Bezeq employees. As of 2005, the early retirement arrangements of Bezeq's employees is implemented through alternative entities in place of Makefet Fund. On April 24, 2014, Bezeq and Menorah Mivtachim Insurance Ltd. signed an agreement regulating pension payments for the early retirement of Bezeq employees and provision for the payment of old-age and survivors' pensions to employees who retire from Bezeq under the special collective retirement agreement signed by Bezeq, the Union and the Histadrut on February 12, 2014. The Commissioner of Insurance approved the policy and it entered into force on March 31, 2016. Accordingly, as of May 1, 2016, Menorah issued policies for retiring employees, and payment of the annuities and related payments is made on the basis of these policies. The agreement period is until the end of 2016 and in February 2017 it was extended for a further three years.

Labor disputes

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

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

Pelephone

In August 2019 and January 2020, Pelephone's CEO, Mr. Ran Guron, began serving as CEO of both DBS and of Bezeq International in addition to his office as CEO of Pelephone. Some of Pelephone's current VPs also serve as VPs at DBS and Bezeq International.

Human Resources and Positions

The following table provides data relating to the number of employees employed by Pelephone, based on organizational structure.

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

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

Terms of employment

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

Collective agreement

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

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

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

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

Announcement of a labor dispute

On January 31, 2018, Pelephone was informed by the New Histadrut Labor Federation - Cellular, Internet and High-Tech Workers Union, that it was announcing a labor dispute pursuant to the Settlement of Labor Disputes Law, 1957 and a strike starting February 15, 2018. According to the announcement, the matter under dispute is the employees' demand for consultation and negotiations regarding the sale of the holdings in Bezeq to new shareholders and the arrangement of their rights thereunder.

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

Bezeq International

The following table provides data relating to the number of persons employed by Bezeq International, including outsourced employees, at December 31, 2018 and 2019:

	December 31, 2018	December 31, 2019
Head office employees	971	863
Sales and service representatives	682	556
Total	1,653	1,419

The total number of employees in the foregoing table includes employees in part time positions. Bezeq International's total workforce as at December 31, 2019 was 1,329 compared to 1,458 as at December 31, 2018.

Bezeq International has a number of employee groups whose wage structure includes a component of performance-linked commissions and incentives. These groups include sales employees, telephone sales representatives and telephone service and support representatives. Employees have arrangements for pension and health insurance that are fully subsidized by Bezeq. Bezeq International is not a party to any collective bargaining agreement. Bezeq International perceives its employees as a substantial asset that it must retain and nurture.

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

On July 11, 2019, Bezeq International signed a collective agreement with the New General Federation of Workers and the workers committee, which includes streamlining and synergetic measures, for a period as of July 11, 2019 through December 31, 2021. According to Bezeq International's program and pursuant to the agreement, Bezeq International may, among other things, reduce the employment of up to 325 employees (of which 150 are permanent employees, some as part of voluntary redundancy), in addition to not recruiting employees to replace those who have ended their employment. Similarly, the Agreement includes the grant of a one-time bonus to employees who will not be included in the severance program. The estimated cost of the foregoing agreement is NIS 68 million, assuming that Bezeq International exercises its full rights for such streamlining and complies with the conditions for granting additional financial benefits to the employees.

On November 28, 2019, Bezeq International received notice from the Chairman of the New Histadrut and Bezeq International workers committee that included a demand to hold collective negotiations with the employees' representatives in view of the expected closing of the transaction for acquisition of control of the Company. Bezeq International is unable to estimate, at this stage, the consequences that might arise due to the foregoing notice.

DBS

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

The following table provides data relating to the number of persons employed by DBS by division at December 31, 2019 and December 31, 2018:

	Number of employees	
	December 31, 2018	December 31, 2019
Head office employees	492	411
Customer Division	1,040	924
Total	1,532	1,335

The total number of employees in the above table includes employees employed in part time positions. The total number of positions at DBS at December 31, 2019 was 1,177.

Bonuses and Nature of Employment Agreements

DBS is party to a collective agreement between the New National Labor Federation (the representative labor union at DBS) and the DBS workers' committee from 2016. The agreement is in force for three years (from September 2016) and thereafter will automatically be renewed for further period of 12 months each time, unless one of the parties give notice of their intention to change the agreement. The agreement applies to all DBS employees (other than a certain number of employees and managers from department head and higher rank). The agreement provides the periods after which DBS employees will become tenured employees, mechanisms for involving the Workers Committee in decision making concerning employment and termination of the employment of tenured employees at DBS, as well as annual wage increments and other general benefits DBS will grant to its employees during the term of the agreement.

DBS employees are employed under personal employment agreements, on the basis of a monthly salary or an hourly wage, with some of the employees also entitled to performance-based compensation. The employment agreements are generally for an undefined period, and each party may terminate the agreement by prior notice in accordance with the agreement or the law.

Following the announcement by the National Labor Federation in November 2017 of a labor dispute and the intention to strike, which, according to the announcement, is due to the proposed structural reforms and changes in DBS, that includes proposed layoffs, a special collective labor agreement was signed in January 2018. Under the special collective labor agreement, the parties will act to implement the structural reforms and changes according to a mechanism set up in the collective agreement.

On March 14, 2019, DBS signed a collective bargaining agreement with the National Federation of Labor and the Workers' Association with regard to streamlining and synergy procedures, from June 1, 2019 through December 31, 2021. The collective arrangement stipulates that DBS will be entitled to terminate employment of up to 325 employees during the years of the collective arrangement and that a one-time grant will be given to employees who will not be included in the retirement plan. The estimated cost of the collective arrangement is NIS 68 million, assuming that DBS exercises all its rights for such streamlining and compliance with the conditions for granting additional economic benefits to the employees. In addition, the collective arrangement stipulates that DBS is also entitled to streamline by not recruiting new staff, in place of employees whose employment is terminated.

In December 2019, notice was received at the DBS offices from the General Federation of Workers, announcing a labor dispute. According to the notice, the issues under dispute are: a. DBS's intention to implement organizational and structural changes in DBS, including ownership of the Company, which if implemented, will impact the employees conditions, their rights and employment security, impair the status and powers of the workers' organizations, and constitute a fundamental breach of the collective agreement applicable to the parties; b. lack of good faith as reflected in failure to comply with the duty to consult and negotiate in the framework of collective discourse regarding issues that require consultation and negotiation

Employee compensation schemes

DBS customarily awards its officers and managers, as well as some of its employees, annual bonuses based on attaining goals and performance assessment.

C. Organizational Structure

Searchlight II BZQ, L.P., a Cayman Islands exempt limited partnership, owned 60.2% of our outstanding ordinary shares as of April 23, 2020.

Our interest in Bezeq is held mostly by our wholly-owned subsidiaries. As of April 23, 2020, we held a 26.34% ownership interest in Bezeq.

D. Property, Plants and Equipment

Our leased corporate headquarters are located in Tel Aviv, Israel. The lease agreement expires on March 14, 2022.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion of our results of operations should be read together with our audited consolidated financial statements and the related notes, which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

Overview

We are the largest shareholder of Bezeq and we currently own 26.34% of Bezeq's outstanding shares, and consolidate Bezeq's financial results into our financial statements. The Bezeq Group operates the most comprehensive telecommunications infrastructure in Israel, with a broad range of telecommunications services across all of its markets. Through its wholly-owned subsidiaries, the Bezeq Group is a leading provider in Israel of fixed-line telephony services and fixed-line broadband internet infrastructure access services, cellular telephony services, ISP services, ILD services, international and domestic data transfer and network services and ICT, pay television services and other communications infrastructures and services. In each of these markets, the Bezeq Group holds a significant market share.

Key Factors Affecting the Businesses of the Bezeq Group

The operations of the Bezeq Group and the operating metrics discussed below have been, and will likely continue to be, affected by certain key factors as well as certain historical events and actions. The key factors affecting the business of the Bezeq Group and its results of operations include, among others, competition, government regulation, the build out of infrastructures, macro- economic and political risks, churn, seasonality, impact of currency fluctuations and inflation, effective corporate tax rate, conditions in Israel and trade relations. For further discussion of the factors affecting our results of operations, see "Risk Factors."

Competition

The Bezeq Group faces significant competition from established and new competitors who provide fixed-line telephony, fixed-line broadband internet infrastructure access, cellular telephony, ISP and pay television services. In addition to the entrance of new competitors, competition among the existing communications groups in Israel is intensifying. Four main groups, each consisting of companies under common or joint control, hold a significant share of the communications market in Israel today. The Bezeq Group's three principal competitors may in some cases be required to comply with fewer regulations because they use different technologies to provide their services or do not own their own fixed-line network.

Bezeq expects competition to continue to increase amid the changing legislation in Israel and consolidation in the telecommunications industry that permits certain service providers to market a combination of fixed-line telephony, fixed-line broadband internet infrastructure access, ISP and pay television services, or a "bundle" for an aggregate price which is lower than the price of the individual products and services in the bundle. The Bezeq Group is currently subject to restrictions on marketing bundles, which are stricter than the restrictions applicable to its competitors.

Government Regulation

The Bezeq Group operates in a highly regulated industry in Israel, which limits its flexibility in managing its business efficiently, and may increase its administrative and operational expenses and limit its revenue. The Bezeq Group is subject to government supervision and regulation relating to, among other things:

- regulations requiring structural separation between the members of the Bezeq Group;
- regulations restricting the Bezeq Group's ability to market bundles;
- price regulation for certain services that the Bezeq Group provides;
- rules and regulations imposed on telecommunications service providers with significant market share;
- rules governing the interconnection between different telephone networks and the interconnection rates that the Bezeq Group can charge and pay;
- regulations governing the prohibition of exit-fees or cancellation charges;
- regulations requiring the Bezeq Group to grant other telecommunications operators access to its infrastructure;
- regulations governing roaming charges and other billing and customer service matters;
- rules for authorizations, licensing, acquisitions, renewals, pledging and transfers of licenses;
- requirements covering a variety of operational areas such as land use, health and safety and environmental protection, technical standards and subscriber service requirements rules and regulations relating to subscriber privacy;
- rules and regulations relating to payment of royalties;
- rules and regulations relating to universal service provision and requirements to extend the Bezeq Group's services to areas of Israel even where it is not economically profitable to do so; and
- regulations restricting the number of television channels DBS can own and specifying the minimum investment DBS is required to make in local content productions.

For additional information see "*Regulatory*."

Build Out of Infrastructure

The Bezeq Group has historically made substantial investments in its fully owned infrastructure, which is one of the most technologically advanced in Israel and enables the Bezeq Group to reach customers nationwide.

In the domestic fixed-line communications segment, Bezeq's NGN, which was completed in 2012, is the most advanced fixed-line communications network in Israel, offering broadband internet bandwidth of up to 100 Mbps (download) speed, as well as innovative value-added services. In January 2013, Bezeq began laying optical FTTB and FTTH.

In the cellular telephony segment, Pelephone's nationwide 3.5G UMTS/HSPA. While Pelephone substantially completed the installation of its 3.5G UMTS/HSPA+ network in 2010, it has continued to invest in the network. We believe these network features provide Pelephone with a strong platform to continue to offer a variety of advanced services and products to its customers and to capitalize on the continued increasing demand for smartphones and advanced data services, which constitute the higher value segment of the cellular telephony market.

In the ISP, ILD, data transfer, networks and ICT services segment, Bezeq International is currently the sole ISP in Israel that owns and operates its own high-speed submarine optical fiber communications cable system. The JONAH cable, which was launched in January 2012 provides Bezeq International with greater capacity for utilization than any other ISP in Israel. In addition, Bezeq International is able to obtain such capacity at an incremental cost, while other ISPs in Israel are required to purchase capacity and rely on one of the two other cable operators in Israel (MedNautilus and Tamares).

In the multi-channel pay television segment, DBS is the only licensed provider of multi-channel television broadcasts via satellite in Israel and one of only two companies in the Israeli pay television services market. While DBS relies on third party providers for the provision of satellite capacity, it owns the satellite dishes that carry the signals from such satellites to subscriber residences and set-top boxes. Such equipment and infrastructure act as a significant barrier to entry against any potential competitor in the satellite pay television market.

During the years ended December 31, 2019, 2018 and 2017, the Bezeq Group companies invested NIS 1.5 billion (approximately \$448 million), NIS 1.7 billion and NIS 1.5 billion, respectively, in capital improvements, substantially all of which was invested in infrastructure and technology.

Macro-Economic and Political Risks

The Bezeq Group is subject to macro-economic and political risks that are outside of its control. For example, high levels of sovereign debt in the U.S., certain European countries and countries in the Middle East, combined with weak growth and high unemployment, could lead to fiscal reforms (including austerity measures), sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and, potentially, disruptions in the credit and equity markets, as well as other outcomes that might adversely impact the Bezeq Group. Moreover, as a business operating in Israel, we and the Bezeq Group are subject to the inherent risks associated with the political and military conditions in Israel and the potential for armed conflicts with Israel's neighbors. Further, while the majority of the Bezeq Group's revenues are in NIS, a portion of the Bezeq Group's operational expenses are in U.S. dollars. The exchange rate between U.S. dollars and NIS has been volatile in the past and may continue to be so in the future. Although we attempt to mitigate currency rate risk through hedging, sharp changes in the exchange rate could have a material effect on our results of operations.

Churn

The fixed-line telephony, fixed-line broadband internet infrastructure access, cellular telephony and multi-channel pay television industries typically exhibit churn as a result of high levels of competition. Churn levels may be affected by changes in our or our competitors' pricing, our level of customer satisfaction, disconnection of non-paying subscribers and changes in regulations. Increases in churn may lead to increased costs and reduced revenues. In recent years our churn rates increased, particularly in our cellular telephony segment as new competitors entered the market and advantageous billing plans were introduced. Similarly, competition has increased in recent years as a result of the prohibition on exit fees, long-term commitments and linkage of the price and terms of handsets sales to cellular telephony service prices and benefits.

Seasonality

Bezeq's consolidated operating results are generally not characterized by a seasonal pattern. In general, Bezeq's revenues from its cellular phone services are slightly higher in the second and third quarters of the fiscal year than the first and fourth quarters due to different usage patterns prevailing in the summer months compared to the winter months and the holiday season in Israel. In general, Bezeq's revenues from international communications, Internet and NEP services are affected in a minor way by the seasons and holidays. For example, voice services for the business sector decrease in August and during the Passover holiday; voice services for the private sector increase in the summer months and towards the end of the calendar year; sales of Internet services and NEP equipment usually increase in the fourth quarter; and Internet services for the business sector decrease in the summer months due to the closure of educational institutions.

Impact of Currency Fluctuations and Inflation

Although the majority of our revenues and expenses are denominated in NIS, we are subject to risks caused by fluctuations in the exchange rate between the NIS and the U.S. dollar.

The Israeli annual rate of inflation (deflation) amounted to 0.7%%, 0.9%, and 0.4%, for the years ended December 31, 2019, 2018 and 2017, respectively. The annual appreciation (depreciation) of the NIS in relation to the U.S. dollar amounted to (7.79%), 8.1% and (9.8%) for the years ended December 31, 2019, 2018 and 2017, respectively. We cannot predict any future trends in the rate of inflation or deflation in Israel or the rate of appreciation or devaluation of the NIS against the U.S. dollar. A devaluation of the dollar in relation to the NIS has the effect of reducing the NIS value of any of our expenses or liabilities which are payable in dollars, unless those expenses or liabilities are linked to the dollar. This devaluation of the dollar also has the effect of decreasing the NIS value of any asset which consists of dollars or receivables payable in dollars, unless the receivables are linked to the dollar.

Effective Corporate Tax Rate

Israeli corporate tax at the standard rate in 2018 and onwards is set at 23% (the corporate tax rate was 24% and 25% in 2017 and 2016, respectively)

As of December 31, 2019, we had tax loss carryforwards in the amount of NIS 72 million (approximately \$21 million) and capital loss carry forwards of NIS 86 million (approximately \$25 million). Under current Israeli tax laws, tax loss carryforwards do not expire and may be used to offset future taxable income.

Conditions in Israel

We are organized in, based in and derive substantially all of our revenues from markets within the State of Israel. See “*Risk Factors—Risks Relating to the Operations of the Bezeq Group in Israel*” for a description of governmental, economic, fiscal, monetary or political policies or factors that have materially affected or could materially affect our operations.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation and the World Trade Organization. In addition, Israel is a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its member and has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Union Community concluded a Free Trade Agreement in July 1975, which confers certain advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and specified non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as EFTA, established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the European Union, which included a refinement of rules of origin and other improvements, including providing for Israel to become a member of the research and technology programs of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, including China, India, Russia, Turkey and other nations in Eastern Europe and Asia.

On May 10, 2010, the Organization for Economic Co-operation and Development, or OECD, invited Israel to become a member of the organization, whose mission is to promote co-operation between its members while keeping high international economic standards. On September 7, 2010, on signing the OECD Convention, Israel pledged its full dedication to achieving the Organization’s fundamental aims. Israel was the 32nd country to join the organization, along with Estonia and Slovenia.

Explanation of Key Income Statement Items

Revenue. Revenue from Bezeq’s domestic fixed-line communications segment is derived primarily from fees received for (i) fixed-line telephony services, primarily including the basic fixed-line telephony service on the domestic telephone line, plus associated services such as voice mail, caller ID, call waiting, call forwarding, speed dial, conference calls, public telephones and a unified telephone directory; (ii) fixed-line broadband internet infrastructure access services in xDSL technology; (iii) data communication services, including network services for transferring data from point to point, transferring data between computers and between various communications networks, services connecting communications networks to the Internet and remote access services; and (iv) other services including, services to communications operators, broadcasting services, contract work, IP Centrex services (lines in a virtual private exchange in a public network), data center services, a search engine for locating phone numbers (including a classified search) and new services.

Revenue from the Pelephone cellular telephony segment is derived primarily from fees received from its service offerings, including, voice transmission, transmission of text messages, roaming, data communications and advanced multimedia services. Pelephone also sells cellular phones, laptops and other portable devices and offers attendant repair services.

Bezeq International’s revenues are primarily derived from ISP services for private and business customers (including terminal equipment and support), voice services (including, ILD services to business and private customers and international call routing and termination services), hosting services, supply of international data communication solutions for business customers and ICT solutions for business customers and PBX services.

DBS’s revenues are primarily derived from the sale of subscriptions for its multi-channel satellite pay television broadcast services. Revenue from subscriptions is recognized ratably over the contract period, which is generally one to twelve months. DBS does not provide revenues to Bezeq.

Bezeq also includes a category of "Other" in its consolidated financial statements, which mainly includes revenue from customer call center services through its Bezeq Online Ltd. subsidiary, investments in a venture capital fund and ownership of Walla!, a popular Israeli provider of Internet and portal services.

Depreciation and Amortization. Subsequent to our acquisition of Bezeq, we adopted policies regarding the depreciation and amortization expenses related to Bezeq's communications business network equipment and capacity that were based on Bezeq's policies. Depreciation and amortization expenses primarily consist of depreciation on computer equipment, software, leasehold improvements, capitalized software development costs and amortization of purchased intangibles. In connection with our acquisition of Bezeq, we assigned fair value to fixed assets acquired in the Bezeq acquisition. The difference between the book value and the fair value of those assets was recognized as an asset in our consolidated statement of financial position. The acquired assets are depreciated and amortized according to their expected useful life. Over time such assets are fully depreciated by Bezeq, and by us respectively. As a result, the excess fair value balance we assigned to the acquired assets decreases and our related future depreciation expenses will decrease as well.

Salaries. Salaries include salary costs, social, statutory and employment benefits, and commissions of all our employees. Bezeq's consolidated salary expenses primarily consist of operating and general and administrative salaries, benefits, stock-based compensation and incentive compensation.

General and Operating Expenses. Bezeq's consolidated general and operating expenses primarily consist of cellular telephone expenses, general expenses including outside consulting, legal and accounting services, materials and spare parts, building maintenance, services and maintenance by sub-contractors, international communication expenses, vehicle maintenance expenses, royalties paid to the State of Israel and collection fees.

Other operating expenses. Other operating expenses primarily include Bezeq's provision for severance pay on early retirement, capital gains from the sale of property, plant and equipment, provisions for contingent liabilities and income or losses from copper forward contracts.

Finance Expenses. Our finance expenses primarily include interest expenses, U.S. dollar exchange rate differences on our redeemed Senior Secured Notes, and debentures. In addition, our finance expenses also include interest and exchange rate differences on other financial liabilities and changes in fair value of financial assets or liabilities measured at fair value through profit or loss. Bezeq's financing expenses primarily consist of interest expenses for its financial liabilities, linkage and exchange rate differences, changes in fair value of financial assets measured at fair value through profit or loss, financing expenses for employee benefits and other financing expenses.

Income Tax. Income tax expense is comprised of current and deferred tax. Bezeq recognizes current and deferred tax expense in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, and any adjustment to tax payable in respect of previous years. Our assessment considers that deferred tax is recognized using the statements of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Under our assessment, deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The corporate tax rate in Israel was 24% in 2017 and 25% in 2016. Effective as of January 1, 2018 the tax rate is 23%.

Results of Operations

The following table sets forth our consolidated results of operations in NIS in millions and as a percentage of revenues for the three years ended December 31, 2019:

	Year ended December 31,					
	2017		2018		2019	
	NIS	%	NIS	%	NIS	%
Revenues	9,789	100%	9,321	100	8,929	100%
Depreciation, amortization and impairment	2,117	22%	2,387	25%	2,064	23%
Salaries	2,007	21%	1,995	21%	1,937	22%
General and operating expenses	3,906	40%	3,394	36%	3,276	37%
Loss from impairment of assets	129	1%	2,294	25%	1,274	14%
Other operating expenses	20	-%	635	7%	(188)	(2)%
Operating profit (loss)	1,610	16%	(1,384)	(15)%	566	6%
Finance expense	586	6%	620	7%	738	8%
Finance income	(69)	(1)%	(89)	(1)%	(266)	(3)%
Profit (loss) after financing expenses, net	1,093	11%	(1,915)	(21)%	94	1%
Share of losses in equity-accounted investee	5	-%	3	-%	2	-%
Profit (loss) before income tax	1,088	11%	(1,918)	(21)%	92	1%
Tax expenses (income)	347	4%	(59)	1%	1,473	16%
Net profit (loss) for the year	741	7%	(1,859)	(20)%	(1,381)	(15)%
Profit (loss) attributable to owners of the company	78	-	(1,029)	(11)%	(853)	(10)%
Profit (loss) attributable to non-controlling interest	663	7%	(830)	(9)%	(528)	(5)%
Net profit (loss) for the year	741	7%	(1,859)	(20)%	(1,381)	(15)%
Basic earnings (loss) per share	2.62	-	(35.46)	-	(19.76)	-
Diluted earnings (loss) per share	2.62	-	(35.46)	-	(19.76)	-

As a result of the Bezeq acquisition, we assigned fair value to the assets acquired and liabilities assumed using the acquisition method. Adjustments to record the allocation of the consideration paid for assets acquired and liabilities assumed for Bezeq have not been reflected in the separate reporting of the segments because they are not being reviewed by our Chief Operating Decision Maker in order to make decisions about resources to be allocated to the segments and assess their performance. Accordingly, the purchase accounting adjustments are presented under the “adjustments” column.

The following three tables provide summary financial information regarding the operating results of the individual operating segments of the Bezeq Group on a consolidated basis for the three years ended December 31, 2019. Amounts are in NIS in millions.

2017

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

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

2018

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

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

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

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

(2) Adjustments to consolidated – intersegment transactions.

(3) Adjustment of a loss from impairment of assets in the cellular communications and multi-channel television segments is presented as part of the adjustments.

Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

Revenues. Our revenues decreased by 4.2% to NIS 8.92 billion (\$2.58 billion) in the year ended December 31, 2019 from NIS 9.32 billion in the year ended December 31, 2018. For both periods, our consolidated revenues consisted entirely of Bezeq’s consolidated revenues. The decrease in revenues in 2019 was primarily due to lower revenues across the Bezeq Group’s main segments.

Bezeq’s revenues decreased by 2.9% to NIS 4.07 billion (approximately \$1.17 billion) in the year ended December 31, 2019 from NIS 4.19 billion in the year ended December 31, 2018. The decrease in the segment’s revenues was primarily due to a NIS 120 million (approximately \$35 million), or 10.1%, decrease in subscriber revenues as a result of a 2% decline in average revenue per line in 2019 as well as a 1.4% decrease in the number of access lines. The decrease in revenues was partially offset by a NIS 14 million (approximately \$4 million), or 5.4%, increase revenues from cloud and digital services and revenues from other services.

Telephone’s revenues decreased by 3.3% to NIS 2.36 billion (approximately \$682 million) in the year ended December 31, 2019 from NIS 2.44 billion in the year ended December 31, 2018. Revenues from services decreased to NIS 1.71 billion (approximately \$494 million), or 2.6% decrease in the year ended December 31, 2019 from NIS 1.75 billion in the year ended December 31, 2018. The decrease in revenues from cellular services was due to a decrease in market prices as a result of the transition of existing customers to lower priced plans including higher data plans, partially offset by an increase in post paid subscribers.

Bezeq International's revenues decreased by 3.7% to NIS 1.34 billion (approximately \$387 million) in the year ended December 31, 2019 from NIS 1.39 billion in the year ended December 31, 2018. The decrease in revenues was primarily due to the decrease in revenues from Internet services and international calls as well as the sale of the IT outsourcing services business in 2018, partially offset by an increase in revenues from business services.

DBS had revenues of NIS 1.35 billion (approximately \$390 million) for the year ended December 31, 2019, while its revenues were NIS 1.47 billion for the year ended December 31, 2018. The decrease in revenues was primarily due to a reduction in the average number of subscribers and in the average revenue per subscriber.

Depreciation, Amortization and impairment. We recorded depreciation, amortization and impairment expenses of NIS 2.06 billion (approximately \$597 million) in the year ended December 31, 2019 compared to NIS 2.39 billion in the year ended December 31, 2018, a decrease of approximately 13.5%. The decrease in depreciation and amortization was primarily due to the decrease in depreciable and amortizable assets of DBS resulted from the impairment losses recorded in the fourth quarter of 2018. The decrease was partially offset by the impairment losses in DBS recorded during 2019.

The Bezeq Group recorded depreciation, amortization and impairment expenses of NIS 1.91 billion (approximately \$552 million) in the year ended December 31, 2019 compared to NIS 2.19 billion in the year ended December 31, 2018, a decrease of 12.7%. The decrease in depreciation and amortization was primarily due to the decrease in depreciable and amortizable assets of DBS resulted from the impairment losses recorded in the fourth quarter of 2018. The decrease was partially offset by the impairment losses in DBS recorded during 2019.

Bezeq's depreciation and amortization expenses were NIS 861 million (approximately \$249 million) in the year ended December 31, 2019 compared with NIS 850 million in the year ended December 31, 2018, an increase of 1.3%.

Telephone's depreciation and amortization expenses in the year ended December 31, 2019 were NIS 633 million (approximately \$183 million) compared to NIS 655 million in the year ended December 31, 2018, a decrease of 3.4%.

Bezeq International's depreciation and amortization expenses in the year ended December 31, 2019 were NIS 190 million (approximately \$55 million) compared to NIS 194 million in the year ended December 31, 2018, a decrease of 2.1%.

DBS's depreciation, amortization and impairment expenses in the year ended December 31, 2019 were NIS 219 million (approximately \$63 million) while its depreciation and amortization expenses were NIS 323 million for the year ended December 31, 2018, a decrease of 32.2%.

Salaries. Our salaries expenses totaled in amount of NIS 1.93 billion (approximately \$558 million) in the year ended December 31, 2019, compared to NIS 2 billion in the year ended December 31, 2018.

The Bezeq Group recorded consolidated salary expenses of NIS 1.93 billion (approximately \$558 million) in the year ended December 31, 2019, compared to NIS 2 billion in the year ended December 31, 2018.

Bezeq's salary expenses decreased to NIS 911 million (approximately \$263 million) in the year ended December 31, 2019 from NIS 912 million in the year ended December 31, 2018.

Telephone's salary expenses decreased by 1.6% to NIS 373 million (approximately \$108 million) in the year ended December 31, 2019 from NIS 379 million in the year ended December 31, 2018.

Bezeq International's salary expenses decreased by 13% to NIS 261 million (approximately \$75 million) in the year ended December 31, 2019 from NIS 300 million in the year ended December 31, 2018.

DBS's salary expenses in the year ended December 31, 2019 were NIS 216 million (approximately \$62 million) while its salary expenses were NIS 233 million for the year ended December 31, 2018.

General and operating expenses. Our general and operating expenses decreased by 3.4% to NIS 3.27 billion (approximately \$947 million) in the year ended December 31, 2019 from NIS 3.4 billion in the year ended December 31, 2018. The decrease in operating expenses was due to a reduction in most expense items of the Group.

The Bezeq Group recorded consolidated general and operating expenses of NIS 3.26 billion (approximately \$943 million) in the year ended December 31, 2019 compared to NIS 3.38 billion in the year ended December 31, 2018, a decrease of 3.4%.

Bezeq's general and operating expenses decreased by 5.2% to NIS 565 million (approximately \$163 million) in the year ended December 31, 2019 from NIS 596 million in the year ended December 31, 2018. The decrease in operating expenses was primarily due to a decrease in marketing and general expenses, building maintenance and interconnect fees and payments to telecom operators, partially offset by an increase in the cost of terminal equipment and materials mainly due to the sale of cellular handsets.

Pelephone's general and operating expenses decreased by 2.1 % to NIS 1.37 billion (approximately \$396 million) in the year ended December 31, 2019 from NIS 1.4 billion in the year ended December 31, 2018.

Bezeq International's general and operating expenses increased by 0.5% to NIS 782 million (approximately \$226 million) in the year ended December 31, 2019 from NIS 778 million in the year ended December 31, 2018.

DBS's general and operating expenses decreased by 6.4% to NIS 895 million (approximately \$259 million) in the year ended December 31, 2019 from NIS 956 million for the year ended December 31, 2018. Why?

Loss from impairment of assets. Consolidated impairment losses in 2019 totaled NIS 1.27 billion (approximately \$369 million) compared to NIS 2.3 billion in 2018. Impairment losses in 2019 were attributable to Pelephone and Bezeq International while in 2018 the impairment losses included a NIS 1.64 billion impairment attributable to DBS.

Loss from impairment of assets of the Bezeq Group in 2019 totaled NIS 1.05 billion (\$304 million) compared to NIS 1.68 billion in 2018. The loss in 2019 was due to impairment losses in Pelephone assets of NIS 951 million and in Bezeq International assets of NIS 102 million. The loss in 2018 was due to an impairment loss in Yes assets of NIS 1.64 billion and an impairment loss in Walla! assets of NIS 37 million.

Other Operating Expenses, net. We had other operating income, net of NIS 188 million (approximately \$53 million) in the year ended December 31, 2019 compared to other operating expenses of NIS 635 million in the year ended December 31, 2018. Other operating income, net was impacted by capital gains from the sale of real estate, primarily capital gains of NIS 403 million (approximately \$117 million) from the sale of the "Sakia" complex. In addition, provisions of NIS 276 million were recorded for the early retirement of employees compared to NIS 559 million in 2018. Furthermore, in 2019 there was a reduction in expenses relating to legal claims.

Finance expenses, net. Our consolidated net finance expenses decreased by 11.11% to NIS 472 million (approximately \$136 million) in the year ended December 31, 2019 from NIS 531 million in the year ended December 31, 2018.

Our unconsolidated net finance income totaled to NIS 78 million (approximately \$22 million) in the year ended December 31, 2019 compared to net finance expense of NIS 96 million in the year ended December 31, 2018.

The Bezeq Group's net finance expenses increased by 26.2% to NIS 549 million (approximately \$159 million) in the year ended December 31, 2019 from NIS 435 million in the year ended December 31, 2018. The increase in financing expenses in 2019 was primarily due to the increase in financing expenses at Bezeq Fixed-Line primarily due to fees for the early repayment of debt as well as financing expenses in respect of provisions for employee benefits.

Income Tax. Our consolidated tax expense increased to NIS 1.47 billion (approximately \$426 million) in the year ended December 31, 2019 compared to a tax benefit of NIS 59 million in the year ended December 31, 2018. The increase in tax expenses was primarily due to the derecognition of previously recognized tax assets in connection with DBS' losses of NIS 1.26 billion as well as an increase in taxable income.

Tax expenses of the Bezeq Group in 2019 totaled NIS 1.53 billion (\$442 million) compared to NIS 80 million in 2018. The increase in tax expenses was primarily due to the write-off of the tax asset of NIS 1.166 billion created in connection with DBS' losses as well as an increase in taxable income.

Profit (Loss) Attributable to the Shareholders of Our Company. The loss attributable to the shareholders of our company decreased to NIS 853 billion (approximately \$246 million) in the year ended December 31, 2019 compared with a loss of NIS 1.03 billion in the year ended December 31, 2018.

Profit (loss) Attributable to Our Non-Controlling Interests. Net loss attributable to our non-controlling interests decreased to NIS 528 million (approximately \$152 million) in the year ended December 31, 2019 from loss of NIS 830 million for the year ended December 31, 2018.

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Please see Item 5A of our Form 20-F for the year ended December 31, 2018 filed on May 15, 2019 for this comparison.

B. Liquidity and Capital Resources

As of December 31, 2019, and 2018, we had cash and cash equivalents, restricted cash and short-term investments on an unconsolidated basis (not including the Bezeq Group) of NIS 498 million (approximately \$144 million) and NIS 589 million, respectively.

In 2019, we received no dividend payments from Bezeq, compared to amount of NIS 180 million which has been received in 2018.

On April 14, 2010, we completed the acquisition of 30.44% of Bezeq's outstanding shares from Ap.Sb.Ar. Holdings Ltd. for approximately NIS 6.5 billion and became the largest shareholder of Bezeq. In March 2011, we acquired an additional 0.93% of Bezeq's outstanding shares for NIS 300 million. On February 1, 2016, we sold 4.18% of the outstanding shares of Bezeq for NIS 978 million, net of transaction costs. At present, our ownership interest in Bezeq is 26.34%.

As part of our acquisition of Bezeq, effective January 1, 2010, we sold our legacy communications business excluding certain retained indebtedness and liabilities to a wholly-owned subsidiary of Ampal-American Israel Corporation, or Ampal, for NIS 1.2 billion.

Series B Debentures

On September 21, 2010, we issued NIS 400,000 of Series B Debentures at par value to the public in Israel. In January 2012, August 2013 and April 2016, we completed private placements of additional Series B Debentures in the amount of NIS 126,000 NIS 180,000 and NIS 148,000 par value, respectively, to Israeli institutional investors.

The Series B Debentures were denominated in NIS, had interest at a fixed annual rate of 6.5% which was payable semi-annually. The principal of the Series B Debentures was paid in four annual equal installments from 2016 till 2019.

We fully repaid our Series B Debentures (including accumulated interest) on December 2, 2019 as part of the Searchlight-Fuhrer transaction.

Series C Debentures

On September 18, 2016, we issued, at par value, NIS 1.9 billion of Series C Debentures to the public in Israel. The principal of the Series C Debentures was payable in four equal instalments on November 30 of each of the years 2020 through 2023 and one instalment payable on November 30, 2024. Each of the first four instalments was equal to 7.5% of the principal amount of the aggregate amount of the Series C Debentures issued and the last instalment was equal to 70% of such principal amount. The annual coupon of the Series C Debentures was 3.6% and is denominated in NIS. The interest on the outstanding principal of the Series C Debentures was payable in semi-annual payments on May 31 and November 30 of each year.

On January 16, 2017, we completed a private placement of NIS 118 million par value of our Series C Debentures to Israeli institutional investors for consideration of NIS 118 million.

On January 23, 2018, we completed a private placement of NIS 240 million par value of our Series C Debentures to Israeli institutional investors for an aggregate consideration of NIS 249 million.

On December 2, 2019 as part of the Searchlight-Fuhrer transaction, we completed the following transactions:

- Early repayment of NIS 614 million par value of our Series C Debentures including payment of accrued interest as of this date;
- Private placement of NIS 310 million par value of our Series C Debentures to Internet Gold;
- Exchange of NIS 58,000 par value of Series C debentures to new Series D debentures;
- Increased the interest on Series C debentures to 3.85%;
- Replaced all covenants related to credit ratings, book equity, etc with LTV covenants as described below
- Provided Series C and D second lien pledge on our 26.34% stake in Bezeq
- Completed a public placement of NIS 100 million par value of Series E Debentures (Series E has identical terms and covenants as Series C and D, except for the lien seniority)

Series C, D and E Debentures are payable in one payment on November 30, 2024. The annual coupon of the three series is 3.85% and is denominated in NIS. The interest on the outstanding principal of the three Series is payable in semi-annual payments on May 31 and November 30 of each year from 2020 to 2024.

As at December 31, 2019 the outstanding par value of Series C, D and E Debentures was NIS 2,036 million.

Below are the main undertakings and covenants with respect to updated Series C Debentures as well to as to newly issued Series D and E Debentures:

Pursuant to the Searchlight-Fuhrer transaction, the financial covenants were changed in manners of LTV (loan to Value) ratio:

- A. The LTV ratio shall not exceed the following during two consecutive quarters:
 - (1) an 80% rate by November 30, 2023; and
 - (2) a 75% rate from December 1, 2023 to the full and final maturity date of the debentures.
- B. The LTV ratio will first become effective after a period of 24 months from the closing date (December 2, 2019).
- C. The LTV compliance test will be conducted at the time of inspection, with the first test being conducted at the test date in the calendar quarter during which a period of 24 months from the closing date will expire.

Restrictions on dividend distributions

We undertook not to distribute a dividend to our shareholders or perform a buyback of shares or any other distribution as defined in the Israeli Companies Law unless all the conditions provided below are satisfied:

- a. We are not in violation of any of the covenants.
- b. There are no grounds for immediate repayment exist at the time a resolution to make a distribution is adopted, and no such grounds exist as a result of such distribution; and
- c. The LTV ratio post distribution must not exceed 65%.

Lien on Bezeq Shares

The Series E Debentures have a first lien pledge on our 26.34% holdings in Bezeq while the Series C and D Debentures have a second lien pledge on these holdings. The Ministry of Communications approved the pledge and provided a pledge permit to the Debentures trustee.

Control of Bezeq

We undertook to hold (directly or indirectly) at least 25% of Bezeq's issued and paid-up capital, unless a regulatory permit is received to reduce such shareholding percentage.

Control of the Company

Searchlight Capital Partners and the Fuhrer family undertook to refrain from transferring control (directly or indirectly) to a party which has not been authorized in advance by the necessary regulatory entities, to the extent such approvals are required, at the relevant time.

Bezeq's Dividend Distributions

Bezeq paid total cash dividends of NIS 0 billion, NIS 0.7 billion and NIS 1.3 billion in the years ended December 31, 2019, 2018 and 2017, respectively, out of which we received NIS 0 million, NIS 180 million and NIS 338 million respectively.

On March 6, 2018, Bezeq's Board of Directors updated the dividend distribution policy, whereby Bezeq will distribute to its shareholders, on a semi-annual basis, a dividend of 70% of the half-yearly profit (after tax) based on the Bezeq's consolidated financial statements, commencing with the upcoming distribution.

On March 27, 2019, Bezeq's Board of Directors resolved to suspend Bezeq's dividend distribution policy for a period of two years. The suspension of the dividend policy will not prevent Bezeq's Board of Directors from examining from time to time the distribution of dividends to Bezeq's shareholders, taking into consideration the provisions of the law, the state of Bezeq's business and its capital structure, and the need to maintain a balance between ensuring Bezeq's financial strength and stability and the continued creation of value to the shareholders of Bezeq, all of which are subject to the approval of the general meeting of shareholders of Bezeq with respect to each specific distribution, as prescribed in Bezeq's Articles of Association.

Dividend Distributions

Our Board of Directors declared our first dividend as a public company on November 7, 2013, a dividend of NIS 3.41 per share and NIS 102 million in the aggregate. On May 21, 2015, our Board of Directors declared a dividend of NIS 2.24 per share and approximately NIS 67 million in the aggregate. On August 31, 2015, our Board of Directors declared a dividend of NIS 0.73 per share and approximately NIS 22 million in the aggregate. On November 19, 2015, our Board of Directors declared a dividend of NIS 38 million, or NIS 1.27 per share. On May 25, 2016, our Board of Directors declared a dividend of NIS 355 million, or NIS 11.88 per share.

Financing of Ongoing Operations

As of December 31, 2019, our liquidity balance consisted of cash and cash equivalents, restricted cash and short-term investments on an unconsolidated basis (not including the Bezeq Group) totaled NIS 498 million (approximately \$144 million).

In January 2019 we conducted a private placement of 7,385,600 of ordinary shares by means of an auction to certain institutional and “qualified” investors in Israel. The gross proceeds from the offering were approximately NIS 118 million.

In December 2019 we closed the Searchlight-Fuhrer transaction which included an equity offering in Israel and a rights offering in the United States pursuant to Rule 801 of the Securities Act. Under the rights offering, 8,383,234 ordinary shares were offered to the public at a price per share of NIS 4.175/\$1.195. Searchlight purchased 1,604,097 of the ordinary shares in the rights offering pursuant to the provisions of the share-purchase agreement.

Our Board of Directors reviewed our company’s existing and projected resources and cash flows for the foreseeable future and its investment needs, as well as the sources of finance and the potential amounts that will be required by us in the foreseeable future. On the basis of its review of all these factors, our Board of Directors concluded that we can meet our existing cash needs and its needs for the foreseeable future.

Liquidity and Capital Resources of the Bezeq Group

As of December 31, 2019, the Bezeq Group had cash and cash equivalents and short-term investments of NIS 1.59 billion (approximately \$461 million) compared to NIS 2.3 billion at December 31, 2018.

The Bezeq Group incurred consolidated capital expenditures of NIS 1.55 billion (approximately \$448 million) in the year ended December 31, 2019, compared with NIS 1.73 billion in the year ended December 31, 2018. Capex in 2019 were impacted by net payments of NIS 74 million for a betterment levy, compared to payments of NIS 121 million for permit fees and purchase tax in 2018 relating to the sale of the “Sakia” complex.

In the year ended December 31, 2019, the Bezeq Group repaid debt and paid interest of NIS 3.83 billion (approximately \$1.10 Billion), compared to NIS 2 billion for year ended December 31, 2018.

The Bezeq Group’s average debt (including current maturities) to financial institutions and debenture holders for the year ended December 31, 2019 was NIS 10.84 billion (approximately \$3.14 billion). The average supplier credit for the year ended December 31, 2019 was NIS 836 million (approximately \$242 million), the average short-term customer credit for the year ended December 31, 2019 was NIS 1.75 billion (approximately \$505 million), and average long-term customer credit was NIS 320 million (approximately \$93 million).

The Bezeq Group’s working capital as of December 31, 2019 was NIS 118 million (approximately \$34) compared with a working capital deficit of NIS 2 million on December 31, 2018. Bezeq (according to its separate financial statements) had a working capital deficit of NIS 44 million (approximately \$13 million) as of December 31, 2019, compared with a working capital deficit of NIS 169 million as of December 31, 2018.

The Board of Directors of the Bezeq Group reviewed its existing and projected resources and cash flows for the foreseeable future and its investment needs, as well as the sources of finance and the potential amounts that will be required by the Bezeq Group in the foreseeable future. On the basis of its review of all these factors, the Bezeq Group’s Board of Directors concluded that the Bezeq Group can meet its existing cash needs and its needs for the foreseeable future from cash generated from its operations, by receipt of dividends from subsidiaries and by raising debt, from banking and non-banking sources, should it determine to do so.

Bezeq

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

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

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

Credit received

In March 2018, Bezeq completed a further raising of NIS 320 million through a private loan from an institutional entity with an average life of 6.7 years and fixed NIS interest of 3.2%. All these loans include similar terms to those provided with respect to other loans taken by Bezeq.

On December 3, 2018, Bezeq completed a private offering to institutional entities included in the list of investors in the Second Schedule to the Securities Law, in a total amount of NIS 550 million par value of debentures (Series 9) of Bezeq by expansion of the debenture series issued by Bezeq and listed for trading for the first time on the Tel Aviv Stock Exchange Ltd. under a shelf offering memorandum published by Bezeq on October 13, 2015. The issue took place further to the subordinated notes signed on January 14, 2018 between Bezeq and institutional entities with regard to implementation of the issue after compliance with all the preconditions. The total consideration for the issue was NIS 578 million and it took place at a price of NIS 1.0515 per debenture, which reflects an annual return of 2.7%. The debentures were issued without discounting.

In 2019, Bezeq raised debt in the amount of NIS 800,000 through private loans from an institutional entity and from a bank and completed a private placement of Debentures (Series 11 and 12) to institutional investors for a total consideration of NIS 1,068.

In 2019, Bezeq completed the early repayment of a number of loans from financial institutions and banks in the total principal amount of NIS 1.83 billion. In addition, in September 2019, Bezeq completed a tender offer for NIS 444,000 par value Debentures (Series 7) according to a price of 101.50 agorot per NIS 1 par value debenture.

In December 2019, Bezeq completed a private exchange of NIS 300,000 par value its Debentures (Series 6) for an issuance of NIS 337.5 par value Debentures (Series 12) by way of expanding Debentures (Series 12), reflecting an exchange ratio of NIS 1.125 par value for each NIS 1.0 par value Debentures (Series 6). The Debentures (Series 12) are traded on the TACT Institutional

As a result of the early repayments, Bezeq recognized financing costs in the amount of NIS 93,000 and also recognized financing income in the amount of NIS 14,000 for the exchange of Debentures (Series 6) for Debentures (Series 12).

As of December 31, 2019, and the approval date of the financial statements, Bezeq was in compliance with all its debt undertakings and covenants, there were no grounds to call for immediate repayment, and financial covenants were not set out as described above.

Reportable credit

Debentures and loan terms

	December 31, 2018		December 31, 2019		Interest rate range
	Carrying amount	Nominal value	Carrying amount	Nominal value	
	NIS million	NIS million	NIS million	NIS million	
Bank loans:					
Unlinked loans at fixed interest	1,740	1,721	1,593	1,580	4.3% - 3.2%
Unlinked loans at variable interest	500	500	-	-	Prime -0.33% to prime +0.2%
Unlinked loans at fixed interest	417	417	243	243	6.85% - 5%
Total bank loans	2,657	2,638	1,836	1,823	
Loan from financial institutions:					
Unlinked loans at fixed interest	2,014	2,020	1,517	1,520	4%-3.22%
Unlinked loans at fixed interest	50	50	33	33	5.25%
Total loans from financial institutions	2,064	2,070	1,550	1,553	
Total loans	4,721	4,708	3,386	3,376	
Debentures issued to the public					
Series 6 - linked to the CPI, at fixed interest	2,553	2,400	1,600	1,500	3.7%
	586	587	107	107	Makam for one year +1.4%
Series 7 - unlinked loans at variable interest					
Series 9 - unlinked loans at fixed interest	2,208	2,145	2,197	2,145	3.65%
Series 10 - linked to the CPI, at fixed interest	903	882	902	882	2.2%
Total debentures issued to the public	6,250	6,014	4,806	4,634	
Debentures traded on the TACT-Institutional system:					
Series 11 - unlinked loans at fixed interest	-	-	605	603	3.6%
Series 12 - linked to the CPI, at fixed interest	-	-	761	799	2.1%
Total debentures traded on the TACT-Institutional system	-	-	1,366	1,402	-
Non-marketable debentures issued to financial institutions:					
Debentures issued by DBS and held by the public -					
linked to the CPI, at fixed interest	8	8	-	-	5.35%
Unlinked debentures at fixed interest	200	200	-	-	6.65%
Total non-marketable debentures	208	208	-	-	
Total debentures	6,458	6,222	6,172	6,036	
Total loans and debentures	11,179	10,930	9,558	9,412	

	Debentures (Series 6)	Debentures (Series 9)
Date of loan	July 3, 2011	October 15, 2015
Date of final repayment	December 1, 2022	December 1, 2025
Type of loan	CPI-linked fixed interest	Unlinked fixed interest NIS
Amount of the original loan or par value (NIS million)	3,000	2,145
Balance of revalued principal (plus interest payable) as at December 31, 2019 (NIS millions)	1,569	2,151
Number of principal payments in the year	1	1
Principal payments as from	2018	2022
Number of interest payments in the year	2	2
Interest rate as at December 31, 2019	3.7%	3.65%
Fair value of the liability as at December 31, 2019 (NIS millions)	1,687	2,335
Imputed effective interest at fair value as at December 31, 2019	(0.21%)	1.75%
Imputed effective interest at fair value as at December 31, 2018	0.63%	3.11%
Special conditions	See Notes 15.3.1 to 15.3.4	See Note 15.4
Right to early repayment	Non-	Non-

On April 7, 2020, Bezeq published a prospectus and listing for trading of its Debentures (Series 11 and 12) that were listed on the TACT-Institutional system and a shelf prospectus based on its financial statements as of December 31, 2019. The Debentures are expected to be listed for trading on the TASE main board on April 26, 2020.

Credit rating

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

In 2020, Bezeq expects to repay NIS 1.26 billion on account of loan principal and interest (including debentures).

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

Pelephone

Pelephone's operations are financed out of cash flow from operating activities. As at December 31, 2019, Pelephone has no approved bank credit facilities. Although Pelephone intends to make further investments in property, plant and equipment (mainly in the LTE network), it estimates that it will not need to obtain any financing in 2020 for its ongoing operations.

Fair Credit Law

The Fair Credit Law that was legislated in August 2017 cuts (statutorily) the interest rate ceiling that may be charged for credit transactions and sets it at the Bank of Israel interest rate + 15%. The law applies to all credit transactions, other than types of transactions that are specifically excluded.

The Law applies to transactions that will be executed as of September 2019. So long as such transactions will not be excluded, the Law is relevant to Pelephone's operations with regard to the sale of devices, accessories and other equipment, in installments for which the interest rate is higher than the foregoing statutory rate. The Law is not expected to have a material effect.

Bezeq International

Bezeq International has no outstanding debt other than to Bezeq.

DBS

DBS has bank loans of NIS 20 million as at December 31, 2019 and debentures that are listed for trading on the TASE Institutional system, the balance of which is NIS 8 million. DBS's main sources of financing are shareholders' loans or investments from Bezeq. In February 2020, Bezeq approved a credit facility or a capital investment in DBS up to a total amount of NIS 250 million over a period of 15 months.

Cash Flows

Consolidated Cash Flows

The following table summarizes our consolidated cash flows basis for the periods presented:

	Year ended December 31,		
	2017	2018	2019
	(NIS in millions)		
Net cash provided by operating activities	3,487	3,486	2,905
Net cash used in investing activities	(1,128)	(2,618)	(577)
Net cash used in financing activities	(735)	(2,150)	(2,618)
Net increase (decrease) in cash and cash equivalents	1,624	(1,282)	(290)
Cash and cash equivalents at beginning of year	762	2,386	1,104
Cash and cash equivalents at end of year	2,386	1,104	814

Operating Activities

Consolidated cash provided by operating activities in 2019 amounted to NIS 2.9 billion (approximately \$840 million), compared to NIS 3.48 billion in 2018.

Investing Activities

Consolidated cash used in investing activities in the year ended December 31, 2019, was NIS 577 million (approximately \$167 million) compared with NIS 2.6 billion in the year ended December 31, 2018. The decrease in net cash used in investing activities was mainly due to net proceeds from redemption of bank and other deposits.

Financing Activities

Consolidated cash used in financing activities in the year ended December 31, 2019 was NIS 2.6 billion (approximately \$752 million) compared to NIS 2.15 billion in the year ended December 31, 2018. The increase was primarily attributable to the repayment of debentures and loans.

The Bezeq Group's Cash Flows

The following table summarizes the Bezeq Group's consolidated cash flows for the periods presented:

	Year ended December 31,		
	2017	2018	2019
	(NIS in millions)		
Net cash provided by operating activities	3,525	3,512	2,924
Net cash used in investing activities	(1,148)	(2,552)	(883)
Net cash used in financing activities	(844)	(2,251)	(2,531)
Net increase (decrease) in cash and equivalents	1,533	(1,291)	(490)
Cash and cash equivalents as at the beginning of the period	648	2,181	890
Cash and cash equivalents as at the end of the period	2,181	890	400

Operating Activities

Consolidated cash flows provided by operating activities of the Bezeq Group in the year ended December 31, 2019 amounted to NIS 2.92 billion (approximately \$846 million) compared to NIS 3.5 billion as in the year ended December 31, 2018. Net cash flows from operating activities remained stable, mainly due to higher net cash flows in the Domestic Fixed-Line Communications segment, as a result of changes in working capital and lower income tax payments. The increase was offset by lower net cash in the Multi-Channel Television segment, mainly due to lower operating profit and an increase in broadcasting rights.

Investing Activities

Net cash used in investing activities of the Bezeq Group in the year ended December 31, 2019 was NIS 883 million (approximately \$255 million) compared to NIS 2.55 billion in the year ended December 31, 2018. The decrease in net cash used in investing activities was mainly due to the net proceeds from the redemption of bank and other deposits in the Domestic Fixed-Line Communications segment, as compared to net investment of NIS 1.1 billion recorded last year. Furthermore, 2019 included greater inflows from the sale of the Sakia property as compared to betterment tax payments on this sale last year.

Financing Activities

Net cash used in financing activities by the Bezeq Group in the year ended December 31, 2019 was NIS 2.53 billion (approximately \$733 million) compared to NIS 2.25 billion in the year ended December 31, 2018. The increase was primarily attributable to repayment of debentures and loans.

Critical Accounting Policies

We adopted the critical accounting policies of Bezeq after our acquisition of Bezeq. The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the valuation of assets and expenses during the reporting period. There can be no assurance that actual results will not differ from these estimates.

Effective January 1, 2018, the Bezeq Group early adopted IFRS 16, Leases. The main effect of early adoption of IFRS16 is reflected in the cancellation of the existing requirement that lessees classify leases as operating (off-balance sheet) or financing leases. The new standard presents a uniform model for the accounting treatment of all leases, pursuant to which the lessee is to recognize the asset and the liability in respect of the lease in its financial statements. The Standard also sets out new disclosure requirements that are more extensive than the existing requirements. Accordingly, until the date of initial application, the Bezeq Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all the risks and rewards from the assets.

In accordance with IFRS16, for agreements in which the Bezeq Group is the lessee, the Bezeq Group applies a unified accounting model, by which it recognizes a right-of-use asset and a lease liability at the inception of the lease contract for all the leases in which the Bezeq Group has a right to control identified assets for a specified period of time. Accordingly, the Bezeq Group recognizes depreciation and amortization expenses in respect of a right-of-use asset, tests a right-of-use asset for impairment in accordance with IAS 36, Impairment of Assets, and recognizes financing expenses on a lease liability. Therefore, as from the date of initial application, lease expenses relating to assets leased under an operating lease, which were presented as part of general and administrative expenses in the income statement, are recognized as assets and written down as depreciation and amortization expenses.

The Bezeq Group applies the standard using the cumulative effect approach without a restatement of comparative information.

In respect of all the leases, the Bezeq Group has elected to apply the transitional provision of recognizing a lease liability at the initial application date according to the present value of the future lease payments discounted at the incremental interest rate of the lessee at that date and concurrently recognizing a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of the standard did not have an effect on the balance of the Bezeq Group's retained earnings at the date of initial application.

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.

Consolidation of the financial statements and investments in associates

Business combinations. Business combinations are accounted for by applying the acquisition method. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Bezeq Group is exposed or has rights to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Bezeq Group and others are taken into account when assessing control.

Transactions eliminated on consolidation. Intra-group balances and income and expense arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

Non-controlling interests. Transactions with non-controlling interests, while retaining control, are accounted for as equity transactions. Any difference between the consideration paid or received for change in non-controlling interests is included in the owners' share in equity of our company directly in retained earnings.

Associates (accounted for by the equity method). Associates are those entities in which the Bezeq Group has significant influence, but not control, over financial and operating policy. In respect of equity-accounted investments, goodwill is included in the carrying amount of the investment. When the Bezeq Group holds additional long-term interests in the associate (such as loans), which are a part of the Bezeq Group's net investment in the associate, and when the Bezeq Group's proportionate share in the additional interests is different from the Bezeq Group's share in the equity of the associate, the Bezeq Group recognizes its share in the additional losses of the associate at its proportionate share in the additional interests according to the percentage of the Bezeq Group's participation in all the levels of the additional interests and according to the order of priority of the additional levels of interests. If, subsequently, the Bezeq Group recognizes its share in the profits of the associate, the Bezeq Group will recognize its share in the profits up to the amount of the cumulative losses previously recognized.

Financial instruments

Non-derivative financial assets. Non-derivative financial assets include mainly investments in exchange traded notes, financial funds, ETFs, deposit certificates, debt instruments, shares, trade and other receivables, and cash and cash equivalents. The Bezeq Group initially recognizes loans and receivables when they are originated. All other financial assets are initially recognized at the date that the Bezeq Group becomes a party to contractual provisions of the instrument. Financial assets are derecognized when the contractual rights of the Bezeq Group to the cash flows from the asset expire, or the Bezeq Group transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Regular way sales of financial assets are recognized on the trade date, meaning on the date the Bezeq Group undertook to sell the asset.

Cash and cash equivalents. Cash comprises cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

Financial assets at fair value through profit or loss. A financial asset is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in the statement of income as incurred. These financial assets are measured at fair value and changes therein are recognized in the statement of income.

Available-for-sale financial assets. The Bezeq Group's investments in shares (through a venture capital fund) are classified as available-for-sale financial assets. These investments are measured at fair value and changes therein, other than impairment losses, are recognized directly in other comprehensive income. At the date of derecognition of the investment, profits from realization of the investment and profits that were recognized in capital reserve, are recognized in profit or loss. The Bezeq Group elected to recognize profits or losses from disposal of available-for-sale financial assets under financing income or expenses.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, net of impairment losses.

Non-derivative financial liabilities. Non-derivative financial liabilities include debentures issued by the Bezeq Group, loans and borrowings from banks and other credit providers, and trade and other payables. The Bezeq Group initially recognizes debt instruments as they are incurred. Financial liabilities are initially recognized at fair value plus any attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are derecognized when the obligation of the Bezeq Group, as specified in the agreement, expires or when it is discharged or canceled.

CPI-linked assets and liabilities that are not measured at fair value. The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period according to the actual increase in the CPI.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when we or the Bezeq Group currently have a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Change in terms of debt instruments. An exchange of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. Furthermore, a substantial modification of the terms of the existing financial liability or part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

Derivative financial instruments

Hedge accounting. The Bezeq Group holds derivative financial instruments to hedge cash flows for risks to future changes in the CPI and foreign currency exchange rate risks. Forward contracts are measured at fair value. Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized through other comprehensive income, in a hedging reserve under equity, to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss. The amount recognized in the hedging reserve is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of income as the hedged item.

Economic Hedges. The Bezeq Group holds other derivative financial instruments to economically hedge its exposure to foreign currency and changes in the CPI. Hedge accounting is not applied to derivative instruments that economically hedge financial assets and liabilities. Derivative instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of income as incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value and the changes in fair value are recognized in the statement of income as incurred.

Property, plant and equipment

Recognition and measurement. Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and financing costs as well as any other cost directly attributable to bringing the asset to the condition for its use intended by the management, and the costs of dismantling and removing the items and restoring the site on which they are located in cases where the Bezeq Group has an obligation to vacate and restore the site. The cost of purchased software that is integral to the functionality of the related equipment is recognized as part of the cost of the equipment. Spare parts, servicing equipment and stand-by equipment are classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16, and are otherwise classified as inventory. When major parts of the property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of the property, plant and equipment. Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net under “other operating income” in the statement of income.

Subsequent expenditure. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied in the replaced item will flow to the Bezeq Group and its cost can be measured reliably. The costs of day-to-day servicing are recognized in the statement of income as incurred.

Depreciation. Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease agreements are depreciated over the shorter of the lease term and their useful lives. Depreciation of an asset starts when it is ready for use, meaning when it reaches the location and condition necessary for it to be capable of operating in the manner intended by management.

Leasehold improvements are depreciated over the shorter of the lease term, including the extension option held by the Bezeq Group and intended to be exercised) and the expected life of the improvement.

The estimated useful lives for the current period are as follows:

	Useful life (years)
Fixed line and international network equipment (switches, transmission, power)	4-12
Network	12-33
Subscriber equipment and installations	4-8
Equipment and infrastructure for multichannel television	3-15
Vehicles	6-7
Office and general equipment	5-10
Electronic equipment, computers and internal communication systems	3-7
Cellular network	4-10
Passive radio equipment at cellular network sites	up to December 31, 2037
Buildings	25
Seabed cable	4-25 (mainly 25)

Depreciation methods, useful lives and residual values are reviewed at least at each year and adjusted as required.

Non-current assets

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction rather than their ongoing use. These assets are presented at the lower of the carrying amount and fair value, less selling costs.

Intangible assets

Goodwill and brand name. Goodwill and brand names that arise upon the acquisition of subsidiaries are included in intangible assets. Subsequent to initial recognition, goodwill and brand names are measured at cost less accumulated impairment losses. Goodwill and brand names are measured at least once a year to assess impairment.

Software development costs. Software development costs are recognized as an intangible asset only if the development costs can be measured reliably; the software is technically and commercially feasible; and the Bezeq Group has sufficient resources to complete the development and intends to use the software. The costs recognized as an intangible asset include the cost of the materials, direct labor and overhead expenses directly attributable to preparation of the asset for its intended use. Other development costs are recognized in the statement of income as incurred. Capitalized development costs are measured at cost less amortization and accumulated impairment losses.

Software. Software that is an integral part of the hardware, which cannot function without the programs installed on it, is classified as property, plant and equipment. However, licenses for stand-alone software, which adds functionality to the hardware, is classified (mainly) as intangible assets. Software depreciation is recognized in the statement of income using the straight-line method over the estimated useful life of the asset.

Rights to frequencies. Rights to frequencies refer to Pelephone's rights to cellular communication frequencies according to a Ministry of Communications tender. Depreciation of the asset is recognized in the statement of income using the straight-line method over the license term, which is 13 years and 7 months starting from the use of the frequencies.

Other intangible assets. Other intangible assets acquired by the Bezeq Group, which have a definite useful life, are measured at cost less amortization and accumulated impairment losses.

Subsequent expenditure. Subsequent expenditure is recognized as an intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures relating to generated goodwill and brands, are recognized in the statement of income as incurred.

Amortization. Amortization, except for goodwill, brand name and customer relationships, is recognized in the statement of income on a straight-line basis over the estimated useful life of the intangible assets, from the date on which the assets are available for use. Goodwill and brand name are not systematically amortized but are tested for impairment at least once a year. Customer relationships are amortized according to the economic benefit expected from those customers each period based on their expected churn rate, which results in accelerated amortization during the early years of the relationship.

Estimated useful lives for the current and comparative periods are as follows:

Type of asset	Amortization period
Computer programs and software licenses	3-10 years depending on the term of the license period or the estimated time of use of the software
Customer relationships acquired in a business combination	5-7 years based on the estimated customer churn rate (using the accelerated depreciation method)
Brand acquired in a business combination	12
Frequency usage right	Over the license period up to 2028

Amortization methods and useful lives are reviewed at least once each year and adjusted if appropriate.

Leased assets

Leases, including leases of land from the ILA, where the Bezeq Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Other leases are classified as operating leases and the leased assets are not recognized in the Bezeq Group's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Determining whether an arrangement contains a lease: At inception or upon reassessment of an arrangement, the Bezeq Group determines whether such an arrangement is or contains a lease. An arrangement is a lease or contains a lease if the following two criteria are met: (1) The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and (2) The arrangement contains rights to use the asset. If, in accordance with these terms, the Bezeq Group determines that the agreement does not contain a lease, the agreement is accounted for as a service agreement and payments for the service are recognized in profit or loss on a straight-line basis, over the service period.

Right of use of capacities

Transactions for acquiring an indefeasible right of use (IRU) of submarine communication cable capacities are mostly accounted for as service transactions. The prepaid expense is amortized on a straight-line basis as stated in the agreement, but for no longer than the expected estimated useful life of those capacities. Identifiable capacities which serve Bezeq exclusively meet the definition of a finance lease and are recognized in property, plant and equipment. The asset is depreciated on a straight-line basis as stated in the agreement, but for no longer than the expected estimated useful life of those capacities.

Inventory

Inventories are measured at the lower of cost and net realizable value. The Bezeq Group elected to base on the moving average method. The inventories of a subsidiary include terminal equipment and accessories intended for sale and service, as well as spare parts used for repairs in the repair service it provides to its customers. Slow-moving inventory of terminal equipment, accessories and spare parts are stated net of the provision for impairment.

Impairment

Non-derivative financial assets. The Bezeq Group tests a financial asset for impairment when objective evidence indicates that one or more loss events have had a negative effect on the estimated future cash flows of that asset. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed for impairment collectively, in groups that share similar credit risk characteristics. The financial statements include specific provisions and Group provisions for doubtful debts, which properly reflect, in the estimation of the management, the loss inherent in debts for which collection is in doubt.

Non-financial assets. Timing of impairment testing: The carrying amounts of Bezeq Group's non-financial assets, other than inventory and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. The Bezeq Group assesses the recoverable amount of goodwill and brand name once a year, or more frequently if there are indications of impairment.

Measurement of recoverable amount: The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Determining cash-generating units: For the purpose of impairment testing, the assets are grouped together into the smallest group of assets that generates cash from continuing use that are largely independent of other assets or groups of assets.

Allocation of goodwill to cash-generating units: For purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes, but in any event is not larger than an operating segment. Goodwill acquired in a business combination is allocated to cash-generating units that are expected to generate benefits from the synergies of the combination.

For purposes of goodwill impairment testing, when the non-controlling interests are initially measured according to their relative share of the acquiree's net identifiable assets, the carrying amount of the goodwill is adjusted according to the share which the Group holds in the cash-generating unit to which the goodwill is allocated.

Investments in equity-accounted investees. An investment in an associate is tested for impairment when objective evidence indicates that there has been impairment. Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately.

Employee benefits

Post-employment benefits. The Bezeq Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies and they are classified as defined contribution plans and defined benefit plans.

Defined contribution plans. A defined contribution plan is a post-employment benefit plan under which the Bezeq Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Bezeq Group's obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the statement of income in the periods during which services are rendered by employees.

Defined benefit plans. The Bezeq Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is presented at its present value and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds denominated in NIS, that have maturity dates similar to the terms of the Bezeq Group's obligations. The calculation is performed annually by a qualified actuary. Net interest costs on a defined benefit plan are calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability. The Bezeq Group elected to recognize the interest costs that were recognized in the statement of income under financing expenses. Re-measurement of the net defined benefit liability comprises actuarial gains and losses and the return on plan assets (excluding interest). Re-measurements are recognized immediately directly in retained earnings through other comprehensive income. When the benefits of a plan are improved or reduced, the portion of the increased benefit relating to past service by employees or the gain or loss from the reduction are recognized immediately in the statement of income when the plan improvement or reduction occurs.

Other long-term employee benefits. Bezeq Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The amount of these benefits is stated at its present value. The discount rate is the yield at the reporting date on high quality corporate bonds denominated in NIS, that have maturity dates similar to the terms of the Bezeq Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in the statement of income in the period in which they arise.

Benefits for early retirement and dismissal. Employment termination benefits are recognized as an expense when the Bezeq Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized as an expense if the Bezeq Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bezeq Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on the date when the benefits are expected to be wholly settled. In the statement of financial position, the employee benefits are classified as current benefits or as non-current benefits according to the time the liability is due to be settled.

Share-based payments. The fair value on the grant date of options for Bezeq shares granted to employees is recognized as a salary expense with a corresponding increase in equity over the period during which the employee becomes entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. The fair value of the amount payable to employees in respect of share-based payments, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become entitled to payment. The liability is re-measured at each reporting date until the settlement date. Any changes in the fair value of the liability are recognized in the statement of income. The Bezeq Group elected to recognize the changes in fair value of the liabilities under salary expenses.

Provisions

A provision is recognized if, as a result of a past event, the Bezeq Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Legal claims. Contingent liabilities are accounted for according to IAS 37 and its related provisions. Accordingly, the claims are classified by likelihood of realization of the exposure to risk, as follows:

- More likely than not-more than 50% probability;
- Possible-probability higher than unlikely and less than 50%; or
- Remote probability of 10% or less.

For claims which the Bezeq Group has a legal or constructive obligation as a result of a past event, which are more likely than not to be realized, the financial statements include provisions which, in the opinion of the Bezeq Group, based on the opinions of its legal advisers retained in respect of those claims, are appropriate to the circumstances of each case, despite the claims being denied by the Bezeq Group companies. There are also a few legal proceedings, received recently, for which the risks cannot be assessed at this stage, therefore no provisions have been made.

Site dismantling and clearing costs. A provision in respect of an obligation to dismantle and clear sites is recognized for those rental agreements where the Bezeq Group has an undertaking to restore the rental property to its original state at the end of the rental period, after dismantling and transferring the site, and restoring it as necessary. The provisions are determined by discounting the expected future cash flows. The carrying amount of the provision is adjusted each period to reflect the time that has passed and is recognized as a financing expense.

Warranty. A Bezeq Group subsidiary recognizes a provision for warranty in respect of first-year insurance for cellular handsets. The warranty is limited to technical malfunctions defined by the subsidiary, and does not include a warranty as a result of customer caused damage. However, an asset exists in respect of the manufacturer's warranty for those handsets, which is limited to technical malfunctions defined by the manufacturer.

C. Research and Development, Patents and Licenses

We did not engage in any research and development during the last three fiscal years.

D. Trend Information

The Bezeq Group's revenues decreased to NIS 8.92 billion for the year ended December 31, 2019 due to reduced revenues in all of the Bezeq Group's main segments. The continued decline in overall revenues reflects the continuing competition in the communications industry in Israel.

E. Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our (including the Bezeq Group's) minimum contractual obligations and commercial commitments as of December 31, 2019 and the effect we expect them to have on our liquidity and cash flow in future periods:

Contractual Obligations	Payments due by period (NIS in millions)				
	Total	less than 1 year	1-3 years	3-5 years	more than 5 years
Long-term debt obligations (including interest)	13,374	1,335	2,553	5,377	4,109
Operating lease obligations (including interest)	1,482	419	372	372	320
Purchase obligations	408	408	-	-	-
Other long-term obligations	1,542	549	669	237	87
Total	16,806	2,711	3,594	5,985	4,516

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Set forth below are the name, age, principal position and a biographical description of each of our directors and executive officers:

Name	Age	Position
Our Directors and Senior Management		
Darren Glatt	44	Chairman of the Board of Directors
Phil Bacal	34	Director
Ran Fuhrer	35	Director
Stephen Joseph ^{(1) (2)}	39	Director
Tomer Raved	35	Chief Executive Officer and Director
Shlomo Zohar	67	Director
Michael Klahr ^{(1) (2)}	43	External Director
Efrat Makov ^{(1) (2)}	52	External Director
Itzik Tadmor	39	Chief Financial Officer
Bezeq Group's Executive Management		
Dudu Mizrahi	50	Chief Executive Officer of Bezeq
Yali Rothenberg	45	Chief Financial Officer of the Bezeq Group
Ran Guron	51	Chief Executive Officer of Pelephone, DBS and Bezeq International

⁽¹⁾ Member of our Audit Committee.

⁽²⁾ Member of our Compensation Committee.

In January 2019, we announced the appointment of Ami Barlev, then Chairman of the Board, as the new Chief Executive Officer replacing Doron Turgeman. Doron Turgeman remained as CEO of Internet Gold, our controlling shareholder at the time. At that time, Mr. Shlomo Zohar, a director of our company, was appointed to serve as Chairman of the Board instead of Mr. Barlev, who continued to serve as a director.

In February 2019, we accepted the recommendation of the Board of Directors of Internet Gold for the appointment of a new Board member, Ms. Sharon Avidar. Ms. Avidar served as director until our 2019 annual general meeting.

At our 2019 annual general meeting, Shlomo Zohar was elected to serve as director until our 2020 annual general meeting.

At our General Meeting of Shareholders in November 2019, we also elected two new external directors to hold office for three years. Mr. Michael Klahr replaced Mr. Moshe Rosenthal following nine (9) years of service by Mr. Rosenthal as an external director. Ms. Efrat Makov replaced Ms. Debbie Saperia following 12 years of service by Ms. Saperia as an external director. Ms. Saperia and Ms. Makov served concurrently until Ms. Saperia's term ended in January 2020.

Messrs. Darren Glatt, Phil Bacal, Ran Fuhrer and Stephen Joseph were appointed to the Board on November 25, 2019. Mr. Glatt replaced Shlomo Zohar as Chairman of the Board. Mr. Raved was appointed by the Board in January 2020. All of the non-external directors will stand for election in the 2020 Annual General Meeting. Mr. Tomer Raved was also appointed as our new Chief Executive Officer replacing Mr. Ami Barlev in January 2020.

There are no family relationships among any of our directors or executive officers.

Our Directors and Officers

Darren Glatt was appointed by the Board to serve as our Chairman of the Board in December 2019. Mr. Glatt is a Partner at Searchlight Capital Partners, overseeing the firm's efforts in the technology, media and telecommunications ("TMT") sectors and serving as co-head of the firm's infrastructure investing efforts. Prior to joining Searchlight in 2013, Mr. Glatt worked as a Partner in the Private Equity Group at Apollo Management, L.P., where he focused on both equity and credit investing in a range of industries that included TMT, Consumer, Leisure and Shipping, among others. Mr. Glatt also held positions at Apax Partners and The Cypress Group. He started his career at Bear Stearns in 1998 in New York. In addition to his role on the Board of Directors of the Company, Mr. Glatt is currently a member of the Boards of Bezeq, MediaMath, PatientPoint and Rackspace, and formerly a member of the Boards of Charter Communications, Ocean Outdoor, 160over90, PlayPower, Veritable Maritime and Core Media. Mr. Glatt received a BS from The George Washington University, and an MBA from Harvard Business School.

Phil Bacal was appointed by the Board to serve as a director in December 2019. Mr. Bacal is a Managing Director at Searchlight Capital Partners, participating in the firm's efforts in the TMT sectors. Prior to joining Searchlight in 2012, Mr. Bacal worked at The Catalyst Capital Group in Toronto, where he worked on distressed debt investments and special situations across various industries. Mr. Bacal started his career at Credit Suisse in 2007 in London, UK. Mr. Bacal is currently a member of the Board of Octave Group, and formerly a member of the Board of Roots Corporation. Mr. Bacal received an HBA from the Richard Ivey School of Business at the University of Western Ontario.

Ran Fuhrer was appointed by the Board to serve as a director in December 2019. Mr. Fuhrer currently serves as a Vice President Business Development with the Neopharm Group; an Israeli-based, privately-held, Healthcare & Consumer Wellness products enterprise. Previously, Mr. Fuhrer served as a Manager of Business Development for Celgene Corp. (headquartered in Summit, NJ. NASDAQ: "CELG"), where, he headed the company's new opportunities evaluation process. Additionally, Mr. Fuhrer served as a Director at A.D.O. Group Ltd. (TASE: "ADO"), a major property owner in Berlin, Germany. Mr. Fuhrer is also a board member at Bezeq.

Stephen Joseph was appointed by the Board to serve as a director in December 2019. Mr. Joseph is the Chief Operating Officer and Chief Financial Officer of Ocean Outdoor Limited (LSE: OOUT), an outdoor media and advertising company. Ocean listed on the London Stock Exchange in January 2019 after partnering with a U.S. founded SPAC, Ocelot Partners, in March 2018. Over the last 5 years Ocean has completed 8 acquisitions and now operates across seven countries. Stephen is involved in all aspects of the business, which includes M&A, commercial arrangements, operations, finance, HR, IT and legal. He is now responsible for managing the local market management teams and integrating the acquired businesses as well as assessing further acquisitions. Earlier at Ocean he helped grow the business from a venture capital backed enterprise that was loss making to mid cap and then large cap private equity investors before putting the company on the public markets. Mr. Joseph received a First Class Honours degree, a BSc Business and Financial Economics, from the University of Leeds and is a chartered accountant qualifying at KPMG.

Tomer Raved was appointed by the Board to serve as our Chief Executive Officer and as a director in January 2020. Mr. Raved is an experienced investment banker and a former M&A lawyer. In the past decade, Mr. Raved has advised telecom, media and tech companies on M&A and capital raises and has completed transactions valued at over \$300bn in aggregate with US and Israeli clients, such as Verizon, AT&T, Disney, IBM, KKR, Apollo and many others. Mr. Raved joined the Company from RBC Investment Bank, where he was a Director and a Vice President since 2016. Previously, Mr. Raved was an Associate Director at UBS Investment Bank. Mr. Raved has an MBA degree with specialization in Finance and Accounting from NYU Stern School of Business, as well as an L.L.B. degree and a B.A. degree in Economics from Tel-Aviv University.

Shlomo Zohar has served as a director since September 2018. Mr. Zohar served as Chairman of the Board from January 2019 to December 2019. Prior to his election as director, he served as director of Delek USA Energy, Inc. (NYSE: DK). Between January 2006 and December 2009, Mr. Zohar served as a member and chairman of the boards of directors of Israel Discount Bank Ltd., Mercantile Discount Bank Ltd., Israel Discount Capital Markets & Investments Ltd. and Israel Credit Cards, Ltd. During this time, Mr. Zohar also served as a member and vice chairman of the board of directors of Israel Discount Bank of New York and as a member of the board of directors of Discount Bancorp, Inc. Mr. Zohar has been Chief Executive Officer of A.D.O. Group Ltd. (TASE:ADO) since July 2011 until December 2018 (and is an executive vice chairman of the Board of ADO Properties SARL (ETR:ADJ)). He has been chairman of the board of Naaman Group (N.V.) Ltd. since February 2012. From 1980 to December 2005, he was a partner in the accounting firm of Zohar, Zhohar & Co., CPA (Isr). He is a certified public accountant in Israel. He received his undergraduate degree in economics and accounting from Bar-Ilan University and an MBA degree from McGill University.

Michael Klahr was initially elected as an external director by our shareholders at our 2019 annual general meeting of shareholders, which took place in November 2019. Mr. Klahr was a Director and Senior Equity Analyst at Citigroup (NYSE:C) in Israel from February 2010 until August 2019, responsible for Israel, Greece and Russian Consumer research coverage. He was a Director and Senior Investment Analyst at Pamplona Capital Management in Israel from May 2007 until December 2008, with a focus on emerging market telecommunications and bank stocks. Mr. Klahr worked as a Vice President and Senior Equity Analyst at Deutsche Bank (NYSE:DB) in Israel between August 2005 and April 2007, with responsibility for domestic Israel research coverage. Prior to that, he worked at UBS Group (NYSE:UBS) in Israel and at JPMorgan Chase (NYSE:JPM) in London. He holds a BSc Joint Hons. degree in Psychology and Philosophy from the University of Leeds. In his past roles, Mr. Klahr has conducted independent analytical reviews on the Bezeq Group.

Efrat Makov was initially elected as an external director by our shareholders at our 2019 annual general meeting of shareholders, which took place in November 2019. Ms. Makov has served as a director of BioLight Life Sciences Ltd. (TASE: BOLT) (formerly Bio Light Israeli Life Sciences Investments Ltd.), an emerging global ophthalmic company, since April 2011. Ms. Makov previously served as a director of Kamada Ltd. (NASDAQ: KMDA) and of Anchiano Therapeutics Ltd. (TASE: ANCN) (formerly BioCanCell Ltd.), a clinical-stage biopharmaceutical company. Ms. Makov served as the Chief Financial Officer of Alvarion Ltd. (formerly NASDAQ; TASE: ALVR), a global provider of autonomous Wi-Fi networks, from April 2007 to December 2010. Ms. Makov served as the Chief Financial Officer of Aladdin Knowledge Systems Ltd. (formerly NASDAQ; TASE: ALDN) (n/k/a Safenet, Inc.), an information security leader specializing in authentication, software DRM and content security, from September 2005 to January 2007, where she was responsible for the finance, operations, information systems and human resources functions. Prior to that, Ms. Makov served in management positions at two Israeli-based public companies, including as Vice President of Finance at Check Point Software Technologies Ltd. (NASDAQ: CHKP), a worldwide leader in IT security, from September 2002 to August 2005. Ms. Makov served as Director of Finance for NUR Macroprinters Ltd. (formerly NASDAQ: NURM) (n/k/a Ellomay Capital), from August 2000 to August 2002. Prior to that, Ms. Makov spent seven years in public accounting with Arthur Andersen LLP in its New York, London and Tel Aviv offices. Ms. Makov holds a B.A. degree in Accounting and Economics from Tel Aviv University and is a certified public accountant in Israel and the United States.

Itzik Tadmor has served as our company's Chief Financial Officer since January 2019. Mr. Tadmor has served as our company's Principal Financial Officer from May 2015 until January 2019. Mr. Tadmor served as our company's controller from September 2011 until May 2015. Prior to joining our company, Mr. Tadmor worked at PriceWaterhouseCoopers (PwC) for six years. Mr. Tadmor received a bachelor's degree in Accounting and Economics and an M.B.A. degree from Tel-Aviv University. Mr. Tadmor is also a Certified Public Accountant in Israel.

Executive Management of the Bezeq Group

Dudu Mizrahi was appointed as CEO of Bezeq effective September 1, 2018. Prior to his appointment, Mr. Mizrahi served as Deputy CEO of Tnuva. Prior to that, Mr. Mizrahi served as Deputy CEO and Chief Financial Officer of the Bezeq Group for four years. Previously, he acted as VP Economics & Budgeting of Bezeq, and in total worked for 20 years at Bezeq.

Yali Rothenberg has served as VP Finance of Bezeq and Chief Financial Officer of the Bezeq Group since September 2017. Between 2012 to 2017, Mr. Rothenberg was the Deputy Chief Accountant, Head of Finance and Credit Division at Israel's Treasury Department. Mr. Rothenberg also served as a director of Ashdod Port Ltd. between 2014 and 2016. Mr. Rothenberg holds a B.A. degree in Economics from Touro University, New York, and an M.B.A. degree majoring in Finance from Bar Ilan University.

Ran Guron has served as the chief executive officer of Pelephone since November 2015, as the chief executive officer of DBS since August 2018 and as the chief executive officer of Bezeq International since January 2019. Previously, he served as the Deputy CEO and VP Marketing of Bezeq from March 2011 to October 2015. Before becoming Deputy CEO at Bezeq, he was VP Marketing – CMO at Bezeq for 5 years. From 2003 to 2005, Mr. Guron was VP Marketing at 013 Barak (currently 013 Netvision Ltd.) He serves as Mentor for Microsoft Ventures Accelerator Tel-Aviv program for startups. Mr. Guron is the founder of the Yair Guron Memorial Scholarship R&D Fund in the Arava region. Mr. Guron holds an M.B.A. degree and a B.A. degree in Economics and Business Administration from the Hebrew University of Jerusalem.

B. Compensation

During 2019 we had two executive officers, Ami Barlev, our former CEO and Itzik Tadmor, our Chief Financial Officer, and six directors. Other than such officers, we had four additional employees who were engaged in management, financial and administrative activities. The aggregate direct compensation we paid to our directors as a group (6 persons) for the year ended December 31, 2019 was NIS 1.4 million (approximately \$417,000). This amount includes director's compensation, but does not include expenses such as business travel, professional and business association dues and expenses reimbursed to officers and other fringe benefits commonly reimbursed or paid by companies in Israel. As of December 31, 2019, no amount was reserved for pension, retirement, recreation payments and vacation or similar benefits for our directors.

Our services agreement with our former Chief Executive Officer, Doron Turgeman, was terminated in January 2019. He was replaced by Ami Barlev, who waived his salary as CEO and only received compensation for his role as Director. Mr. Barlev was replaced by Tomer Raved on January 9, 2020.

For so long as we qualify as a foreign private issuer, we are not required to comply with the proxy rules applicable to U.S. domestic companies, including the requirement to disclose information concerning the amount and type of compensation paid to our chief executive officer and chief financial officer, rather than on an aggregate, basis. Nevertheless, a recent amendment to the regulations promulgated under the Israeli Companies Law requires us to disclose the annual compensation of our five most highly compensated officers (or all the named executive officers if there are less than five) on an individual basis, rather than on an aggregate basis, as was previously permitted for Israeli public companies listed overseas. Under the Companies Law regulations, this disclosure is required to be included in the notice of our annual meeting of shareholders each year or in a public document that accompanies such notice, which we furnish to the SEC under cover of a Report of Foreign Private Issuer on Form 6-K. The Companies Law regulations permit us to refer to a report filed pursuant to the laws of the country in which our shares are listed for trading that includes the required information in lieu of its inclusion in the notice of annual meeting. Because of that disclosure requirement under Israeli law, we are including such information in this annual report, pursuant to the disclosure requirements of Form 20-F.

The following table includes information for the year ended December 31, 2019 concerning compensation for our named executive officers (for 2019). All amounts are in US dollars:

	Ami Barlev (Chief Executive Officer)¹	Itzik Tadmor (Chief Financial Officer)
Annual fixed salary	-	115,000
Retention Bonus (treated as salary costs in the company's financial statements).	-	15,000
Annual and special Bonus (treated as salary costs in the company's financial statements).	-	-
Car Expenses , including lease costs, gas and maintenance, provided to the officers (treated as management and general costs in our company's financial statements).	-	8,500

(1) Ami Barlev was replaced by Tomer Raved in January 2020. These amounts apply to Mr. Barlev only.

On February 13, 2020, our shareholders approved the compensation terms for Mr. Raved. Among such terms, in addition to his fees as director, Mr. Raved is entitled to a monthly base salary of NIS 94,330 and a one-time grant of options to purchase up to 2,677,362 of our ordinary shares, representing as of the date of his employment agreement, 2.25% of the issued and outstanding share capital of the company.

For 2019 we paid each of our external directors, as well as to independent directors, annual fees of NIS 49,000 (approximately \$14,000) and a per meeting attendance fee of NIS 1,275 (approximately \$370). Such fees are paid based on the "Fixed" fees set forth in regulations promulgated under the Israeli Companies Law. According to the regulations, an external director (and our independent director) is entitled to 60% of the per meeting fee if he or she participated in the meeting by means of communication and not in person, and to 50% of the per meeting fee if resolutions were approved in writing, without convening a meeting. All of our non-employee directors are reimbursed for their expenses for each meeting of the board of directors and audit committee attended.

We have determined to pay our directors (including our external directors) compensation equal to the maximum statutory amount for external directors of companies of our size set forth from time to time in the Israeli Companies Regulations. Based on our size at present, this amount does not exceed NIS 84,000 per year. In addition, as set forth in the Regulations, the directors shall be entitled to a per-meeting fee, in accordance with the maximum statutory amount for such fees set forth in the Regulations. If reelected at the 2020 Annual Meeting, each of the director nominees will be entitled to receive that compensation.

Certain of the director nominees— Messrs. Stephen Joseph, Michael Klahr Tomer Raved and Shlomo Zohar, and Ms. Efrat Makov—have been classified by our Board as possessing financial expertise (as defined under the Companies Law regulations) and are therefore entitled to receive a higher annual compensation amount, at the level prescribed for an "expert director" under the External Director Compensation Regulations.

Our internal auditor, who is also deemed to be an "officer" in accordance with the Israeli Companies Law, received approximately NIS 62,000 (approximately \$18,000) for his services in 2019. Such costs are treated as general and operating costs in our financial statements.

C. Board Practices

According to the Israeli Companies Law-1999, or the Israeli Companies Law, and our articles of association, the management of our business is vested in our board of directors. Our board of directors may exercise all powers and take all actions that are not specifically granted to our shareholders. Our executive officers are responsible for our day-to-day management and have individual responsibilities established by our chief executive officer and the board of directors. Executive officers are appointed by and serve at the discretion of our board of directors, subject to any applicable agreements.

Election of Directors

Our articles of association provide for a board of directors consisting of no less than two and no more than ten directors or such other number as may be determined from time to time at a general meeting of shareholders. Our current board of directors consists of five directors.

In accordance with our articles of association and the Israeli Companies Law, all of our directors (other than our external directors) are elected at annual meetings of our shareholders, which are required to be held at least once during every calendar year and not more than 15 months after the last preceding meeting. Except for our external directors, our directors are elected by a vote of the holders of a majority of the voting power represented and voting at such meeting and hold office until the next annual meeting of shareholders following the annual meeting at which they were appointed. The general meeting of shareholders may remove any director from office, other than an external director, by an ordinary resolution, subject to applicable law. Our board of directors may temporarily fill vacancies in the board of directors until the next general meeting at which directors are appointed, if the total number of directors does not exceed the maximum number permitted under our articles of association. The board of directors is entitled to remove from office any director appointed by it.

The board of directors of an Israeli public company is required to determine that at least one or more directors will have “accounting and financial expertise,” as defined by regulations promulgated under the Israeli Companies Law. Our board of directors determined, accordingly, that at least two directors must have “accounting and financial expertise.” Our Board of Directors has further determined that Messrs. Moshe Rosenthal, Shlomo Zohar and Benny Gabbay have the requisite “accounting and financial expertise.”

As a controlled company within the meaning of the NASDAQ Stock Market Rules, we are exempt from the NASDAQ requirement regarding the nomination process of directors, and instead, follow Israeli law and practice, in accordance with which directors may be recommended by our board of directors for election by our shareholders. See Item 16G. “Corporate Governance - NASDAQ Exemptions for a Controlled Company.”

External and Independent Directors

External Directors

Under the Israeli Companies Law, companies incorporated under the laws of the State whose shares have been offered to the public are required to appoint at least two external directors. The external directors must meet certain statutory requirements of independence.

At least one of the external directors must have “accounting and financial expertise” and any other external director must have “accounting and financial expertise” or “professional qualification,” as such terms are defined by regulations promulgated under the Israeli Companies Law.

The external directors are elected for their first term of office by shareholders at a general meeting, provided that either:

- The majority of shares voting on the matter (not including abstentions), including at least a majority of the shares of the non-controlling shareholders (and of shareholders who do not have a personal interest in the election of the external director as a result of their relationship with the controlling shareholder) voting on the matter, vote in favor of the external director; or
- The majority of shares voting on the matter (not including abstentions) vote in favor of the external director and the total number of ordinary shares held by non-controlling shareholders (and of shareholders who do not have a personal interest in the election of the external director as a result of their relationship with the controlling shareholder) that voted against the election of the external director does not exceed 2% of all of the voting rights in the company.

In general, external directors serve for a three-year term and may be reelected to two additional three-year terms if one of the following conditions is met:

- One or more shareholders holding at least 1% of the voting rights in the company nominated the external director for an additional term of office and the appointment was approved by a majority of the shares voting on the matter, not including votes of controlling shareholders or shareholders who have a personal interest in the election of the external director as a result of their relationship with the controlling shareholder; and provided that the total number of shares held by non-controlling persons and by persons who have no personal interest in the appointment of the external director as a result of their relationship with the controlling shareholder, who voted in favor of the election of the nominee, exceeds 2% of the voting rights in the company; or
- The board of directors proposed the nominee for an additional term of office, and the election was approved by the general meeting of shareholders by the majority required for the election of an external director for a first term of office, as described above.

External directors can be removed from office only by the same special percentage of shareholders as can elect them, or by a court, and then only if the external directors cease to meet the statutory qualifications with respect to their appointment or if they violate their duty of loyalty to the company. If an external directorship becomes vacant, the board of directors is required under the Israeli Companies Law to convene a shareholders meeting immediately to appoint a new external director.

Each committee of the board of directors that is authorized to exercise powers vested in the board of directors must include at least one external director, and the audit committee and compensation committee must include all the external directors. An external director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Independent Directors

In general, NASDAQ Stock Market Rules require that a NASDAQ-listed company have a majority of independent directors on its board of directors and its audit committee must consist solely of independent directors, as defined under NASDAQ Stock Market Rules. Because Searchlight owns more than 50% of our ordinary shares, we are considered a “controlled company” within the meaning of NASDAQ Stock Market Rules. Accordingly, we are exempt from certain requirements under NASDAQ Stock Market Rules, such as the requirement to have a majority of independent directors on our board of directors. If the “controlled company” exemption would cease to be available to us under the NASDAQ Stock Market Rules, we may instead elect to follow Israeli law and would not be required to elect any additional independent directors.

Pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an external director; or (ii) a director who complies with the following requirements: (y) he or she is eligible for nomination as an external director and the audit committee has approved such eligibility; and (z) he or she has not acted as a director of the company for a period exceeding nine consecutive years.

Our Board of Directors has determined that each of Ms. Efrat Makov (chair) and Mr. Michael Klahr, our external directors under Israeli law, and Mr. Stephen Joseph qualifies as an independent director under the requirements of the SEC, NASDAQ and Israeli law.

Audit Committee

Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. The audit committee must consist of at least three directors, must include all of the external directors and must have a majority of independent directors, as such terms are defined in the Israeli Companies Law. The audit committee may not include the chairman of the board of directors, any director employed by the company or by the controlling shareholder of the company or by a company controlled by the controlling shareholder or any director who provides services on a regular basis to the company or the controlling shareholder or a company controlled by a controlling shareholder, or a director that is financially dependent on the controlling shareholder, or a controlling shareholder or any of the controlling shareholder’s relatives.

Our audit committee also serves, in compliance with the Israeli Companies Law and Israeli Companies Regulations (Provisions and Conditions regarding the Financial Statements’ Authorization Process), 2010 as the committee of our board of directors that is required to examine our financial statements.

In addition, the NASDAQ Stock Market Rules require us to establish an audit committee comprised of at least three members, all of whom must be independent directors, each of whom is financially literate and satisfies the respective “independence” requirements of the SEC and NASDAQ and one of whom has accounting or related financial management expertise at senior levels within a company.

Our audit committee assists our Board of Directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent registered public accountants’ qualifications and independence, the performance of our internal audit function and independent registered public accountants, finding any defects in the business management of our company and proposing to our Board of Directors ways to correct such defects, approving related-party transactions as required by Israeli law, and such other duties as may be directed by our Board of Directors. The role of our audit committee also includes the determination of whether certain related party transactions are regarded as material, extraordinary, or insignificant, the review of the internal audit program and the operation of the internal auditor, as well as setting procedures for whistleblower protection.

Our audit committee consists of three members of our Board of Directors who satisfy the respective “independence” requirements of the SEC, NASDAQ and Israeli law for audit committee members. Our current audit committee members are Ms. Efrat Makov (chair), Mr. Stephen Joseph and Mr. Michael Klahr. Our board of directors has determined that Ms. Efrat Makov, Mr. Klahr and Mr. Stephen Joseph qualify as audit committee financial experts, as defined by rules of the SEC. The audit committee meets at least once each quarter.

Compensation Committee

Our Board of Directors has established a Compensation Committee consisting of our three external directors (within the meaning of the Israeli Companies Law) who are also the members of our audit committee. The three members satisfy the “independence” requirements of the SEC, NASDAQ and Israeli law for audit committee members. A compensation committee must be comprised of no fewer than three members and must include all of the external directors, whom must also constitute a majority of its members. All other members of the compensation committee must be directors who receive compensation that complies with regulations promulgated under the Israeli Companies Law. In addition, the chairperson of the compensation committee must be an external director. Directors who are not qualified to serve on the audit committee may not serve on the compensation committee.

The compensation committee is responsible for: (i) making recommendations to the board of directors with respect to the approval of the compensation policy applicable to the company’s office holders and any extensions thereto. The compensation policy must be based on those considerations, must include those provisions and needs to reference those matters as are detailed in the Israeli Companies Law; (ii) providing the board of directors with recommendations with respect to any amendments or updates to the compensation policy and periodically reviewing the implementation thereof; (iii) reviewing and approving arrangements with respect to the terms of office and employment of office holders; and (iv) determining whether or not to exempt a transaction with a candidate for chief executive officer from shareholder approval.

Our Compensation Committee adopted a compensation policy and will be required to approve our compensation policies at least once every three years. The compensation policy was approved by our board of directors, after considering the recommendations of our Compensation Committee, and by our shareholders by a special majority in accordance with the Israeli Companies Law. In May 2019, an amended compensation policy was approved by our shareholders.

Internal Auditor

Under the Israeli Companies Law, the board of directors of a public company must appoint an internal auditor nominated by the audit committee. The role of the internal auditor includes the responsibility to examine whether a company’s actions comply with applicable law and orderly business procedure. The internal auditor must meet certain statutory requirements of independence. In determining the ownership or voting interest of a person, Israeli law is expansive and aggregates that person’s direct and indirect holdings, including the holdings of certain affiliates, relatives and associates. Mr. Ilan Chaikin currently serves as our internal auditor.

Exculpation, Indemnification and Insurance of Directors and Officers

Indemnification of Office Holders

Under the Israeli Companies Law and the Israeli Securities Law, 5738-1968, or the Israeli Securities Law, a company may, if permitted by its articles of association, indemnify an office holder for any of the following liabilities or expenses that they may incur due to an act performed or failure to act in his or her capacity as the company’s office holder, either pursuant to an undertaking given by the company in advance of the act or following the act:

- monetary liability imposed on the office holder in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court. However, if a company undertakes to indemnify an office holder in advance of such a liability, the undertaking must be limited to foreseeable events based on the company’s activities when the company undertook such indemnification, and to amounts or standards that the board of directors has determined are reasonable under the circumstances;
- reasonable litigation expenses, including attorneys’ fees, expended by an office holder as a result of an investigation or proceeding instituted against the office holder by a competent authority, provided that such investigation or proceeding concludes without the filing of an indictment against the office holder and either: no financial liability was imposed on the office holder in lieu of criminal proceedings, or a financial liability was imposed on the office holder in lieu of criminal proceedings with respect to an alleged criminal offense that does not require proof of criminal intent;

- reasonable litigation expenses, including attorneys' fees, expended by the office holder or for which the office holder is charged by a court:
 - in an action brought against the office holder by the company, on behalf of the company or on behalf of a third party,
 - in a criminal action from which the office holder is acquitted, or
 - in a criminal action in which the office holder is convicted of a criminal offense which does not require proof of criminal intent.
- a payment that the office holder is obligated to make to an injured party pursuant to Section 52(54)(a)(1)(a) of the Israeli Securities Law, and expenses that the office holder incurred in connection with an administrative proceeding under the Israeli Securities Law, including reasonable litigation expenses and attorney fees.

Insurance of Office Holders

A company may, if permitted by its articles of association and subject to the conditions set forth in the Israeli Companies Law, obtain insurance for an office holder against liabilities incurred in his or her capacity as an office holder. These liabilities include a breach of duty of care to the company or a third-party, a breach of duty of loyalty and any monetary liability imposed on the office holder in favor of a third-party.

In addition, under the Israeli Securities Law, a company may, if permitted by its articles of association, obtain insurance for an office holder against liabilities incurred in his or her capacity as an office holder in connection with a payment that the office holder is obligated to make to an injured party pursuant to Section 52(54)(a)(1)(a) of the Israeli Securities Law, and expenses that the office holder incurred in connection with an administrative proceeding under the Israeli Securities Law, including reasonable litigation expenses and attorney fees.

Exculpation of Office Holders

Under the Israeli Companies Law, a company may, if permitted by its articles of association, also exculpate an office holder from a breach of duty of care in advance of that breach. A company may not exculpate an office holder from a breach of duty of loyalty towards the company or from a breach of duty of care concerning dividend distribution or a purchase of the company's shares by the company or other entities controlled by the company.

Limitations on Exculpation, Insurance and Indemnification

Under the Israeli Companies Law, a company may indemnify or insure an office holder against a breach of duty of loyalty only to the extent that the office holder acted in good faith and had reasonable grounds to assume that the action would not prejudice the company. In addition, a company may not indemnify, insure or exculpate an office holder against a breach of duty of care if committed intentionally or recklessly (excluding mere negligence), or committed with the intent to derive an unlawful personal gain, or for a fine or forfeit levied against the office holder in connection with a criminal offense. According to the Israeli Administrative Enforcement Law, a company cannot insure or indemnify an office holder for an administrative enforcement procedure, regarding payments to victims of the infringement or for expenses expended by the officer with respect to certain proceedings held concerning him or her, including reasonable litigation expenses and legal fees.

Pursuant to the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, our office holders must be approved by our Compensation Committee and our Board of Directors and, if the office holder is a director or the chief executive officer, also by our shareholders.

Our articles of association allow us to insure, indemnify and exempt our office holders to the fullest extent permitted by law, subject to the provisions of the Israeli Companies Law and Israeli Securities Law. On December 21, 2017, our shareholders approved a directors and officers' liability insurance policy effective November 1, 2017 and terminating on October 31, 2018. The total coverage for each individual claim and in the aggregate was up to \$10,000,000 for the claim and for the entire period of the insurance period, plus reasonable legal expenses beyond the limit of liability in accordance with the provisions of Section 66 of the Insurance Contract Law, 5741-1981. In September 2018, our shareholders approved an amended policy with the same coverage of \$10,000,000 for a claim and in the aggregate and a premium of approximately \$450,000. It will terminate on May 1, 2020. The amended policy also includes side "A" directors and officers liability coverage, which is for the benefit of our Directors and Executive Officers, but only in situations where coverage under the General Policy has been exhausted or is otherwise insufficient or unavailable. The total coverage for each individual claim and in the aggregate in the side "A" policy is up to \$10,000,000 for the claim and for the entire period of the insurance period, plus reasonable legal expenses beyond the limit of liability in accordance with the provisions of Section 66 of the Insurance Contract Law, 5741-1981. It carries a premium of approximately \$160,000 and terminates on May 1, 2020. In the 2020 General Meeting of the shareholders, which will be held on April 30, 2020, our shareholders will vote on new indemnification letters for our directors and officers, and a new run-off insurance policy.

D. Employees

On December 31, 2019, we had four (4) employees. Our direct employees are all located in Israel and are not represented by any labor union. Since our inception, we have not experienced any labor-related work stoppages and believe that our relations with our employees are good.

As of December 31, 2019, the Bezeq Group employed 10,212 persons, of whom 5,256 persons were employed by Bezeq, 2,202 persons were employed by Pelephone, 1,419 persons were employed by Bezeq International and 1,335 persons were employed by DBS.

On December 31, 2018, we had five (5) employees, some of whom also provided services to Internet Gold.

As of December 31, 2018, the Bezeq Group employed 11,132 persons, of whom 5,494 persons were employed by Bezeq, 2,453 persons were employed by Pelephone, 1,653 persons were employed by Bezeq International and 1,532 persons were employed by DBS.

As of December 31, 2017, the Bezeq Group employed 11,677 persons, of whom 5,582 persons were employed by Bezeq, 2,551 persons were employed by Pelephone, 1,864 persons were employed by Bezeq International and 1,680 persons were employed by DBS.

Israeli labor laws and regulations are applicable to our employees. Israeli labor laws govern the length of the workday, minimum wages for employees, procedures for hiring and dismissing employees, determination of severance pay, annual leave, sick days and other conditions of employment. Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment by our company. For those employees who are entitled to a pension arrangement, we fund future severance pay obligations by contributing to managers' insurance or other pension arrangements. A provision in our financial statements covers severance pay to those employees who are not entitled to managers' insurance or other pension arrangements. Furthermore, our employees and we are required to make payments to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Such amounts also include payments by the employee for health insurance.

Labor relations with Bezeq's employees involved in fixed-line communications are regulated by the collective agreements among Bezeq, the workers representatives and the Histadrut, as well as by personal contracts. Additionally, expansion orders to certain general collective agreements apply Bezeq's employees, such as cost-of-living increment agreements.

E. Share Ownership

None of our directors or executive officers held any ordinary shares of our company as of April 23, 2020.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information as of April 23, 2020 regarding the beneficial ownership by all shareholders known to us to own beneficially 5% or more of our ordinary shares:

Name	Number of Ordinary Shares Beneficially Owned ⁽¹⁾	Percentage of Ownership ⁽²⁾
Major Shareholders		
Searchlight Capital Partners II GP (Cayman), Ltd. and affiliated entities ⁽³⁾	69,994,038	60.2%
T.N.R. Investments Ltd. ⁽⁴⁾	13,248,905 ⁽⁵⁾	11.4%
Internet Gold-Golden Lines Ltd. ⁽⁶⁾	8,383,234	7.2%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC, and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities, but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 116,316,563 ordinary shares issued and outstanding as of April 1, 2020 (not including 19,230 shares held as treasury stock).
- (3) Based on a Schedule 13D filed with the SEC on December 9, 2019. Based on that Schedule 13D, Searchlight II BZQ, L.P., a Cayman Islands limited partnership, is the record holder of the subject ordinary shares. Searchlight Capital Partners II GP (Cayman), Ltd., or Searchlight Capital Partners, is the managing member of Searchlight Capital Partners II GP, LLC, which is the general partner of Searchlight Capital Partners II GP, L.P., which is the general partner of each of SC II BZQ, L.P. and SC II PV BZQ, L.P., which are the shareholders of Searchlight BZQ GP, which is the general partner of Searchlight II BZQ, L.P. There are three managers of Searchlight Capital Partners. Those managers directly or indirectly control the investment and voting decisions with respect to the subject ordinary shares. The address of the principal office of these shareholders is c/o Searchlight Capital Partners, L.P., 745 5th Avenue— 27th Floor, New York, NY 10151, Attention: Nadir Nurmohamed.
- (4) Based on a Schedule 13D filed with the SEC on December 9, 2019. Based on that Schedule 13D, T.N.R. Investments Ltd., or TNR, holds the subject ordinary shares. Mr. David Fuhrer and his wife Mrs. Michal Fuhrer own the shares of TNR in equal parts. Mr. Ran Fuhrer, David's and Michal's son, serves as a member of the board of directors of TNR but does not possess voting or investment authority with respect to these shares. The address of TNR's principal office is 6 Hashiloach, Petach-Tikva, 4951439, Israel.
- (5) In addition to these ordinary shares of held by TNR, T.N.R Real Estate Ltd., an affiliate of TNR, holds 2,546,320 shares of Bezeq.
- (6) Based on a Schedule 13D/A filed by Internet Gold with the SEC on December 10, 2019. The address of this shareholder is 65 Yigal Alon, Tel Aviv 6744316, Israel.

Significant Changes in the Ownership of Major Shareholders

As reported by Internet Gold on a Schedule 13D/A filed with the SEC on December 10, 2019, on June 24, 2019, we entered, together with Internet Gold, Searchlight II BZQ, L.P. and T.N.R. Investments Ltd. into the Searchlight-Fuhrer SPA. At the closing of the transaction, Internet Gold sold its entire equity holdings in our company for NIS 225 million, while at the same time it made an investment in our company of NIS 345 million. In consideration for such investment, Internet Gold received NIS 310 million par value of our Series C debentures and was issued 8,383,234 ordinary shares of our company, which constitute approximately 7.21% of our ordinary shares.

As reported by Searchlight on its Schedule 13D filed on December 9, 2019 with the SEC, as a result of the transactions executed by the Searchlight-Fuhrer SPA, Searchlight became the owner of 69,994,038 of our ordinary shares, which constitute approximately 60.20% of our ordinary shares.

As reported by TNR on its Schedule 13D filed on December 9, 2019 with the SEC, as a result of the transactions executed by the Searchlight-Fuhrer SPA, TNR became the owner of 13,248,905 of our ordinary shares, which constitute approximately 11.39% of our ordinary shares.

Dov Yelin, Yelin Lapidot Holdings Management Ltd. and Yair Lapidot reported a 5.03% holding in our equity amounting to 1,504,308 ordinary shares of our company, on their Schedule 13G filing on January 3, 2019. On February 11, 2019, Yelin Lapidot reported on Schedule 13G/A an increase to 5.05% amounting to a total of 1,510,858 ordinary shares of our company. On January 27, 2020, Yelin Lapidot reported as of December 31, 2019, a 1.65% holding in our equity amounting to 1,922,741 ordinary shares of our company. The address of Yelin Lapidot is 50 Dizengoff St., Dizengoff Center, Gate 3, Top Tower, 13th floor, Tel Aviv 64332, Israel.

Meitav Dash Investments Ltd, reported a 5.15% holding in our equity amounting to 1,540,321 ordinary shares of our company, on their Schedule 13G/A filing on December 26, 2018. On January 15, 2019, they reported a decrease in their Schedule 13G/A to 4.99% amounting to a total of 1,491,107 ordinary shares of our company. The address of Meitav Dash is 30 Derekh Sheshet Ha-Yamim, Bene-Beraq, Israel.

Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

Searchlight and Fuhrer have entered into a voting agreement pursuant to which they have agreed that, for so long as an “Israeli partner” in the controlling stake of Bezeq, is mandated by Israeli law, it shall grant a proxy to Fuhrer to vote such number of Ordinary Shares held by it prior to each general shareholders meeting of the Issuer to the extent necessary to allow Fuhrer to be able to vote at such general shareholders meeting a number of Ordinary Shares equal to the greater of (i) Fuhrer’s beneficial ownership percentage, and (ii) nineteen percent (19%). The voting agreement also provides that, under certain circumstances, Searchlight will refrain for voting in favor of certain restricted matters (as defined in the Voting Agreement) without Fuhrer’s prior consent.

Record Holders

Based on a review of the information provided to us by our transfer agent and other information available to our company, as of April 23, 2020, one record holder holding 60.2% of our outstanding ordinary shares had a registered address in the United States. Such numbers are not representative of the portion of our shares held in the United States nor are they representative of the number of beneficial holders residing in the United States, since such ordinary shares were held of record by one U.S. nominee company, CEDE & Co. According to the information available to us, as of our last annual general meeting, we had 7,069,580 beneficial holders in the United States.

B. Related Party Transactions

We receive and provide few services and products to and from related parties at market rates and in the ordinary course of business. Other than the transactions described below, none of our related party transactions are material to us or to our related parties. If a related party wishes to supply products or services to us, we generally obtain a bid from a third party to enable us to determine whether the related party’s bid is on arm’s-length terms.

Bezeq Group Interested Party Guidelines

In March 2011, Bezeq’s board of directors adopted guidelines and regulations to classify a transaction by Bezeq, any of its subsidiaries or affiliates of Bezeq with an interested party as an “insignificant transaction,” which is not an “extraordinary transaction,” as set out in the Israeli Securities Regulations (Annual Financial Statements), 2010. These guidelines and regulations are used to examine the scope of disclosure in periodic reports, prospectuses (including shelf offering reports) and immediate reports regarding a transaction of Bezeq, a company under its control and a subsidiary or affiliate of Bezeq with a controlling shareholder or in which the controlling shareholder has a personal interest.

From time to time, Bezeq and its subsidiaries or affiliates enter into “insignificant transactions,” which are not extraordinary transactions, with an interested party in Bezeq or with related parties, including transactions for the sale or purchase of products and services, such as communication products and services, including fixed-line and cellular telephony handsets, software development products and services, maintenance services, voice-mail service agreements, rental transactions of real estate properties and advertising services.

In the absence of special, qualitative considerations under the specific circumstances, a transaction that is in Bezeq’s regular course of business, is carried out in accordance with market conditions and has no material effect on the Bezeq Group, is deemed “insignificant” if all the following parameters exist:

- The amount of the transaction does not exceed NIS 10 million;
- Bezeq is not required to issue an immediate report for the transaction under applicable law; and
- The transaction does not involve employment terms (within the meaning of the Israeli Companies Law) of an interested party or any relative thereof.

According to the Israeli Companies Law, Bezeq’s audit committee will review the parameters set out above and the need to update them on a yearly basis, prior to the publication of Bezeq’s reports. Bezeq’s board of directors may, from time to time and at its discretion, amend the parameters for an “insignificant transaction.” In general, each transaction is tested separately for “insignificance.” Nevertheless, separate transactions that are part of the same continuing transaction or very similar transactions that are carried out routinely and repeatedly, will be tested as one transaction on an annual basis for “insignificance,” provided the scope of the transaction does not exceed NIS 10 million.

Bezeq Group Transactions Deemed to be Significant

Approval date of Bezeq's AGM (after approval of Bezeq's audit/compensation committee and Board of Directors), unless otherwise stated.

Nature of the transaction

Amount of the transaction

April 3, 2017	Approval of Bezeq's vote at the general meeting of DBS in favor of the agreement between DBS and Spacecom with an amendment/addendum to the existing agreement between the parties dated November 4, 2013, for the lease of satellite segments in Spacecom's satellites, including in favor of implementation of the agreement. The term of the agreement remains the same as the original agreement, namely, until the end of 2028.	A total nominal cost of up to \$263 million for the entire term of the Agreement (until December 31, 2028), reflecting an average annual cost of USD 21.9 million. The overall cost of the agreement may be lower if surplus revenue sharing mechanisms are applied and/or the assumptions set out in the amendment to the Agreement.
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We may have had a personal interest in the transaction since, as at the date of the transaction, Spacecom was controlled by Eurocom Communications, which was our controlling shareholder of at that time. As of May 3, 2018, the connection between Eurocom Communications and Spacecom was severed and we and Bezeq no longer see Spacecom as a related party.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Statements

See the consolidated financial statements of our company and Bezeq, including the notes thereto, listed in Item 18 "Financial Statements" and incorporated herein by this reference.

Export Sales

Not applicable.

Legal Proceedings (our company)

On June 29, 2017, Lynne P. Maleeff commenced litigation on behalf of a purported class of all persons and entities who purchased or otherwise acquired our shares between March 18, 2015 and September 6, 2017. The original defendants were our company, Doron Turgeman (our former CEO), Itzik Tadmor (our CFO) and Ehud Yahalom (our former CFO). On December 8, 2017, lead plaintiffs filed an amended complaint adding ten new defendants: Shaul Elovitch, Or Elovitch, Ron Eilon, Stella Handler, David Mizrahi, Micky Neiman, Allon Raveh, Linor Yochelman, DBS and Eurocom Communications. The amended complaint alleges a single cause of action against our company for violation of Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder. The complaint alleges that we made false and misleading statements and omissions in our SEC filings.

On February 20, 2018, we moved to dismiss the litigation for failure to state a claim or, alternatively, to stay the litigation pending the outcome of criminal investigations in Israel. Our motion to dismiss asserted that plaintiffs failed to allege that we had the required knowledge or scienter about the purported wrongdoing by other defendants and that we did not make any materially false statements. Plaintiffs filed their opposition to the motion.

The court issued a decision dated September 27, 2018 granting in part and denying in part our motion to dismiss. The court dismissed all claims against our company relating to our code of ethics, internal controls, and compliance with laws generally and all claims relating to the Bezeq subcommittee reviewing the Bezeq-Yes transaction except for certain allegations relating to statements in one particular filing and to allegations regarding our statements about our or Bezeq's Free Cash Flow. The court denied our motion to stay without prejudice to our ability to seek a stay in the future if circumstances change. On July 12, 2018, motions to dismiss were filed by (1) defendants Doron Turgeman, Itzik Tadmor, and Ehud Yahalom, all former officers of our company, (2) Ron Eilon, Micky Neiman and DBS; and (3) Stella Handler, Allon Raveh, Linor Yochelman, and David Mizrahi, officers of Bezeq.

On March 28, 2019, the court concluded that the complaint failed to allege claims against our executive officers for either primary violations of the U.S. securities laws or "control person" liability for the alleged violations by others of the U.S. securities laws. The court therefore dismissed the complaint against Doron Turgeman, Itzik Tadmor and Ehud Yahalom. The court also concluded that the complaint failed to adequately allege personal jurisdiction against certain executive officers of Bezeq and DBS. The court therefore dismissed the complaint against the DBS and Bezeq defendants for lack of personal jurisdiction.

On December 5, 2019, the court held a telephonic conference to address plaintiffs' request that we shall be compelled to produce documents held by Bezeq or DBS. The court denied plaintiffs' request, and the plaintiffs indicated that they anticipate filing a formal motion to compel us to produce these documents. The court directed the parties to meet and confer about what discovery would be needed in advance of plaintiffs' anticipated motion. The company's counsel and the plaintiffs engaged in settlement negotiations in early 2020 and subsequently entered into a Memorandum of Understanding dated February 3, 2020 setting forth key settlement terms. Counsel and the plaintiffs advised the court on February 3, 2020 that we had reached a settlement in principal, and the court issued an order dated February 4, 2020 staying all deadlines in the litigation and directing the parties to file a motion for approval of the settlement on or before March 3, 2020. We executed a stipulation of settlement dated March 3, 2020. The stipulation of settlement provides in relevant part that the company (or its insurer) will pay a total of \$1.2 million, the litigation will be dismissed with prejudice, and all class members who do not opt out of the settlement will be deemed to fully and finally release all claims against the defendants which were or could have been asserted in the litigation relating to the purchase, holding or sale of the company's shares during the class period. The settlement will not take final effect unless and until it is approved by the court. The plaintiffs filed a motion for approval of the settlement on March 3, 2020. To date, no person or entity has filed an opposition to the motion. In light of the current COVID-19 coronavirus situation in New York, it is not clear when the court will rule on this motion. The litigation is essentially stayed pending the outcome of the motion for approval of the settlement agreement.

Our company, Internet Gold and five members of our Board of Directors were named as respondents in a motion to certify a claim as a derivative claim instituted in the Tel Aviv District Court (Economic Affairs Division) on July 28, 2016. The plaintiff has alleged that NIS 113 million out of the dividends distributed by us in May 2016 was distributed unlawfully as such amount was not included in our profit and loss report, and therefore does not qualify as a "surplus" that may be lawfully distributed as dividends under the Israeli Companies Law. A pretrial hearing was held in March 2017, in which the court allowed us to file an additional brief response and a supplementary expert opinion, in order to respond to the arguments. We filed the additional responses on in June 2017. The court further held that the parties should consider the possibility of a constructive dialogue regarding the issues in dispute and instructed the parties to inform the court about the results of this dialogue, and whether they want to set a date for an evidence hearing or additional preliminary motions..

On March 30, 2020, we entered into a settlement agreement. Under the settlement agreement, which is subject to court approval (by both the District Court and the Insolvency Court dealing with Internet Gold's insolvency proceedings), we will receive a total of NIS 22 million (principal plus accrued interest) of the company's Series C Debentures currently owned by Internet Gold, in return for a waiver of the derivative action against Internet Gold. The derivative plaintiff will be awarded a total amount of NIS 4.23 million for expenses, lawyers' fees and reward (which amount will come out of the NIS 22 million amount being paid by Internet Gold). The courts' approvals of the settlement are expected in 2020, but could be delayed by appeals or other proceedings.

Two motions for certification of a class action amounting to a total of NIS 1.8 billion were filed in June 2017 against Bezeq, officers in the Bezeq Group, the Company and companies in the group of the former controlling shareholders of the Company regarding the transaction for Bezeq'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 were stayed until March 31, 2020, due to the investigation (as described in Note 1) and at the request of the Attorney General. On March 15 and March 22, 2020, the Ministry of Justice issued Emergency Regulations, due to the Coronavirus. According to the Emergency Regulations, all dates in this matter, including the filing date of the Attorney General updated position regarding the stay of proceedings, were postponed for a month.

Legal proceedings against the Bezeq Group

The Bezeq Group is involved in certain legal and regulatory actions, all of which have arisen in the ordinary course of business, except for the matters described in the following paragraphs. We believe that the ultimate resolution of such matters is unlikely to have a material adverse effect on the Bezeq Group's consolidated results of operations or financial condition, except as described below for the last two years. For older years, please refer to previous 20-Fs and 6-K furnished by the company

Bezeq's reporting policy is based on considerations of quality and of amount. Bezeq decided that the bar of amount materiality would be events affecting Bezeq's net profit by 5% or more according to its latest annual consolidated financial statements, net of the effects of events not during the regular course of business that have a non-recurring effect on Bezeq's results, such as impairments of assets, cancellation of tax assets, provisions for employee retirement, capital gains, etc., according to the latest consolidated annual reports of Bezeq. Accordingly, in the absence of relevant qualitative considerations, this section describes legal proceedings involving NIS 65 million or more before tax (approximately NIS 50 million of the net profit), and legal proceedings in which the amount claimed is not stated in the statement of claim, except in the case of a claim which prima facie does not reach the above amount bar (and all unless Bezeq believes the claim has other aspects and/or implications beyond its monetary amount). Submission of class actions in Israel does not involve payment of a free deriving from the amount of the claim. Accordingly, the amount of a claim in claims of this type may be significantly higher than the scope of true exposure for those claims.

Date	Parties	Court	Type of Action	Description	Amount of claim (NIS millions)
April 2019	Customer v. Pelephone, Bezeq International and 6 other companies	Central District	A financial claim filed with a motion to certify as a class action.	The applicants allege that the respondents fail to inform their customers as required concerning the possible risks involved in the use of the internet and the option of joining content filtering services free of charge, and this contrary to the provisions of the Communications Law. Furthermore, the respondents provide abusive website and content filtering services which, they argue, are not sufficiently effective. The applicants claim that the foregoing constitutes, among other things, a violation of the provisions of the Consumer Protection Law, violation of their duties under the Torts Ordinance, a breach of contract and unjust enrichment.	The amount of the claim is not stated, but is estimated in the tens of millions of shekels.
November 2019	Customer v. Pelephone, Cellcom and Partner	District (Tel Aviv)	A financial claim filed with a motion to certify as a class action.	The applicants claim that Pelephone collected from its customers in the past fees for third parties for content services using the payment means that were provided to Pelephone for paying their cellular bill, and this contrary to the provisions of Pelephone's license and the provisions in law.	400 (against each of the defendants)
January 2020	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify as a class action.	The applicants claim that Pelephone forced every customer that purchased an overseas communications package that includes calls and/or internet browsing from it, via its website or mobile phone App, to consent to receiving advertising notices from it.	The amount of the claim is not specified.
April 2019	Customer v. Bezeq International and other telecommunications operators	District Court (Central)	A financial claim filed with a motion to certify it as a class action.	The applicants allege that Bezeq International does not inform its customers as required concerning the possible risks involved in the use of the internet and the option of joining content filtering services free of charge, and this contrary to the provisions of the Communications Law. Furthermore, Bezeq International provides abusive website and content filtering services which, the applicants argue, are not sufficiently effective.	Not noted.
March 2018	Customer vs Pelephone, Golan Telecom, Cellcom and Hamilton	Central District	A financial claim filed with a motion to certify as a class action.	The claimants allege that the defendants marketed and/or provided mobile radio service to mobile devices manufactured by Xiaomi, from which it was not possible to call emergency numbers in Israel.	65
November 2018	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify as a class action.	The claimants allege that, due to disruptions that occurred in Pelephone's network, the defendant is required to compensate its customers for breach of contract with the customers, as well as a breach of the provisions of its license and various laws, including the Communications Law.	200
December 2018	Customer v. Pelephone	Central District	A financial claim filed with a motion to certify as a class action.	The claimant alleges that Pelephone uses information it has on the location of its subscribers for its business needs, and sends them text messages regarding the sale of relevant services for their location, thereby violating the Protection of Privacy Law.	The amount of the claim is not stated, but the claim is estimated at millions of shekels.

<u>Date</u>	<u>Parties</u>	<u>Court</u>	<u>Type of Action</u>	<u>Description</u>	<u>Amount of the Claim (NIS millions)</u>
February 2018	Bezeq shareholders against Bezeq as a formal respondent and against Bezeq directors at the relevant times to the motion and against the controlling shareholders (indirectly) of Bezeq, Mr. Shaul Elovitch and Mr. Yosef Elovitch	Tel Aviv District Court - Economic Department	Motion to certify a derivative claim	<p>According to the allegations in the motion, it concerns Bezeq's execution of an assessment agreement with the Tax Authority which was signed on September 15, 2016 ("the Assessment Agreement"), whereby Bezeq paid the Tax Authority NIS 462 million in tax for financing revenue from loans to DBS, whereas on the other hand, it was agreed that DBS' losses in respect of financing expenses for Bezeq's shareholder loans to DBS would be fully recognized for Bezeq after the merger between Bezeq and DBS.</p> <p>The plaintiffs claim that as a result of execution of the Assessment Agreement, Bezeq paid an aggregate of NIS 660 million, of which NIS 462 million was paid to the Tax Authority and NIS 198 was paid to the controlling shareholders as a contingent consideration ("the Contingent Consideration"), which was set out in an agreement for acquisition of all the holdings and shareholder loans of Eurocom DBS.</p> <p>According to the plaintiffs, Bezeq's execution of the Assessment Agreement constituted an exceptional transaction of a public company in which the controlling shareholder has a personal interest, and it was unlawfully executed, since it was contrary to Bezeq's interests and because the approvals required by law to enter into the transaction were not obtained.</p> <p>According to the plaintiffs, the damage incurred by Bezeq as a result of execution of the Assessment Agreement ranges between a minimum of NIS 65 million (if Bezeq will be permitted to offset DBS' losses with respect to financing expenses) and a maximum of NIS 219 million (if Bezeq will not be permitted to offset all of DBS' losses for financing expenses). The alleged damage is estimated by comparing the payments which Bezeq was charged (the tax liability and Contingent Consideration) and the tax asset created for it in the Assessment Agreement, to the payments it would have been liable for and the tax asset that would have been created for it had it entered into a settlement agreement with the tax authorities proposed by the tax authorities on the date of approval of the DBS Transaction.</p> <p>The plaintiffs claim that the respondents who are directors violated, inter alia, their duty of caution and fiduciary obligations (and with respect to the respondents who are controlling shareholders of Bezeq, also their duty of fairness), and accordingly the plaintiffs request that the court approve filing of a derivative claim in Bezeq's name against the respondents, and to require them to compensate Bezeq for the damage allegedly suffered by it as a result of breach of their obligations towards Bezeq.</p> <p>At the request of the ISA, the process was stayed until August 20, 2018 in view of the investigation. On August 21, 2018, the Securities Authority requested that the court should receive a further update by December 31, 2018, with respect to the possibility of advancing the process. On December 31, 2018, the ISA filed a motion to extend the stay period until April 1, 2019.</p>	65 minimum 219 maximum

<u>Date</u>	<u>Parties</u>	<u>Court</u>	<u>Type of Action</u>	<u>Description</u>	<u>Amount of the Claim (NIS millions)</u>
April 2018		Tel Aviv District Court	Motion to certify a class action	The motion alleges that Bezeq is in breach of the prohibition prescribed in the Communications Law on sending advertisements (“spam”), in part by means of text messages to customers who contact it, which include a link to Bezeq’s website. The amount of the class action consists of monetary loss (estimate of the loss for time wasted in dealing with the spam messages) and non-monetary loss due to mental anguish, causing a nuisance and so forth. A similar motion for the same matter (but for a later period) and in the amount of NIS 52 million was filed in March 2015 in the same court and on January 9, 2018 it was certified as a class action. Bezeq filed a motion for leave to appeal the decision and it is scheduled for a court hearing, with a stay of implementation. The present motion for certification was filed in respect of text messages sent by Bezeq after the previous motion was filed. Concurrently with the filing of the present motion, the petitioners also filed a motion to consolidate the hearing on the current motion with that of the previous motion.	85
June 2018		At the Tel Aviv District Court (Economic Department)	Motion to disclose and inspect documents under Section 198(a) of the Companies Law.	The court is asked to instruct Bezeq, DBS, the former controlling shareholder in Bezeq, Mr. Shaul Elovitch, and his son Mr. Or Elovitch to submit to the petitioner, as a shareholder in Bezeq, various documents for the purpose of examining the possibility of filing a motion to certify a derivative claim on behalf of Bezeq. According to the petitioner, the controlling shareholder of Bezeq, B Com, and Messrs. Elovitch breached their duties of loyalty and fairness towards Bezeq in that the sale of 115 million Bezeq shares on February 2, 2016 by B Com while B Com and Messrs. Elovitch used inside information about Bezeq, and at a value significantly higher than the real value of the shares. The petitioner argues that this sale produced unlawful profits for B Com in the amount of NIS 313 million. The alleged inside information is that the financial statements of DBS and Bezeq supposedly did not reflect Bezeq’s de facto financial position, but rather a “free cash flow” that was allegedly inflated in order to increase the consideration in the transaction in which Bezeq acquired the shares of Eurocom Communications Ltd. in DBS (“Yes Transaction”). There is another motion pending against Bezeq to certify a derivative claim in connection with the Yes Transaction, which is stayed due to the ISA’s investigation. In this current motion, the petitioner argues that despite the fact that its motion is based in part on the same factual background, it is different from the existing proceedings in this matter. In view of the Investigation, the proceeding was stayed, at this stage until April 1, 2019.	

<u>Date of Filing of the Claim</u>	<u>Parties</u>	<u>Court</u>	<u>Type of Action</u>	<u>Description</u>	<u>Amount of the Claim (NIS millions)</u>
May 2018	Walla website visitors against Walla	Tel Aviv District Court	Motion to certify a class action	It alleges that on its website, Walla publishes "advertising-related articles" without due disclosure of the fact that they contain marketing content, and that the publication of marketing content without proper disclosure, as alleged, is, among other things, a breach of the provisions of the Consumer Protection Law, violation of the Rules of Journalism Ethics, a tort and unjust enrichment.	60
December 2018	Site visitors to the respondents' websites against Walla and four other respondents	Central District Court	Motion to certify a class action	It is alleged that Walla and two of the other defendants published advertisements on their websites and applications for the marketing, sale and distribution of smoking and tobacco products, including electronic smoking products, which are allegedly manufactured and distributed by two other defendants. The petitioners' main argument in the claim is that such advertisements are prohibited by law in general, and, specifically, when targeted to minors. The petitioners further claim that use of certain advertising and marketing means is prohibited, and this constitutes, inter alia, a violation of the provisions of the Restriction on Advertising and Marketing of Tobacco Products Law, the Consumer Protection Law, the Consumer Protection Regulations (Advertisements and Marketing Methods Targeted at Minors), breach of statutory duty, violation of personal autonomy, negligence, breach of the duty of good faith and unjust enrichment	300 (Against all 5 respondents)
December 2018	Walla website visitors against Walla	Tel Aviv District Court	Motion to certify a class action	It is alleged that Walla biased press coverage on its website in favor of the Prime Minister, allegedly in exchange for excessive regulatory benefits granted to its controlling shareholder - Bezeq, and its (former) controlling shareholder. The petitioner alleges that the members of the class suffered non-monetary damage in the form of a violation of autonomy, and also demands restitution of Walla's alleged unjust "enrichment." As stated in the motion, the amount of the class action is unknown.	The amount of the claim or that it is a non-monetary claim was not indicated.
March 2019	Site visitors to the respondents' websites against Walla and eight other respondents	Tel Aviv District Court	Motion to certify a class action	It was alleged that Walla and other defendants publish "advertising-related articles" on their websites, their applications and the social media without due disclosure of the fact that they contain marketing content, and that the publication of marketing content without proper disclosure, as alleged, is, among other things, a breach of the provisions of the Consumer Protection Law, violation of the Rules of Journalism Ethics, a tort, breach of the duty of good faith and unjust enrichment. The plaintiffs also refer to the motion to certify a class action on a similar subject (section A above) and indicate that they wish to add further layers to the motion to certify. The motion allegedly indicates an alleged conservative estimate of damages of NIS 300 per Walla website consumer. The motion does not stipulate the precise amount of the claim for all members of the class, but an overall damage estimate.	The amount of the claim or that it is a non-monetary claim was not indicated.

Dividend Distribution Policy

We currently do not have a dividend distribution policy in place. According to the Israeli Companies Law, a company may distribute dividends out of its profits (as such term is defined in the Israeli Companies Law), provided that there is no reasonable concern that payment of the dividend will prevent the company from satisfying all its current and foreseeable obligations, as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, at the company's request, provided that there is no reasonable concern that payment of the dividend will prevent the company from satisfying its current and foreseeable obligations, as they become due. In the event cash dividends are declared, such dividends will be paid in NIS.

Our Board of Directors declared our first dividend as a public company on November 7, 2013, a dividend of NIS 3.41 per share and NIS 102 million in the aggregate. The dividend was paid on December 3, 2013.

On May 21, 2015, our Board of Directors declared a dividend of NIS 2.24 per share and approximately NIS 67 million in the aggregate. The dividend was paid on June 2, 2016.

On August 31, 2015, our Board of Directors declared a dividend of NIS 0.73 per share and approximately NIS 22 million in the aggregate. The dividend was paid on September 25, 2016.

On November 19, 2015, our Board of Directors declared a dividend of NIS 1.27 per share and approximately NIS 38 million in the aggregate. The dividend was paid on December 23, 2016.

On May 25, 2016, our Board of Directors declared a dividend of NIS 11.88 per share and approximately NIS 355 million in the aggregate. The dividend was paid on June 29, 2016.

B. Significant Changes

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2019.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ordinary shares are traded on the NASDAQ Global Select Market under the ticker symbol "BCOM" and on the Tel Aviv Stock Exchange. Our primary holding is our interest in Bezeq - The Israel Telecommunication Corp., Israel's largest telecommunications provider (TASE: BEZQ)

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares were listed on the NASDAQ Global Market in connection with our initial public offering on October 30, 2007 and since January 1, 2011, our ordinary shares have been listed on the NASDAQ Global Select Market. Our ordinary shares have been traded on the TASE since November 14, 2007.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expense of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Below is a description of certain provisions of our Articles of Association and of the Israeli Companies Law related to such provisions. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the Articles of Association, of our company which has been filed as an exhibit to this Annual Report and which is incorporated by reference, and to Israeli law.

Purposes and Objects of the Company

We are a public company registered under the Israel Companies Law, 1999-5759, or the Israeli Companies Law, as B Communications Ltd., registration number 512832742. Our objects and purposes, as provided by our Articles of Association, are to carry on any lawful activity.

The Powers of the Directors

Under the provisions of the Israeli Companies Law and our Articles of Association, a director cannot participate in a meeting nor vote on a proposal, arrangement or contract in which he or she is materially interested unless such proposal, arrangement or contract is in the ordinary course of business or the majority of directors are personally interested in such proposal, arrangement or contract. In the event the majority of the members of the board of directors have a personal interest in the proposed transaction, approval of our shareholders at a general meeting is required. In addition, our directors cannot vote compensation to themselves or any members of their body without the approval of our compensation committee and, unless exempted under the regulations promulgated under the Israeli Companies Law, our shareholders at a general meeting. If the compensation of our directors is inconsistent with our stated compensation policy, then the approval of our shareholders requires that either:

- at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such matter, present and voting at such meeting, are voted in favor of the compensation package, excluding abstentions; or
- the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in such matter voting against the compensation package does not exceed 2% of the aggregate voting rights in the company.

The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Under our Articles of Association, retirement of directors from office is not subject to any age limitation and our directors are not required to own shares in our company in order to qualify to serve as directors.

Rights Attached to Shares

Please refer to Exhibit 2.2 for Items 10.B.3, B.4, B.6, B.7, B.8, B.9 and B.10.

Annual and Extraordinary Meetings

Under the Israeli Companies Law and our articles of association, our board of directors must convene an annual meeting of shareholders at least once every calendar year and within 15 months of the last annual meeting. Depending on the matter to be voted upon, and subject to the Israeli Companies Law and regulations thereunder, notice of at least 14 days or 21 days or 35 days prior to the date of the meeting is required. Our articles of association provide that notice of a general meeting of shareholders will be delivered to all eligible shareholders by publication in two daily Hebrew language newspapers in Israel that have a reasonably-sized readership. Our board of directors may, in its discretion, convene additional meetings as “special general meetings.” In addition, the board must convene a special general meeting upon the demand of: (a) two of the directors or 25% of the directors in office, (b) one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or (c) one or more shareholders having at least 5% of the voting power in the company. The chairperson of the board of directors presides at each of our general meetings. The chairperson of the board of directors is not entitled to a vote at a general meeting in his capacity as chairperson.

C. Material Contracts

Pursuant to the share purchase agreement, dated as of June 24, 2019 by and among the company, Internet Gold — Golden Lines Ltd., T.N.R. Investments Ltd. and Searchlight BZQ on December 2, 2019, the purchasers acquired 19,363,396 Ordinary Shares from Internet Gold, and 63,879,547 newly issued Ordinary Shares from our company, for an aggregate purchase price of NIS 491,697,105.

D. Exchange Controls

Israeli laws and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In May 1998, a new “general permit” was issued under the Israeli Currency Control Law, 1978, which removed most of the restrictions that previously existed under such law, and enabled Israeli citizens to freely invest outside of Israel and freely convert Israeli currency into non-Israeli currencies.

Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repatriable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

E. Taxation

The following is a discussion of Israeli and United States tax consequences material to our shareholders. To the extent that the discussion is based on tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question or by court. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Israeli Tax Considerations

The following summary describes the current tax structure applicable to companies in Israel, with special reference to its effect on us. The following discussion also summarizes the material Israeli income tax consequences applicable to the purchase, ownership and disposition of our ordinary shares. This discussion does not address all of the tax consequences that may be relevant to purchasers of our ordinary shares in light of their particular circumstances, or certain types of purchasers of our ordinary shares subject to special tax treatment. Examples of this kind of investor include residents of Israel and traders in securities who are subject to special tax regimes not covered in this discussion. Each individual/entity should consult its own tax or legal advisor as to the Israeli tax consequences of the purchase, ownership and disposition of our ordinary shares. To the extent that part of the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, we cannot assure that the tax authorities or the courts will accept the views expressed in this section.

General Corporate Tax Structure

As of January 1, 2018, the corporate tax rate is 23%.

Tax on Capital Gains of Shareholders

Israeli law imposes a capital gains tax on the sale of capital assets by an Israeli resident and on the sale of capital assets located in Israel or the sale of direct or indirect rights to assets located in Israel, including on the sale of our Shares by some of our shareholders (see discussion below). The Israeli Income Tax Ordinance distinguishes between “Real Gain” and “Inflationary Surplus”. Real Gain is the excess of the total capital gain over Inflationary Surplus computed on the basis of the increase in the CPI between the date of purchase and the date of sale. The Real Gain accrued on the sale of our Shares is generally taxed at a rate of 25% for corporations. Additionally, if such individual shareholder is considered a “Significant Shareholder” at any time during the 12-month period preceding such sale (i.e. if such individual shareholder holds directly or indirectly, along with others, at least 10% of any means of control in the company), the tax rate will be 30% (25% in 2011). However, the foregoing tax rates will not apply to (i) dealers in securities; and (ii) shareholders who have acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). Inflationary surplus that accrued after December 31, 1993, is exempt from tax. Generally, a semi-annual detailed return, including a computation of the tax due should be submitted to the Israeli Tax Authorities and a tax advance amounting to the tax liability arising from the capital gain is payable. At the sale of traded securities, the aforementioned detailed return may not be submitted, and the tax advance should not be paid, if all tax due was withheld at the source according to applicable provisions of the Israeli Tax Ordinance and regulations promulgated thereunder. Capital gains are also reportable on annual income tax returns.

Individuals

As of January 1, 2012, a shareholder will generally be subject to tax at 25% rate on realized real capital gain (if the shareholder is a Significant Shareholder, as defined above, the tax rate will be 30%). To the extent that the shareholder claims a deduction of financing expenses, the gain will be subject to tax at a rate of 30% (until otherwise stipulated in bylaws that may be published in the future).

Taxation of Non-Israeli Shareholders

Taxation of Non-Israeli Shareholders on Receipt of Dividends

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder’s country of residence.

However, the tax rate on dividends paid to a “substantial shareholder” (a shareholder who alone, or together with another person, holds, directly or indirectly, at least 10% in one or all of any of the means of control in the corporation) is 30%.

Under the U.S.-Israel Tax Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (within the meaning of the U.S.-Israel Tax Treaty) is 25%. Furthermore, the maximum rate of withholding tax on dividends that are paid to a U.S. corporation holding 10% or more of our outstanding voting capital during the part of the tax year that precedes the date of the payment of the dividend and during the whole of its prior tax year, is 12.5% of the gross amount of the dividend paid. This reduced rate will not apply if more than 25% of the Israeli company’s gross income for such prior tax year consists of interest or dividends, other than dividends or interest received from a subsidiary corporation 50% or more of the outstanding shares of the voting shares of which are owned by the company. Investors should consult their own tax advisors to determine if they are eligible for benefits under the U.S. Israel Tax Treaty.

A non-resident of Israel who receives dividends from which tax was fully paid is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

Upon a distribution of dividend the following withholding tax rates will apply: (i) Israeli resident corporations - 0%, (ii) Israeli resident individuals - 25% and (iii) non-Israeli residents (whether an individual or a corporation) - 25%, subject to a reduced tax rate under the provisions of an applicable double tax treaty, provided that a certificate from the Israeli Tax Authorities allowing for a reduced withholding tax rate is obtained in advance.

Capital Gains Taxes Applicable to Non-Israeli Shareholders

Israeli law imposes a capital gains tax on the sale of capital assets. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is the portion of the total capital gain that is equivalent to the increase of the relevant asset's purchase price (net of depreciation) which is attributable to the increase in the Israeli CPI between the date of purchase and the date of sale. Foreign residents who purchased an asset in foreign currency may request that the inflationary surplus be computed on the basis of the depreciation of the NIS against such foreign currency. The real gain is the excess of the total capital gain over the inflationary surplus. The inflationary surplus accumulated from and after December 31, 1993, is exempt from any capital gains tax in Israel while the real gain is taxed at the applicable rate discussed above.

Dealers in securities in Israel are taxed at regular tax rates applicable to business income.

Under the convention between the United States and Israel concerning taxes on income, Israeli capital gains tax will not apply to the sale, exchange or disposition of ordinary shares by a person:

- who qualifies as a resident of the United States within the meaning of the U.S.-Israel tax treaty; and
- who is entitled to claim the benefits available to the person by the U.S.-Israel tax treaty.

However, this exemption does not apply if the gain is attributable to a permanent establishment of such person in Israel, or if the holder is a resident of the United States within the meaning of the U.S.-Israeli tax treaty who holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the sale, exchange or disposition, subject to specified conditions. Under these circumstances, the sale, exchange or disposition would be subject to Israeli tax, to the extent applicable. However, under the U.S.-Israel tax treaty, a U.S. resident generally would be permitted to claim a credit for the Israeli taxes paid against the U.S. federal income tax imposed on the sale, exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The U.S.-Israel tax treaty does not relate to U.S. state or local taxes.

Under Israeli law, the capital gain from the sale of shares by non-Israeli residents is tax exempt in Israel provided that, in general, both of the following conditions are met: (A) the capital gain is not attributed to the foreign resident's permanent establishment in Israel, (B) if the seller is a corporation, less than 25% of its means of control are held by Israeli residents.

The purchaser of the shares, the stockbrokers who effected the transaction or the financial institution holding the shares through which payment to the seller is made are obligated, subject to the above-referenced exemptions if certain conditions are met, to withhold tax on the Real Gain resulting from a sale of shares at the rate of 25%.

United States Federal Income Tax Considerations

The following is a description of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax considerations that are relevant to U.S. Holders (as defined below) who hold our ordinary shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, or the Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively.

There can be no assurance that the U.S. Internal Revenue Service, or the IRS, will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained. This description does not address all tax considerations that may be relevant with respect to an investment in our ordinary shares. In addition, this description does not account for the specific circumstances of any particular investor, such as:

- broker-dealers;
- financial institutions;
- certain insurance companies;
- investors liable for alternative minimum tax;
- regulated investment companies, real estate investment trusts, or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt organizations;
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar;
- persons who hold the ordinary shares through partnerships or other pass-through entities;
- persons who acquire their ordinary shares through the exercise or cancellation of employee stock options or otherwise as compensation for services;
- direct, indirect or constructive owners of investors that actually or constructively own 10% or more of our shares by vote or value; or
- investors holding ordinary shares as part of a straddle, appreciated financial position, a hedging transaction or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns our ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns our ordinary shares and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This summary does not address the effect of any U.S. federal taxation (such as estate and gift tax) other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or non-U.S. taxation. You are urged to consult your tax advisors regarding the non-U.S. and U.S. federal, state and local tax consequences of an investment in ordinary shares.

For purposes of this summary, as used herein, the term “U.S. Holder” means a person that is eligible for the benefits of the Treaty and is a beneficial owner of an ordinary share who is, for U.S. federal income tax purposes:

- an individual who is a citizen or, for U.S. federal income tax purposes, a resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

Unless otherwise indicated, this discussion assumes that we are not, and will not become, a “passive foreign investment company,” or a PFIC, for U.S. federal income tax purposes. See “—*Passive Foreign Investment Companies*” below.

Taxation of Distributions

Subject to the discussion below under the heading “—*Passive Foreign Investment Companies*,” the gross amount of any distributions received with respect to our ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that the entire amount of any distribution will generally be reported as dividend income to you. Dividends are included in gross income as ordinary income. Distributions in excess of our current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in our ordinary shares and any amount in excess of your tax basis will be treated as gain from the sale of ordinary shares. See “—*Disposition of Ordinary Shares*” below for a discussion of the taxation of capital gains. Our dividends would not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, some of which vary depending upon the U.S. Holder’s circumstances, any Israeli withholding tax imposed on dividends paid with respect to our ordinary shares, at a rate not exceeding the applicable rate provided by the Treaty, will be a foreign income tax eligible for credit against a U.S. Holder’s U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). Israeli taxes withheld in excess of the applicable rate allowed by the Treaty (if any) will not be eligible for credit against a U.S. Holder’s federal income tax liability. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate (see discussion below). A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our ordinary shares if such U.S. Holder fails to satisfy certain minimum holding period requirements or to the extent such U.S. Holder’s position in ordinary shares is hedged. An election to deduct foreign taxes instead of claiming foreign tax credit applies to all foreign taxes paid or accrued in the taxable year. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your own tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations (including the PFIC rules discussed below), “qualified dividend income” received by a non-corporate U.S. Holder will be subject to tax at the lower long-term capital gain rates (currently set at a maximum rate of 20%). Distributions taxable as dividends paid on our ordinary shares should qualify for a reduced rate provided that either: (i) we are entitled to benefits under the Treaty, or (ii) our ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our ordinary shares currently are readily tradable on an established securities market in the United States (see discussion below). However, no assurance can be given that our ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied, nor does it apply to dividends received from a PFIC (see discussion below), in respect of certain risk-reduction transactions, or in certain other situations. The legislation enacting the reduced tax rate on qualified dividend income contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of our ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Sale or Disposition of Ordinary Shares

Subject to the discussion of PFIC rules below, if you sell or otherwise dispose of our ordinary shares, you will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in our ordinary shares, in each case determined in U.S. dollars. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently 20%). In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of our ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A cash basis U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss, which would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of our ordinary shares that are traded on an established securities market, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for U.S. federal income tax purposes because of differences between the U.S. dollar value of the currency received prevailing on the trade date and the settlement date. Any such currency gain or loss would be treated as U.S.-source ordinary income or loss and would be in addition to the gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Passive Foreign Investment Companies

We believe that we were not a PFIC for U.S. federal income tax purposes for the taxable year of 2019. However, since PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we were a PFIC for any taxable year during which a U.S. Holder owned an ordinary share, certain adverse consequences could apply to the U.S. Holder. Specifically, gain recognized by a U.S. Holder on a sale or other disposition of such ordinary share would be allocated ratably over the U.S. Holder's holding period for the ordinary share. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. Holder on our ordinary shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. Certain elections (such as a mark-to-market election) may be available to U.S. Holders and may result in alternative tax treatment. In addition, if we were a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the IRS on IRS Form 8621.

Additional Tax on Investment Income

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains from the sale or exchange of our ordinary shares.

Backup Withholding and Information Reporting

Payments in respect of our ordinary shares may be subject to information reporting to the IRS and to U.S. backup withholding tax at the rate (currently) of 24%. Backup withholding will not apply, however, if you (i) are a corporation, or fall within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

U.S. citizens and individuals taxable as resident aliens of the United States that own "specified foreign financial assets" with an aggregate value in a taxable year in excess of certain thresholds (as determined under rules in Treasury regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be "specified foreign financial assets." Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. A U.S. Holder is urged to consult the U.S. Holder's tax advisor regarding the reporting obligation.

Any U.S. Holder who acquires more than \$100,000 of our ordinary shares or holds 10% or more in vote or value of our ordinary shares may be subject to certain additional U.S. information reporting requirements.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to certain of the reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the SEC an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the SEC reports on Form 6-K containing press releases and unaudited financial information. We post our annual report on Form 20-F on our website (www.bcommunications.co.il) promptly following the filing of our annual report with the SEC. The information on our website is not incorporated by reference into this annual report.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company referred to in this annual report may also be inspected at our offices located at 144 Menachem Begin Road, Tel Aviv 6492102, Israel. We will provide a copy of this annual report containing our financial statements upon shareholders' request.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of risks, including foreign currency fluctuations and changes in interest rates. We regularly assess currency and interest rate risks to minimize any adverse effects on our business as a result of those factors.

Effects of Currency Fluctuations

Our unconsolidated net exposure to changes in foreign currency exchange rates (primarily the U.S. dollar) was NIS 17.7 million (approximately \$5.1 million) at December 31, 2019. Each increase or decrease of 1% in the NIS-US\$ exchange rate will result in an increase or decrease in our yearly financial income of NIS 177 thousands (approximately \$51 thousands).

The Bezeq Group is exposed to foreign currency risks mainly due to payments for purchases of terminal equipment and property, plant and equipment which are in or linked to the U.S. dollar or the Euro. In addition, the Bezeq Group provides services for customers and receives services from suppliers worldwide for which it is paid and it pays in foreign currency, mainly the U.S. dollar. The Bezeq Group has surplus liabilities over assets in foreign currency. To hedge its exposure, the Bezeq Group makes forward transactions against the U.S. dollar.

Bezeq Group holds derivative financial instruments to hedge its exposure to foreign currency. Hedge accounting is not applied to these derivative instruments that economically hedge financial assets and liabilities. Derivative instruments are recognized initially at fair value; attributable transaction costs are recognized in the statement of income as incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value and the changes in fair value are recognized in the statement of income as incurred.

The Bezeq Group's net exposure to changes in foreign currency exchange rates was NIS 142 million (approximately \$41 million) as of December 31, 2019. Each increase or decrease of 1% in the NIS-US\$ exchange rate will result in an immaterial increase or decrease in Bezeq's yearly financial expenses.

Effects of Changes in the Israeli Consumer Price Index

Our unconsolidated net exposure to changes in the Israeli CPI was immaterial as of December 31, 2019.

The Bezeq Group's net exposure to changes in the Israeli CPI was NIS 4.4 billion (approximately \$1.27 billion) at December 31, 2019. The exposure primarily consists of Bezeq's debentures which are linked to the Israeli CPI. As of December 31, 2019, Bezeq holds forward contracts on the Israeli CPI in the amount of NIS 1.55 billion (approximately \$449 million). Each increase or decrease of 1% in the Israeli CPI will result in NIS 24 million (approximately \$7 million) increase or decrease in the Bezeq Group's yearly financial expenses.

Cash Investments, Marketable Securities and Interest Rate Risk Management

Our cash investment policy seeks to preserve principal and maintain adequate liquidity while maximizing the income we receive from our investments without significantly increasing the risk of loss. To minimize investment risk, we maintain a diversified portfolio across various maturities, types of investments and issuers, which may include, from time to time, U.S. government bonds, state debt, bank deposits and certificates of deposit, and investment grade corporate debt. As of December 31, 2019, we had NIS 413 million (approximately \$120 million) of cash and cash equivalents, NIS 39 million (approximately \$11 million) of restricted cash and NIS 46 million (approximately \$13 million) of Israeli governmental bonds.

The performance of the capital markets affects the values of the funds we hold in marketable securities. These assets are subject to market fluctuations, such as the decreases experienced in 2008 and the first six months of 2009. In such case, the fair value of our investments may decrease. We periodically monitor our investments for adverse material holdings related to the underlying financial solvency of the issuers of the marketable securities in our portfolio.

Our exposure to market risk for changes in interest rates relates primarily to our investment in marketable securities. Investments in both fixed rate and floating rate interest bearing securities carry a degree of interest rate risk. The fair market value of fixed rate securities may be adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our future financial results may be negatively affected in the event that interest rates fluctuate.

Bezeq's Exposure to Market Risks

Bezeq is exposed to market risks, mainly as a result of changes in interest rates, exchange rates, inflation, the prices of raw materials and equipment, and the prices of securities. Bezeq seeks to hedge against such risks in accordance with a financial exposure management policy adopted by its Board of Directors. Pursuant to that policy, Bezeq takes partial hedging actions depending on the circumstances and its own judgment, primarily for reducing its exposure to changes in the Israeli CPI and foreign currency exchange rates. Bezeq monitors and reviews the Bezeq Group's exposure management every month, including, when necessary, making recommendations for change, if required, in the exposure management.

Bezeq has a significant surplus of liabilities for CPI linked assets, and the bulk of its financial exposure from the risk of a rise in inflation. The rate of inflation also affects Bezeq's operating income and operating expenses in the course of the year. In addition, Bezeq's tariff updating mechanism, which is subject to government regulation, is reviewed once a year and is influenced by the CPI. As a result, the annual rate of inflation and its distribution during the year can have a material influence on the erosion of Bezeq's tariffs and its revenues and expenses during the year.

Bezeq's exposure to change in the interest rate largely depends on the character of its financial liabilities and assets as well as future financing needs. Most of Bezeq's debt bears fixed interest, and therefore a change in the interest rate will affect its fair value rather than its carrying value.

Bezeq has investments in negotiable bonds that are stated in its books at their market value. This market value is influenced by changes in the interest rates in the economy. In addition, a change in the NIS exchange rate constitutes economic exposure that can affect Bezeq's future profit and cash flows, mainly the repayment of currency-linked liabilities and payments for currency-linked purchases of equipment and raw materials.

The cash flow generated by Bezeq's operations is used partially for investment in equipment. The prices of the equipment are affected by the indices to which they are linked, including industry price indices, exchange rates and global prices. Bezeq does not hedge against this exposure. Bezeq is also exposed to changes in copper prices that result in a change in the residual value of its copper cable infrastructure. In deploying its NGN, Bezeq removes copper cables previously used to provide its services and sells the copper extracted from such cables. The prices received are subject to the volatility of the copper market.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

None.

Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure.

Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this annual report on Form 20-F. As a consequence of the investigations of Bezeq and several of its directors and senior officers by both the ISA and Israel's Police, our management was unable to fully assess our disclosure controls and procedures. Accordingly, our management concluded that our disclosure controls and procedures are ineffective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management, including our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Exchange Act Rules 13a-15(f) and 15d-15(f).

Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In conducting its assessment of internal control over financial reporting, our management based its evaluation on the framework in "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations, or the COSO, of the Treadway Commission. As a consequence of the investigations of Bezeq and several of its directors and senior officers by both the ISA and Israel's Police, we attempted to assess these investigations through the scope of our own internal control over financial reporting. However, due to provisions of Israeli law concerning obstructing investigation proceedings both Bezeq and we were prevented from examining all matters known to us that were raised in the investigations and accordingly we are unable to fully assess the effects of the investigations on our financial statements and internal controls over financial reporting. Therefore, Management concluded that the Company's internal control over financial reporting was ineffective as of December 31, 2018.

As explained in last year's Annual Report, we undertook a comprehensive internal investigation at great expense and found no evidence of violations of the Foreign Corrupt Practices Act by our company. Our management believes that our then existing work process was adequate, that there were no material deficiencies in our controls and that the material weakness at Bezeq could not have been prevented by our company. Although we believe that there were no weaknesses in relation to the activity of our company, our Audit Committee engaged special legal counsel to assist us in designing and implementing certain prospective improvements to our existing internal processes and controls.

We are continuing our efforts to strengthen our longstanding control processes. The procedures and controls were improved, including training processes; working procedures with Bezeq’s finance departments and financial managers; procedures for appointing directors to the board of directors of Bezeq; and procedures for working with Bezeq’s internal enforcement team. We are committed to maintaining a strong internal control environment.

While we believe that our current internal controls are working appropriately, we remain unable to assess our internal controls for prior periods because of ongoing criminal proceedings against Bezeq and several of its directors and senior officers. Accordingly, the Company’s internal control over financial reporting remains ineffective as of December 31, 2019 because we cannot assess the impact, if any, of the criminal proceedings on our future financial statements.

Changes in Internal Control Over Financial Reporting

Other than disclosed above, there were no changes in our internal control over financial reporting during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report on Form 20-F does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. This year, Management’s report was not subject to attestation by our registered public accounting firm pursuant to an exemption for non-accelerated filers from the internal control audit requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Messrs. Benny Gabbay and Moshe Rosenthal, independent directors, meet the definition of an audit committee financial expert, as defined by rules of the SEC. For a listing of Messrs. Gabbay and Rosenthal’s relevant experience, see Item 6A. “Directors, Senior Management and Employees - Directors and Senior Management.”

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our chief executive officer and all senior financial officers of our company, including the chief financial officer, controller and persons performing similar functions. Our code of ethics is available for viewing on our website at www.bcommunications.co.il. Written copies are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Billed by Independent Public Accountants

The following table sets forth, for each of the years indicated, the aggregate fees billed to us, Bezeq, Pelephone and Bezeq International by Somekh Chaikin, a member firm of KPMG International, the independent registered public accounting firm that audit our and their financial statements. All of such fees were pre-approved by the relevant committee for the examination of the financial statements.

Services Rendered	Year Ended December 31,			
	2018		2019	
	Unconsolidated	Consolidated	Unconsolidated	Consolidated
Audit and audit-related fees ⁽¹⁾	NIS 555,000	NIS 6,235,000	NIS 532,000	NIS 3,899,000
Tax and all other fees ⁽³⁾	NIS 109,000	NIS 947,000	NIS 214,000	NIS 1,296,000
Total	NIS 664,000	NIS 7,182,000	NIS 746,000	NIS 5,195,000

(1) Audit fees are for audit services for each of the years shown in the table, including fees associated with the annual audit and audit services provided in connection with other statutory and regulatory filings.

(2) Tax fees are the aggregate fees billed for professional services rendered for tax compliance and tax advice.

Pre-Approval Policies and Procedures

Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm, Somekh Chaikin, a member firm of KPMG International. Somekh Chaikin also acts as Bezeq’s independent registered public accounting firm. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee’s approval of the scope of the engagement of our independent auditor, or on an individual basis. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent registered public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the SEC, and also requires the audit committee to consider whether proposed services are compatible with the independence of the registered public accounting firm.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

No ordinary shares of our company were purchased by us or on our behalf or by any affiliated purchaser during 2019.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

NASDAQ Exemptions for a Controlled Company

We are a controlled company within the meaning of NASDAQ Stock Market Rule 5615(c)(1), since Searchlight holds more than 50% of our voting power. Under NASDAQ Stock Market Rule 5615(c)(2), a controlled company is exempt from the following requirements of NASDAQ Stock Market Rule 5605:

- The requirement that the majority of the company's board of directors qualify as independent directors, as defined under the NASDAQ Stock Market Rules. Instead, we follow Israeli law and practice which requires that we appoint at least two external directors, within the meaning of the Israeli Companies Law, to our board of directors. In addition, we have the mandated three independent directors, within the meaning of the rules of the SEC and NASDAQ, on our audit committee. See Item 6C. "Directors, Senior Management and Employees - Board Practices."
- The requirement that the compensation of the chief executive officer and all other executive officers be determined, or recommended to the board of directors for determination, either by (i) a majority of the independent directors or (ii) a compensation committee comprised solely of independent directors. Under the Israeli Companies Law, any compensation arrangement with an office holder (including an exemption from liability and the insurance and indemnification of an office holder), require the approval of the compensation committee, the board of directors and in certain circumstances, shareholders.
- The requirement that director nominees either be selected or recommended for the board of directors' selection, either by (a) a majority of independent directors or (b) a nominations committee comprised solely of independent directors. Instead, we follow Israeli law and practice, in accordance with which directors may be recommended by our board of directors for election by our shareholders.

If the "controlled company" exemptions cease to be available to us under the NASDAQ Stock Market Rules, we may instead elect to follow Israeli law instead of the foregoing NASDAQ requirements, as described below.

NASDAQ Stock Market Rules and Home Country Practice

Under NASDAQ Stock Market Rule 5615(a) (3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such NASDAQ rules must submit to NASDAQ, in advance, a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws.

We have notified NASDAQ pursuant to Rule 5615(a) (3), that we do not comply with the following Rules and instead follow Israeli law and practice in respect of such Rules:

- The requirement that our independent directors have regularly scheduled meetings at which only independent directors are present (Rule 5605(b)(2)). Instead, we follow Israeli law according to which independent directors are not required to hold executive sessions.
- The requirement regarding independent director oversight of director nominations process for directors (Rule 5605(e)). Instead, we follow Israeli law and practice according to which our board of directors recommends directors for election by our shareholders.
- The requirement to obtain shareholder approval for the establishment or amendment of certain equity-based compensation plans (Rule 5635(c)), an issuance that will result in a change of control of the company (Rule 5635(b)), certain transactions other than a public offering involving issuances of a 20% or more interest in the company (Rule 5635(d)) and certain acquisitions of the stock or assets of another company (Rule 5635(a)). Instead, we follow Israeli law and practice in approving such procedures, according to which Board approval may suffice in certain circumstances.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to furnish financial statements and related information specified in Item 18.

ITEM 18. FINANCIAL STATEMENTS

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ITEM 19. EXHIBITS

Index to Exhibits

Exhibit	Description
1.1	Memorandum of Association of the Registrant⁽¹⁾
1.2	Amended and Restated Articles of Association of the Registrant⁽²⁾
2.1	Specimen of Ordinary Share Certificate⁽¹⁾
2.2	Description of Ordinary Shares⁽³⁾
4.1	English translations of Control Permits issued by the Prime Minister of Israel and Israeli Minister of Communications following the Searchlight-Fuhrer transaction in 2019
4.2	Directors' and Officers' Compensation Policy, May 2019⁽⁴⁾
4.6	Share Purchase Agreement, dated as of June 24, 2019 by and among Internet Gold—Golden Lines Ltd., B Communications Ltd., Searchlight II BZQ, L.P., and T.N.R. Investments Ltd.
8.1	List of Subsidiaries of the Registrant
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act 1934, as amended
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

- (1) Filed as an exhibit to the Registrant's Registration Statement on Form F-1, Registration Number 333-146645, filed with the Securities and Exchange Commission, and incorporated herein by reference.
- (2) Attached as Appendix A to the Registrant's Proxy Statement for its extraordinary general meeting of shareholders held on February 13, 2020, annexed as Exhibit 99.1 to the Registrant's Report on Form 6-K for the month of January 2020, furnished to the Securities and Exchange Commission on January 9, 2020 and incorporated herein by reference.
- (3) Attached as Exhibit 2.2 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2018, filed with the Securities and Exchange Commission on May 15, 2019 and incorporated herein by reference.
- (4) Attached as Exhibit 4.2 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2018, filed with the Securities and Exchange Commission on May 15, 2019 and incorporated herein by reference.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

B COMMUNICATIONS LTD.

By: /s/ Tomer Raved
Tomer Raved
Chief Executive Officer

By: /s/ Itzik Tadmor
Itzik Tadmor
Chief Financial Officer

Dated: April 23, 2020

B Communications Ltd.
Consolidated Financial Statements
As at December 31, 2019

Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of B Communications Ltd.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of B Communications Ltd. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2019 and the related notes (collectively referred to as the consolidated financial statements). In our opinion, except for the effects of the adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the investigation related to Bezeq The Israel Telecommunications Corp. Ltd., a subsidiary of the Company (Bezeq), Bezeq's subsidiary DBS Satellite Services (1998) Ltd, and former officers in these companies (collectively referred to as the accused parties) as described below, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As described in Note 1 to the consolidated financial statements, a joint investigation of the accused parties is being conducted by the Israel Securities Authority and the Israel Police. The basis of the investigations is the suspicion that the accused parties committed offenses under the Israel Securities' Law and the Penal Code, with respect to transactions related to the Company's controlling shareholder. Bezeq does not have complete information concerning the investigations, including any content, materials, or evidence which may be in the possession of the legal authorities. Accordingly, Bezeq is unable to assess the effects of the investigation, the findings, and their results on Bezeq's consolidated financial statements and the estimates used in the preparations of these consolidated financial statements, if any. As a result, we were unable to obtain sufficient appropriate audit evidence as to the effect, if any, of the investigation proceedings on the Company's consolidated financial statements.

Convenience Translation

The accompanying consolidated financial statements as of and for the year ended December 31, 2019 have been translated into United States dollars (dollars) solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in New Israeli Shekels have been translated into dollars on the basis set forth in Note 2B to the consolidated financial statements.

Initial application of new standard

As discussed in Note 3.7 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2018 due to the early adoption of International Financial Reporting Standard No. 16, Leases.

Legal and Regulatory Matters

We draw attention to Note 22 to the consolidated financial statements regarding class actions, which were filed against the Company relating to the investigation mentioned above.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

Except as discussed above, we conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/Somekh Chaikin
Somekh Chaikin

Certified Public Accountants (Isr.)
Member Firm of KPMG International

We have served as the Company's auditor since 2000.

Tel Aviv, Israel
April 23, 2020

Consolidated Statements of Financial Position as of**(In millions)**

	Note	December 31		Convenience Translation into US\$ (Note 2C)
		2018	2019	2019
		NIS	NIS	US\$
Current assets				
Cash and cash equivalents	5	1,104	814	236
Restricted cash	15C	-	39	11
Investments	6	1,780	1,241	360
Trade receivables, net	7	1,773	1,689	489
Other receivables	7	269	313	90
Assets held for sale		-	43	12
Inventory	3.10	97	93	27
Total current assets		5,023	4,232	1,225
Non-current assets				
Long-term trade and other receivables	7	470	477	138
Property, plant and equipment	8	6,313	6,032	1,745
Intangible assets	9	4,227	3,180	920
Deferred expenses and non-current investments	10	509	366	106
Broadcasting rights, net of rights exercised	11	60	59	17
Rights of use assets	14	1,504	1,182	342
Deferred tax assets	21	1,205	59	17
Investment property	13	64	-	-
Total non-current assets		14,352	11,355	3,285
Total assets		19,375	15,587	4,510

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Financial Position as of (cont'd)

(In millions)

	Note	December 31		Convenience translation into US\$ (Note 2C)
		2018	2019	2019
		NIS	NIS	US\$
Current liabilities				
Bank loans and debentures	15	3,997	1,007	291
Leases liabilities	14	445	416	120
Trade and other payables	16	1,702	1,425	413
Current tax liabilities	21	8	-	-
Provisions	17	175	125	36
Employee benefits	20	581	654	189
Total current liabilities		6,908	3,627	1,049
Non-current liabilities				
Bank loans and debentures	15	9,637	10,412	3,013
Leases liabilities	14	1,106	969	280
Employee benefits	20	445	356	103
Other liabilities		175	139	40
Provisions	17	38	49	14
Deferred tax liabilities	21	302	237	69
Total non-current liabilities		11,703	12,162	3,519
Total liabilities		18,611	15,789	4,568
Equity (Deficit)	25			
Attributable to shareholders of the company		228	(187)	(54)
Non-controlling interests		536	(15)	(4)
Total equity (deficit)		764	(202)	(58)
Total liabilities and equity (deficit)		19,375	15,587	4,510

Date of approval of the financial statements: April 23, 2020

/s/ Tomer Raved

CEO

/s/ Itzik Tadmor

CFO

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income for the Year Ended December 31

(In millions, except per share data)

		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Convenience translation into US\$ (Note 2C) 2019 US\$</u>
	<u>Note</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>US\$</u>
Revenues	26	9,789	9,321	8,929	2,584
Costs and expenses					
Depreciation, amortization and impairment		2,117	2,387	2,064	597
Salaries	27	2,007	1,995	1,937	560
General and operating expenses	28	3,906	3,394	3,276	948
Impairment losses	9	129	2,294	1,274	369
Other operating expenses (income)	29	20	635	(188)	(54)
		<u>8,179</u>	<u>10,705</u>	<u>8,363</u>	<u>2,420</u>
Operating profit (loss)		1,610	(1,384)	566	164
Financing expenses (income)					
Finance expenses		586	620	738	213
Finance income	15	(69)	(89)	(266)	(77)
Financing expenses, net	30	<u>517</u>	<u>531</u>	<u>472</u>	<u>136</u>
Profit (loss) after financing expenses, net		1,093	(1,915)	94	28
Share of loss in equity-accounted investee		5	3	2	1
Profit (loss) before income tax		1,088	(1,918)	92	27
Income tax expenses (benefit)	21	347	(59)	1,473	426
Net profit (loss) for the year		<u>741</u>	<u>(1,859)</u>	<u>(1,381)</u>	<u>(399)</u>
Profit (loss) attributable to:					
Shareholders of the company		78	(1,029)	(853)	(247)
Non-controlling interests		663	(830)	(528)	(152)
Net profit (loss) for the year		<u>741</u>	<u>(1,859)</u>	<u>(1,381)</u>	<u>(399)</u>
Earnings (loss) per share	31				
Basic		<u>2.62</u>	<u>(35.46)</u>	<u>(19.76)</u>	<u>(5.72)</u>
Diluted		<u>2.62</u>	<u>(35.46)</u>	<u>(19.76)</u>	<u>(5.72)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

(In millions)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Convenience translation into US\$ (Note 2C) 2019 US\$</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>US\$</u>
Net profit (loss) for the year	741	(1,859)	(1,381)	(399)
Items of comprehensive profit (loss), net of tax	<u>(8)</u>	<u>42</u>	<u>(32)</u>	<u>(9)</u>
Total comprehensive profit (loss) for the year	<u>733</u>	<u>(1,817)</u>	<u>(1,413)</u>	<u>(408)</u>
Attributable to:				
Shareholders of the Company	76	(1,018)	(862)	(249)
Non-controlling interests	<u>657</u>	<u>(799)</u>	<u>(551)</u>	<u>(159)</u>
Total comprehensive profit (loss) for the year	<u>733</u>	<u>(1,817)</u>	<u>(1,413)</u>	<u>(408)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

(In millions except share data)

	Attributable to shareholders of the Company						Non- Controlling interests	Total equity	
	Share capital		Share premium	Treasury Shares	Other reserves	Retained earnings			Total
	Number of Shares ⁽¹⁾	Amount							
	NIS 0.1 par value	NIS	NIS	NIS	NIS	NIS			NIS
Balance as at January 1, 2017	29,889,045	3	1,057	(*)	(46)	156	1,170	2,131	3,301
Changes during 2017:									
Dividends to non- controlling interests	-	-	-	-	-	-	-	(948)	(948)
Other comprehensive loss, net of tax	-	-	-	-	1	(3)	(2)	(6)	(8)
Net profit for the year	-	-	-	-	-	78	78	663	741
Comprehensive profit for the year	-	-	-	-	1	75	76	657	733
Balance as at December 31, 2017	<u>29,889,045</u>	<u>3</u>	<u>1,057</u>	<u>(*)</u>	<u>(45)</u>	<u>231</u>	<u>1,246</u>	<u>1,840</u>	<u>3,086</u>

⁽¹⁾ Net of treasury shares.

* Represents an amount less than NIS 1.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

(In millions except share data)

	Attributable to shareholders of the Company						Non- Controlling interests	Total equity	
	Share capital		Share premium	Treasury Shares	Other reserves	Retained earnings (deficit)			Total
	Number of Shares ⁽¹⁾	Amount							
NIS 0.1 par value	NIS	NIS	NIS	NIS	NIS	NIS	NIS		
Balance as at January 1, 2018	29,889,045	3	1,057	(*)	(45)	231	1,246	1,840	3,086
Changes during 2018:									
Dividends to non- controlling interests	-	-	-	-	-	-	-	(505)	(505)
Other comprehensive profit, net of tax	-	-	-	-	7	4	11	31	42
Net profit (loss) for the year	-	-	-	-	-	(1,029)	(1,029)	(830)	(1,859)
Comprehensive profit (loss) for the year	-	-	-	-	7	(1,025)	(1,018)	(799)	(1,817)
Balance as at December 31, 2018	<u>29,889,045</u>	<u>3</u>	<u>1,057</u>	<u>(*)</u>	<u>(38)</u>	<u>(794)</u>	<u>228</u>	<u>536</u>	<u>764</u>

(1) Net of treasury shares.

* Represents an amount less than NIS 1.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity (Deficit)

(In millions except share data)

	Attributable to shareholders of the Company						Non-Controlling interests	Total equity (deficit)	Convenience Translation into US\$ (Note 2C)	
	Share capital		Share premium	Treasury Shares	Other reserves	Deficit				Total
	Number of Shares ⁽¹⁾	Amount								
NIS 0.1 par value	NIS	NIS	NIS	NIS	NIS	NIS	NIS	US\$		
Balance as at January 1, 2019	29,889,045	3	1,057	(*)	(38)	(794)	228	536	764	221
Changes during 2019:										
Issuance of ordinary shares, see Note 25	86,427,518	9	438	-	-	-	447	-	447	130
Other comprehensive loss, net of tax	-	-	-	-	-	(9)	(9)	(23)	(32)	(9)
Loss for the year						(853)	(853)	(528)	(1,381)	(400)
Comprehensive loss for the year						(862)	(862)	(551)	(1,413)	(409)
Balance as at December 31, 2019	<u>116,316,563</u>	<u>12</u>	<u>1,495</u>	<u>(*)</u>	<u>(38)</u>	<u>(1,656)</u>	<u>(187)</u>	<u>(15)</u>	<u>(202)</u>	<u>(58)</u>

⁽¹⁾ Net of treasury shares.

* Represents an amount less than NIS 1.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows for the Year Ended December 31

(In millions)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Convenience translation into US\$ (Note 2C) 2019 US\$</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>US\$</u>
Cash flows from operating activities				
Net profit (loss) for the year	741	(1,859)	(1,381)	(399)
Adjustments:				
Depreciation, amortization and impairment	2,117	2,387	2,064	597
Loss from impairment of assets	129	2,293	1,274	369
Share of loss of equity accounted investees	5	3	2	1
Finance expenses, net	525	541	416	120
Capital gain, net	(27)	(13)	(475)	(137)
Income tax expenses	347	(59)	1,473	426
Change in inventory	(35)	(5)	(16)	(5)
Change in trade and other receivables	194	239	93	27
Change in trade and other payables	16	(144)	(113)	(33)
Changes in provisions	15	81	(49)	(14)
Changes in employee benefits	(33)	489	(50)	(14)
Change in other liabilities	(34)	-	(8)	(2)
Net income tax paid	(473)	(467)	(325)	(94)
Net cash provided by operating activities	<u>3,487</u>	<u>3,486</u>	<u>2,905</u>	<u>842</u>
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,131)	(1,216)	(1,095)	(317)
Investment in intangible assets and deferred expenses	(399)	(390)	(382)	(111)
Proceeds from the sale of PP&E and investment property	98	315	404	117
Change in investments, net	301	(1,168)	569	165
Net deposits to restricted cash	-	-	(39)	(11)
Tax payments regarding sale of investment property	-	(201)	(69)	(20)
Other	3	42	35	10
Net cash used in investing activities	<u>(1,128)</u>	<u>(2,618)</u>	<u>(577)</u>	<u>(167)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows for the Year Ended December 31 (cont'd)

(In millions)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Convenience translation into US\$ (Note 2C) 2019 US\$</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>US\$</u>
Cash flows from financing activities				
Proceeds from issuance of debentures and loans received	2,635	1,139	2,275	657
Repayment of debentures and loans	(1,813)	(1,793)	(4,287)	(1,240)
Interest paid	(537)	(523)	(496)	(144)
Dividends paid by Bezeq to non-controlling interests	(948)	(505)	-	-
Payments of principal and interest for leases	-	(422)	(414)	(120)
Proceeds from issuance of shares, net	-	-	447	129
Costs for early repayment of loans and debentures	-	-	(93)	(27)
Payments to Eurocom DBS	(61)	-	-	-
Others	(11)	(46)	(50)	(14)
Net cash used in financing Activities	<u>(735)</u>	<u>(2,150)</u>	<u>(2,618)</u>	<u>(759)</u>
Net increase (decrease) in cash and cash equivalents	1,624	(1,282)	(290)	(84)
Cash and cash equivalents as at the beginning of the year	<u>762</u>	<u>2,386</u>	<u>1,104</u>	<u>320</u>
Cash and cash equivalents as at the end of the year	<u>2,386</u>	<u>1,104</u>	<u>814</u>	<u>236</u>

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - General

1. Reporting Entity

B Communications Ltd. (the “Company”) is a company incorporated and domiciled in Israel and its official address is 144 Menachem Begin Road, Tel-Aviv 6492102, Israel. The consolidated financial statements of the Company as at and for the year ended December 31, 2019 include the accounts of the Company and its subsidiaries.

On April 14, 2010, the Company completed the acquisition of 30.44% of the outstanding shares of Bezeq - The Israel Telecommunications Corp. Limited (“Bezeq”) and became the controlling shareholder of Bezeq. Bezeq’s ordinary shares are registered for trade on the Tel Aviv Stock Exchange.

On February 1, 2016, the Company sold 115,500,000 shares of Bezeq (4.18% of the outstanding shares of Bezeq) for NIS 8.5 per share or NIS 978, net of transaction costs. The Company retained a 26.34% ownership interest in Bezeq, following the closing of the transaction. For more information relating to the Company’s control over Bezeq, see Note 12D.

The ordinary shares of the Company are registered for trade on the NASDAQ Global Select Market and on the Tel Aviv Stock Exchange.

On December 2, 2019, Searchlight Capital Partners, through its wholly owned entity, Searchlight II BZQ L.P (“Searchlight”), and the Fuhrer family, through its wholly owned entity, T.N.R Investments Ltd. (“Fuhrer Group”) completed the acquisition of majority control of the Company such that Searchlight owns 60.18% of and the Fuhrer Group owns 11.39% of the outstanding and issues ordinary shares of the Company (the “Searchlight-Fuhrer Transaction”), respectively.

The Company and its new controlling shareholders received all necessary approvals for the Searchlight-Fuhrer Transaction including approvals from the Israeli Antitrust Authority, Insolvency Court and Ministry of Communications. On November 11th, Searchlight and the Fuhrer Group received their Control Permits from the Minister of Communications.

The Searchlight-Fuhrer Transaction included the purchase by Searchlight and the Fuhrer Group of all of Internet Gold’s (“Internet Gold – Golden Line Ltd.”) shares in the Company for NIS 225 and an equity investment of NIS 267 in the Company in consideration for newly issued ordinary shares. In addition, Internet Gold invested NIS 310 for NIS 310 par value of newly issued Series C Debentures of the Company and NIS 35 in for 8,383,234 newly ordinary shares of the Company. Other public shareholders invested an additional NIS 28 as part of an ordinary shares rights issuance which was part of the transaction.

As part of the Searchlight-Fuhrer Transaction, the Company issued NIS 100 of new Series E Debentures and NIS 58 of new Series D Debentures. The Company fully redeemed its Series B Debentures as well as repaid NIS 614 of its Series C Debentures, please refer to Note 15.

Note 1 - General (cont'd)

2. Investigation of the Israel Securities Authority and the Police Force

On June 20, 2017, the Israel Securities Authority (“the ISA”) began an open investigation (“the Investigation”), which included searches and seizure of documents at the offices of Bezeq and DBS.

As part of the Investigation, the former chairman of Bezeq’s Board of Directors, the former CEO of Bezeq, the former CEO and CFO of DBS, and to the best of Bezeq’s knowledge, other senior officers and officers in Bezeq Group were questioned (“the Parties under Investigation”).

On November 6, 2017, the ISA issued a press release regarding the completion of the Investigation and the transfer of the Investigation file to the Tel-Aviv District Attorney (Taxation and Economics). In accordance with the notice, the ISA concluded that there is prima facie evidence establishing the involvement of the main suspects in the case in a number of offenses. It should be noted that in this context, on November 20, 2017, Bezeq and DBS received a “letter of notice to the suspect” according to which the investigation file for investigating Bezeq and DBS as suspects was transferred to the Prosecutor’s Office for review.

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

In addition, on February 18, 2018, a joint press release by the ISA and the Israel Police stated that in view of the evidence the ISA found in its investigation, which raised suspicions of additional offenses, a new joint investigation was opened on that date by investigators of the ISA and the Unit for Combating Economic Crime at Lahav 433 (“the New Investigation”), and a number of suspects were arrested, including senior officers of Bezeq Group (including Bezeq’s controlling shareholder in the period relevant to the investigation, and the former CEO of Bezeq), who were released under restrictive conditions.

On December 2, 2018, a spokesperson for the Israel Police and the ISA announced that the Investigation had been concluded (“the Announcement”). According to the Announcement, the Investigation case refers mainly to the alleged suspicion of bribery, fraud, and breach of trust by the controlling shareholder (at the times relevant to the Investigation) in Bezeq Group and the Walla! website. With the conclusion of the Investigation, the Israel Police and the ISA Authority believe that there is sufficient evidence in the case to substantiate the suspicions against the main parties involved in the affair, some of whom are former officers of Bezeq (the former controlling shareholder of Bezeq, the former CEO of Bezeq, a former director in Bezeq, and the former VP of strategy and business development of the Bezeq Group).

It should be noted that on February 28, 2019, suspicions against Prime Minister Benjamin Netanyahu were published.

The suspicions include reference to the matters investigated in the New Investigation, including suspicions of exercising authority by Benjamin Netanyahu to promote matters relating to the business of a former controlling shareholder in Bezeq and to his economic interests and the economic interests of the Bezeq Group.

Note 1 - General (cont'd)

On September 1, 2019, the Taxation and Economic Division of the Prosecutor's Office announced that it had notified the former controlling shareholder of Bezeq, and other senior officers of Bezeq and of DBS in the relevant period, that it was considering filing an indictment against them subject to a hearing, on suspicion of offenses of serious fraud, breach of trust, and reporting offenses under the Israel Securities Law ("the Prosecutor's Notice"). According to the Prosecutor's Notice, the hearing letter refers to suspicions in various cases, including impairing the work of the independent committee of Bezeq's Board of Directors that was addressing Bezeq's acquisition of DBS shares (for information about the transaction, see Note 12B), fraud related to the receipt of compensation in Bezeq's acquisition of DBS, and impairing the work of the independent committee of Bezeq's Board of Directors that was addressing the agreement between DBS and Spacecom Ltd. ("Spacecom").

On January 28, 2020, an indictment was filed at the Jerusalem district court against the former controlling shareholder in Bezeq, for various offenses, including bribery and misleading information in an immediate report.

Following the opening of the investigations, several civil legal proceedings were opened against Bezeq, former officers of Bezeq, and companies in Bezeq Group of the former controlling shareholder in Bezeq, including motions for certification of a class action and petitions for disclosure prior to filing a motion for certification of a derivative claim. For further information, see Note 22.

Bezeq does not have full information about the investigations, their content, the materials and the evidence in the possession of the legal authorities. Accordingly, Bezeq is unable to assess the effects of the investigations, their findings, and their results on it, as well as on the financial statements, and on the estimates used in the preparation of their financial statements, if any. Once the constraints on carrying out reviews and controls related to issues that arose in the Investigations are lifted, the review of all matters related to subjects that arose in the Investigations will be completed as required.

3. Private Investigation by the SEC

In March 2019, the Company was informed by Internet Gold of the issuance of a Formal Order of Private Investigation by the SEC of Internet Gold (no longer a controlling shareholder of the Company). The Formal Order authorizes an investigation of possible violations of the Foreign Corrupt Practices Act with respect to the facts uncovered in the criminal investigations in Israel.

4. Definitions

In these financial statements-

1. The Company: B Communications Ltd.
2. The Group: B Communications Ltd. and its subsidiaries, as listed in Note 12.A.
3. Bezeq: Bezeq - The Israel Telecommunication Corp., Limited.
4. Bezeq Group: Bezeq The Israel Telecommunication Corp. Limited and its subsidiaries, as listed in Note 12A.
5. DBS: DBS Satellite Services (1998) Ltd.

Note 1 - General (cont'd)

6. Subsidiaries: Companies whose financial statements are fully consolidated, directly or indirectly, with the financial statements of the Company.
7. Associates: Companies, in which the Group's investment is included, directly or indirectly, in the consolidated financial statements on an equity basis.
8. Investees: Subsidiaries or Associates.
9. Related party: As defined in IAS 24 (2009), Related Party Disclosures.
10. Israeli CPI: The consumer price index as published by the Israeli Central Bureau of Statistics.

Note 2 - Basis of Preparation**A. Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The consolidated financial statements were authorized to be issued by the Company's Board of Directors on April 23, 2020.

B. Functional currency and presentation currency

The consolidated financial statements are presented in NIS, which is the Group's functional currency, and have been rounded to the nearest million. NIS is the currency that represents the principal economic environment in which the Group operates.

C. Convenience translation into U.S. Dollars ("US\$")

For the convenience of the reader, the reported NIS figures as at December 31, 2019, have been presented in US\$, translated at the representative rate of exchange as at December 31, 2019 (NIS 3.456 = US\$ 1.00). The US\$ amounts presented in these financial statements are merely supplementary information and should not be construed as complying with IFRS translation method or as representing amounts that are receivable or payable in US\$ or convertible into US\$, unless otherwise indicated.

D. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

- Derivative financial instruments, including financial derivatives, at fair value through profit or loss
- Inventories measured at the lower of cost and net realizable value
- Deferred tax assets and liabilities
- Provisions
- Assets and liabilities for employee benefits

Note 2 - Basis of Preparation (cont'd)

E. Operating cycle

The Group's operating cycle is up to one year. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year from the date of the financial statements.

F. Classification of expenses recognized in the statement of income

Costs and expenses in the statement of income are presented and analyzed on the basis of the function of the expenses. The classification is compatible with the understanding of the Group's businesses, which address a wide range of services using common infrastructure. All of the costs and expenses are used to provide services.

G. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Group's management to make judgments and use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Note 2 - Basis of Preparation (cont'd)

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	Assumption of expected cash flows from cash-generating units	Recognition of impairment loss	Note 9
Deferred taxes	Assumption of anticipated future realization of the tax benefit, including assumption that it is more likely than not that the carryforward losses in DBS will not be utilized.	Recognition of a deferred tax asset	Note 21
Useful life and expected operation of fixed assets, intangible assets, and other long-term assets	Assumptions of the useful life of groups of fixed assets, intangible assets, and additional assets	Change in the value of fixed assets, intangible assets, additional assets, and depreciation, amortization and impairment expenses	Notes 8, 9, 10 and 11
Uncertain tax positions	The extent of the certainty that the Group's tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience	Recognition or reversal of income tax expenses	Note 21
Provisions and contingent liabilities, including levies	Assessment of the likelihood of claims against Group companies and measuring potential liabilities attributable to claims	Reversal or creation of a provision for a claim, recognition of income /expenses and recognition of profit or loss for such change, respectively	Note 17,22
	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	
Employee benefits	Actuarial assumptions such as discount rate, future salary increases and churn rate	An increase or decrease in liabilities for employee benefits and a liability for early retirement	Note 20
Unavoidable costs of a contract	Assuming that the economic benefits will exceed the unavoidable costs of the contract	Recognition of a provision for an onerous contract	Note 3.13
The existence of effective control over Bezeq	The practical ability to appoint most of the members of the board of directors of Bezeq, as a result of the control permit in Bezeq, the composition and distribution of the holdings of the other shareholders of Bezeq and the restrictions on these shareholders under the Telecommunications Law	Consolidation of Bezeq's reports or treatment of Bezeq using the equity method.	Note 12D

Note 2 - Basis of Preparation (cont'd)

H. Determination of fair value

When preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities. Further information about the assumptions made in determining fair values is disclosed in Note 19E regarding fair value.

I. Initial application of new standards

Initial application of 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.

Note 3 - Significant accounting policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in Note 2, Basis of Preparation, under section 2I, Initial Application of Accounting Standards and under sections 3.3, 3.7 and 3.14 below.

In this Note, where the Group has chosen accounting alternatives permitted in accounting standards and/or in accounting policy where there is no explicit provision in accounting standards, such disclosure is presented in bold. This does not attribute greater importance compared to other accounting policies that are not presented in bold.

3.1 Consolidation of the financial statements

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date of loss of control.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are being taken into account when assessing control.

3.1.2 Transactions eliminated on consolidation

Intra-group balances and income and expenses arising from intra-group transactions, are eliminated in the consolidated statements.

Note 3 - Significant accounting policies (cont'd)

3.1.3 Contingent consideration for business combinations

Subsequent to the acquisition date, the Group recognizes changes in fair value of contingent consideration recognized under business combinations, classified as a financial liability in the statement of income under financing expenses.

3.2 Foreign currency transactions

Transactions in foreign currency are translated into the functional currency of the Group at the exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate at that date.

3.3 Financial instruments

As from January 1, 2018, the Group applies IFRS 9, Financial Instruments ("IFRS 9"). Application of IFRS 9 did not have a material effect on the measurement of the Group's financial instruments in 2018, compared to the provisions in the previous standard, and the main effect of application of IFRS 9 in the Group is the use of the expected credit loss model.

Non-derivative financial assets

Non-derivative financial assets comprise mainly investments in deposits, trade and other receivables, and cash and cash equivalents.

The Group initially recognizes financial assets at the date at which the Group becomes a party to contractual provisions of the instrument, meaning the date that the Group undertakes to buy or sell the asset.

A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Classification of financial assets into categories and the accounting treatment in each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost; or fair value through profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

It is held within a business model whose objective is to hold assets so as to collect contractual cash flows.

The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets of the Group that are not classified as measured at amortized cost are measured at fair value through profit or loss.

The Group classifies its financial assets as follows:

Cash and cash equivalents

Cash comprises cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

Note 3 - Significant accounting policies (cont'd)

Trade and other receivables and deposits

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and gains and losses

Financial assets at amortized cost are measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss.

Non-derivative financial liabilities

Non-derivative financial liabilities include debentures issued by the Group, loans and borrowings from banks and other credit providers, and trade and other payables.

The Group initially recognizes debt instruments as they are incurred. Other financial liabilities are recognized at the time of the transaction. Financial liabilities are recognized initially at fair value less any attributable transactions costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Modification in terms of debt instruments

An exchange of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. **The difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.**

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, among other things, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

In a non-substantial modification in terms (or exchange) of a debt instruments at fixed interest, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit or loss under **financing expenses (income)**.

According to the accounting policy applied by the Group, when the portfolio of the financial liabilities with similar characteristics is repaid/exchanged, the profit/loss from the derecognition/exchange is based on the FIFO method.

CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period according to the actual increase in the CPI.

Note 3 - Significant accounting policies (cont'd)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A. Hedge accounting

The Group holds derivative financial instruments to hedge cash flows for risks to future changes in the CPI in respect of the debentures issued by the Group.

At the inception of the hedging relationship, the Group documents its risk management objective and its hedging strategy. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and the hedging instrument are expected to offset each other.

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and the effective portion of changes in fair value of the hedging instrument is recognized in a hedge reserve under other comprehensive income. The effective portion of changes in fair value of a derivative, recognized in other comprehensive income, is limited to the cumulative change in fair value of the hedged item (based on present value), from inception of the hedge. The change in fair value in respect of the ineffective portion is recognized immediately in profit or loss.

B. Economic hedges

In addition, the Group holds derivative financial instruments to hedge cash flows for foreign currency risks. Hedge accounting is not applied for these instruments. The derivative instruments are recognized at fair value; changes in fair value are recognized in profit and loss as incurred, as a financing income or expense.

3.4 Broadcasting rights

Broadcasting rights are stated at cost, net of rights exercised and impairment losses.

The costs of broadcasting rights acquired for the broadcasting of content include the amounts paid to the rights provider, plus direct costs for adjusting the rights to the broadcast.

Broadcasting rights are assessed for impairment as part of the cash-generating unit to which the broadcasting rights are attributed (see Note 11).

The net adjustment of the broadcasting rights is presented as an adjustment of earnings as part of the ongoing operations in the statements of cash flows.

3.5 Fixed assets

Recognition and measurement

The Group elected to measure items of fixed assets at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and financing costs as well as any other cost directly attributable to bringing the asset to the condition for its use intended by the management, and the estimated costs of dismantling and removing the items and restoring the site on which they are located when the Group has an obligation to vacate and restore the site. The cost of purchased software that is integral to the functionality of the related equipment is recognized as part of the cost of the equipment.

Note 3 - Significant accounting policies (cont'd)

Spare parts, servicing equipment and stand-by equipment are classified as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

When major parts of the fixed assets have different useful lives, they are accounted for as separate items (major components) of the fixed assets.

Gain or loss from the disposal of a fixed asset item is determined by comparing the proceeds from disposal of the asset with its carrying amount. **Gain or loss from the sale of fixed assets is recognized under other income or other expenses, as the case may be, in the statement of income.**

Subsequent expenditure

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied in the new item will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing are recognized in the statement of income as incurred.

Depreciation

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of a fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Right of use assets under a finance lease are depreciated over the shorter of the lease term and their useful lives.

An asset is depreciated when it is ready for use, meaning when it reaches the location and condition necessary for it to be capable of operating in the manner intended by management.

Leasehold improvements are generally depreciated over the shorter of the lease term, including the extension option held by the Group and intended to be exercised and the useful life of the leasehold improvements.

Note 3 - Significant accounting policies (cont'd)

The estimated useful lives for the current period are as follows:

	Years
Fixed line and international network equipment (switches, transmission, power)	4-12
Network	12-33
Equipment and infrastructure for multichannel television	3-15
Subscriber equipment and installations	4-8
Vehicles	6-7
Office and general equipment	5-10
Electronic equipment, computers and internal communication systems	3-7
Cellular network	4-10
Passive radio equipment at cellular network sites	Up to December 31, 2037
Buildings	25
Seabed cable	4-25 (mainly 25)

Depreciation methods, useful lives and residual values are reviewed at least in each reporting year and adjusted as required.

3.6 Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is measured at least once a year to assess impairment. See also Note 9.

Software development costs

Software development costs are recognized as an intangible asset only if the development costs can be measured reliably; the software is technically and commercially applicable; and the Group has sufficient resources to complete the development and intends to use the software. The costs recognized as an intangible asset include the cost of the materials, direct labor and overhead expenses directly attributable to preparation of the asset for its intended use. Other development costs are recognized in the statement of income as incurred.

Capitalized development costs are measured at cost less amortization and accumulated impairment losses.

Software

Software that is an integral part of the hardware, which cannot function without the programs installed on it, is classified as fixed assets. However, licenses for stand-alone software which add functionality to the hardware, are classified as intangible assets.

Rights to frequencies

Rights to frequencies refer to frequencies assigned to Pelephone for cellular activities, after it won the dedicated tenders of the Ministry of Communications. Depreciation of the asset is recognized in the statement of income on the straight-line method over the term of the allocation of frequencies, which started from the use of the frequencies. The 4G frequencies (LTE) and 3G frequencies (UMTS/HSEA) are being amortized until August 22, 2028.

Note 3 - Significant accounting policies (cont'd)

Other intangible assets

Other intangible assets acquired by the Group, which have a definite useful life, are measured at cost less amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is recognized as an intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure relating to generated goodwill and brands, is recognized in the statement of income as incurred.

Amortization

Amortization of intangible assets is recognized in the statement of income on a straight-line basis (other than as set out below regarding amortization of customer relations), over the estimated useful life of the intangible assets, from the date on which the assets are available for use. Goodwill is not systematically amortized but is tested for impairment at least once a year.

Estimated useful lives for the current period are as follows:

<u>Type of asset</u>	<u>Amortization period</u>
Frequency usage right	Over the license period up to 2028
Computer programs and software licenses	3-10 years depending on the term of the license period or the estimated time of use of the software

Amortization methods and useful lives are reviewed at least at each reporting year and adjusted if appropriate.

3.7 Leased assets

As from January 1, 2018, the Group applies IFRS 16, Leases.

Accounting policy applied in the periods prior to January 1.1, 2018

Leases, including leases of land from the Israel Land Administration, where the Group assumes substantially all the risks and rewards of ownership, were classified as finance leases. Upon initial recognition, the leased assets were measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets were measured at cost less accumulated amortization and impairment losses.

Other leases were classified as operating leases and the leased assets were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

At inception or upon reassessment of an arrangement, the Group determined whether such an arrangement is or contains a lease. An arrangement was a lease or contained a lease if the following two criteria were met:

The fulfillment of the arrangement was dependent on the use of a specific asset or asset.

The arrangement contained rights to use the asset.

If, in accordance with these terms, the Group determines that the agreement does not contain a lease, the agreement is accounted for as a service agreement and payments for the service are recognized in profit or loss on a straight-line basis, over the service period.

Note 3 - Significant accounting policies (cont'd)

Accounting policy applied as from January 1.1, 2018

Presented below are the principal accounting policies for leases in which the Group is the lessee, which were applied as from January 1, 2018 following the application of the Standard:

Determining whether an arrangement contains a lease

At the inception of the arrangement, the Group determines whether the arrangement is or contains a lease and examines whether the arrangement transfers the right to control the use of an identifiable asset for a period of time in return for payment. When assessing whether the arrangement transfers control over the use of an identifiable asset, the Group estimates, over the lease term, whether it has both rights set out below:

The right to essentially obtain all the economic rewards associated with the use of the identifiable asset.

The right to direct the use of the identifiable asset.

For lease contracts that include non-lease components, such as services or maintenance, which are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

Leased assets and lease liability

Contracts that award the Group the right to control the use of an identifiable asset over a period of time for a consideration are accounted for as leases. At initial recognition, the Group recognizes a liability at the present value of the future minimum lease payments (these payments do not include variable lease payments that are not linked to the CPI, or to any change in the rate of interest, or any change in the exchange rate), and concurrently, the Group recognizes a right-of-use asset at the amount of the liability, adjusted for lease payments paid in advance or accrued, plus direct costs incurred in the lease.

Since the interest rate implicit in the lease is not readily determinable, the incremental borrowing rate of the Group is used (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral).

Subsequent to initial recognition, the asset is accounted for using the cost model and it is amortized over the lease term or the useful life of the asset (whichever is earlier).

The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the Group will exercise or not exercise the option.

Variable lease payments

Variable lease payments that are linked to the CPI are initially measured using the index or currency rate at the inception of the lease and are included in the measurement of the lease liability. When there is a change in the cash flows of the future lease payments arising from the change in the index, the liability is adjusted against the right-of-use asset.

Depreciation of a right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

Note 3 - Significant accounting policies (cont'd)

Type of asset	Weighted average of the agreement period as at January 1, 2019 (years)
Cellular communications sites	6.6
Buildings	6
Vehicles	2

Subleases

In leases in which the Company sublets the underlying asset, the Company assesses the classification of the sublease as a finance or operating lease, for the right-of-use received in the primary lease. The Company assessed the existing subleases on the initial application date, in accordance with the balance of their contractual terms as at that date.

3.8 Investment property

Investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

3.9 Right of use of capacities

Transactions for acquiring an indefeasible right of use (IRU) of seabed cable capacities are accounted for as service transactions. The prepaid expense is amortized on a straight-line basis as stated in the agreement and no more than the expected estimated useful life of those capacities.

Identifiable capacities which serve the Group exclusively were recognized under fixed assets. The asset is depreciated on a straight-line basis as stated in the agreement and no more than the expected estimated useful life of those capacities.

3.10 Inventory

The cost of inventories includes the cost of purchase and cost incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value. The Group elected to base the cost of inventories on the moving average principle.

The inventories include terminal equipment and accessories intended for sale and service, as well as spare parts used for repairs in the repair service provided to its customers.

Slow-moving inventory of terminal equipment, accessories and spare parts are stated net of the provision for impairment.

3.11 Impairment

Non-derivative financial assets

As from January 1, 2018, the Group applies IFRS 9, Financial Instruments ("IFRS 9") and performs an assessment for any indications of impairment in accordance with IFRS 9. In practice, application of the New Standard did not have a material effect on the measurement of impairment of the Group's financial assets in 2019 and 2018 compared with the previous standard.

The Group has elected to measure the provision for expected credit losses in respect of trade receivables at an amount equal to the full lifetime credit losses of the instrument.

Note 3 - Significant accounting policies (cont'd)

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial instrument.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive and are discounted at the effective interest rate of the financial asset.

Expected credit losses for receivables in significant amounts are tested individually. Other financial assets are assessed for expected credit losses collectively in groups that share similar credit risk characteristics, taking into account past experience.

The provision for expected credit losses is recognized net of the gross carrying amount of the receivables.

For bank deposits, for which the credit risk did not increase significantly from the date of initial recognition, the Group measures the provision for expected credit losses in an amount equal to the expected credit losses for an event of default in a 12-month period.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group's past experience and informed credit assessment, and it includes forward looking information.

Non-financial assets

Timing of impairment testing

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated.

The Group assesses the recoverable amount of goodwill once a year, or more frequently if there are indications of impairment.

Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash generating unit (for which future cash flows were not adjusted).

Determining cash-generating units

For the purpose of impairment testing, the assets are grouped together into the smallest group of assets that generates cash from continuing use that are largely independent of other assets or groups of assets (cash-generating unit). See Note 9.

Allocation of goodwill to cash-generating units

For purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes, but in any event is not larger than an operating segment. Goodwill acquired in a business combination is allocated for the purpose of impairment testing to cash-generating units that are expected to generate benefits from the synergies of the combination.

Note 3 - Significant accounting policies (cont'd)

Recognition of impairment loss

An impairment loss of cash generating units is recognized when the carrying amount of the cash generating unit, including goodwill, where relevant, exceeds its recoverable amount and is recognized in the statement of income. An impairment loss recognized in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the cash-generating unit. To allocate an impairment loss, the assets are not impaired below the higher of their fair value less exercise costs and their value in use (if determinable) or zero.

The Company presents an analysis of expenses recognized in profit or loss based on their nature. Impairment losses of non-current assets arising from one-time updates to financial forecasts are presented in our Statement of Income under Impairment Losses. Impairment losses of non-current assets arising from continuous write-downs of asset to their fair value less costs of disposal costs (a result of forecasts for negative cash flows and negative enterprise value of the relevant companies), are reported in our Statement of Income under operating expenses related to the ongoing consumption of economic benefits of such assets (i.e. depreciation, amortization and impairment or general and operating expenses). Such presentation better reflects the nature of these expenses and is more suitable for understanding of the Group's operations.

Accordingly, in the Statement of Income, the impairment of the broadcasting rights in DBS and Walla! is presented under "General and operating expenses", while the impairment of fixed assets and intangible assets is presented under "Depreciation, amortization and impairment". See also Note 9.

3.12 Employee benefits

Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies and they are classified as defined contribution plans and defined benefit plans.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

The Group's obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of income in the periods during which services are rendered by employees.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is presented at its present value, and the fair value of any plan assets is deducted. The calculation is performed annually by a qualified actuary. The discount rate is the yield on high-quality corporate debentures at the reporting date, denominated in or linked to the currency of the paid benefit, with maturity dates approximating the terms of the Group's obligations.

Net interest costs on a defined benefit plan are calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability.

The Group elected to recognize the interest costs that were recognized in profit or loss under financing expenses.

Remeasurement of the net defined benefit liability comprises actuarial gains and losses and the return on plan assets (excluding interest). Remeasurements are recognized immediately directly in retained earnings through other comprehensive income.

When the benefits of a plan are improved or curtailed, the portion of the increased or curtailed benefit relating to past service by employees is recognized immediately in profit or loss when the plan improvement or curtailment occurs.

Note 3 - Significant accounting policies (cont'd)

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits (such as an obligation for accumulated vacation days and sick leave) other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The amount of these benefits is stated at its present value. The discount rate is the yield at the reporting date on high-quality linked corporate debentures denominated in NIS, with maturity dates approximating the terms of the Group's obligations. Actuarial changes are recognized in the statement of income in the period in which they arise. Any actuarial changes arising from a change in the discount rate are recognized in the financing expenses item, while the other differences are recognized in salary expenses.

Early retirement and termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Expenses for early retirement and termination recognized in the statement of income are presented under other operating expenses (income). The actuarial changes arising from a change in the discount rate, long-term benefits for early retirement and termination, are recognized under financing expenses, while the other actuarial changes are recognized under other operating expenses (income).

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on the date when the benefits are expected to be to be wholly settled,

In the statement of financial position, the employee benefits are classified as current benefits or as non-current benefits according to the time the liability is due to be settled.

3.13 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Legal claims

Contingent liabilities are accounted for according to IAS 37 and its related provisions. Accordingly, the claims are classified by likelihood of realization of the exposure to risk, as follows:

More likely than not – more than 50% probability

Likely – probability higher than unlikely and less than 50%

Unlikely – probability of 10% or less

Note 3 - Significant accounting policies (cont'd)

For claims which the Group has a legal or constructive obligation as a result of a past event, which are more likely than not to be realized, the financial statements include provisions which, in the opinion of the Group, based, among other things, on the opinions of its legal advisers retained in respect of those claims, are appropriate to the circumstances of each case, despite the claims being denied by the Group companies. There are also a small number of legal proceedings, most of which were received recently, for which the risks cannot be assessed at this stage, therefore no provisions have been made.

Note 19 describes the amount of additional exposure due to contingent liabilities that are likely to be realized.

Site dismantling and clearing costs

The provision in respect of an obligation to dismantle and clear sites is recognized for those rental agreements where Pelephone has an undertaking to restore the rental property to its original state at the end of the rental period, after dismantling and transferring the site, and restoring the site when required. The provision is measured by discounting the future cash flows by risk-free discounted interest reflecting the time until the expected termination of the contract for dismantling of the site by Pelephone. The carrying amount of the provision is adjusted in each period to reflect the time that has passed and is recognized as a financing expense.

Onerous contracts

A provision for onerous contracts is recognized when the unavoidable costs of a contract exceed the benefits expected to be received from the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the unavoidable costs (net of the revenues) of continuing with the contract. Unavoidable costs are costs that the Group cannot avoid as they are subject to a contract (such as incremental costs).

3.14 Revenues

The Group recognizes revenues when the customer gains control over the goods or services. The income is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favour of third parties.

The model for recognizing revenues from contracts with customers includes five steps for analysing transactions so as to determine when to recognize revenues and in what amount:

- A. Identifying the contract with the customer.
- B. Identifying separate performance obligations in the contract.
- C. Determining the transaction price.
- D. Allocating the transaction price to separate performance obligations.
- E. Recognizing revenues when the performance obligations are satisfied.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

1. The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them.
2. The Group can identify the rights of each party in relation to the goods or services that will be transferred.
3. The Group can identify the payment terms for the goods or services that will be transferred.

Note 3 - Significant accounting policies (cont'd)

4. The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract).
5. It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

Identifying performance obligations

On the inception date of the contract, the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

- (1) Goods or services (or a bundle of goods or services) that are distinct; or
- (2) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

Determining the transaction price.

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties. When determining the transaction price, the Group considers the effects of all the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration to be paid to the customer.

Existence of a significant financing component

In order to measure the transaction price, the Group adjusts the amount of the promised consideration in respect of the effects of the time value of money if the timing of the payments agreed between the parties provides to the customer or the Group a significant financing benefit. In these cases, the contract contains a significant financing component. When assessing whether a contract includes a significant financing component, the Group examines, among other things, the expected length of time between the date the Group transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

When the contract contains a significant financing component, the Group recognizes the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the inception date of the contract. The financing component is recognized as interest income or expenses over the period, which are calculated according to the effective interest method.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less, the Group applies the practical expedient included in the standard and does not separate a significant financing component.

Existence of performance obligations

Revenues are recognized when the Group satisfies a performance obligation by transferring to the customer control over promised goods or services.

Contract costs

Incremental costs of obtaining a contract with a customer such as sales fees to agents, are recognized as an asset when the Group is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

Capitalized costs are amortized in the income statement on a systematic basis that is consistent with the expected average duration of subscribers and with their average projected churn rate based on the type of subscriber and the service received (mainly over a period of one to four years).

Note 3 - Significant accounting policies (cont'd)

Every reporting period the Group examines whether the carrying amount of the asset recognized as aforesaid exceeds the consideration the entity expects to receive in exchange for the goods or services to which the asset relates, less the costs directly attributable to the provision of these goods or services that were not recognized as expenses, and if necessary an impairment loss is recognized in profit or loss.

Principal versus agent considerations

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services itself, which means the Group is a principal and therefore recognizes revenues in the gross amount of the consideration, or to arrange that another party provide the goods or services which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include the following: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

3.15 Financing income and expenses

Financing income comprises mainly interest income accrued using the effective interest method in respect of the sale of terminal equipment in installments, interest income on deposits, changes in the fair value of financial assets at fair value through profit or loss and gain from debt restructuring.

Financing expenses include mainly interest and linkage expenses on borrowings received and debentures issued, expenses for early repayment of the debt, and financing expenses for employee benefits.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. The Group elected to present interest and linkage differences paid for loans and debentures under cash flows used for financing activities.

3.16 Income tax expenses

Income tax expenses include current and deferred taxes and are recognized in the statement of income or in other comprehensive income to the extent that the expenses relate to items recognized in other comprehensive income.

Current taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more likely than not that the Group will have to use its economic resources to pay the obligation.

Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred taxes for the following temporary differences:

1. Initial recognition of goodwill
2. Differences arising from investment in subsidiaries and associates, if it is probable that they will not reverse in the foreseeable future and if the Group controls the date of reversal.

Note 3 - Significant accounting policies (cont'd)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for carryforward losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized (see also Note 21).

Offsetting deferred tax assets and liabilities

The Group sets off deferred tax assets and liabilities if there is a legally enforceable right to offset deferred tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, and they intend to settle deferred tax liabilities and assets on a net basis or their deferred tax assets and liabilities will be realized simultaneously.

Presentation of tax expenses in the statement of cash flows

Cash flows arising from taxes on income are classified in the statement of cash flows as cash flows from operating activities, unless they can be specifically identified with investing and financing activities.

3.17 Dividends

An obligation relating to a dividend proposed or declared subsequent to the reporting date is recognized only in the period in which the declaration was made (approval of the general meeting). In the statements of cash flows, a dividend that has been paid is recognized under financing activities.

3.18 New standards not yet adopted Amendment to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

The amendment replaces certain classification requirements of liabilities as current or non-current. The amendment is effective for reporting periods beginning on January 1, 2022. Earlier application is permitted. The amendment is effective retrospectively, including reconciliation of comparative information. The Group has not yet commenced examining the effects of the application of the standard on the financial statements.

Note 4 - Segment Reporting

The Group operates in four segments in the communications sector and every company in the Group operates in a separate business segment. The primary reporting format, by business segments, is based on the Group's management and internal reporting structure.

Each company provides services in the segment in which it operates, using the property, plant and equipment and the infrastructure it owns (see also Note 26). The infrastructure of each company is used only for providing its services. Each of the companies in the Group is exposed to different risks and yield expectations, mainly with respect to the technology and competition in the segment in which it operates. Accordingly, the separable components in the Group are each company in the Group.

Based on the above, the business segments of the Group are as follows:

- Bezeq - The Israel Telecommunication Corp., Limited.: fixed line domestic communications
- Pelephone Communications Ltd.: cellular communications
- Bezeq International Ltd.: international communications, internet services and network end point services
- D.B.S. Satellite Services (1998) Ltd.: multichannel television

The other companies in the Group are presented under the "Other" item. Other operations include call center services (Bezeq Online) and online shopping and classified ads (through Walla!). These operations are not reported as reporting segments as they do not fulfill the quantitative thresholds.

Inter-segment pricing is set at the price determined in a transaction in the ordinary course of business.

The results, assets and liabilities of a segment include items directly attributable to that segment, as well as those that can be allocated on a reasonable basis. The results of the segments are presented net of the impairment losses described in Note 9. 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.

Segment capital expenditure is the total cost incurred during the period for acquisition of property, plant and equipment and intangible assets.

Note 4 - Segment Reporting (cont'd)

A. Operating Segments

	Year ended December 31, 2017						
	Domestic fixed-line communications	Cellular communications	International communications and Internet services	Multi- channel television	Others	Adjustments	Consolidated
	NIS	NIS	NIS	NIS	NIS	NIS	NIS
Revenue from external entities	3,953	2,500	1,466	1,650	220	-	9,789
Inter-segment revenues	291	46	71	-	17	(425)	-
Total revenue	4,244	2,546	1,537	1,650	237	(425)	9,789
Depreciation and amortization	728	383	135	285	20	566	2,117
Segment results - operating income	1,971	72	174	163	(20)	(750)	1,610
Finance income	36	54	4	10	5	(40)	69
Finance expenses	(439)	(3)	(12)	(81)	-	(51)	(586)
Total financing income (expense), net	(403)	51	(8)	(71)	5	(91)	(517)
Segment profit (loss) after finance expenses, net	1,568	123	166	92	(15)	(841)	1,093
Share in profit (loss) of equity-accounted investee	-	-	-	-	(4)	(1)	(5)
Segment profit (loss) before income tax	1,568	123	166	92	(19)	(842)	1,088
Income tax	396	28	39	336	-	(452)	347
Segment results - net profit (loss)	1,172	95	127	(244)	(19)	(390)	741
Additional information:							
Segment assets	9,086	3,271	1,199	1,502	174	2,460	17,692
Goodwill	-	-	6	-	10	2,921	2,937
Investment in equity-accounted investee	-	-	5	-	(6)	11	10
Segment liabilities	13,901	536	410	1,154	64	1,488	17,553
Investments in property, plant and equipment and intangible assets	851	331	169	237	19	-	1,607

Note 4 - Segment Reporting (cont'd)

A. Operating Segments (cont'd)

	Year ended December 31, 2018						
	Domestic fixed-line communications	Cellular communications	International communications and Internet services	Multi- channel television	Others	Adjustments*	Consolidated
	NIS	NIS	NIS	NIS	NIS	NIS	NIS
Revenue from external entities	3,883	2,401	1,338	1,473	226	-	9,321
Inter-segment revenues	313	42	53	-	15	(423)	-
Total revenue	4,196	2,443	1,391	1,473	241	(423)	9,321
Depreciation and amortization	850	655	194	323	21	345	2,388
Segment results - operating income	1,224	(2)	116	(56)	(36)	(2,630)	(1,384)
Finance income	32	56	1	27	-	(27)	89
Finance expenses	(502)	(22)	(16)	(16)	-	(64)	(620)
Total financing income (expense), net	(470)	34	(15)	11	-	(91)	(531)
Segment profit (loss) after finance expenses, net	754	32	101	(45)	(36)	(2,721)	(1,915)
Share in profit (loss) of equity- accounted investee	-	-	1	-	(4)	-	(3)
Segment profit (loss) before income tax	754	32	102	(45)	(40)	(2,721)	(1,918)
Income tax	187	8	25	3	-	(282)	(59)
Segment results - net profit (loss)	567	24	77	(48)	(40)	(2,439)	(1,859)
Additional information:							
Segment assets	8,896	4,124	1,332	1,606	157	971	17,086
Goodwill	-	-	6	-	-	2,274	2,280
Investment in equity-accounted investee	-	-	6	-	3	-	9
Segment liabilities	14,284	1,425	567	687	84	1,564	18,611
Investments in property, plant and equipment and intangible assets	902	346	137	318	13	-	1,716

Note 4 - Segment Reporting (cont'd)

A. Operating Segments (cont'd)

	Year ended December 31, 2019						
	Domestic fixed-line communications	Cellular communications	International communications and Internet services	Multi- channel television	Others	Adjustments*	Consolidated
	NIS	NIS	NIS	NIS	NIS	NIS	NIS
Revenue from external entities	3,757	2,316	1,283	1,344	229	-	8,929
Inter-segment revenues	316	46	56	1	9	(428)	-
Total revenue	4,073	2,362	1,339	1,345	238	(428)	8,929
Depreciation, amortization and impairment	861	633	190	219	14	147	2,064
Segment results - operating income	2,142	(99)	(57)	(135)	1	(1,286)	566
Finance income	39	62	2	5	-	158	266
Finance expenses	(608)	(23)	(8)	(17)	(1)	(81)	(738)
Total financing income (expense), net	(569)	39	(6)	(12)	(1)	77	(472)
Segment profit (loss) after finance expenses, net	1,573	(60)	(63)	(147)	-	(1,209)	94
Share in profit (loss) of equity-accounted investee	-	-	-	-	(2)	-	(2)
Segment profit (loss) before income tax	1,573	(60)	(63)	(147)	(2)	(1,209)	92
Income tax (benefit)	381	(13)	(13)	2	-	1,116	1,473
Segment results - net profit (loss)	1,192	(47)	(50)	(149)	(2)	(2,325)	(1,381)
Additional information:							
Segment assets	8,091	4,088	1,126	1,491	149	(912)	14,033
Goodwill	-	-	-	-	-	1,548	1,548
Investment in equity-accounted investee	-	-	4	-	2	-	6
Segment liabilities	12,466	1,434	414	576	79	820	15,789
Investments in property, plant and equipment and intangible assets	914	335	110	222	9	-	1,590

* Impairment losses of the multi-channel television segment, the cellular communications segment and the International communications and internet services segment are presented as part of the adjustments (please refer to Note 9). Adjustments also include depreciation, amortization and impairment of assets resulting from the Bezeq PPA.

Note 4 - Segment Reporting (cont'd)

B. Adjustments for segment reporting of revenue, profit or loss, assets and liabilities

	Year ended December 31,		
	2017	2018	2019
	NIS	NIS	NIS
Revenue			
Revenue from reporting segments	9,977	9,503	9,119
Revenue from other segments	237	241	238
Elimination of revenue from inter-segment sales	(425)	(423)	(428)
Consolidated revenue	<u>9,789</u>	<u>9,321</u>	<u>8,929</u>
	Year ended December 31,		
	2017	2018	2019
	NIS	NIS	NIS
Profit or loss			
Operating income for reporting segments	2,380	1,282	1,851
Financing expenses, net	(517)	(531)	(472)
Adjustments for multi-channel television	-	-	80
Share in the losses of equity-accounted investees	(5)	(3)	(2)
Profit (loss) from operations classified in other categories	(20)	(36)	1
Depreciation and amortization of intangible assets resulting from the Bezeq PPA adjustments	(733)	(975)	(185)
Loss from impairment of assets (see Note 9)	-	(1,638)	(1,274)
Other adjustments	(17)	(17)	93
Consolidated profit (loss) before income tax	<u>1,088</u>	<u>(1,918)</u>	<u>92</u>

Note 4 - Segment Reporting (cont'd)**B. Adjustments for segment reporting of revenue, profit or loss, assets and liabilities (cont'd)**

	December 31,	
	2018	2019
	NIS	NIS
Assets		
Assets from reporting segments	15,970	14,800
Assets attributable to operations in other categories	159	151
Inter-segment assets	(626)	(124)
Goodwill not attributable to segment assets	2,274	1,548
Loss from impairment of assets	(1,638)	(2,577)
PPA not attributable to reporting segment	1,166	-
Assets resulting from the Bezeq PPA, net	1,477	1,291
Assets attributable to a non-reportable segment	593	498
Consolidated assets	19,375	15,587
Liabilities		
Liabilities from reporting segments	16,963	14,890
Liabilities attributable to operations in other categories	84	79
Inter-segment liabilities	(1,158)	(1,247)
Liabilities resulting from the Bezeq PPA, net	247	194
Liabilities attributable to a non-reportable segment	2,475	1,873
Consolidated liabilities	18,611	15,789

Note 5 - Cash and Cash Equivalents

As of December 31, 2018, and December 31, 2019, cash and cash equivalents include mainly bank deposits with a maturity of up to 90 days.

Note 6 - Investments

	December 31,	
	2018	2019
	NIS	NIS
Current investments		
Investments in marketable securities at fair value through profit and loss and others	396	358
Bank deposits	1,384	883
	<u>1,780</u>	<u>1,241</u>

Bank deposits are repayable until December 2020 and the investments in monetary funds and marketable securities can be disposed of immediately. A deposit used as collateral for hedging transactions is payable in December 2020.

Note 7 - Trade and Other Receivables

A. Composition of trade and other receivables

	December 31,	
	2018	2019
	NIS	NIS
Trade receivables, net*		
Outstanding debts	709	741
Credit cards and checks receivable	396	415
Unbilled receivables	237	146
Current maturities of long-term receivables	420	382
Related parties	11	5
Total trade receivables	<u>1,773</u>	<u>1,689</u>
Other receivables and current tax assets		
Prepaid expenses	34	27
Current tax assets	104	39
Other receivables (mainly from real estate sales)	131	247
Total other receivables	<u>269</u>	<u>313</u>
Long-term trade and other receivables		
Trade receivables- open debts* (1)	339	304
Long term receivables (from real estate sales)	131	173
	<u>470</u>	<u>477</u>
	<u>2,512</u>	<u>2,479</u>

* The amount of trade receivables is stated net of the provision for doubtful debts.

Discounted interest rates for long-term trade payables are based the estimated credit risk of trade payables. The discounted interest rates used by the Group in 2019 are 3.5%-5.6% (in 2018: 3.4%-4.6%).

Note 7 - Trade and Other Receivables (cont'd)

B. Excepted payment dates for long-term trade and other receivables:

	<u>December 31,</u> <u>2019</u> <u>NIS</u>
2021	217
2022	83
2023 and thereafter	<u>177</u>
	<u>477</u>

C. Change in provision for doubtful debts during the year

	<u>December 31,</u>	
	<u>2018</u>	<u>2019</u>
	<u>NIS</u>	<u>NIS</u>
Balance at January 1	92	87
Expected credit loss recognized	23	13
Bad debts	(28)	(20)
Balance at December 31	<u>87</u>	<u>80</u>

D. Aging of trade receivables

The aging of trade receivables at the reporting date was as follow:

	<u>December 31, 2018</u>		<u>December 31, 2019</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Not past due	1,971	(5)	1,812	(5)
Past due up to one year	151	(34)	185	(32)
Past due one to two years	38	(16)	34	(14)
Past due more than two years	39	(32)	42	(29)
	<u>2,199</u>	<u>(87)</u>	<u>2,073</u>	<u>(80)</u>

Note 8 - Property, Plant and Equipment

	Land and buildings	Switching Transmission, power, Cellular, And satellite equipment	Network equipment	Multi- channel equipment and infrastructure	Subscriber equipment	Office equipment, computers and vehicles	Total
	NIS	NIS	NIS	NIS	NIS	NIS	NIS
Cost							
Balance as at January 1, 2018	1,004	5,865	5,968	1,200	1,738	1,076	16,851
Additions	22	396	213	247	311	86	1,275
Disposals	(2)	-	-	(1)	(15)	(9)	(27)
Transfer to Investment property	(22)	-	-	-	-	-	(22)
Balance as at December 31, 2018	<u>1,002</u>	<u>6,261</u>	<u>6,181</u>	<u>1,446</u>	<u>2,034</u>	<u>1,153</u>	<u>18,077</u>
Balance as at January 1, 2019	1,002	6,261	6,181	1,446	2,034	1,153	18,077
Additions	63	359	202	147	322	63	1,156
Disposals	(88)	(3)	-	(3)	(7)	(1)	(102)
Transfer to assets held for sale	(43)	-	-	-	-	-	(43)
Balance as at December 31, 2019	<u>934</u>	<u>6,617</u>	<u>6,383</u>	<u>1,590</u>	<u>2,349</u>	<u>1,215</u>	<u>19,088</u>
Depreciation and impairment losses							
Balance as at January 1, 2018	455	3,953	2,940	591	1,140	832	9,911
Depreciation for the year	73	481	210	214	215	84	1,277
Loss from impairment of assets	22	-	-	526	-	28	576
Balance as at December 31, 2018	<u>550</u>	<u>4,434</u>	<u>3,150</u>	<u>1,331</u>	<u>1,355</u>	<u>944</u>	<u>11,764</u>
Balance as at January 1, 2019	550	4,434	3,150	1,331	1,355	944	11,764
Depreciation for the year	57	433	201	26	249	65	1,031
Loss from impairment of assets	26	74	45	106	-	10	261
Balance as at December 31, 2019	<u>633</u>	<u>4,941</u>	<u>3,396</u>	<u>1,463</u>	<u>1,604</u>	<u>1,019</u>	<u>13,056</u>
Carrying amounts							
As at January 1, 2018	549	1,912	3,028	609	598	244	6,940
As at December 31, 2018	<u>452</u>	<u>1,827</u>	<u>3,031</u>	<u>115</u>	<u>679</u>	<u>209</u>	<u>6,313</u>
As at December 31, 2019	<u>301</u>	<u>1,676</u>	<u>2,987</u>	<u>127</u>	<u>745</u>	<u>196</u>	<u>6,032</u>

Note 8 - Property, Plant and Equipment (cont'd)

- A.** The residual value of the Group's copper cables is assessed at the end of each quarter. The residual value is NIS 159 as at December 31, 2019 and NIS 168 as at December 31, 2018.
- B.** Fixed assets in the Group are derecognized at the end of each year upon reaching full depreciation, except for land, buildings, vehicles, copper cables and specific components for Pelephone's UMTS network, which are derecognized upon their sale. In 2019, the Group derecognized fully depreciated property at a cost of NIS 481 (in 2018, NIS 537).
- C.** The Group companies reviewed the useful life of the fixed assets through the depreciation committee, in order to determine the estimated useful life of their equipment. The change is not expected to have a material effect on the depreciation expenses of the Group. Following the findings of the depreciation committees, minor changes were made in the estimated useful life of certain assets.
- D.** Most of the real estate assets used by Bezeq are leased under a capitalized lease from the Israel Lands Administration as from 1993 for 49 years, with an option for an extension of another 49 years. Lease rights are amortized over the term of the lease period.
- E.** In 2013, Bezeq started to deploy a fiber optic network that will reach the subscriber's home, as a basis for future supply of advanced communications and broader bandwidths than those currently provided. In 2017, deployment of the fiber reached the state required for operation when a decision is made on the technology to be used, and Bezeq began to amortize the network. Commercial operation of the network is expected in the future.
- F.** In accordance with the Communications Order (Bezeq and Broadcasts) (Determination of Essential Service Provided by Bezeq - The Israel Telecommunication Corp., Limited), 1997, approval from the Prime Minister and Minister of Communications is required to confer rights in some of Bezeq's assets (including switches, cable network, transmission network, and information and databases).
- G.** For agreements for purchasing fixed assets please refer to Note 23.
- H.** For information about pledges see Note 24.
- I.** For information about pledges on loans and borrowings, see Note 15.

Note 9 - Intangible Assets

A. Composition

	<u>Goodwill</u> NIS	<u>Computer software and licenses</u> NIS	<u>Right of use in cellular frequencies</u> NIS	<u>Customer relationships and brand names</u> NIS	<u>Others</u> NIS	<u>Total</u> NIS
Cost						
Balance as at January 1, 2018	3,066	2,006	480	7,479	221	13,252
Acquisitions or additions from independent development	-	220	-	-	-	220
Disposals	-	(12)	-	-	-	(12)
Balance as at December 31, 2018	<u>3,066</u>	<u>2,214</u>	<u>480</u>	<u>7,479</u>	<u>221</u>	<u>13,460</u>
Balance as at January 1, 2019	<u>3,066</u>	<u>2,214</u>	<u>480</u>	<u>7,479</u>	<u>221</u>	<u>13,460</u>
Acquisitions or additions from independent development	-	234	-	-	-	234
Disposals	-	-	-	-	-	-
Balance as at December 31, 2019	<u>3,066</u>	<u>2,448</u>	<u>480</u>	<u>7,479</u>	<u>221</u>	<u>13,694</u>
Amortization and impairment losses						
Balance as at January 1, 2018	129	1,456	271	5,356	200	7,412
Amortization for the year	-	226	20	290	6	542
Impairment losses	659	104	-	505	11	1,279
Balance as at December 31, 2018	<u>788</u>	<u>1,786</u>	<u>291</u>	<u>6,151</u>	<u>217</u>	<u>9,233</u>
Balance as at January 1, 2019	<u>787</u>	<u>1,786</u>	<u>291</u>	<u>6,151</u>	<u>217</u>	<u>9,232</u>
Amortization for the year	-	175	19	113	2	309
Impairment losses	731	102	20	120	-	973
Balance as at December 31, 2019	<u>1,518</u>	<u>2,063</u>	<u>330</u>	<u>6,384</u>	<u>219</u>	<u>10,514</u>
Carrying amounts						
As at January 1, 2018	<u>2,937</u>	<u>550</u>	<u>209</u>	<u>2,123</u>	<u>21</u>	<u>5,840</u>
As at December 31, 2018	<u>2,278</u>	<u>428</u>	<u>189</u>	<u>1,328</u>	<u>4</u>	<u>4,227</u>
As at December 31, 2019	<u>1,548</u>	<u>385</u>	<u>150</u>	<u>1,095</u>	<u>2</u>	<u>3,180</u>

B. Total value of goodwill attributable to each cash-generating unit:

	<u>December 31</u>	
	<u>2018</u>	<u>2019</u>
	<u>NIS</u>	<u>NIS</u>
Domestic fixed-line communications	1,548	1,548
Cellular communications	685	-
International communications and internet services	45	-
Total	<u>2,278</u>	<u>1,548</u>

Note 9 - Intangible Assets (cont'd)

C. Goodwill impairment testing

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units ("CGU") which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. Several goodwill balances result from the requirement to recognize a deferred tax liability on business combination, calculated as the tax effect on the difference between the fair value of the acquired assets and liabilities, and their tax bases. For the purpose of testing this goodwill for impairment, any of the related deferred tax liabilities recognized on acquisition that remain at the balance sheet date are treated as part of the carrying amount of the relevant CGU. The annual impairment test date is December 31.

The recoverable amount of each CGU was calculated as the highest between its value in use and its fair value which was based on the Discounted Cash Flow method under the Income Approach.

Domestic fixed-line communications (Bezeq Fixed Line)

The value in use of the domestic fixed line cash-generating unit of the 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 Bezeq's performance in recent years and assessments regarding the expected trends in the fixed-line market in the coming years (the level of competition, retail and wholesale price levels, regulation aspects, and technological developments).

Main assumptions underlying the forecast: the continued decrease in revenues from telephony (the decrease in the number of lines and erosion of average revenue per line), the erosion in short- and medium-term revenue from internet, and the return to a direction of long-term growth (supported by market growth and based on internet services over a fiber network), and increase in revenue from data communication and transmission, cloud and digital. Operating expenses, sales, marketing, and investments were adjusted to the scope of activity in the segment and in general, this includes discount forecasts regarding a gradual reduction in the Company's human resources and termination expenses and the resulting salary expenses and assumptions regarding the timing of the launch of the services based on the fiber network and regarding the deployment rate of the fiber infrastructure.

The nominal capital used in the valuation is 7.5% (after tax). In addition, a permanent growth rate of 0% was assumed.

The valuation was prepared by an external appraiser. Based on the valuation described above, the Group was not required to record an impairment loss for the domestic fixed-line communications cash-generating unit.

Cellular communications (Pelephone)

During the second quarter of 2019 the Company assessed the recoverable amount of the cellular communications CGU due to impairment indications which were mainly the high intensity of the competition in the cellular market in the short term and that a stable and certain gradual increase in prices will occur in the medium to long term. According to the valuation assessed during the second quarter of 2019, the Company recognized impairment losses in the amount of NIS 1,345 which were attributed to goodwill, fixed and intangible assets. Following changes that had a positive effect on the cellular segment, the recoverable amount of the cellular segment was reassessed in the fourth quarter of 2019 and the impairment loss was partially reversed. The impairment loss and subsequent reversal in the amount of NIS 370 were recognized in impairment losses on the statement of income.

Note 9 - Intangible Assets (cont'd)

As of December 31, 2019, value in use of the cellular communications cash-generating unit of the 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 terminal value. The cash flow forecast is based, among other things, on Pelephone's performance in recent years and assessments regarding the expected trends in the cellular market in the coming years (the level of competition, price level, regulation, and technological developments).

The main assumption underlying the forecast is that competition in the market will continue with high intensity in the short term and that stability and a certain increase will occur in the medium to long term. The revenues forecast is based on assumptions regarding the number of Pelephone subscribers, average revenue per user, and sales of terminal equipment. The forecast of expenses and investments is based, among other things, on assumptions regarding the number of Pelephone employees and the resulting salary expenses, while the other operating expenses and investments were adjusted to the projected volume of operations of Pelephone.

The circumstances that led to the recognition of an impairment loss were the lower revenues resulted from a lower ARPU forecast as a result of the price competition in the cellular market. The forecast also assumes a lower decrease in the expenses of the cellular telephone CGU, as a result of efficiency measures taken by management, however, it does not fully compensate for the expected decrease in the CGU's revenues.

In November 2019, Pelephone signed a streamlining and synergy agreement for the period from November 2019 until June 2022, and as a result, the valuation as at December 31, 2019 included recognition of streamlining measures that were not taken into account in the previous valuation as at June 30, 2019 (since they were restructured).

The nominal capital price used in the valuation is 10.3% (after tax). In addition, a permanent growth rate of 2.5% was assumed.

The valuation was prepared by an external appraiser. Based on the above valuation the recoverable amount of Pelephone is NIS 1,402. Consequently, net impairment losses of NIS 975 were recognized during 2019 from which NIS 685 were attributable to goodwill. Due to the net impairment losses of the CGU during 2019, the recoverable amount is the same as the carrying amount. The net impairment losses were first allocated to goodwill and then to the other unit assets proportionately, based on the carrying amount of each group of assets with similar characteristics, other than for assets for which the estimated fair value is higher than or the same as the carrying amount.

Allocation of the net impairment losses to assets of Pelephone as at December 31, 2019:

	<u>NIS</u>
Fixed assets	77
Intangible assets	122
Rights of use for leased assets	91
Goodwill	685
Net impairment recognized	975

Note 9 - Intangible Assets (cont'd)

Multi-channel television (DBS)

The results of the valuation of the multi-channel television cash-generating unit as at December 31, 2018 using the future discounted cash flow method (DCF) presented a value in use that is significantly lower than its carrying amount. Accordingly, the Group recognized an impairment loss of NIS 1,638 million in the multi-channel cash-generating unit, and in view of the negative value of the operations, the value of the non-current assets of DBS as at December 31, 2018 was determined as the higher of their fair value and zero.

The value in use of the multi-channel television cash-generating unit for Bezeq Group as at December 31, 2019 was calculated by discounting future cash flows (DCF) based on the seven-year cash flow forecast of DBS as at the end of the current period with the addition of the terminal value. The forecast period was chosen so that the representative year is the year following the estimated date for completion of the outline for the planned migration to internet-based broadcasting instead of satellite broadcasting, as set out below. The nominal capital price used in the valuation is 8.5% (after tax). In addition, a permanent growth rate of 0% was assumed.

The cash flow forecast was based, among other things, on the performance of DBS in recent years and assessments of the expected trends in the television market for the years ahead, including technology development, consumer preferences, competitors and the level of competition, price levels and regulatory obligations.

The main assumption underlying the forecast is that the relevant future technology will be interactive and two-way, and that a satellite product will be replaced by the IP product (television broadcasts over the internet) gradually, due to the growing gap in customer experience. As a result, the multi-year forecast reflects a plan for gradual migration (from satellite broadcasts to OTT internet streaming), and accordingly, assumptions include a gradual replacement of satellite converters with IP converters, upgrade of the broadcasting infrastructure, construction of a support system for customer service, and adaptation of content contracts for OTT broadcasts. As set out above, the forecast period reflects the period of migration from satellite broadcasts to OTT broadcasts, until complete discontinuation of satellite broadcasts. These circumstances, together with expectations for the continuation of intense competition throughout the forecast period and the relatively rigid expenditure structure, resulted in a forecast of significant operational losses and a significant negative cash flow in the coming years, and a low negative cash flow, close to a balance, is expected at the end of the forecast period in the technology and business model of DBS. It should be noted that the plan will be implemented together with an ongoing assessment of market conditions, competition, and the technological environment, and the adjustments that will be required as a result.

The valuation was prepared by an external appraiser. Based on the valuation as described above, the total value of the operations of DBS is negative, amounting to NIS 581 (as at December 31, 2018, a negative value of operations amounting to NIS 871). In view of the negative value of the operations, as at December 31, 2019, the value of the non-current assets of DBS was determined as the higher of their fair value and zero, the same as at the end of 2018.

Accordingly, the Group recognized an impairment loss of NIS 362 in 2019. The impairment loss was attributed to the assets of DBS, as set out below, and was included under depreciation, amortization and impairment, and under general and operating expenses in the statement of income, as set out in Note 3.11. above.

Note 9 - Intangible Assets (cont'd)

Allocation of impairment loss to Group assets recognized in the financial statements for 2019:

	NIS
Broadcasting rights - less rights utilized (presented under operating and general expenses)	202
Fixed assets (presented under depreciation, amortization and impairment)	117
Intangible assets (presented under depreciation, amortization and impairment)	44
Rights of use in leased property (reduced expense presented under depreciation, amortization and impairment)	(1)
Total impairment recognized	362

Allocation of impairment loss to Group assets recognized in the financial statements for 2018:

	NIS
Broadcasting rights, net of rights exercised	403
Fixed assets	559
Intangible assets	106
Subscriber acquisition (assessed under IFRS 15)	29
Rights of use for leased assets	3
Total impairment recognized in the statements of DBS	1,100
Customer relations and branding	505
Goodwill	33
Total impairment loss of assets	1,638
Write-off of deferred tax attributed to customer relations and branding	(114)
Total impairment loss of multi-channel television cash-generating unit after tax	1,524

Note 9 - Intangible Assets (cont'd)

Below is information about the Group's method for measuring the fair value of the assets of DBS, which were impaired as set out above:

Broadcasting rights: Measurement of the fair value of broadcasting rights took into account legal restrictions on their sale and based on the production stage, the probability of sale, and the expected rate of return on the investment in them.

Property, plants and equipment: The fair value of fixed asset items that are available for sale to a market participant (mainly converters) is based on their estimated selling value on the valuation date less selling costs.

Intangible assets: Material fair value was not attributed to the intangible assets of DBS, since most of the software and licenses of DBS were uniquely adapted to DBS, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

Rights of use for leased assets: The fair value of right-of-use assets is affected by the ability to lease the asset underlying the lease to a third party, the lease fees of the property on the market, and the exit penalties in the lease contract.

International communications and Internet services (Bezeq International)

The value in use of the international communications, ISP and NEP services 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 Bezeq International's performance in recent years and assessments regarding the expected trends in the markets in which it operates in the coming years (the level of competition, price level, regulation, and technological developments).

The revenue forecast is based on assumptions regarding the number of Bezeq International internet subscribers and the average revenue per subscriber, Bezeq International's operations in the international communications market, and its development in communications services for businesses. The expense forecast is based, among other things, on assumptions regarding the extent of the decrease in the number of Bezeq International employees and the related salary expenses and the assumptions regarding the development of internet traffic costs (retail and wholesale prices and development of television broadcasts over the internet in general, and the expected migration of DBS from satellite television broadcasts to television broadcasts over the internet in particular). The other operating expenses and level of investments were adjusted to the forecasted scope of Bezeq International's operations.

The nominal capital price used in the valuation is 9.7% (after tax). In addition, a permanent growth rate of 0.7% was assumed.

The valuation was prepared by an external appraiser. Based on the above valuation, Bezeq International CGU recoverable amount is NIS 652. Consequently, impairment losses of NIS 298 were recognized of which NIS 45 were attributable to goodwill. Due to the impairment of the CGU, the recoverable amount is the same as the carrying amount. The impairment loss was first attributed to goodwill and then to the other unit assets proportionately, based on the carrying amount of each group of assets with similar characteristics, other than for assets for which the estimated fair value is higher than or the same as the carrying amount.

Note 9 - Intangible Assets (cont'd)

The circumstances that led to the recognition of an impairment loss are the lower revenues resulted from the fierce competition in the Internet Service Provider market along with the wholesale market and lower revenues from the International Long-Distance market. The forecast also assumes a lower decrease in the expenses of the CGU, as a result of efficiency measures taken by management, however, it does not fully compensate for the expected decrease in the CGU's revenues.

Allocation of the impairment loss to assets of Bezeq International as at December 31, 2019:

	NIS
Fixed assets	65
Intangible assets	71
Long-term prepaid expenses for capacity	81
Rights of use for leased assets	36
Goodwill	45
Total impairment recognized	298

Note 10 - Deferred Expenses and Non-Current Investments

	December 31	
	2018	2019
	NIS	NIS
Deferred expenses (A)	270	156
Subscriber acquisition asset, net (C)	142	160
Deposit used as collateral against hedging transactions	41	-
Bank deposit for loans to Company employees (B)	48	44
Investments in equity-accounted investee	8	6
	<u>509</u>	<u>366</u>

- A. For its operations, Bezeq International acquires infeasible rights of use ("IRU") from Mediterranean Nautilus (Israel) Ltd. for the acquisition of seabed cable capacities, which are accounted for as service transactions.

Under the contract, Bezeq International has the right of use for capacities until 2022 with an option for an extension until 2027, which Bezeq International is expected to exercise. The value of the service is amortized on a straight line until 2027. The balance of the right of use of capacities is recognized net of impairment of assets in the amount of NIS 32 (see Note 9 for information about impairment of Bezeq International's assets). The balance of Bezeq International's liability for the agreement is US\$ 8.4.

- B. A bank deposit for loans to Company employees without a repayment date

Note 10 - Deferred Expenses and Non-Current Investments (cont'd)

C. Subscriber acquisition assets:

	Subscriber acquisition assets
	NIS
Cost	
Balance as at January 1, 2018	196
Additions	164
Disposals	(27)
Balance as at December 31, 2018	333
Additions	130
Disposals	(25)
Balance as at December 31, 2019	438
Amortization and impairment losses	
Balance as at January 1, 2018	81
Depreciation	108
Disposals	(27)
Impairment loss	29
Balance as at December 31, 2018	191
Depreciation	112
Disposals	(25)
Balance as at December 31, 2019	278
Carrying amount	
As at January 1, 2018	115
As at January 1, 2019	142
As at December 31, 2019	160

Note 11 - Broadcasting Rights, Net of Rights Exercised

	December 31	
	2018	2019
	NIS	NIS
Cost	1,010	1,242
Less rights exercised	(547)	(578)
Impairment loss (see Note 9)	(403)	(605)
Total	60	59

For further information about the Group's agreements for acquisition of broadcasting rights, see Note 23, Agreements.

Note 12 - Investees

A. Material subsidiaries held directly and indirectly by the Company

1. General

	Principal location of the company's activity	Ownership interest
B Communications (SP1) Ltd. and B Communications (SP2) Ltd. ⁽¹⁾	Israel	100%
Bezeq - The Israel Telecommunication Corp. Limited	Israel	26.34%
<u>Subsidiaries of Bezeq - The Israel Telecommunication Corp. Limited</u>		
Pelephone Communications Ltd.	Israel	100%
Bezeq International Ltd.	Israel	100%
DBS	Israel	100%
Walla! Communications Ltd.	Israel	100%

(1) Held by B Communications (SP1) Ltd.

2. Details of Group entities

a. **B Communications (SP1) Ltd. and B Communications (SP2) Ltd.**

B Communications (SP1) Ltd. ("SP1"), founded in 2010, is a wholly-owned subsidiary of the Company. SP1 is the sole shareholder of B Communications (SP2) Ltd. ("SP2") which directly holds the Bezeq controlling interest.

b. **Bezeq - The Israel Telecommunications Corporation Ltd.**

Bezeq is controlled by SP2 which holds 25.82% of Bezeq's outstanding shares. An additional 0.52% of Bezeq outstanding shares are held by B Communications directly. Bezeq is the largest communications group in Israel.

c. **Pelephone Communications Ltd.**

Pelephone Communications Ltd. ("Pelephone") is a wholly-owned subsidiary of Bezeq. Pelephone provides cellular communication services and value-added services and terminal equipment.

d. **Bezeq International Ltd.**

Bezeq International Ltd. ("Bezeq International") is a wholly-owned subsidiary of Bezeq. Bezeq International provides internet access (ISP) services, international communications services and network end point (NEP) services.

e. **D.B.S. Satellite Services (1998) Ltd.**

D.B.S. Satellite Services (1998) Ltd. ("DBS") is a wholly-owned subsidiary of Bezeq. DBS provides multi-channel television services.

f. **Walla! Communications Ltd.**

Walla! is wholly owned by Bezeq. Walla! provides internet, management and media services for a range of populations.

Note 12 - Investees (cont'd)

A. Material subsidiaries held directly and indirectly by the Company (cont'd)

3. Bezeq did not pay dividend to non-controlling interests during 2019 (in 2018: NIS 505).

4. Bezeq's Dividend Distribution Policy:

On August 4, 2009, the Board of Directors of Bezeq approved a dividend distribution policy in which Bezeq will distribute a dividend to its shareholders amounting to 100% of the semi-annual profit (after tax) (profit for the period attributable to the shareholders of Bezeq), in accordance with the consolidated financial statements of Bezeq.

On March 6, 2018, the Board of Directors of Bezeq resolved to revise the dividend distribution policy, such that Bezeq will distribute a dividend to its shareholders, on a semi-annual basis, of 70% of the semi-annual net profit in accordance with the consolidated financial statements of Bezeq, as from the next distribution following the resolution.

On March 27, 2019, Bezeq's Board of Directors resolved to cancel the Company's dividend distribution policy. The resolution was passed after presenting a clear and transparent position with the shareholders and under the circumstances that arose due to the inability to distribute a dividend due to the expected failure to meet the profit test in the next two years. Accordingly, the Board of Directors resolved that it would not be appropriate to maintain a dividend policy when in practice it is not effective.

The cancellation of the policy will not prevent Bezeq's Board of Directors from assessing, from time to time, the distribution of dividends to its shareholders, taking into consideration, among other things, the provisions of the law, the state of its business and its capital structure, while maintaining a balance between ensuring its financial strength and stability, including its debt level and credit rating, and the continued attribution of value to its shareholders through ongoing distribution of a dividend, all subject to the approval of the general meeting of its shareholders regarding each specific distribution, as set out in Bezeq's articles of association.

As a result of the high losses of the Bezeq Group during the last two years, Bezeq will not be able to distribute dividends to its shareholders during the next two years. The company has sufficient funds to serve its own debt until November 2024 even with no dividends from Bezeq.

On May 10, 2018, Bezeq distributed a cash dividend of NIS 368, representing 70% of its net profit for the second half of 2017. The Company received NIS 97 as its share of the dividend distribution.

On October 10, 2018, Bezeq distributed a cash dividend of NIS 318, representing 70% of its net profit for the first half of 2018. The Company received NIS 84 as its share of the dividend distribution.

Note 12 - Investees (cont'd)**A. Material subsidiaries held directly and indirectly by the Company (cont'd)**

Bezeq declared and paid the following dividends in cash:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Distribution of a regular dividend			
NIS 0.25 per share	-	686	-
NIS 0.47 per share	1,286	-	-

5. On February 13, 2019, Bezeq's Board of Directors approved the request of each of the subsidiaries Pelephone, Bezeq International and DBS to apply to the Ministry of Communications for approval to change the corporate structures according to which the full operations and assets of each of the subsidiaries will be transferred to a separate limited partnership, wholly-owned by Bezeq (Bezeq as a limited partnership and a company (separate and different in each partnership), wholly owned by Bezeq as a general partner).

On January 28, 2020, Bezeq received a letter from the Ministry of Communications that it was not possible to approve the application at that time. This was for reasons that Bezeq believes are mistaken including, because there is no room to take interim decisions that might affect the issue of structural separation in the Group and change the existing range of incentives, while the obligation of structural separation applied to the Group is currently being examined by a special team at the Ministry of Communications. As part of its examination, a broad range of alternatives are being assessed - from cancellation of the obligation of separation to strengthening the separation. In addition, in the Ministry's opinion, this is a material change in the Group's operations and not a technical change of the corporate structure.

B. DBS Satellite Services (1998) Ltd.

1. As at March 25, 2015, Bezeq held 49.78% of the share capital of DBS and it held options that confer the right to 8.6% in DBS shares, which Bezeq is unable to exercise. The balance of DBS shares was held by Eurocom DBS Ltd. (a company that was controlled (indirectly) by the controlling shareholder in Bezeq at that time). On March 25, 2015, Bezeq exercised the options that were allotted, for no consideration, and on June 24, 2016, Bezeq completed a transaction for the acquisition of the entire holdings of Eurocom DBS in DBS, and all of the owners loans provided by Eurocom to DBS ("the Acquisition Transaction").

On the completion date, Bezeq transferred the cash consideration of NIS 680 to Eurocom DBS for the Acquisition Transaction.

Under the terms of the Acquisition Transaction, in addition to the cash consideration of NIS 680, the consideration included two additional contingent considerations, as follows: one additional consideration of up to NIS 200, which will be paid in accordance with the tax synergy according to the terms defined in the acquisition agreement ("the First Contingent Consideration"); and another additional consideration of up to NIS 170, which will be paid in accordance with the business results of DBS in the 2015-2017 ("the Second Contingent Consideration").

Note 12 - Investees (cont'd)

B. DBS Satellite Services (1998) Ltd. (cont'd)

On completion of the Acquisition Transaction, DBS became a wholly owned subsidiary (100%) of Bezeq. Bezeq consolidates the financial statements of DBS as from March 23, 2015.

Most of the First Contingent Consideration was paid after Bezeq signed an assessment agreement and the taxation decision of the Tax Authority regarding financing income, shareholder loans, the losses of DBS, and its merger.

Bezeq paid an advance of NIS 119 on account of the second contingent consideration. In accordance with the financial results of DBS for 2017, and since the final amount of the Second Contingent Consideration was lower than the amount of advances that Bezeq paid Eurocom DBS for the consideration, Eurocom DBS is required to return the difference to Bezeq. In this context, Bezeq joined the proceedings as creditor for liquidation of Eurocom Communications. In addition, following Bezeq's demand for Eurocom DBS to pay Bezeq the amount of the down payment on account of the Second Contingent Consideration plus interest as set out in the agreement, after the goals entitling Eurocom DBS to this consideration were not achieved, on April 22, 2018, the Tel Aviv District Court, at Bezeq's request, handed down a liquidation order for Eurocom DBS and Bezeq's legal counsel was appointed as the liquidator for Eurocom DBS. According to Bezeq's estimate as of December 31, 2019, taking into consideration the solvency of Eurocom DBS, no repayment of the advances is expected.

2. On March 13, 2019, Bezeq's Board of Directors approved a resolution of the Board of Directors of DBS to approve a plan for migration from satellite broadcasts to broadcasts over the internet (OTT) in a gradual, long-term process that is expected to spread over seven years. As from December 2019, alongside its satellite services, DBS offers the yes+ service, which includes linear TV channels, as well as VOD content and an advanced technological interface.
3. In 2018, Bezeq converted the balance of DBS debentures in the amount of NIS 422, which it held, to DBS capital, converted the shareholders' loan to DBS in the amount of NIS 97 to DBS capital, and invested an additional NIS 100 in DBS.
4. As at December 31, 2019, DBS has an equity deficit in the amount of NIS 105 and a working capital deficit in the amount of NIS 282. 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 Bezeq's support.

On February 13, 2019, Bezeq provided DBS with a letter of undertaking for a credit facility or capital investments in the amount of NIS 250, which DBS can withdraw for a period of 15 months from that date. Insofar as the support is provided by way of credit, the repayment date of the credit will not be earlier than the end of the term of the credit facility. The letter of undertaking was replaced by new letters of undertaking in a total amount of NIS 250 in May, August, and November 2019, with each letter of undertaking replacing the preceding one (and not in addition to). The last letter of undertaking is valid for 15 months as from October 1, 2019 and until December 31, 2020.

In 2019, Bezeq invested NIS 145 in DBS, in accordance with the letters of undertaking as aforesaid.

Note 12 - Investees (cont'd)

B. DBS Satellite Services (1998) Ltd. (cont'd)

On February 27, 2020, Bezeq's Board of Directors approved an irrevocable undertaking of Bezeq to DBS to provide a credit facility or a capital investment of NIS 250 for 15 months, as from January 1, 2020 and until March 31, 2021, instead of the undertaking of November 2019.

5. The management of DBS believes that the financial resources at its disposal, which include the credit facility, and Bezeq's capital investments, as set out in section 12.B.4 above, will be adequate for the operations of DBS for the coming year.

C. Non-controlling interests in subsidiaries

The table hereunder presents summary information of the Group's subsidiaries including fair value adjustments that were made on the date of acquisition, other than goodwill, in which there are non-controlling interests that are material to the Group.

	December 31,					Total net assets	Carrying amount of non-controlling interests
	Rate of ownership interests held by non-controlling interests	Current assets	Non-current assets	Current liabilities	Non-current liabilities		
	%	NIS					
<u>2019</u>							
Bezeq Group	73.66	3,733	9,304	3,615	10,107	(685)	(15)
<u>2018</u>							
Bezeq Group	73.66	4,431	11,892	4,433	11,456	434	536
<u>2017</u>							
Bezeq Group	73.66	4,823	12,026	3,857	10,848	2,144	1,840

Note 12 - Investees (cont'd)

C. Non-controlling interests in subsidiaries (cont'd)

		Year ended December 31,										
		Revenues	Profit (loss)	Other comprehensive Income (loss)	Total comprehensive Income (loss)	Profit (loss) attributable to non-controlling interests	Total comprehensive Income (loss) attributable to non-controlling interests	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities without dividend to non-controlling interests	Dividend paid to non-controlling interests	Total increase (decrease) in cash and cash equivalents
		NIS										
2019												
Bezeq Group		8,929	(715)	(32)	(747)	(528)	(551)	2,924	(883)	(2,531)	-	(490)
2018												
Bezeq Group		9,321	(1,127)	42	(1,085)	(830)	(799)	3,512	(2,552)	(1,746)	(505)	(1,291)
2017												
Bezeq Group		9,789	858	(8)	850	663	657	3,525	(1,148)	104	(948)	1,533

D. The Company's control over Bezeq

The Company has control over Bezeq based on two facts: (i) the Company holds significantly more voting rights than any other shareholder and the holdings in Bezeq are widely dispersed, and (ii) the Israeli law and regulations require prior ministerial approval for any person to acquire holdings in Bezeq exceeding 5% or to take actions together with other shareholders to cause the appointment of a director in Bezeq and or to influence Bezeq's day-to-day operational decision-making policies. By these restrictions, the regulatory regime ensures that no individual or entity will interfere with the control of Bezeq by the holder of the Control Permit and that the Company is able to nominate the majority of the board of directors of Bezeq.

Note 13 - Disposal of Investment Property

On January 21, 2018, Bezeq signed an agreement for the sale of a real estate asset in the Sakia property and on May 5, 2019, the transaction was completed. The total consideration received by Bezeq for the asset (including linkage differences and interest under the provisions of the agreement) amounted to NIS 511 plus VAT.

On May 21, 2018, Bezeq received a demand from the Israel Lands Authority (“the ILA”) for payment of a permit fee in the amount of NIS 148 plus VAT, for the asset betterment plan approved prior to signing the agreement (“the Demand”). Bezeq filed an objection on the legal argument of the Demand. On January 20, 2019, the ILA dismissed all of Bezeq’s claims in the legal objection, however, the parties are currently negotiating within the mechanism to settle disputes set out in the settlement agreement (the agreement of 2003 between Bezeq and the ILA and the State regarding most of the real estate assets, including the real estate in the Sakia property, which was transferred to Bezeq under the asset transfer agreement signed before the initiation of Bezeq’s business operations). If this mechanism does not bring the dispute to an end, Bezeq will file a monetary claim petitioning the court to order the ILA to refund the permit fees paid by Bezeq and to order the ILA to pay the demand for the betterment tax. At the same time, Bezeq filed an assessment objection on the Demand.

On August 5, 2018, Bezeq received a demand for payment from the local planning and building committee in Or Yehuda, for betterment tax in the amount of NIS 143.5 for disposal of the property by way of a sale (“the Demand for Betterment Tax”). On September 17, 2018, Bezeq filed an appeal on the Demand for Betterment Tax and sent the ILA a demand for full payment of the betterment tax according to the ILA’s undertaking in the settlement agreement. On January 2019, the ILA dismissed Bezeq’s Demand for Betterment Tax. On completion of the transaction as aforesaid and the receipt of the full consideration, Bezeq paid half of the betterment tax in the amount of NIS 75 and provided a bank guarantee for the other half of the tax, without this derogating from or impairing the steps taken by or to be taken by Bezeq to cancel or reduce this tax. It should be noted that the amount for the permit fee to be determined at the end of the proceedings may also affect the amount of the betterment tax Bezeq will be required to pay to the Planning Committee. Bezeq believes that the amount of the permit fee and the betterment tax that it will be required to pay is expected to be low and possibly even lower than the total amount of the demands.

Bezeq recognized a capital gain of NIS 403 in its financial statements for 2019. Recognition of the capital gain is based on Bezeq’s estimates of the final amount to be paid to the authorities. It should be noted that if Bezeq’s estimates do not materialize, the amounts of the final capital gain will be between NIS 250 and NIS 450.

Note 14 - Leases

As set out in Note 3.7, as from January 1, 2018, the Group early applies IFRS 16, Leases. Under the lease agreements, the Group leases mainly cellular communications sites, structures (including offices, warehouses, communication rooms, and points of sale), and vehicles.

A. Right of use asset

	Communications sites	Buildings	Vehicles	Total
	NIS	NIS	NIS	NIS
Cost				
Balance as at January 1, 2018	809	538	173	1,520
Additions*	159	15	146	320
Derecognition for terminated agreements	(45)	(9)	(11)	(65)
Changes in agreements (mainly extension of the agreement periods) and revaluation	43	81	(22)	102
Balance as at December 31, 2018	966	625	286	1,877
Additions*	146	34	28	208
Derecognition for terminated agreements	(71)	(13)	(27)	(111)
Balance as at December 31, 2019	1,041	646	287	1,974
Amortization and impairment losses				
Balance as at January 1, 2018	-	-	-	-
Amortization for the year	190	120	113	423
Derecognition for terminated agreements	(18)	(4)	(9)	(31)
Changes in agreements and other	(3)	(1)	(18)	(22)
Impairment loss	-	-	3	3
Balance as at December 31, 2018	169	115	89	373
Amortization for the year	185	120	110	415
Derecognition for terminated agreements	(65)	(5)	(25)	(95)
Changes in agreements and other	(4)	(2)	(21)	(27)
Impairment loss (see Note 9)	82	45	(1)	126
Balance as at December 31, 2019	367	273	152	792
Carrying amount				
January 1, 2018	809	538	173	1,520
December 31, 2018	797	510	197	1,504
December 31, 2019	674	373	135	1,182

* Additions for new agreements and amendments to existing agreements

Note 14 - Leases (cont'd)

B. Liability for a lease

	Communications sites	Buildings	Vehicles	Total
	NIS	NIS	NIS	NIS
Balance as at January 1, 2018	809	538	188	1,535
Additions *	204	101	141	446
Disposals	(27)	(5)	(2)	(34)
Financing expenses for lease liabilities	14	9	3	26
Payments for a lease	(190)	(124)	(108)	(422)
Balance as at December 31, 2018	810	519	222	1,551
Additions *	150	32	53	235
Disposals	(6)	(8)	(2)	(16)
Financing expenses for lease liabilities	16	9	4	29
Payments for a lease	(180)	(124)	(110)	(414)
Balance as at December 31, 2019	790	428	167	1,385
Carrying amount as at December 31, 2018				
Current maturities of a lease liability	203	124	118	445
Long-term liabilities for a lease	607	395	104	1,106
Total balance as at December 31, 2018	810	519	222	1,551
Carrying amount as at December 31, 2019				
Current maturities of a lease liability	197	123	96	416
Long-term liabilities for a lease	593	305	71	969
Total balance as at December 31, 2019	790	428	167	1,385

* Additions for new agreements and amendments to existing agreements

1. Analysis of repayment dates of liabilities for the Group's lease (including principal and interest to be paid)

Expected payment dates	December 31, 2019
	NIS
Up to one year	419
1-5 years	743
More than five years	320
Total	1,482

Note 14 - Leases (cont'd)

2. Options to terminate or extend a lease

In most of its leases, the Group assumed that it is reasonably certain that the extension option in the agreements will be exercised, therefore there are no material liabilities in respect of leases that were not presented in the financial statements.

Most of the lease agreements include an option to cancel the agreement with notice and/or payment of a penalty as set out in the agreements. The Group assumed that it is reasonably certain that the cancellation options will not be exercised.

3. Information about material lease agreements not yet included in measurement of the lease liability

In December 2018, Bezeq entered into an agreement to lease part of an office and commercial building. The agreement is for ten years and includes three option periods up to 24 years and 8 months, as from January 1, 2021. The annual rent amounts to NIS 20.

The right-of-use asset and liability for the lease will be recognized in the financial statements at the date ownership of the asset is transferred, which is expected to be at the end of 2020. Under the agreement, there will be an option of bringing forward the beginning of the lease up to three months before this date.

Note 15 - Bank Loans and Debentures

A. Composition

	December 31	
	2018	2019
	NIS	NIS
Current liabilities		
Current maturities of debentures	3,376	590
Current maturities of bank loans	621	417
	<u>3,997</u>	<u>1,007</u>
Non-current liabilities		
Debentures	5,537	7,443
Bank loans	4,100	2,969
	<u>9,637</u>	<u>10,412</u>
	<u>13,634</u>	<u>11,419</u>

Note 15 - Bank Loans and Debentures (cont'd)

B. Debt terms and repayment schedule

	December 31, 2018		December 31, 2019		Currency	Nominal interest rate
	Par value	Carrying amount	Par value	Carrying amount		
	NIS	NIS	NIS	NIS		
Loans from banks and others:						
Unlinked - Variable interest	500	500	-	-	NIS	P-0.33 to P+0.2
Unlinked - Fixed interest	4,208	4,221	3,376	3,386	NIS	3.2 to 6.85
	<u>4,708</u>	<u>4,721</u>	<u>3,376</u>	<u>3,386</u>		
Debentures:						
Linked to the Israeli CPI - fixed interest	3,290	3,464	3,181	3,263	NIS	2.1 to 3.7
Unlinked - variable interest						zero-coupon bond for one year + 1.4
	587	586	107	107	NIS	
Unlinked - fixed interest	4,811	4,863	4,784	4,663	NIS	3.6 to 6.65
	<u>8,688</u>	<u>8,913</u>	<u>8,072</u>	<u>8,033</u>		
Total interest-bearing liabilities	<u>13,396</u>	<u>13,634</u>	<u>11,448</u>	<u>11,419</u>		

C. Debt issued by the Company

- On September 21, 2010, the Company issued NIS 400 of its Series B Debentures at par value to the public in Israel. In January 2012, August 2013 and April 2016, the Company completed private placements of additional Series B Debentures in the amount of NIS 126, NIS 180 and NIS 148 par value, respectively, to certain Israeli institutional investors.

The Series B Debentures were denominated in NIS, bear interest at a fixed annual rate of 6.5% which was payable semi-annually. The principal of the Series B Debentures was paid in four annual equal installments from 2016 till 2019.

The Company fully repaid its Series B Debentures (including accumulated interest) on December 2, 2019 as part of the Searchlight-Fuhrer transaction.

Note 15 - Bank Loans and Debentures (cont'd)

C. Debt issued by the Company (cont'd)

- 2) On September 18, 2016, the Company issued, at par value, NIS 1.9 billion of Series C Debentures to the public in Israel. The principal of the Series C Debentures was payable in four equal instalments on November 30 of each of the years 2020 through 2023 and one instalment payable on November 30, 2024. Each of the first four instalments was equal to 7.5% of the principal amount of the aggregate amount of the Series C Debentures issued and the last instalment was equal to 70% of such principal amount. The annual coupon of the Series C Debentures was 3.6% and is denominated in NIS. The interest on the outstanding principal of the Series C Debentures was payable in semi-annual payments on May 31 and November 30 of each year.

On January 16, 2017, and January 23, 2018, the Company completed a private placements of NIS 118 par for consideration of NIS 118 and NIS 240 par value for NIS 249, respectively, of its Series C Debentures to Israeli institutional investors.

On December 2, 2019 as part of the Searchlight-Fuhrer Transaction, the company completed the following actions:

- Early repayment of NIS 614 par value of its Series C Debentures including payment of accrued interest as of this date;
- Private placement of NIS 310 par value of its Series C Debentures to Internet Gold;
- Exchange of NIS 58 par value of its Series C debentures to new Series D debentures;
- Increased the interest on Series C debentures to 3.85%;
- Replaced all covenants related to credit ratings, book equity, etc with LTV covenants as described below
- Provided Series C and D second lien on the Company's 26.34% stake in Bezeq
- Completed a public placement of NIS 100 par value of Series E Debentures

Series C, D and E Debentures are payable in one payment on November 30, 2024. The annual coupon of the three series is 3.85% and is denominated in NIS. The interest on the outstanding principal of the three Series is payable in semi-annual payments on May 31 and November 30 of each year from 2020 to 2024.

Under the terms of the Series C, D and E, the Company must deposit the next semi-annual interest payment in accounts pledged as collateral to the trustee of the debentures for the benefit of the holders of the Debentures. As of December 31, 2019, the Company deposited NIS 39 in those pledged accounts, which are presented under restricted cash on the Company's statement of financial position.

As at December 31, 2019 the outstanding par value of Series C, D and E Debentures was NIS 2,036.

Below are the main undertakings and covenants with respect to the Company's Debentures:

Loan to Value (LTV) ratio

- A. The LTV ratio shall not exceed the following during two consecutive quarters:
- (1) an 80% rate by November 30, 2023; and
 - (2) a 75% rate from December 1, 2023 to the full and final maturity date of the debentures.
- B. The LTV ratio will first become effective after a period of 24 months from the closing date (December 2, 2019).

Note 15 - Bank Loans and Debentures (cont'd)

C. Debt issued by the Company (cont'd)

C. The LTV compliance test will be conducted at the time of inspection, with the first test being conducted at the test date in the calendar quarter during which a period of 24 months from the closing date will expire.

Restrictions on dividend distributions

The Company undertook not to distribute a dividend to its shareholders and/or perform a buyback of its shares and/or any other distribution as defined in the Israeli Companies Law unless all the conditions provided below are satisfied:

- a. The Company is not in violation of any of the covenants;
- b. No grounds for immediate repayment exist at the time a resolution to make a distribution is adopted, and no such grounds exist as a result of such distribution; and
- c. LTV ratio post distribution must not exceed 65%.

Lien on Bezeq Shares

Series E Debentures have a first lien on the Company's 26.34% holdings in Bezeq while the Series C and D Debentures have a second lien on the same holdings. The Ministry of Communications approved the pledge and provided a pledge permit to the Debentures trustee.

Control of Bezeq

The Company undertook to hold (directly and/or indirectly) at least 25% of Bezeq's issued and paid-up capital, unless a regulatory permit/approval is received to reduce such shareholding percentage.

Control of the Company

Searchlight and the Fuhrer Group undertook to refrain from transferring control of the Company (directly or indirectly) to a party which has not been authorized in advance by the necessary regulatory entities, to the extent such approvals are required, at the relevant time.

Gain from debt restructuring

The Company concluded that the Searchlight-Fuhrer transaction detailed above gave rise to a substantial modification of the terms of the outstanding Series C debentures. As a result, the Company derecognized the original financial liability related to Series C debentures, and recognized a new financial liability measured at the quoted market price as of the closing date of Series C debentures as modified by the Searchlight-Fuhrer transaction and of Series D debentures. This resulted in a gain from debt restructuring of NIS 177 presented under finance income in the company's income statement for 2019.

Note 15 - Bank Loans and Debentures (cont'd)

D. Debt issued by Bezeq

Below are details of the terms that Bezeq undertook for the loans that it received and the debentures that were issued:

1. For Bezeq's overall debt, standard grounds were included for immediate repayment of the debentures and loans, including breach events, insolvency, dissolution procedures or receivership. In addition, a right was determined to call for immediate repayment if a third-party lender calls for immediate repayment of Bezeq's debts in an amount exceeding the amount determined.

In addition, Bezeq has undertaken not to create additional liens on its assets unless liens are created at the same time in favor of the debenture holders and the lending banks (negative lien). The lien includes exceptions, including a lien on assets that will be purchased or expanded by Bezeq, if the undertakings underlying the lien are created for the purchase or expansion of those assets and for the matter of a token lien.

2. For Bezeq's public debentures, the debentures traded on the TACT-Institutional system in the amount of NIS 1.4 billion as at December 31, 2019, bank loans in the amount of NIS 1.8 billion as at December 31, 2019, and for loans from financial institutions in the amount of NIS 1.5 billion as at December 31, 2019, Bezeq has undertaken that if it Bezeq makes an undertaking towards any entity in respect of compliance with financial covenants, Bezeq will also provide the same undertaking to these lenders (subject to certain exceptions).
3. For Bezeq's public debentures, debentures traded on the TACT-Institutional system in the amount of NIS 1.4 billion, and for loans from financial institutions amounting to NIS 1.5 billion, grounds were included for immediate repayment, if telecommunication ceases to be the Group's core activity.
4. For Bezeq's public debentures, debentures traded on the TACT-Institutional system in the amount of NIS 1.4 billion, and for loans from financial institutions amounting to NIS 1.5 billion, Bezeq has undertaken to the lenders to take steps so that, to the extent under its control, the debentures will be rated by at least one rating agency, so long as there are debentures of the relevant series in circulation or a balance in loans, as the case may be.
5. For the Debentures (Series 9-10) traded on the TACT-Institutional system in the amount of NIS 1.4 billion, and for loans from financial institutions in the amount of NIS 1.5 billion, grounds for the immediate repayment of the loans in the event of a change in control were included, following which the controlling shareholders in Bezeq (as defined in the agreements) will cease to be controlling shareholders and control will be transferred to a third party ("the Transferee"), with the exception of: (1) transfer of control to a transferee that received approval for control in Bezeq in accordance with the provisions of the Telecommunications Law and/or the Telecommunications Order; or (2) transfer of control in which the Transferee holds control together with the controlling shareholders in Bezeq, provided that the holding rate of the controlling shareholders in Bezeq in the shares of Bezeq does not fall below 50.01% of the total shares of Bezeq held by the controlling shareholders together; or (3) a change in control to be approved by a meeting of the debenture holders/lenders.

Note 15 - Bank Loans and Debentures (cont'd)

D. Debt issued by Bezeq (cont'd)

6. In addition, for the Debentures (Series 9 and 10) traded on the TACT-Institutional system in the amount of NIS 1.4 billion, and for loans from financial institutions in the amount of NIS 1.5 billion, grounds were included for immediate repayment of the debentures in the event of the recording of a going concern qualification in Bezeq's financial statements for two consecutive quarters, in the event of a material deterioration in Bezeq's business compared with the situation at the time of the issue, and there is real concern that Bezeq will not be able to repay the debentures/loans on time (as set out in section 35(1)1a1 of the Israel Securities Law).

7. Changes in the debt composition of Bezeq during 2019:

- **Debt issuance**

In 2019, Bezeq raised debt in the amount of NIS 800 through private loans from an institutional entity and from a bank and completed a private placement of Debentures (Series 11 and 12) to institutional investors for a total consideration of NIS 1,068.

- **Early repayments and debt exchange**

In 2019, Bezeq completed the early repayment of a number of loans from financial institutions and banks in the total principal amount of NIS 1.83 billion. In addition, in September 2019, Bezeq completed a tender offer for NIS 444 par value Debentures (Series 7) at a price of 101.50 agorot per NIS 1 par value debenture.

In December 2019, Bezeq completed a private exchange of NIS 300 par value its Debentures (Series 6) for an allocation of NIS 337.5 par value Debentures (Series 12) by way of expanding Debentures (Series 12), reflecting an exchange ratio of NIS 1.125 par value for each NIS 1 par value Debentures (Series 6). The Debentures (Series 12) are traded on the TACT Institutional.

As a result of the early repayments, Bezeq recognized financing costs in the amount of NIS 93 and also recognized financing income in the amount of NIS 14 for the exchange of Debentures (Series 6) for Debentures (Series 12).

As at December 31, 2019 and the approval date of the financial statements, Bezeq was in compliance with all its debt undertakings and covenants, there were no grounds to call for immediate repayment, and financial covenants were not set out as described above.

Note 15 - Bank Loans and Debentures (cont'd)

E. Movement in liabilities arising from financing activities

	Debentures (including accrued interest)	Loans (including accrued interest)	Total
	NIS	NIS	NIS
Balance as at January 1, 2018	9,235	5,114	14,349
Changes due to cash flows used in financing activities			
Consideration from the issue of debentures and receipt of loans, less transaction costs	819	320	1,139
Repayment of debentures and loans	(1,107)	(686)	(1,793)
Interest paid	(325)	(198)	(523)
Net cash used in finance activities	(613)	(564)	(1,177)
Financing expenses recognized in the statement of income	320	188	508
Balance as at December 31, 2018	8,942	4,738	13,680
Changes due to cash flows used in financing activities			
Consideration from the issue of debentures and receipt of loans, less transaction costs	1,475	800	2,275
Repayment of debentures and loans	(2,156)	(2,131)	(4,287)
Interest paid	(323)	(172)	(495)
Net cash used in finance activities	(1,004)	(1,503)	(2,507)
Financing expenses recognized in the statement of income	116	166	282
Balance as at December 31, 2019	8,229	3,401	11,455

Note 16 - Trade and Other Payables

	December 31,	
	2018	2019
	NIS	NIS
Open accounts*	862	755
Checks payable	21	2
Trade payables	883	757
Other payables including derivatives:		
Liabilities to employees and other liabilities for salaries	352	368
Advance payment for Sakia property (see Note 13)	155	-
Institutions	82	70
Accrued interest	47	37
Deferred income	103	101
Derivatives	43	55
Other payables	37	37
Total other payables including derivatives	819	668
Total Trade and Other Payables	1,702	1,425

* Of which, the carrying amount of trade payables that are payable to related parties as at December 31, 2019 amounts to NIS 2 (as at December 31, 2018 – NIS 2).

Note 17 - Provisions

	Customer claims NIS	Additional legal claims NIS	Dismantling and clearing of cellular and other sites NIS	Total NIS
Balance as at January 1, 2019	134	35	44	213
Provisions created	22	7	11	40
Provisions used	(31)	(26)	-	(57)
Provisions cancelled	(14)	(7)	(1)	(22)
Balance as at December 31, 2019	111	9	54	174
Current	111	9	5	125
Non-current	-	-	49	49
	111	9	54	174

Claims

For details of legal claims, see Note 22.

Note 18 - Financial Risk Management

A. General

The Group is exposed to the following risks, arising from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (which includes currency, interest, inflation and other price risks)

This note provides information about the Group's exposure to each of the above risks, an explanation as to how the risks are managed, and the measurement processes.

B. Framework for risk management

The Company's Board of Directors has overall responsibility for the Company's risk management. Bezeq's Board of Directors has responsibility for the Bezeq Group's risk management. The purpose of risk management in the Group is to define and monitor those risks constantly, and to minimize their possible effects arising from the exposure on the basis of assessments and expectations for parameters that affect the risks. The Company's policy is to hedge, in part and where required according to policies determined by the board, exposure from fluctuations in foreign currencies rates and the Israeli CPI rates. Bezeq's policy is to hedge, in part and where required according to policies determined by the board, exposure to fluctuations in foreign currencies and the Israeli CPI.

C. Credit risk

The Company's management monitors the Company's exposure to credit risks on a regular basis. Bezeq's management monitors the Bezeq Group's exposure to credit risks on a regular basis. Cash and investments in deposits and securities are deposited in highly-rated banks.

Trade and other receivables

Bezeq's management regularly monitors customer debts, and the financial statements include provisions for doubtful debts which properly reflect, in the management's estimation, the loss inherent in doubtful debts. In addition, the balances of trade receivables are widely spread.

Investments in financial assets

The Company's investment policy, which was approved by its Audit Committee and established by the Company's Board of Directors, seeks to preserve principal and maintain adequate liquidity while maximizing the income received from investments without significantly increasing the risk of loss. In accordance with the Company's investment policy, since March 2019 the Company has invested all its funds in investment-grade securities.

Note 18 - Financial Risk Management (cont'd)

C. Credit risk (cont'd)

Investments in financial assets (cont'd)

Any investments made by Bezeq in securities are made in securities which are liquid, marketable and have low risk. Transactions involving derivatives are made with entities that have high credit ratings.

As of the reporting date there is no significant concentration of credit risk.

D. Liquidity risk

The Group's liquidity management policy is to ensure, to the extent possible, adequate liquidity to meet its existing and expected liabilities when they due, in a normal business scenario and under stress conditions, without causing undesirable losses or impairment of goodwill. The cash balances held by the Group, which are not required to finance current operations, are in liquid investment channels and are available for use as required. The Group assesses the existing and expected cash requirements for the foreseeable future, also in the scenario of an unexpected deterioration in its business. These forecasts take into account, among other things, raising and refinancing of debt from banking and non-banking sources. For information about the terms of the debentures issued by Group companies and the loans received, see Note 15 above.

E. Market risks

The purpose of market risk management is to manage and oversee the exposure to market risks within accepted parameters to prevent significant exposures to market risks that will influence the Group's results, liabilities and cash flows.

During the normal course of its business, the Group enters into full or partial hedging actions. The Group takes into account the effects of the exposure in its considerations for determining the type of loans it incurs and in the management of its investment portfolio.

Israeli CPI risk

Changes in the rate of Israeli inflation affect the Group's profitability and its future cash flows, mainly due to its Israeli CPI-linked liabilities. In applying a policy of minimizing the exposure the Company has invested in bonds that are linked to the Israeli CPI in order to partially hedge the exposure to changes in the Israeli CPI. In addition, the Group enters into forward transactions against the Israeli CPI. The duration of the forward transactions is the same as, or shorter than, the duration of the hedged exposures. Bezeq applies hedge accounting with regards to its forward CPI hedge transactions.

A considerable portion of Bezeq's cash balances are invested in deposits, monetary funds or ETFs which are exposed to changes in their real value as a result of changes in the Israeli CPI.

Interest rate risk

In an attempt to meet targets for allocation of debt to interest exposure components, the Group will enter into interest rate swap transactions as required.

Foreign currency risk

The Group is exposed to foreign currency risks mainly due to payments for purchases of terminal equipment and fixed assets, some of which are denominated in or linked to the US\$ or EUR. In addition, the Group provides services for customers and receives services from suppliers worldwide for which it is paid and it pays in foreign currency, mainly the US\$. The Group's policy is to reduce, to the extent possible, foreign currency acquisition agreements, and to partially hedge US\$ exposure through forward transactions against the US\$ and management of US\$ deposits.

Note 19 - Financial Instruments

A. Liquidity risk

Below are the contractual repayment dates of financial liabilities, including estimated interest payments:

The Company:

	December 31, 2019					
	Carrying amount	Contractual cash flow	First half 2020	Second half 2020	2021	2022-2024
	NIS	NIS	NIS	NIS	NIS	NIS
Non-derivative financial liabilities						
Other payables	14	14	14	-	-	-
Debentures	1,861	2,419	32	39	78	2,270
Total	1,875	2,433	46	39	78	2,270

Consolidated:

	December 31, 2019						
	Carrying amount	Contractual cash flow	First half 2020	Second half 2020	2021	2022-2024	2025 and later
	NIS	NIS	NIS	NIS	NIS	NIS	NIS
Non-derivative financial liabilities							
Trade and other payables	1,270	1,270	1,209	61	-	-	-
Bank loans	3,386	3,942	316	204	448	1,341	1,633
Debentures	8,033	9,426	114	694	811	5,331	2,476
Total	12,689	14,638	1,639	959	1,259	6,672	4,109
Financial liabilities for derivative instruments	122	122	4	53	29	34	2
Forward contracts on the Israeli CPI	12,811	14,760	1,643	1,012	1,288	6,706	4,111

Note 19 - Financial Instruments (cont'd)

B. Linkage and foreign currency risks

	December 31, 2018		
	Unlinked	Israeli	Foreign
	NIS	CPI-linked NIS	currency linked (mainly US\$) NIS
Current assets			
Cash and cash equivalents	1,058	-	46
Trade receivables	1,732	22	19
Other receivables	92	136	-
Investments including derivatives	1,613	56	110
Total current assets	4,495	214	175
Non-current assets			
Trade and other receivables	365	105	-
Investments including derivatives	49	-	41
Total non-current assets	414	105	41
Total assets	4,909	319	216
Current liabilities			
Debentures, loans and borrowings	3,365	632	-
Trade and other payables	1,382	53	166
Total current liabilities	4,747	685	166
Non-current liabilities			
Debentures and bank loans	6,879	2,758	-
Other liabilities including derivatives	-	95	5
Total non-current liabilities	6,879	2,853	5
Total liabilities	11,626	3,538	171
Total exposure in the statement of financial position	(6,717)	(3,219)	45
Forward transactions	(1,520)	1,350	170

Note 19 - Financial Instruments (cont'd)

B. Linkage and foreign currency risks (cont'd)

	December 31, 2019		
	Unlinked	Israeli	Foreign
	NIS	CPI-linked NIS	currency linked (mainly US\$) NIS
Current assets			
Cash and cash equivalents	788	-	26
Restricted cash	39	-	-
Trade receivables	1,648	20	21
Other receivables	44	236	-
Assets held for sale	-	-	-
Investments including derivatives	1,200	-	41
Total current assets	3,719	256	88
Non-current assets			
Trade and other receivables	304	173	-
Investments including derivatives	45	-	-
Total non-current assets	349	173	-
Total assets	4,068	429	88
Current liabilities			
Debentures, loans and borrowings	486	521	-
Current maturities of liabilities for leases	21	395	-
Trade and other payables	1,102	65	159
Employee benefits	651	-	3
Provisions	33	92	-
Total current liabilities	2,293	1,073	162
Non-current liabilities			
Debentures and bank loans	7,681	2,731	-
Liability for leases	6	962	1
Employee benefits	307	-	49
Other liabilities including derivatives	-	66	-
Deferred tax liabilities	-	-	-
Provisions	49	-	-
Total non-current liabilities	8,043	3,759	50
Total liabilities	10,336	4,832	212
Total exposure in the statement of financial position	(6,268)	(4,403)	(124)
Forward transactions	(1,745)	1,555	190

Note 19 - Financial Instruments (cont'd)**B. Linkage and foreign currency risks (cont'd)**

Information regarding the Israeli CPI and significant exchange rates:

	Year ended December 31			December 31		
	2017	2018	2019	2017	2018	2019
	Rate of change			Reporting date spot rate		
	%	%	%	NIS	NIS	NIS
1 US dollar	(9.8)	8.1	(7.79)	3.467	3.748	3.456
1 euro	2.7	3.32	(9.62)	4.153	4.291	3.878
Israeli CPI in Points	0.4	0.9	0.7	140.00	141.26	142.10

A change of 1% of the CPI as at December 31, 2019 would have no effect on total equity and net income. This analysis assumes that all other variables, in particular interest rates, remain constant. In addition, A change of 10% in the US\$ exchange rate as at December 31, 2019 would have immaterial effect on total equity and net income.

C. Interest rate risk**1. Profile**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	December 31	
	2018	2019
	NIS	NIS
Fixed rate instruments		
Financial assets	2,739	2,284
Financial liabilities	(12,547)	(11,312)
	<u>(9,808)</u>	<u>(9,028)</u>
Variable rate instruments		
Financial assets	59	-
Financial liabilities	(1,086)	(107)
	<u>(1,027)</u>	<u>(107)</u>

Note 19 - Financial Instruments (cont'd)**C. Interest rate risk (cont'd)****2. Fair value sensitivity analysis for fixed rate financial liabilities and derivatives**

The Group's assets and liabilities at fixed interest are not measured at fair value through profit or loss. Accordingly, a change in interest rates at the reporting date will not affect profit or loss.

3. Sensitivity analysis of cash flow for instruments at variable interest

An increase/decrease of 1% in the interest rates at the reporting date would not have a material effect on profit and on capital.

D. Cash flow hedge accounting**Cash flow hedges for CPI-linked liabilities**

The Bezeq Group entered into several forward contracts, as described in the table below, to reduce exposure to changes in the CPI for CPI-linked debentures. These transactions hedge specific cash flows of some of the debentures and are recognized as cash flow hedge accounting. The expiry date of these transactions complies with the repayment schedule of the relevant debentures. The fair value of the forward contracts is based on available market information (tier 2 in the fair value hierarchy)

<u>Hedge item</u>	<u>Repayment date</u>	<u>Number of Transactions</u>	<u>Nominal Value</u> <u>NIS</u>	<u>Fair value</u> <u>NIS</u>	<u>Capital reserve</u> <u>NIS</u>
December 31, 2018:					
Debentures (Series 6)	December 2019 - December 2022	6	1,350	(138)	(12)
			1,350	(138)	(12)
December 31, 2019:					
Debentures (Series 6)	December 2020 - December 2022	4	1,005	(112)	(10)
Debentures (Series 10)	December 2022 - December 2025	4	300	(5)	(2)
Debentures (Series 12)	June 2026 - June 2030	5	250	(1)	(1)
		13	1,555	(118)	(13)

DBS has forward transactions to reduce exposure to changes in the US\$ exchange rate. As at December 31, 2019, the net fair value of these transactions is a liability of NIS 4 (as at December 31, 2018, an asset of NIS 3).

Note 19 - Financial Instruments (cont'd)

E. Fair value

(1) Financial instruments measured at fair value for disclosure purposes only

The table below shows the difference between the carrying amount and the fair value of groups of financial instruments. The carrying amount of other financial assets and liabilities does not differ significantly from their fair value. The fair value of debentures issued to the public is based on their quoted closing price at the reporting date (Level 1).

The fair value of loans and non-marketable debentures is based on the present value of future principal and interest cash flows, discounted at the market rate of interest suitable for similar liabilities plus the required adjustments for risk premium and non-marketable at the reporting date (Level 2).

	<u>December 31, 2018</u>		<u>December 31, 2019</u>		Fair value weighted average discount rate
	Carrying amount	Fair value	Carrying amount	Fair value	
	NIS	NIS	NIS	NIS	
Secured loans from banks and others					
Unlinked	4,235	4,324	3,401	3,561	2.39
Debentures					
Issued to the public (CPI linked)	3,464	3,602	2,508	2,647	0.05
Issued to the public (Unlinked)	4,681	4,405	4,071	4,160	1.00
Issued to institutional investors (CPI linked)	8	8	762	855	1.24
Issued to institutional investors (unlinked)	202	211	607	646	2.69
	<u>12,590</u>	<u>12,550</u>	<u>11,349</u>	<u>11,869</u>	

(2) Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	NIS	NIS	NIS	NIS
Financial assets held for trading				
Monetary funds and ETFs	18	-	-	18
Marketable securities	376	-	-	376
Forward contracts	-	(135)	-	(135)
	<u>394</u>	<u>(135)</u>	<u>-</u>	<u>259</u>

Note 19 - Financial Instruments (cont'd)

E. Fair value (cont'd)

	December 31, 2019			Total
	Level 1	Level 2	Level 3	
	NIS	NIS	NIS	
Financial assets held for trading				
Monetary funds and ETFs	312	-	-	312
Marketable securities	46	-	-	46
Forward contracts	-	(122)	-	(122)
	<u>358</u>	<u>(122)</u>	<u>-</u>	<u>236</u>

- a. The fair value of investments in financial funds, ETFs and marketable securities is determined by reference to their average quoted selling price at the reporting date (Level 1).
- b. The fair value of forward contracts on the CPI or foreign currency is based on discounting the difference between the price in the forward contract and the price of the present forward contract for the balance of the contract term until redemption, at an appropriate interest rate (Level 2). The estimate is made under the assumption that a market participant takes into account the credit risks of the parties when pricing such contracts.

F. Offset of financial assets and liabilities

The Group has agreements with various communication companies to supply and receive communication services. In accordance with the agreements, each party has the right to offset the amounts due by each party. The table below presents the carrying amount of the offset balances as stated in the statement of financial position:

	December 31,	
	2018	2019
	NIS	NIS
Trade and other receivables, gross	94	90
Offset amounts	(83)	(81)
Trade and other receivables presented in the statement of financial position	<u>11</u>	<u>9</u>
Trade payables, gross	121	100
Offset amounts	(83)	(81)
Trade and other payables presented in the statement of financial position	<u>38</u>	<u>19</u>

Note 20 - Employee Benefits

Employee benefits include post-employment benefits, other long-term benefits, termination benefits, short-term benefits.

A. Liabilities for employee benefits

	December 31,	
	2018	2019
	NIS	NIS
Current liabilities for:		
Holiday	112	120
Sick leave	133	152
Early retirement	329	375
Current maturities of pensioner benefits	7	7
Total current liability for employee benefits	<u>581</u>	<u>654</u>
Non-current liabilities for:		
Voluntary redundancy for employees transferred from civil service	241	94
Liability for pensioner benefits	115	137
Severance compensation (net) (see composition below)	54	65
Early notice and pension	35	29
Provision for the streamlining plan	-	31
Total non-current liabilities for employee Benefits	<u>445</u>	<u>356</u>
Total liabilities for employee benefits	<u>1,026</u>	<u>1,010</u>
Composition of liabilities for severance pay:		
Liabilities for severance pay	218	230
Fair value of plan assets	(164)	(165)
	<u>54</u>	<u>65</u>

B. Defined contribution plans

Liabilities for employee benefits at retirement age in respect of the period of their service with Bezeq and its subsidiaries, and for employees to which Section 14 of the Severance Pay Law – 1963 applies, are covered in full by regular payments made by Bezeq and its subsidiaries to pension funds and insurance companies.

	Year ended December 31,		
	2017	2018	2019
	NIS	NIS	NIS
Amount recognized as an expense for a defined contribution plan	<u>228</u>	<u>232</u>	<u>223</u>

The pension rights of the Bezeq Group employees for the period of their employment in the civil service through January 31, 1985, are covered by a pension fund ("the Makefet Fund"), which assumed the State's obligation following an agreement between the Government of Israel, the Company, the Histadrut Federation of Labor and the Makefet Fund.

Note 20 - Employee Benefits (cont'd)

B. Defined contribution plans (cont'd)

The severance obligation to employees who leave their employment on terms entitling them to compensation is covered, for the period from February 1, 1985, by regular contributions to such pension funds and insurance companies (in accordance with Section 14 of the Severance Pay Law).

Severance pay for the period of employment in the civil service through January 31, 1985, is paid by the Bezeq Group, and the monies accumulated in the Makefet Fund for that period are kept in a fund that will be used for the employees' rights.

For certain employees, the Bezeq Group has an obligation to pay severance in excess of the amount accumulated in the compensation fund which is in the employees' names. See section below.

C. Defined benefit plans

Obligations for defined benefit plans in the Bezeq Group include the following:

1. The severance pay obligation for the balance of the obligation not covered by contributions and/or insurance policies in accordance with the existing labor agreements and the Severance Pay Law. For this part of the obligation, there are deposits in the name of Group companies in pension funds and insurance companies. The deposits in pension funds and insurance companies include accrued linkage differences and interest. Withdrawal of the reserve monies is contingent upon fulfillment of the provisions in the Severance Pay Law.
2. An obligation in accordance with the employment agreements of some of the senior employees in the Group for payment of a benefit for notice upon severance. The Company also has an obligation to a number of senior employees who are entitled to early retirement terms (pension and retirement grants) which are not dependent on the existing retirement agreements for all employees
3. Company retirees receive, in addition to pension payments, benefits which consist mainly of a holiday gift (linked to the dollar exchange rate), financing for the upkeep of retiree clubs and social activities. The Company's liability for these costs accumulates in the employment period. The Company's financial statements include the liabilities for expected costs in the severance period.

D. Sick leave provision

The financial statements include a provision in respect of redemption and utilization of sick leave. The right to accumulate sick leave was taken into account for all employees in the Bezeq Group. Only employees eligible under the terms of the employment agreement may redeem sick leave. The provision was computed on the basis of an actuarial calculation, including the assumption of positive accumulation of days by most of the employees and utilization of days in accordance with the last in first out (LIFO) method.

Note 20 - Employee Benefits (cont'd)

E. Benefits for early retirement and termination

1. According to the collective agreement of December 2006, between Bezeq and the employees union and the Histadrut Federation of Labor, and according to the amendment to the agreement of August 2015, Bezeq may, at its discretion, terminate the employment of 163 long-standing permanent employees in each of the years 2015-2021 (Bezeq's right is accumulated over the years).

Bezeq recognizes expenses for early retirement when Bezeq is committed demonstrably, without realistic possibility of withdrawal, to a defined plan to terminate employment before the defined date, according to a defined plan. The collective agreement allows Bezeq to dismiss employees but does not create a demonstrable commitment without realistic possibility of withdrawal. Accordingly, the expenses for early retirement are recognized in Bezeq's financial statements at the approval date of the plan.

On November 6, 2019, as part of its streamlining plan, Bezeq's Board of Directors approved the retirement of 140 permanent employees and the termination of employment of another 60 employees with flexible employment status. In view of the above, in its financial statements for the fourth quarter of 2019, Bezeq recognized an expense for severance pay in early retirement in the amount of NIS 137. Total expenses for early retirement in Bezeq in 2019 amounted to NIS 109 and included a decrease in the provision for retirement for previous plans.

2. On December 16, 2018, an early retirement plan was decided on, by the end of the collective agreement period (the end of 2021), for all employees of Bezeq who were transferred to Bezeq from the Ministry of Communications (94 employees). The balance of the unpaid provision for the retirement liability as at December 31, 2019 is NIS 264.
3. Pelephone, Bezeq International, and DBS have collective agreements with the Histadrut Federation of Labor and the employees' committees as follows:

On March 14, 2019, DBS signed a collective arrangement with the Histadrut Federation of Labor and the employees' representatives regarding retrenchment and synergy procedures, commencing on June 1, 2019 until December 31, 2021 ("the Arrangement"). According to the Arrangement, DBS will be entitled to terminate the employment of up to 325 employees during the Arrangement years, and employees who are not included in the retirement plan will receive a one-time grant. In addition, according to the Arrangement, DBS may also retrench by not recruiting employees to replace employees whose employment 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 due to termination benefits.

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

On July 11, 2019, Bezeq International signed a collective agreement with the Histadrut New General Federation of Labor and the employees' committee at Bezeq International. The agreement includes efficiency and synergy processes for the period from July 11, 2019 to December 31, 2021. Under to the agreement, Bezeq International may retrench up to 325 employees (of which 150 are permanent employees, some as part of voluntary early retirement), in addition to the option of not hiring employees to replace those employees that terminate their employment. The agreement also includes a one-time bonus for employees who are not included in the retirement plan.

Note 20 - Employee Benefits (cont'd)

E. Benefits for early retirement and termination (cont'd)

Following the agreement and the submission of the efficiency plan outline to the employees' representatives, Bezeq International recognized expenses of NIS 45, mainly termination benefits and other employee benefits.

On November 13, 2019, Pelephone signed a renewal of the existing collective agreement with the Histadrut General Federation of Labor - Cellular, Internet, and High Tech Workers Union ("the Histadrut") and the employees' representatives, which includes streamlining and synergy processes for the period from November 12, 2019 until June 30, 2022. Under the agreement, Pelephone will be able, among other things, to terminate the employment of 210 permanent employees during the agreement period, some as part of a voluntary retirement plan. In addition, according to its plan, Pelephone will terminate the employment of another 190 non-permanent employees, and employees will not be hired to replace those persons whose employment is terminated. The agreement also includes a one-time bonus for employees who are not included in the retirement plan. Following the agreement and the submission of the efficiency plan outline to the employees' representatives, Pelephone recognized expenses of NIS 77, mainly termination benefits and other employee benefits.

F. Actuarial assumptions

The main actuarial assumptions for defined benefit plans at the reporting date are as follows:

Mortality rates are based on the rates published in Pension Circular 2017-3-6 of the Capital Market Authority. Future declines in mortality rates are based on rates published in Circular 2019-1-10.

Churn rates were determined on the basis of the past experience of the Company and the subsidiaries, distinguishing between different employee populations and taking into account the number of years of employment. The churn rates include a distinction between severance with entitlement to full termination compensation and severance without entitlement to full termination compensation.

The discount rate (nominal) is based on the yield on linked high-quality corporate debentures with maturity dates approximating those of the gross obligation.

The main discount rates are as follows:

	December 31, 2018	December 31, 2019
	Average capitalization rate	Average capitalization rate
	%	%
Severance compensation	3.73	2.4
Retirement benefits	4.1	2.9

Note 20 - Employee Benefits (cont'd)**F. Actuarial assumptions (cont'd)**

Assumptions regarding salary increments for calculation of the liabilities were made on the basis of the management's assessments, distinguishing between the groups of employees. The main assumptions (in nominal terms) regarding salary increases of the main employee groups are as follows:

Salary increase assumptions	
Permanent and long-standing employees in the Company	The calculation was based on individual assumptions regarding an expected salary increase for 2020 through to 2026, arising from the collective agreement signed in August 2015.
Permanent employees in the Company	Average adjustment of 3.2% for young employees, decreasing gradually to 1.4% at the age of 66.
Company's employees that are not permanent	6.4% for young employees decreasing gradually to 0.1%, 2% (in real terms) for senior employees
Pelephone employees	Salary increases were based on the collective agreements signed by Pelephone. The annual salary increase for Pelephone employees is 3% in 2020 and 2% thereafter.
Bezeq International employees	Assumptions about salary increases were based on the collective agreement signed in 2019. The average salary increase for Bezeq International employees is 2.95% in 2020 and 2% thereafter.
DBS employees	Rate of increase of 3.5%.

(5) Sensitivity analysis for actuarial assumptions

The following is an analysis of the possible effect of the changes in the principal actuarial assumptions on liabilities to employee benefits. The calculation is made for each assumption separately, assuming that the remaining assumptions remain unchanged.

	Year ended	
	December 31,	
	2018	2019
	Years	Years
Discount rate - addition of 0.5%	(37)	(42)
Rate of future salary increases - addition of 0.5%	27	35
Rate of employees leaving - addition of 5.0%	(12)	(25)
Mortality rate assumption, addition of 5.0%	(2)	(4)

(6) Average weighted useful life of liabilities for the main severance benefits:

	Year ended	
	December 31,	
	2018	2019
	Years	Years
Severance compensation	9.9	10.8
Retirement benefits	13.6	16.6

Note 21 - Income Tax

A. Corporate tax rate

The corporate tax rate for 2017, 2018 and 2019 was 24%, 23% and 23%, respectively.

Deferred tax balances as at December 31, 2019 were calculated according to the new tax rates expected to apply on the date of reversal. The current taxes for the reported periods are calculated according to the actual tax rates as set out above.

B. Composition of income tax expenses

	Year ended December 31,		
	2017	2018	2019
	NIS	NIS	NIS
Current tax expenses			
Expenses for the current year	438	311	401
Adjustments for prior years	54	(24)	(11)
Total current tax expenses	<u>492</u>	<u>287</u>	<u>390</u>
Deferred tax expenses (income)			
Adjustments for prior years according to an assessment agreement	(54)	-	-
Derecognition of previously recognized deductible temporary differences	-	-	1,259
Reversal of temporary differences according to an assessment agreement	21	-	-
Creation and reversal of temporary differences	(112)	(346)	(176)
Total deferred tax expenses	<u>(145)</u>	<u>(346)</u>	<u>1,083</u>
Income tax expense	<u>347</u>	<u>(59)</u>	<u>1,473</u>

Note 21 - Income Tax (cont'd)

C. Reconciliation between the theoretical tax on the pre-tax income and the tax expense

	Year ended December 31,		
	2017	2018	2019
	NIS	NIS	NIS
Income (loss) before income tax	1,088	(1,918)	94
Statutory tax rate	24%	23%	23%
Income tax at the statutory tax rate	260	(441)	22
Expenses not recognized for tax purposes	48	54	42
Gain from debt restructuring not recognized for tax purposes	-	-	(41)
Current year tax losses and benefits for which deferred taxes were not created	29	26	27
Creation of deferred taxes for losses and benefits from prior years for which deferred taxes were not recorded in the past	-	-	(3)
Impairment of assets for which deferred taxes were not created	10	302	167
Derecognition of previously recognized deductible temporary differences	-	-	1,259
Income tax expenses (benefit)	<u>347</u>	<u>(59)</u>	<u>1,473</u>

Note 21 - Income Tax (cont'd)

D. Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Property, plant equipment, and intangible assets <u>NIS</u>	Employee benefits plan <u>NIS</u>	Carry- forward losses for DBS <u>NIS</u>	Brand Names and Customers relationship <u>NIS</u>	Others <u>NIS</u>	Total <u>NIS</u>
Balance of deferred tax asset (liability) as at December 31, 2017	(323)	165	1,166	(488)	40	560
Recognized in profit or loss	(13)	101	93	184	(18)	347
Recognized in equity	-	2	-	-	(6)	(4)
Balance of deferred tax assets (liability) as at December 31, 2018	<u>(336)</u>	<u>268</u>	<u>1,259</u>	<u>(304)</u>	<u>16</u>	<u>903</u>
Balance of deferred tax asset (liability) as at December 31, 2018	(336)	268	1,259	(304)	16	903
Recognized in profit or loss	52	28	(1,259)	66	30	(1,083)
Recognized in equity	-	2	-	-	-	2
Balance of deferred tax assets (liability) as at December 31, 2019	<u>(284)</u>	<u>298</u>	<u>-</u>	<u>(238)</u>	<u>46</u>	<u>(178)</u>

E. Unrecognized deferred tax assets or liabilities and carry-forward tax loss

As at December 31, 2019, the Group has tax losses carry forwards in the amount of NIS 5 billion (December 31, 2018: NIS 5 billion) and capital loss carry forwards in the amount of NIS 86 (December 31, 2018: NIS 51). The Group did not create deferred tax assets with respect to current losses and capital losses since their utilization is not probable. In addition, deferred taxes of NIS 216 related to impairment losses in DBS were not taken into account, since their utilization is not expected. The deductible temporary differences and tax losses do not expire under current tax legislation in Israel.

Following the acquisition of control in DBS by the Group, the Group recognized a deferred tax asset for carry forward losses for tax purposes in DBS, amounting to NIS 1,259. The approval from the Tax Authority for the utilization of the carry forward tax losses is subject to approval from the Ministry of Communications for cancellation of the structural separation between the two companies, and requires the extension from the Tax Authority for an additional year as from 2020 for every year until the actual merger takes place.

The Group wrote off the tax assets by way of revising the estimate and recognized tax expenses in the amount of NIS 1,259 in the income statement of 2019, since the Group'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, the Group 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.

Note 21 - Income Tax (cont'd)

E. Unrecognized deferred tax assets or liabilities and carry-forward tax loss (cont'd)

In addition, the calculation of deferred taxes does not take into account the taxes that would be applicable in the case of disposal of investments in subsidiaries and associates, since the Group intends and is able to retain these investments. Deferred taxes in respect of a distribution of profit in subsidiaries and associates were also not taken into account since the dividends are not taxable.

F. Final tax assessments

- (1) The Company has final tax assessments up to and including 2014.
- (2) Bezeq has final tax assessments up to and including 2014.

On September 15, 2016, parallel to signing the assessment agreement ending the disputes between Bezeq and the tax assessor that ended the dispute regarding the financing income for the shareholder loans to DBS, the Tax Authority granted approval for tax purposes of the merger of DBS with and into Bezeq in accordance with section 103(B) of the Income Tax Ordinance. According to the approval, the losses of DBS as at the merger date may be offset against the profits of the absorbing company, provided that in each tax year, it will not be permitted to offset an amount exceeding 12.5% (spread over eight years) of the total losses of the transferring company and the absorbing company, or 50% of the taxable income of the absorbing company in that tax year prior to offsetting the loss from previous years, whichever is lower.

The approval was granted in accordance with the applicable tax laws in effect at the time. Without derogating from the amount of the losses set out in the assessment agreement, if there is any change in the applicable tax laws, the Tax Authority will reconsider the taxation decision in accordance with the tax laws applicable at the merger date. However, it is clarified that the approval is effective until December 31, 2019. The Income Tax Authority will extend the date of the approval each year by an additional year, subject to the declaration of Bezeq and DBS that there has been no material change in their business affairs and subject to the terms of the taxation decision, and subject to the interpretation given to the tax laws, provided that such interpretation is published in writing. Any change in the tax laws that does not require a change in the approval will not result in any such change.

On October 2, 2019, Bezeq received a letter from the Tax Authority (“the Approval”) extending, at Bezeq’s request, the validity of the tax decision for one year (until December 31, 2020). In the Approval, the Tax Authority clarified, 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 Bezeq 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 Approval beyond December 31, 2020, and that it does not contain any confirmation that the two companies are in compliance with the terms of the Approval.

The tax losses of DBS as at December 31, 2019 amount to NIS 5 billion.

2. Pelephone has received final tax assessments up to and including 2014.
3. Bezeq International has received final tax assessments up to and including 2015.
4. DBS has received final tax assessments up to and including 2014.
5. Walla! has received final tax assessments up to and including 2014.

Note 22 - Contingent Liabilities

A. Legal proceedings against the Company

- (1) On June 29, 2017, plaintiff Lynne P. Maleeff commenced litigation on behalf of a purported class of persons and entities who purchased or otherwise acquired our shares between March 18, 2015 and September 6, 2017. The original defendants were the Company, Doron Turgeman (our former CEO), Itzik Tadmor (our CFO) and Ehud Yahalom (our former CFO). On December 8, 2017, lead plaintiffs filed an amended complaint adding ten additional defendants: Shaul Elovitch, Or Elovitch, Ron Eilon, Stella Handler, David Mizrahi, Micky Neiman, Allon Raveh, Linor Yochelman, DBS and Eurocom Communications.

The amended complaint alleges a single cause of action against the Company for violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. The complaint alleges that the Company made false and misleading statements and omissions in its SEC filings.

On February 20, 2018, the Company moved to dismiss the litigation for failure to state a claim or, alternatively, to stay the litigation pending the outcome of criminal investigations in Israel. Our motion to dismiss asserted that plaintiffs failed to allege that the Company had the required knowledge or scienter about the purported wrongdoing by other defendants and that we did not make any materially false statements. Plaintiffs filed their opposition to the motion.

The court issued a decision dated September 27, 2018 granting in part and denying in part our motion to dismiss. The court dismissed all claims against our company relating to our code of ethics, internal controls, and compliance with laws generally and all claims relating to the Bezeq subcommittee review of the Bezeq-DBS transaction, except for certain allegations relating to statements in one particular filing and to allegations regarding our statements about our or Bezeq's free cash flow. The court denied our motion to stay without prejudice to our ability to seek a stay in the future if circumstances change. On July 12, 2018, motions to dismiss were filed by (1) defendants Doron Turgeman, Itzik Tadmor, and Ehud Yahalom, all former officers of our company, (2) Ron Eilon, Micky Neiman and DBS; and (3) Stella Handler, Allon Raveh, Linor Yochelman, and David Mizrahi, officers of Bezeq.

On March 28, 2019, the court concluded that the complaint failed to allege claims against our executive officers for either primary violations of the U.S. securities laws or "control person" liability for the alleged violations by others of the U.S. securities laws. The court therefore dismissed the complaint against Doron Turgeman, Itzik Tadmor and Ehud Yahalom. The court also concluded that the complaint failed to adequately allege personal jurisdiction against certain executive officers of Bezeq and DBS. The court therefore dismissed the complaint against the DBS and Bezeq defendants for lack of personal jurisdiction.

On December 5, 2019, the court held a teleconference to address plaintiffs' request that the Company be compelled to produce documents held by Bezeq or DBS. The court denied plaintiffs' request, and the plaintiffs indicated that they anticipate filing a formal motion to compel the Company to produce these documents. The court directed the parties to meet and confer about what discovery would be needed in advance of plaintiffs' anticipated motion.

Note 22 - Contingent Liabilities (cont'd)

The Company's counsel and counsel for the plaintiffs executed a stipulation of settlement dated March 3, 2020. The stipulation of settlement provides in relevant part that the Company (through its insurance) will pay a total of US\$1.2, the litigation will be dismissed with prejudice, and all class members who do not opt out of the settlement will be deemed to fully and finally release all claims against the defendants which were or could have been asserted in the litigation relating to the purchase, holding or sale of the Company's shares during the class period. The settlement will not take final effect unless and until it is approved by the court. The plaintiffs filed a motion for approval of the settlement on March 3, 2020. To date, no person or entity has filed an opposition to the motion. In light of the current COVID-19 outbreak in New York, it is not clear when the court will rule on this motion. As noted above, the litigation is essentially stayed pending the outcome of the motion for approval of the settlement agreement.

Similar class action lawsuit was filed in Israel and is described in section 2 below.

- (2) The company, Internet Gold and five members of the Company's Board of Directors were named as respondents in a motion to certify a claim as a derivative claim instituted in the Tel Aviv District Court (Economic Affairs Division) on July 28, 2016. The plaintiff has alleged that NIS 113 out of the dividends distributed by us in May 2016 was distributed unlawfully as such amount was not included in our profit and loss report, and therefore does not qualify as a "surplus" that may be lawfully distributed as dividends under the Israeli Companies Law. A pretrial hearing was held in March 2017, in which the court allowed us to file an additional brief response and a supplementary expert opinion, in order to respond to the arguments. The Company filed the additional responses in June 2017. The court further held that the parties should consider the possibility of a constructive arbitration regarding the issues in dispute and instructed the parties to inform the court about the results of this dialogue, and whether they want to set a date for an evidentiary hearing or additional preliminary motions. The dialogue process failed, and accordingly, the court set dates for the evidentiary hearing (as part of the motion to certify) for January 6, 2019. On January 6, 2019, evidentiary hearings were held. The court decided that our summaries must be submitted by May 28, 2019, and the reply on behalf of the plaintiff must be submitted by June 10, 2019.

In July 2019, the District court approved the derivative claim with respect to Internet Gold and dismissed the claim with respect to the Company's directors. Shortly thereafter, in October 2019, the plaintiff filed statement of appeal to the Supreme Court against the dismissal of the claim in respect to the directors. In addition, The Company and Internet Gold, also filed, separately, a motion to regarding the initial Court's decision approving the derivative claim.

On March 30, 2020, the Company announced that it has entered into a settlement agreement under which the Company will receive a total of NIS 22 (principal plus accrued interest) of the Company's Series C Debentures currently held by Internet Gold, in return for a waiver of the derivative action against Internet Gold. The derivative plaintiff will be awarded a total amount of NIS 4.23 for expenses, lawyers' fees and reward (which amount will come out of the NIS 22 amount being paid by Internet Gold). The settlement agreement is subject to court approval (by both the District Court and the Insolvency Court dealing with Internet Gold's insolvency proceedings). The courts' approvals of the settlement are expected in 2020, but could be delayed by appeals, other proceedings or due to the COVID-19 outbreak in Israel.

Note 22 - Contingent Liabilities (cont'd)

B. Legal proceedings against the Bezeq Group

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

In the opinion of the managements of the Bezeq Group companies, based, among other things, on legal opinions as to the likelihood of success of the claims, the financial statements include adequate provisions (as described in Note 17), where provisions are required to cover the exposure resulting from such claims.

In the opinion of the managements of the Bezeq Group companies, the additional exposure (beyond these provisions) as at December 31, 2019 for claims filed against Bezeq Group companies on various matters and which are unlikely to be realized, amounted to NIS 5.1 billion. There is also additional exposure of NIS 3.3 billion for claims, the chances of which cannot yet be assessed.

In addition, motions for certification of class actions have been filed against the Bezeq Group companies, for which the Bezeq 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.

Note 22 - Contingent Liabilities (cont'd)

Following is a detailed description of the Bezeq Group's contingent liabilities at December 31, 2019, classified into groups with similar characteristics.

Claims group	Nature of the claims	Balance of provisions NIS	Amount of additional exposure NIS	Amount of exposure for claims for which the amount of exposure cannot be assessed NIS
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	111	3,864	1,440
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	-	1,100*	1,828**
Claims of employees and former employees of Bezeq 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).	9	9	-
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	-	63	18
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	-	58	-
Total legal claims against the Bezeq Group companies		<u>120</u>	<u>5,097</u>	<u>3,286</u>

Note 22 - Contingent Liabilities (cont'd)

- * Exposure for a motion for certification of a class action filed by a shareholder against Bezeq and Bezeq officers, referring to alleged reporting omissions by Bezeq regarding the wholesale market and the reduction of interconnect fees. The plaintiff estimated the original amount of the claim as NIS 2,000 (based on the out-of-pocket method) and, alternatively, as NIS 1,100 (based on the approximate out-of-pocket method). This amount is expected to decrease because the lawsuit has not yet been amended following the court ruling to dismiss the motion for certification for some of the grounds.
- ** Two motions for certification of a class action amounting to a total of NIS 1,800, filed in June 2017 against Bezeq, officers in the Bezeq Group, the Company and companies in the group of the former controlling shareholders of the Company regarding the transaction for Bezeq'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 were stayed until March 31, 2020, due to the investigation (as described in Note 1) and at the request of the Attorney General. On March 15 and March 22, 2020, the Ministry of Justice issued Emergency Regulations, due to the Corona Virus. According to the Emergency Regulations, all dates in this matter, including the filing date of the Attorney General updated position regarding the stay of proceedings, are postponed at this stage for a month.

Subsequent to the date of the financial statements, a claim was filed against the Bezeq Group companies without an exact amount. As at the approval date of the financial statements, the chances of the claim cannot yet be assessed. In addition, claims with exposure of NIS 172 came to an end and a claim with an undefined amount came to an end.

Note 23 - Agreements

1. DBS has agreements for the acquisition of space segments, content, and copyrights, up to the end of 2025. The amounts of future agreements for these contracts as at December 31, 2019 are as follows:

Year ended December 31	Space segments (see section 2 below)	Content and copyright	Total
	NIS	NIS	NIS
2020	78	471	549
2021	78	280	358
2022	75	236	311
2023	75	79	154
2024	75	8	83
2025	75	-	75
2026	12	-	12
	<u>468</u>	<u>1,074</u>	<u>1,542</u>

2. In accordance with the agreement with Space Communications Ltd. (“Spacecom”) entered into in 2013, as amended, DBS leases space segments in the Amos satellites (“the Spacecom Agreement”). In accordance with the Spacecom Agreement, DBS leases space segments on the Amos 3 satellite (which is expected to end its service at the beginning of 2026), as well as on the Amos 7 satellite, in which Spacecom has the right to lease space segments under an agreement with the holder of rights in this satellite, which was leased to DBS until February 2021. In February 2020, Spacecom exercised the option granted to it by the holder of the satellite rights to extend the lease of Amos 7 for an additional year, and it extended the lease period of DBS accordingly until February 2022.

Under the Spacecom Agreement, Spacecom has undertaken to make the most reasonable efforts to install the new satellite, Amos 8, by February 2021, and in this case, DBS will lease space segments from that date in Amos 3 and in Amos 8, and from the end of life of Amos 3, in Amos 8 only. If Amos 8 is not deployed by February 2022, DBS will lease space segments in Amos 3 until the end of its life, and will have the right, if it so chooses, to lease space segments in Amos 8, to the extent it is deployed at a later stage. DBS believes, taking into consideration, among other things, that Spacecom did not announce the agreement to construct Amos 8 and according Spacecom reports, the agreement for construction of Amos 8 was cancelled by Spacecom in 2018). Based on such reports, Amos 8 is not expected to be in place before February 2022, if at all. Therefore, in accordance with the Spacecom Agreement and although the term of the original agreement is until 2028, the agreement will terminate prematurely at the end life of the Amos 3 satellite, which, to the best of DBS’ knowledge, is expected to be at the beginning of 2026, without compensation and under the terms set out in the agreement (subject to additional premature termination options).

Leased space segments: Under the Spacecom Agreement, in the agreement period (and subject to unavailability events), DBS will lease 12 space segments from Spacecom, according to the distribution among the relevant satellites set out in the agreement for the different periods, and as from the end of the lease of the Amos 7 satellite, DBS is expected to lease ten space segments in Amos 3. The agreement also establishes the positioning of the leased backup space segments in the agreement period, under the terms and within the limitations in the agreement.

Note 23 - Agreements (cont'd)

Early termination of the agreement: The Spacecom Agreement stipulates the right to early termination without cause, subject to advance notice of 12 months and payment of the consideration in accordance with the prescribed mechanism. The Spacecom Agreement also stipulates the right of DBS to terminate the agreement in February 2021 due to a delay in the effective date of the Amos 8 construction agreement. DBS informed Spacecom that it would not exercise this right.

3. The cellular infrastructure equipment in Pelephone's UMTS/HSPA and LTE networks is manufactured by LM Ericsson Israel Ltd. ("Ericsson"), which serves as a supplier of Pelephone for the deployment of a fourth-generation radio network (LTE). Ericsson is also a material supplier of Pelephone for microwave transmission. Pelephone has multi-year agreements for maintenance, support and upgrade of software for the UMTS/HSPA network and an agreement for acquisition of 4G network (LTE) equipment with Ericsson, and Pelephone believes that it could be dependent on Ericsson for network support and its expansion. As at December 31, 2019, Pelephone has agreements with Ericsson for the acquisition of terminal equipment and the receipt of services, in a total amount of NIS 6.

As at December 31, 2019, the Group companies have agreements for the acquisition of terminal equipment, fixed assets, intangible assets, and other assets amounting to NIS 309 and other agreements for the receipt of various services in the future amounting to NIS 93.

For information about transactions with related parties, see Note 32D.

Note 24 - Securities, Pledges and Guarantees

The Bezeq Group's policy is to supply tender, performance and legal guarantees. In addition, Bezeq provides bank guarantees, where necessary, for banking obligations of subsidiaries.

- A. The Bezeq Group companies have provided guarantees of NIS 165 in favor of the Ministry of Communications to secure the terms of their licenses (of which an amount of NIS 41 is linked to the CPI and NIS 35 to the US\$ exchange rate).
- B. The Bezeq Group companies provided bank guarantees totaling NIS 176 in favor of third parties.
- C. In accordance with its cellular license, Pelephone is not permitted to sell, lease or pledge any of its assets used for the implementation of the license, without the consent of the Minister of Communications, except for:
 - 1) A pledge on one of the license assets in favor of a bank operating lawfully in Israel, to receive bank credit, provided that it submitted notice to the Ministry of Communications regarding the pledge it intends to register, noting that the pledge agreement includes a clause ensuring that in any event, exercise of the rights by the bank will not impair, in any way, the services provided under the license.
 - 2) Sale of items of equipment when implementing an upgrade, including sale of equipment by the trade-in method.
- D. For information about the conditions for loans and debentures, see Note 15.

Note 25 - Capital

Share capital of ordinary shares of NIS 0.1 par value each

	Number of ordinary shares		
	2017	2018	2019
Registered and paid up share capital as at January 1	29,889,045	29,889,045	29,889,045
Issued for cash during the period (1)(2)	-	-	86,427,518
Registered and paid up share capital as at December 31	29,889,045	29,889,045	116,316,563
Authorized share capital	50,000,000	50,000,000	150,000,000

- 1) On January 20, 2019, the Company conducted a private placement of 7,385,600 of its Ordinary Shares, NIS 0.1 par value, to certain institutional, "qualified" and private investors in Israel. The Company received gross proceeds from the offering of approximately NIS 118, based on a price of NIS 16 per share.
- 2) On December 2, 2019 as part of the Searchlight-Fuhrer Transaction, the Company issued 79,041,918 of its Ordinary Shares, NIS 0.1 par value to Searchlight, the Fuhrer Group, Internet Gold and the public for a total consideration of NIS 330, based on a price of NIS 4.175 per share.

Note 26 - Revenues

	<u>Year ended December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Domestic fixed line communications – Bezeq fixed-line			
Fixed line telephony	1,255	1,130	1,017
Internet – infrastructure	1,488	1,525	1,497
Transmission and data communication	775	769	745
Cloud and digital services	230	260	273
Other services	205	199	225
	<u>3,953</u>	<u>3,883</u>	<u>3,757</u>
Cellular communications - Telephone			
Cellular services and terminal equipment	1,743	1,713	1,674
Sale of terminal equipment	757	688	642
	<u>2,500</u>	<u>2,401</u>	<u>2,316</u>
International communications, internet services and NEP – Bezeq			
International	1,467	1,338	1,283
Multi-channel television - DBS			
	1,650	1,473	1,344
Others			
	219	226	229
	<u>9,789</u>	<u>9,321</u>	<u>8,929</u>

Note 27 - Salaries

	<u>Year ended December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Total salaries and incidentals	2,578	2,574	2,476
Less - salaries recognized in investments in property, plant and equipment and in intangible assets	571	579	539
	<u>2,007</u>	<u>1,995</u>	<u>1,937</u>

Note 28 - General and Operating Expenses

	Year ended December 31,		
	2017	2018	2019
	NIS	NIS	NIS
Terminal equipment and materials	855	737	761
Interconnectivity and payments to domestic and international operators	805	789	757
Maintenance of buildings and sites	584	286	271
Marketing and general expenses	610	570	502
Services and maintenance by sub-contractors	260	277	270
Vehicle maintenance expenses*	156	82	71
Content services expenses	636	653	644
	<u>3,906</u>	<u>3,394</u>	<u>3,276</u>

* Operating and general expenses are presented net of expenses of NIS 43 recognized in 2019 for investments in fixed assets and intangible assets (in 2018, NIS 46 and in 2017, NIS 65).

Note 29 - Other Operating Expenses, net

	Year ended December 31,		
	2017	2018	2019
	NIS	NIS	NIS
Provision for severance pay in early retirement, see Note 20E	23	559	276
Provision for claims	19	91	10
Capital gain from sale of property plant and equipment	(27)	1	(475)
Profit from sale of an associate	-	(15)	-
Others	5	(1)	1
	<u>20</u>	<u>635</u>	<u>(188)</u>

Note 30 - Financing Expenses, Net

	Year ended December 31		
	2017	2018	2019
	NIS	NIS	NIS
Income on bank deposits, investments and others	(2)	(1)	-
Gain from debt restructuring (see Note 15)	-	-	(191)
Change in fair value of financial assets measured at fair value through profit or loss	(7)	(27)	-
Income in respect of credit in sales, net of discount	(35)	(30)	(29)
Linkage and exchange rate differences, net	-	-	-
Other finance income	(25)	(31)	(46)
Total financing income	(69)	(89)	(266)
Interest expenses on financial liabilities	445	472	458
Linkage and exchange rate differences, net	48	64	46
Costs of early repayment of loans and debentures	-	-	93
Change in contingent consideration in a business combination	(14)	43	-
Change in fair value of financial assets measured at fair value through profit or loss	39	-	9
Financing expenses on employee benefits, net	35	9	89
Financing expenses on lease liabilities	-	26	29
Other financing expenses	33	6	14
Total financing expenses	586	620	738
Financing expense, net	517	531	472

Note 31 - Earnings (loss) per Share

The calculation of basic and diluted earnings per share was based on income (loss) attributable to ordinary shareholders, and on a weighted average number of ordinary shares outstanding, calculated as follows:

	Year ended December 31		
	2017	2018	2019
	NIS	NIS	NIS
Earnings (loss) attributable to ordinary Shareholders			
Basic earnings (loss) for the year	78	(1,029)	(853)
Effect of diluted per share loss in a subsidiary	-	-	-
Diluted earnings (loss) for the year	<u>78</u>	<u>(1,029)</u>	<u>(853)</u>

	Year ended December 31		
	2017	2018	2019
	Thousands of shares of NIS 0.1 par value	Thousands of shares of NIS 0.1 par value	Thousands of Shares of NIS 0.1 par value
Balance as at January 1	29,889	29,889	29,889
Effect of shares issued during the year	-	-	13,297
Weighted average number of ordinary shares (basic and diluted) as at December 31	<u>29,889</u>	<u>29,889</u>	<u>43,186</u>

Note 32 - Transactions with Related Parties

A. Identity of related parties

The Company's interested and related parties as defined in the Securities Law and in IAS 24 – Related Party Disclosures include mainly: Searchlight and the Fuhrer Group from December 2, 2019, Internet Gold, Eurocom and its subsidiaries until December 2 2019, Bezeq and its subsidiaries, as well as, associates, directors and key management personnel in the Company and a person who is close to a family member of any of the above parties.

It should be noted that the transactions described below with interested and related parties do not include reference to Note 1 regarding the investigations of the Israel Securities Authority and the Israel Police or its possible implications.

Note 32 - Transactions with Related Parties (cont'd)

B. Balances with related parties

	December 31,	
	2018	2019
	NIS	NIS
Receivables - associates	7	5
Liabilities to related parties, net	6	(1)
Advanced payment to Eurocom DBS (not including interest) for contingent consideration (see Note 12.B.1)	*99	*99

* As of December 31, 2018 and 2019, the advance payment to Eurocom DBS was provided for in full.

C. Transactions with related parties

	Year ended December 31,		
	2017	2018	2019
	NIS	NIS	NIS
Revenues			
From associates	8	6	1
From related parties	23	31	13
Expenses			
To related parties	122	*54	20
To associates	5	5	-
Investments			
Related parties	28	1	-
Acquisition of DBS (see Note 12.B.1)	**(70)	-	-
Revised fair value of the excess advance payments for acquisition of DBS (see Note 12.B.1)	**56	**43	-

* Related-party expenses include amounts paid by DBS to Spacecom up to May 3, 2018. It should be noted subsequent to this date, Bezeq believes, based on information it received, that Spacecom ceased to be a related party. In 2018, DBS paid a total of NIS 74 to Spacecom.

** Adjustment of the liability for contingent consideration for a business combination with DBS and adjustment of the fair value estimate of the amount expected to be returned to Bezeq from the excess of the advance payments that it paid, recognized as financing income, net.

Note 32 - Transactions with Related Parties (cont'd)

D. Transactions listed in section 270(4) of the Companies Law

**Approval date of the general meeting
(after approval of Bezeq's audit
committee and Board of Directors)**

Nature of the transaction

Amount of the transaction

April 3, 2017

Approval of Bezeq's vote at the general meeting of DBS in favor of the agreement between DBS and Space Communications Ltd. ("Spacecom" and "the Parties" respectively) with an amendment/addendum to the existing agreement between the parties dated November 4, 2013, for the lease of satellite segments in Spacecom's satellites ("the Agreement"), including in favor of implementation of the Agreement.

A total nominal cost of up to US\$ 263 for the entire term of the Agreement (until December 31, 2028), reflecting an average annual cost of US\$ 21.9. For further information about the Spacecom agreement, see Note 23.1 and 23.2.

Bezeq had a personal interest in the transaction as at the date of its approval, since, as at the date of the transaction, Spacecom was controlled by Eurocom Communications, which as the controlling shareholder (linked) in B Communications at that time. To the best of Bezeq's knowledge and in accordance with information provided to Bezeq by Eurocom Communications, as from May 3, 2018, the connection between Eurocom Communications and Spacecom was severed and Bezeq ceased to regard Spacecom as a related party.

Note 32 - Transactions with Related Parties (cont'd)

D. Transactions listed in section 270(4) of the Companies Law (cont'd)

On March 7, 2011, Bezeq's Board of Directors resolved to adopt guidelines and regulations to classify a transaction of Bezeq or its subsidiary with an interested party as a negligible transaction, which is not an extraordinary transaction, as set out in Article 41(A3) of the Securities Regulations (Financial Statements Regulations), 2010 ("the Financial Statements Regulations"). These guidelines and regulations, as revised from time to time, are also used to assess the scope of disclosure in the periodic report and prospectus (including shelf offering reports) regarding a transaction of Bezeq, a company under its control and a subsidiary or associate with a controlling shareholder or in which the controlling shareholder has a personal interest as set out in Article 22 of the Securities Law (Periodic and Immediate Reports), 1970 ("the Periodic Reports Regulations") and Article 54 of the Securities Regulations (Prospectus Details and Draft Prospectus – Structure and Form), 1969. The types of transactions set out in the Financial Statements Regulations, the Periodic Report Regulations, and Prospectus Details Regulations will be referred to hereunder as "Interested Party Transactions". Bezeq will also use these guidelines to assess whether an Interested Party Transaction is a "non-negligible transaction" within the meaning of section 117(2A) of the Companies Law, 1999.

In the reporting year and/or in comparative periods, Bezeq and its subsidiaries entered into negligible transactions, which are not extraordinary transactions, with interested parties in Bezeq (or in which the controlling shareholder has a personal interest), of the types and nature set out below:

1. Sales of communications services and products by Group companies, including: basic communication services (telephony, transmission and PRI) and hosting at server farms; cellular services, value added services and sales and upgrading of cellular end equipment; web browsing services, international telephony services, hosting services and data communication services; television services.
2. Purchase of devices from Eurocom Group companies (companies owned by the former controlling shareholder of Bezeq or companies controlled by the former controlling shareholder at the approval date of the agreement), including acquisition of electronic equipment, terminal equipment, communication equipment, and pit covers.
3. Acquisition of maintenance and development services from companies in the Eurocom Group, including maintenance, development and upgrading services for systems used in the Group companies, maintenance and spare parts for exchanges, content development services and communication applications.
4. Sales of maintenance, upgrading and development services by Group companies, including maintenance of equipment, content development services and communication applications
5. Sale of user rights in communication infrastructure, call transfer, including sale of user rights in international communication infrastructure and supply of a local segment in Israel, hosting services at server farms, and reciprocal call transfer and completion agreements with Eurocom Group companies.
6. Placement and outsourcing services

Note 32 - Transactions with Related Parties (cont'd)

D. Transactions listed in section 270(4) of the Companies Law (cont'd)

7. Rental, management and real estate acquisition agreements, including rental of areas used for communication facilities and warehouses; and rental of areas to Eurocom Group companies in properties owned by Bezeq
8. Acquisition of advertising and content services, including agreements to acquire media slots from media companies in the Eurocom Group; agreement for to use content on Pelephone's cellular portal; acquisition of portals from Eurocom Group companies; media content management services by Eurocom Group companies.
9. Transactions relating to joint marketing, advertising, discounts and sponsorship with Eurocom Group companies or related to products of Eurocom Group companies, including distribution agreements (dealer) for marketing Company services, joint marketing campaigns, consignment agreements for the sale of Eurocom Digital Communications equipment, and technological sponsorship at exhibitions organized by Bezeq.
10. Contribution to the community together with Eurocom Group companies and contribution to organizations/projects in which the controlling shareholder of Bezeq or his relative volunteers as an officer. These contributions are part of Bezeq's contribution policy.

In the absence of special qualitative considerations all the circumstances, a transaction that is in Bezeq's regular course of business, is carried out in market conditions and has no material effect on Bezeq, shall be deemed negligible if all the following parameters exist:

- The amount of the transaction does not exceed NIS 10.
- Bezeq is not required to issue an immediate report for the transaction under Article 36 of the periodic report's regulations or any other law.

The transaction does not include the terms of the office and employment (as defined in the Companies Law, 1999, ("the Companies Law")) of an interested party or his relative, and does not constitute a transaction as set out in section 270(4) of the Companies Law (transaction of a public company with a holder of control therein, directly or indirectly, including through a company he controls, in respect of receiving services from it by Bezeq and if such person is also an officer - as to the conditions of his office and employment, and if he is an employee of Bezeq but not an officer, as to his employment by Bezeq).

According to the provisions of the Companies Law, as amended from time to time, once a year, before publication of the annual financial statements, the audit committee will review the parameters set out above, and whether they require updating. In general, each transaction will be tested separately for negligibility. Notwithstanding the aforesaid, separate transactions that are part of the same continuing transaction or very similar transactions that are carried out routinely and repeatedly, will be tested as one transaction on an annual basis for negligibility, provided the scope of the transaction does not exceed NIS 10, as set out above.

Note 32 - Transactions with Related Parties (cont'd)

D. Transactions listed in section 270(4) of the Companies Law (cont'd)

The Board of Directors may, from time to time and at its discretion, amend the parameters for a negligible transaction. This amendment will be duly reported. On February 27, 2020, Bezeq's audit committee revised the list of types of transactions set out above in accordance with the relevant types of transactions, since the Eurocom Group is no longer the controlling shareholder of Bezeq.

E. Company's key management personnel (including directors) compensation:

	Year ended December 31		
	2017	2018	2019
	NIS	NIS	NIS
Compensation	<u>2</u>	<u>2</u>	<u>4</u>

Note 33 - Subsequent Events

- A. At the beginning of 2020, the novel coronavirus (COVID 19) broke out globally, which is an event with many implications, including macroeconomic implications (“the Event”). Due to the Event, many countries, including Israel, are taking significant steps in an attempt to contain the virus, such as restrictions on civilian movements, gatherings, restrictions on transportation of passengers and goods, and closing of borders. As a result, the Event and the actions set out above have significant implications for many economies as well as global capital markets.

Subsequently, the Company and Bezeq Group companies are monitoring developments in connection with the Event and assessing potential implications on their business operations. These implications can be reflected (and some have already been reflected as set out below), among other things, in decline in activities of Bezeq Group companies, including the supply chain, customer service system, and repair of malfunctions, employee availability, revenues from the sale of terminal equipment, and revenues from roaming services at Pelephone, as well as a general decline in business activity, resulting in payment problems in some sectors. Regarding the decline in business activity in Israel, it should be noted that some of the implications have already been reflected in some of the Bezeq Group companies during the first quarter of 2020. On the one hand - there is a decline in segments related to tourism (including roaming), hotels, travel, catering, culture and entertainment, and on the other - there is an increase in segments related to government, health, work from home, and households.

As at the approval date of Bezeq’s financial statements, there has been some impairment to these activities, however, at that stage, the Event has not yet affected the financial position and business position of Bezeq Group companies. By nature, this is a fluid Event, which is not under the control of Bezeq Group companies, therefore extensive transmission of the virus and/or the decisions of the State of Israel and authorities in Israel and worldwide may affect the activities accordingly.

The Government of Israel recently initiated a total lockdown in some cities and travel between cities in the country was also heavily restricted. The lockdown or quarantine measures may result in material adverse effects to the operations of the Bezeq Group companies, including customer service, sales, installation of services, deployment, operation and maintenance of networks, if multiple employees and outsource personnel shall be prohibited from attending their positions.

While at this stage we cannot yet be reliably estimate the full effects of the Event due to the uncertainty regarding the duration of the Event, the prolonging of the Event and its associated regulatory financial constraints are likely to have a material adverse effect on the valuation of the Bezeq Group. The Bezeq Group is exploring additional ways to deal with the Event, including reducing their expenses and adjusting their activities to the situation.

Note 33 - Subsequent Events (cont'd)

It should be noted that on March 16, 2020, the Director General of the Ministry of Communications sent a letter on “Providing services during the coronavirus crisis” according to which, among other things, following the Knesset’s declaration of an emergency, the Bezeq Group companies (as well as other communication entities who received the letter) are required to prepare themselves according to the principles listed below, as well as according to the directives of the Ministry of Health that are issued from time to time: engineering and technicians – 100%, services – 50%, headquarters – 30% are deemed to be essentials. Bezeq Group companies are operating accordingly: most of the services and headquarters employees work from home and some of employees are required to take leave. In addition, the Bezeq Group cannot assess the COVID-19 outbreak implications on its operations.

- B. On March 18, 2020, Bezeq’s Board of Directors approved the submission of an application to publish a prospectus for Debentures (Series 11 and 12) that were listed on the TACT-Institutional system and a shelf prospectus based on its financial statements as at December 31, 2019 together with an initial draft of the prospectus. It should be emphasized that as at this date, publication of the prospectus has not yet been approved, and as at the approval date of this report, a decision has not been made to raise funds through the shelf prospectus.
- C. On January 9, 2020, the Company announced the appointment of Tomer Raved as Chief Executive Officer and member of the Board of Directors. Tomer succeeded Ami Barlev, who was the Chief Executive Officer of the Company since January 2019.
- D. On February 13, 2020, the Company held an extraordinary general meeting of the shareholders and approved the following resolutions: (1) An amendment to the articles of association of the Company, in order to comply with the terms of the control permit applicable to the holdings of the Company in Bezeq; and (2) the compensation terms of the new Chief Executive Officer of the Company, Mr. Tomer Raved. Mr. Raved is entitled to a monthly base salary of NIS 94.33 thousands and a one-time grant of options to purchase up to 2,677,362 of our ordinary shares, representing as of the date of his employment agreement, 2.25% of the issued and outstanding share capital of the Company.

November 11, 2019

Permit for companies to control Bezeq The Israel Telecommunication Corp. Ltd.

By virtue of the power of the Prime Minister transferred to me¹, and my authority under section 4D of the Communications Regulations (Telecommunications and Broadcasts), 5742-1982 and section 3 of the Communications Order (Determination of an essential service provided by Bezeq The Israel Communication Corp. Ltd.), 5757-1997 and subsequent to reviewing the Application (as defined in section 1.1 below), I hereby grant the following companies, in addition to the recipients of the Control Permit for Individuals (as defined in section 1.1 below), a permit to jointly hold means of control of Bezeq The Israel Telecommunication Corp. Ltd. ("Bezeq") and jointly control Bezeq, subject to the terms of this Permit:

1. B Communications (SP2) Ltd., Company no. 51-440539-8.
2. B Communications (SP1) Ltd., Company no. 51-440541-4.
3. B Communications Ltd., Company no. 51-283274-2.
4. T.N.R. Investments Ltd., Company no. 51-189353-9.
5. Searchlight II BZQ, L.P. (Cayman ELP) ("Aggregator LP")
6. Searchlight II BZQ GP, Ltd. (Cayman) ("Aggregator GP")
7. SC II BZQ, L.P. (Cayman ELP) ("Main Fund Splitter")
8. SC II PV BZQ L.P. (Cayman ELP) ("PV Fund Splitter")
9. SC II BZQ Holdings, Ltd. (Cayman Corp.) ("Main Fund Blocker")
10. SC II PV BZQ Holdings, L.P. (Cayman ELP) ("PV Fund Blocker")
11. SC II PV BZQ Holdings GP, Ltd. (Cayman Corp.) ("PV Fund Blocker GP")
12. Searchlight Capital II, L.P. (Cayman ELP) ("Main Fund")
13. Searchlight Capital II, PV L.P. (Cayman ELP) ("PV Fund")
14. Searchlight Capital Partners II GP, L.P. (Cayman ELP) ("General Partner")
15. Searchlight Capital Partners II GP, LLC (DE LLC) ("Upper GP")
(Jointly and severally: "the Permit Holders").

¹ Official Gazette 7960, p.674, October 17, 2018.

1. Definitions

1.1. In this Permit -

- “Control Permit for Individuals”** - Permit for individuals to control Bezeq, granted on _____, 2019.
- “Pledge Permit”** - Permit to hold means of control of Bezeq by way of pledge, granted to Reznik Paz Nevo Trusts Ltd. on _____, 2019.
- “Application”** - The application for a permit to control and acquire means of control in Bezeq, submitted to the Ministers by Searchlight and T.N.R on July 4, 2019 and its attachments, BCom’s letter dated Ministry of Communications dated September 5, 2019 and any other document or information provided by the Permit Holders about the Application².
- “B1”** - B Communications (SP1) Ltd.
- “B2”** - B Communications (SP2) Ltd..
- “BCom”** - B Communications Ltd.
- “The Subsidiaries”** - Bezeq’s subsidiaries that are licensees under the Communications Law
- “Communications Law”** - Communications (Telecommunications and Broadcasting) Law, 5742-1982, the pursuant secondary legislation, and pursuant licenses granted.
- “Insolvency Law”** - Insolvency and Economic Rehabilitation Law, 5778-2018.
- “T.N.R.”** - T.N.R. Investments Ltd.
- “Joint Appointment”** - As defined in section 1 of the Communications Order.
- “Searchlight”** - The companies listed in sections 5 to 15 of introduction to this Permit.
- “Companies Ordinance”** - The Companies Ordinance [New Version], 5743-1983.
- “Communications Order”** - Communications Regulations (Telecommunications and Broadcasts) (Determination of an essential service provided by Bezeq The Israel Communication Corp. Ltd.), 5757-1997.
- “Founding Partners”** - The entities listed in sections 3 to 5 of introduction to the Control Permit for Individuals.

² Further to the Ministry’s request for supplementary information and clarifications, Searchlight and T.N.R each sent supplementary letters (dated August 12, 15 and 28, 2019; September 1, 8, 15, 23 and 24, 2019; and October 27, 2019), and memorandums (“Joint control of Bezeq The Israel Telecommunication Corp. Ltd.” dated July 14, 2019, “Acquisition of Control of Bezeq - Status of Searchlight Fund”, dated July 15, 2019; “Opinion that the terms marked A in Chapter G of the Satellite Regulations have been met”, dated July 22, 2019; and “Application and Opinion on the Position of the Buyers of Bezeq Group licenses” dated July 22, 2019, which are an integral part of the Application.

- “Minimum Rate”** - 25% of any type of means of control of Bezeq, or a lower rate at the Ministers’ approval, in accordance with section 3(A2) of the Communications Order.
- “The Ministers”** - The Prime Minister and Minister of Communications.

1.2. The other terms in this Permit not defined above will have the meaning given to them in the Communications Law, the Communications Order or Interpretation Law, 5741-1981, unless implicitly written or otherwise understood from their context.

2. **Permit to control and hold means of control**

- 2.1. As of the date of grant of this Permit, the Permit Holders may be the controlling shareholders of Bezeq, directly or indirectly, according to the attached holding chart, which is an inseparable part of this Permit.
- 2.2. Searchlight and T.N.R may make Joint Appointment, as defined in the Communications Order, in Bezeq and BCom.
- 2.3. The validity of this Permit is subject to the following terms:
- A. The Permit Holders comply with the provisions of the Communications Law and the Communications Order.
 - B. The direct or indirect control of Bezeq is by the holders of this Permit and the holders of the Control Permit for Individuals.
 - C. The holders of this Permit hold every type of means of control of Bezeq, through BCom, B1 and B2, at a rate that shall not fall below the Minimum Rate, unless proven to the satisfaction of the Minister of Communications that the terms of section 3(A2) of the Communications Order have been met.
- 2.4. The Permit Holders shall not transfer means of control of any kind in Bezeq at a rate that requires the approval of the Ministers under the Communications Law, without the prior written approval of the Ministers. In this regard, “transfer” - whether at once or in parts, severally or jointly with others, through one or more the following: Addition of a company or investor not included in the Permit or the partnership structure depicted in the chart, at a rate that requires approval; change of the identity of the Founding Partners of the Permit Holders; addition of a limited partner at a rate that requires approval or a general partner and making a general partner a limited partner and vice versa, in the Permit Holders; or converting a private company that is a Permit Holders into a public company. Any such transfer will require obtaining the approval of the Ministers only when the transfer rate requires such under the Communications Order.
- 2.5. Without derogating from the provisions of sections 2.3(B) and 2.4 above, and provided that Searchlight and T.N.R. are joint controlling shareholders of BCom and that Searchlight and T.N.R jointly hold a rate exceeding 35% of each type of means of control of BCom, they may transfer or allocate means of control in BCom, on condition that the transfer or allocation of the means of control resulting in Searchlight and T.N.R jointly holding each type of means of control in BCom at a rate of between 50% (inclusive) and 35% is implemented subject to the following cumulative terms:
- A. Other than Searchlight and T.N.R., there is no other controlling shareholder of BCom or entity that holds 17% and above of one or more of the means of control of BCom.
 - B. Searchlight’s rate of holding of BCom’s issued capital exceeds that of T.N.R.
 - C. Transfer or allocation of means of control as aforesaid will only be implemented according to one or more of the methods included in section 3(A3) of the Communications Order.

- 2.6. Notwithstanding the provisions of section 2.1 above regarding the holding chart and section 2.4 above, the companies included in Searchlight may transfer means of control of Bezeq between them, to the holders of the Control Permit for Individuals, or to a new company wholly-owned by Searchlight, including a transfer that results in them ceasing to hold means of control of Bezeq and making a limited partner from among the Permit Holders into a general partner and vice versa, subject to the following terms:
- A. There is no change in the compliance of the holders of this Permit and the holders of the Control Permit for Individuals with the provisions of such permits, the Communications Law and the Communications Order, including regarding Israelis, as set out in section 4 below.
 - B. No control or means of control in Bezeq that requires the approval of the Ministers under the Communications Order are transferred to entities that are not holders of this Permit or the Control Permit for Individuals, other than a company whose entire means of control is held by Searchlight, which does not hold any assets other than direct or indirect holdings in BCom and registered in is one of the following: The Cayman Islands, USA, UK, Luxembourg, Channel Islands or Israel.
 - C. The Permit Holders and holders of the Control Permit for Individuals have reported to the Ministers at least 14 days prior to such transfer of means of control.

3. **Requirements regarding articles of association**

- 3.1. The articles of association of BCom, Bezeq and the Subsidiaries must include the following provisions:
- A. The method of election of directors set out in the Company's articles of association will not be revised without the Minister of Communications' prior written approval.
 - B. The Company will report to the Minister regarding a holder of its means of control that holds excess holdings immediately upon becoming aware of such excess holdings.
 - C. The Company will report to the Ministers regarding a shareholder becoming an interested party in Bezeq within 48 hours from the date of becoming aware of the change.
- 3.2. The articles of association of the Subsidiaries must include provisions regarding the rights of the Israeli entity, as defined in the Communications Order, to appoint directors, according to section 4(A)(2)(b)(2) of the Communications Order.
- 3.3. BCom's articles of association must include the following provisions:
- A. A provision prohibiting Joint Appointment in BCom without prior written approval from the Ministers.
 - B. Provisions applying the provisions of the Communications Order and this Permit with regard to excess holdings (as defined in the Communications Order) to BCom, including sections 6, 8 and 10(F) of the Communications Order.
- 3.4. If the articles of association of BCom, Bezeq and the Subsidiaries do not include the provisions set out in sections 3.1-3.3 above at the date of grant of this Permit, they must be anchored within 60 days from the date of this Permit.
- 3.5. Failure to anchor the provision in the articles of association as required in this section 3 or revise the provisions in articles of association as set out in this section 3 constitutes cause for revocation of the Permit.

4. **Security and Israeli requirements**

- 4.1. As long as required under the Communications Order, this Permit is subject to the Israeli entity, as defined in the Communications Order, holding the means of control of Bezeq as set out in section 4(A) of the Communications Order.
- 4.2. As long as the Communications Order requires holding by such Israeli entity as set out in section 4.1 above, T.N.R. shall refrain from transferring means of control of Bezeq without the prior written approval from the Ministers, if such transfer decreases its holdings of means of control of any kind in Bezeq to a lower rate than required in the Communications Order. This is without derogating from the provisions of the Communications Order and this Permit, including the reporting obligations or the need to obtain any other approval for the transfer.

5. **Breach of the terms and revocation of the Permit**

- 5.1. Regarding revocation or expiration of the Permit, the provisions of the Communications Order shall apply. As stipulated in section 10(E1) of the Communications Order, the Permit shall not be revoked without giving the Permit Holders the opportunity to voice their claims.
- 5.2. Without derogating from the provisions of section 10 of the Communications Order, if the Ministers are convinced that the information provided to them is incorrect or they become aware of new information that justifies such, the Ministers may revoke the Permit or make it conditional to terms, which, if breached, will be cause for revocation by the Ministers.
- 5.3. Revocation of this Permit means revocation of the Control Permit for Individuals.
- 5.4. From the date of such revocation, as set out in the Minister's notice to the Permit Holders and Bezeq, all holdings acquired under the Permit will become excess holdings, as defined in the Communications Order.
- 5.5. Without derogating from the foregoing and the provisions of the Communications Order, if one or more Permit Holder breaches any of the terms of the Communications Order or this Permit, the Ministers may decide that the breach justifies revocation of the Permit for all or only some of the Permit Holders.

6. **Insolvency**

- 6.1. Filing of a motion to launch proceedings under the Insolvency Law or the Companies Ordinance by any of the Permit Holders constitutes cause for revocation of this Permit. The Permit Holders will report to the Ministers regarding the filing of such motion within no more than two business days of filing of the motion.
- 6.2. If a motion is filed to open proceedings under the Insolvency Law or the Companies Ordinance by an entity that is not a Permit Holder, the Permit Holder will report it to the Ministers immediately upon becoming aware thereof. Appointing of an official on behalf of the court as part of such proceedings or non-dismissal of the proceedings within 90 days of being launched, or issue of an order to open proceedings under the Insolvency Law at the request of an entity that is not a Permit Holder, constitutes cause for revocation of this Permit.
- 6.3. The Permit Holders will not object to adding the State as a party to the proceedings set out in this section 6.

7. **Reporting**

- 7.1. Each Permit Holder will report to the Ministers regarding any change in one or more details provided in the Application or at the Ministers' request, relating to it or entities which it holds, including a report on any change in the attached holding chart, if any, immediately upon becoming aware of such change and no later than 14 days from the beginning of the first quarter subsequent to the change. The reporting obligation applies to any such change even if it does not require approval under the Communications Order or this Permit. The foregoing does not derogate from the provisions of section 2.6(C) above.
- 7.2. Without derogating from section 7.1 above, BCom, B1 and B2 will report any change in composition of their Board of Directors to the Minister, within 14 days of the change.
- 7.3. BCom will report any revision to its articles of association to the Ministers.
- 7.4. Each Permit Holder is obligated to report to the Ministers regarding a holder of means of control that constitute excess holdings, immediately upon becoming aware of such.
- 7.5. Failure to report as set out in this section constitutes cause for revocation of the Permit.

8. **General**

- 8.1. This Permit is subject to the provisions of the Communications Law and Communications Order, as may be from time to time. The provisions of this Permit do not derogate from the provisions of the law, including with regard to the powers of the Ministers and the Director General of the Ministry of Communications pursuant to the Communications Law, Communications Order, the Control Permit for Individuals and the Pledge Permit.
- 8.2. Each Permit Holder will at all times comply with the terms and restrictions of the Communications Order. Each Permit Holder will follow the provisions of the Communications Law, Communications Order and the pursuant directives.
- 8.3. This Permit is based on the undertaking of each Permit Holder, that -
 - A. The Permit Holders acquired the means of control of Bezeq for themselves and the holders of the Control Permit for Individuals only, and not for any other entity, and that there is no written or verbal agreement, document or arrangement concerning the granting of rights or control in Bezeq, directly or indirectly, which is not attached to the Application.
 - B. Only the Permit Holders will exercise the means of control in Bezeq.
 - C. They are not aware of any legal impediment that may impair their ability to exercise the means of control of Bezeq, including receivership, bankruptcy or liquidation proceedings.
- 8.4. This Permit does not derogate from the duty to obtain approval for other actions as set out in the Communications Law, Communications Order or by law. This Permit does not constitute approval under section 3(B3) of the Communications Order to acquire shares by way of a full tender offer.
- 8.5. This Permit is granted based on, and its validity is subject to, the fact that the Ministers were provided with correct information with regard to the Application and as set out in it.
- 8.6. Granting of this Permit does not constitute confirmation of the documents filed as part of the Application, and the provisions of this Permit prevail over those included in such documents.

9. **Validity**

This Permit is valid from its date of execution.

[Hebrew date]
[November 11, 2019]

David Amsalem
Minister of Communications

SHARE PURCHASE AGREEMENT
by and among:
INTERNET GOLD - GOLDEN LINES LTD.
AS SELLER
B COMMUNICATIONS LTD.
AS COMPANY
and
SEARCHLIGHT II BZQ, L.P.
AS PURCHASER A
T.N.R. INVESTMENTS LTD.
AS PURCHASER B

Dated as of June 24, 2019

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SHARE PURCHASE AGREEMENT

This Share Purchase Agreement (this "Agreement") is entered into as of June 24, 2019, by and among **Internet Gold - Golden Lines Ltd.**, a company organized under the laws of the State of Israel, having its registered office at 2 Dov Friedman St., Ramat Gan, Israel (the "Seller"); **B Communications Ltd.**, a company organized and existing under the laws of the State of Israel, with registration number 51-283274-2, having its registered office at 2 Dov Friedman St., Ramat Gan, Israel (the "Company"); **Searchlight II BZQ, L.P.**, a Cayman Islands exempt limited partnership ("Purchaser A"); and **T.N.R. Investments Ltd.**, a company organized and existing under the laws of the State of Israel ("Purchaser B"), and together with Purchaser A, the "Purchasers"; each of them a "Purchaser" (each of the Seller, the Company and the Purchasers are referred to herein as a "Party" and together as the "Parties").

RECITALS

WHEREAS, the Seller is the beneficial and record owner of 19,363,396 ordinary shares (as may be increased pursuant and subject to Section 2.2(c), the "Purchased Shares"), par value NIS 0.1 per share of the Company ("Ordinary Shares"), which Ordinary Shares are listed for trading on the Nasdaq Global Select Market (the "Nasdaq") and on the Tel-Aviv Stock Exchange (the "TASE") and which Ordinary Shares are held by the Seller in accordance with a control permit issued by the Israeli Minister of Communications and the Israeli Finance Minister (the "Ministers"), dated April 13, 2010 (the "Current Control Permit");

WHEREAS, the Purchasers desire to purchase from the Seller all of the Purchased Shares, which represent, as of the date hereof, approximately 51.95% of the Issued and Outstanding Share Capital of the Company (as defined herein), for an aggregate purchase price equal to the Seller Purchase Price (as defined below), upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Seller desires to sell the Purchased Shares to the Purchasers upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Purchasers wish to subscribe for the Purchaser Subscribed Shares (as defined herein) for an aggregate purchase price of NIS 260,000,000 (the "Company Purchase Price") upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Seller wishes to subscribe for the Seller Subscribed Shares (as defined herein) for an aggregate purchase price of NIS 35,000,000 (as may be reduced pursuant to the proviso in Section 2.4(a), the "Share Contribution Amount") upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Seller wishes to subscribe for the Seller Subscribed Debentures (as defined herein) for an aggregate purchase price of NIS 310,000,000 (the "Debenture Contribution Amount") upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, concurrently with the execution and delivery of this Agreement, each of T.N.R. Real Estate Properties Ltd. (an entity controlled by the Fuhrer family) ("Local Sponsor") and Searchlight Capital II, L.P. and Searchlight Capital II PV, L.P. (each, a "Sponsor") has provided to Purchaser A and Purchase B, respectively, the Commitment Letters (as defined below);

WHEREAS, concurrently with the execution and delivery of this Agreement, each Sponsor has provided the Company and the Seller the limited guarantee, attached hereto as Exhibit A-3 and Exhibit A-4, respectively (the “Sponsors’ Guarantee”); and

WHEREAS, prior to entering into this Agreement, representatives of the Purchasers have approached the Israeli Ministry of Communication, *inter alia*, for the purpose of commencing discussions with respect to the aforementioned sale and purchase of the Purchased Shares.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged) and intending to be legally bound hereby, the Parties agree and undertake as follows:

1. DEFINITIONS

1.1 For purposes of this Agreement, the following terms have the meanings set forth below, which shall be equally applicable to both the singular and plural forms.

“Acquisition Proposal” means any proposal, inquiry or offer with respect to (i) a direct or indirect sale, transfer, exchange, pledge, investment in, acquisition of, or other transaction involving the Purchased Shares or any part thereof or any other Equity Securities or debt securities of any of the BComm Companies (including reorganization, debt restructuring, debt refinancing, creditors arrangement or other similar transaction), including as a result of a tender offer with respect to Equity Securities of the Company, (ii) a direct or indirect acquisition or purchase, in a single transaction or a series of transactions, of a material portion of the assets or a business of the Seller or the BComm Companies, (iii) a merger, consolidation, business combination, recapitalization, liquidation, dissolution, share exchange or similar transaction involving the Seller or any of the BComm Companies, or (iv) any combination of the foregoing, in each case other than the transactions contemplated by this Agreement, in each case, whether initiated, sponsored, conducted, supervised, requested, required or mandated by the Seller, the Company, any of their Affiliates or any other Person.

“Additional Company Purchase Price” means an amount in NIS equal to (a) the number of Unsubscribed Shares, multiplied by (b) the Subscription Price Per Share. For clarity (and without limiting anything contained in this Agreement), in no event shall the Additional Company Purchase Price exceed an aggregate amount of NIS 35,000,000.

“Additional Equity Offering” means as defined in Section 5.7(a).

“Additional Purchaser Subscribed Shares” means as defined in Section 2.3(c).

“Additional Subscription Shares” means as defined in Section 5.7(a).

“Adjustment Subscribed Shares” means as defined in Section 2.3(a).

“Affiliate” or “Affiliated” with respect to any specified Person, means a Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such specified Person; provided, however, that, for the purposes of this Agreement and the transactions contemplated hereby, in no event shall Purchaser A be considered an “Affiliate” of, or “Affiliated” with, any portfolio company (as such term is customarily used in the private equity industry) of investment funds or investment vehicles advised or managed (directly or indirectly) by Searchlight Capital Partners, L.P.

“Agreement” means as defined in the Preamble.

“Antitrust Clearance” means approval of the transactions contemplated by this Agreement by the Competition Authority of the State of Israel, in accordance with the provisions of the Antitrust Law.

“Antitrust Law” means the Antitrust Law, 5748-1988, of the State of Israel.

“Available Cash” means the amount of freely available cash of the Company as of immediately prior to the Closing. Such Cash Amount shall reflect the impact of, be calculated net of, and be reduced by, the aggregate amount of all Transaction Expenses incurred or otherwise payable by any of the BComm Companies (to the extent not paid prior to the Closing) whether or not due as of the Closing; provided, however, that the calculation of Available Cash shall not be reduced by the amount paid in settlement of any Proceeding that (and solely to the extent such settlement) was expressly approved in advance and in writing by Purchaser A (in its sole and absolute discretion).

“BComm Companies” means the Company, SP1 and SP2 together; and each of them, a “BComm Company”.

“Bezeq” means as defined in the Recitals.

“Bezeq Designated Directors” means as defined in Section 5.5(b).

“Bezeq Shares” means 728,373,713 ordinary shares of Bezeq, par value NIS 1.00 each, which are owned by the Company, SP1 or SP2 (and no other Persons).

“Burdensome Condition” means as defined in Section 5.1(f).

“Business Day” means any day (other than Saturday and Sunday) on which commercial banks are generally open for business both in the State of Israel and in New York City, New York, USA.

“Cash Shortfall” means (a) NIS 695,000,000 minus (b) the Available Cash; provided that if the Cash Shortfall is a negative number, for the purposes of this Agreement the Cash Shortfall shall be deemed to equal zero (0).

“Closing” means as defined in Section 7.1.

“Closing Date” means as defined in Section 7.1.

“Commitment Letters” commitment letters by each of the Sponsors, enforceable by the Seller and the Company against the Sponsors in accordance with their respective terms, attached hereto as Exhibit A-1 and Exhibit A-2, respectively.

“Communications Law” means the Communications Law (Telecommunications and Broadcasting), 5742-1982, as amended from time to time.

“Communications Order” means the Communications Order (Telecommunications and Broadcasts) (Determination of Essential Services Provided by “Bezeq” The Israeli Telecommunications Corp., Ltd.), 5757-1997, as amended from time to time.

“Companies Law” means the Companies Law, 5759-1999.

“Company” means as defined in the Recitals.

“Company Debt Modifications” means the debt modifications provided in Exhibit B.

“Company Designated Directors” means as defined in Section 5.5(a).

“Company Liability Cap” means an amount equal to NIS 26,000,000.

“Company Owned Securities” means as defined in Section 3.1(c)(ii).

“Company Purchase Price” means as defined in the Recitals.

“Company Series B Debenture” means Series B Debentures issued by the Company on September 21, 2010, as amended from time to time,

“Company Series C Debenture” means Series C Debentures issued by the Company on September 18, 2016, January 16, 2017 and January 23, 2018, respectively, as amended from time to time.

“Company Shareholders Meeting” means as defined in Section 5.9.

“Consent” means any Permit, approval, consent, ratification, waiver, or other authorization of or by, qualification, registration, designation or filing with any Person, including without limitation, any Governmental Body.

“Contract” means any legally binding agreement, contract, purchase order, lease, option, license, instrument, mortgage, obligation, commitment, arrangement, promise, or undertaking (whether written or oral and whether express or implied), including all exhibits and schedules thereto and any and all amendments and modifications thereto.

“Control” means the ability, whether directly or indirectly, to direct (or cause the direction of) the activities, management or policies of the relevant entity, including, the holding of (i) more than 50% of the issued and outstanding share capital of the relevant entity, (ii) such share capital as carries directly or indirectly more than 50% of the shareholders’ votes in a general meeting of the relevant entity, (iii) the ability to appoint or elect more than 50% of the directors or equivalent body of such entity, or (iv) the right to receive more than 50% of dividends which may be distributed by the relevant entity.

“Control Permit” means a control permit in Bezeq to be issued by the Israeli Minister of Communications and the Israeli Prime Minister (or a person authorized by the Prime Minister for such purpose) to the Purchasers in accordance with the Communication Law and the Communication Order (including the Council Recommendation).

“Council Recommendation” means (i) a positive recommendation by the Cable and Satellite Council to the Minister of Communications of the State of Israel to approve the indirect transfer of control and means of control in the wholly owned subsidiary of Bezeq, D.B.S. Satellite Services 1998 Ltd. (also known by its commercial name “Yes”), and (ii) approval issued by the Israeli Minister of Communications to the Purchasers in accordance with the communication regulation (Telecommunications and Broadcasts) (Procedures and Conditions for Granting a Satellite Broadcasting License), 5758-1998.

“Court” means the Tel Aviv District Court.

“Court Approval” means unconditional approval by the Court that does not include a provision stating that it is subject to any further consent by any third party other than the Israeli Ministry of Communications, of the transactions contemplated by this Agreement (without any revisions, modifications or qualifications) as a creditors arrangement and, to the extent required, as a shareholders arrangement pursuant to Section 350 of the Companies Law, including (i) the sale and issuance of the Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares (if any) and the Election Subscribed Shares (if any), (ii) the adoption of the Company Debt Modifications, (iii) the sale and issuance of the Seller Subscribed Shares and the Seller Subscribed Debentures and the Series D Debentures, (iv) the sale of the Purchased Shares, and (v) a waiver and exemption, with respect to any act or omission taken by any of the Relevant Parties in connection with this Agreement and the transaction contemplated hereby.

“Current Control Permit” means as defined in the recitals.

“Debenture Contribution Amount” means as defined in the recitals.

“Effect” means as defined in the definition of “Material Adverse Effect” in Section 1.1.

“Election Purchase Price” means as defined in Section 2.3(d).

“Election Subscribed Shares” means as defined in Section 2.4(a).

“Eligible Shareholders” means as defined in Section 5.7(a).

“Employee Body” means any labor union, labor association, labor organization, work council, trade union, or other representative of employees.

“Encumbrance” means any encumbrance, lien, mortgage, charge, option, purchase right, pledge, hypothecation, preemption right, security interest, right of first refusal, transfer restriction, or other rights of third parties, other than (i) Encumbrances arising under the provisions of the Communications Law and the Communications Order; (ii) Encumbrances arising under the Current Control Permit or the Control Permit; (iii) Encumbrances included in the Organizational Documents of the Company as of the date of this Agreement; (iv) Encumbrances arising under the Company Series B Debentures or the Company Series C Debentures and (v) any transfer restrictions under applicable securities Legal Requirements.

“End Date” means November 24, 2019; provided that, in the event Purchaser A has provided a notice that it will not consummate the Closing due to the occurrence of a Material Adverse Effect, the End Date shall be December 10, 2019.

“Equity Securities” of any Person (other than an individual) means, as applicable (i) any and all of its shares of capital stock, membership interests or other equity interests or share capital, (ii) any warrants, Contracts or other rights or options to directly or indirectly subscribe for or to purchase any capital stock, membership interests or other equity interests or share capital of such Person, (iii) any and all securities or instruments, directly or indirectly, exchangeable for or convertible or exercisable into, any of the foregoing or with any profit participation features with respect to such Person, or (iv) any share appreciation rights, phantom share rights or other similar rights with respect to such Person or its business.

“Exchange Act” means the United States Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder from time to time.

“Financing Commitment” means the commitment from the Sponsors to provide funds to the Purchasers at the Closing to pay the Seller Purchase Price, the Company Purchase Price, the Additional Company Purchase Price (if payable under this Agreement) and the Election Purchase Price (if payable under this Agreement), as set forth in, and subject to the terms and conditions of, the Commitment Letters.

“Governmental Body” means any Israeli, U.S. or other federal, state, local, municipal, foreign or other governmental body, including without limitation any administrative, executive, judicial, legislative, regulatory or taxing authority of any nature of any jurisdiction in which the BComm Companies, the Purchasers, the Seller or their respective subsidiaries (including Bezeq and its subsidiaries) (as the case may be) have been incorporated or are conducting business or that otherwise have jurisdiction thereon (including without limitation, any governmental agency, board, bureau, branch, department, official, or entity and any court, arbitrator or other tribunal), including self-regulated organizations or other non-governmental regulatory or quasi-governmental authorities and any national securities exchange or interdealer quotation system.

“Horev Claim” means Derivative Action 47621-07-16 Horev v. B Communications Ltd., et. al. pending in the Tel Aviv District Court.

“IFRS” means the International Financial Reporting Standards promulgated by the International Accounting Standards Board as in effect from time to time.

“Interim Period” means as defined in Section 5.2(a).

“ISA” means the Israel Securities Authority.

“Israeli Securities Law” means the Israeli Securities Law 5728-1968, as amended and the rules and regulations promulgated thereunder from time to time.

“Issued and Outstanding Share Capital of the Company” means the total number of issued and outstanding Ordinary Shares (excluding any Ordinary Shares owned by the Company).

“Knowledge of the Company” means the actual knowledge of (i) the chairman of the board of directors of the Company, (ii) the chief executive officer of the Company or (iii) the chief financial officer of the Company, in each case, as such positions are held as of the date hereof, in their capacity as office holders of the Company.

“Knowledge of the Seller” means the actual knowledge of (i) the chairman of the board of directors of the Seller, (ii) the chief executive officer of the Seller or (iii) the chief financial officer of the Seller, in each case, as such positions are held as of the date hereof, in their capacity as office holders of the Seller.

“Legal Requirement” means any Israeli, U.S. or other federal, state, local, municipal, foreign, international, multinational, or other statute, law, code, Order, constitution, rule, regulation, ordinance, principle of common law, treaty or other mandatory requirement of any Governmental Body (and including the applicable rules of any national securities exchange or interdealer quotation system, including the TASE and Nasdaq).

“Local Sponsor” means as defined in the Recitals.

“Losses” means as defined in Section 9.3(b).

“Material Adverse Effect” means any change, event, occurrence, fact, effect or circumstance (each, an “Effect”) that, individually or taken together with all other Effects, has had, or will have, a material adverse effect on the business, condition (financial or otherwise) or results of operations of the BComm Companies and their respective subsidiaries (including Bezeq and its subsidiaries), taken as a whole; provided, however, that none of the following shall be taken into account in determining whether a Material Adverse Effect has occurred: (i) any changes in Israeli economic conditions, (ii) any general changes in conditions affecting the industries in which Bezeq or its subsidiaries operate, (iii) any change in the market price or trading volume of the Ordinary Shares or shares of the Company or Bezeq on the Nasdaq or TASE (provided that the exception in this clause (iii) shall not prevent or otherwise affect a determination that any Effect underlying such change in the market price or trading volume has resulted in or contributed to, or would reasonably be expected to result in or contribute to, a Material Adverse Effect), (iv) any change in the credit rating or the credit outlook of the Company or Bezeq or its subsidiaries (provided that the exception in this clause (iv) shall not prevent or otherwise affect a determination that any Effect underlying such change in the credit rating has resulted in or contributed to, or would reasonably be expected to result in or contribute to, a Material Adverse Effect), (v) any regulatory, legislative or political conditions or changes, in each case, generally affecting the industries in which Bezeq or its subsidiaries operate in the State of Israel, including actual or anticipated results of elections, (vi) any failure, in and of itself, by any of the BComm Companies or Bezeq or its subsidiaries to meet any internal or published plans, projections, forecasts, estimates or predictions in respect of revenues, earnings or other financial or operating metrics for any period (provided that the exception in this clause (vi) shall not prevent or otherwise affect a determination that any Effect underlying such failure has resulted in or contributed to, or would reasonably be expected to result in or contribute to, a Material Adverse Effect), (vii) any adverse Effect resulting from the negotiation, execution or delivery of this Agreement or the public announcement of this Agreement, (viii) any changes in IFRS or in laws applicable to the Company or Bezeq or its subsidiaries or the repeal, enforcement or interpretation thereof, (ix) accounting reserves or expenses directly in connection with severance payments in respect of workforce reductions, (x) any general geopolitical conditions, the outbreak or escalation of hostilities, any acts of war (whether or not declared), terrorism or military actions, (xi) any change resulting from acts of God, (xii) any Effect resulting from the impairment for write-down of certain tax assets, including the tax asset of Bezeq associated with the activities of D.B.S. Satellite Services (1998) Ltd., in an aggregate amount not to exceed NIS 1,200,000,000, (xiii) any Effect resulting from investigations conducted by a Governmental Body as of the date hereof against the BComm Companies and their subsidiaries (including Bezeq and its subsidiaries) that, in each case of this clause (xiii), were disclosed in the Public Filings (provided that the exception in this clause (xiii) shall not prevent or otherwise affect a determination that any Effect underlying such investigations has resulted in or contributed to, or would reasonably be expected to result in or contribute to, a Material Adverse Effect); or (xiv) organized labor actions undertaken by Employee Bodies of Bezeq or its subsidiaries; provided, however, that any Effect set forth in the foregoing clauses (i), (ii), (v), (viii) or (x) may be taken into account in determining whether there has been, is or could be a Material Adverse Effect if such Effect has a disproportionate adverse effect on the Company and its subsidiaries (including Bezeq and its subsidiaries), taken as a whole, relative to other Persons similarly situated; provided, further, for clarity, that the so-called “structural separation” imposed by the Israeli Ministry of Communications as and to the extent in effect as of the date of this Agreement (expressly excluding any amendments, changes, expansions or other modifications thereto, or changes or in the enforcement or interpretation thereof), in and of itself, shall not constitute a Material Adverse Effect. For clarity, solely for the purpose of this definition of “Material Adverse Effect” (and no other purposes), an Effect that (individually or together with any other Effects) would reasonably be considered by a buyer of a business or enterprise (taken as a whole) as representing a diminution in the value of such business or enterprise (taken as a whole) of less than twenty five (25%), would not be considered as a material adverse effect for the purposes of this definition of “Material Adverse Effect”.

“Ministers” means as defined in the Recitals.

“Nasdaq” means as defined in the Recitals.

“Non-Recourse Parties” means as defined in Section 9.18.

“Order” means any award, decision, injunction, judgment, order, Permit, decree, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body.

“Ordinary Shares” means as defined in the Recitals.

“Organizational Documents” means, with respect to any entity, its certificate of incorporation, organization or formation, memorandum of association, articles of association, by-laws, or other charter or governing documents, and any amendments thereto.

“Party” or “Parties” means as defined in the Preamble.

“Permit” means any permit, license, variance, franchise, approval, certificate, consent, waiver, concession, exemption, Order, registration, notice, filing or other authorization issued by, filed with, or obtained from any Governmental Body.

“Person” means any individual, corporation, general or limited partnership, limited or unlimited liability company, joint venture, estate, trust, incorporated or unincorporated association, firm, organization, labor union, or other entity or Governmental Body.

“Pro Rata Share” means (a) with respect to Purchaser B, the percentage specified in a written notice delivered by Purchaser A to the Company and the Seller at least three (3) Business Days prior to the Closing Date (the “Specified Percentage”); provided that (i) the Specified Percentage shall be no less than 13% and not greater than 19%, and (ii) if no such notice has been provided by Purchaser A prior to or on the date that is three (3) Business Days prior to the Closing Date, the Specified Percentage shall equal 19%, or (b) with respect to Purchaser A, a percentage equal to (x) 100% minus (y) the Specified Percentage.

“Proceeding” means any written claim, demand, summon, subpoena, order to show cause, action, arbitration, audit, hearing, investigation, litigation, suit or other proceeding (whether civil, criminal, administrative, regulatory or investigative) commenced, brought, conducted, or heard by or before any court or other Governmental Body.

“Public Filings” means the reports, schedules, forms, statements and other documents filed by the Company or Bezeq with the SEC or the ISA, as applicable, and publically available at least two (2) Business Days prior to the date of this Agreement.

“Purchased Shares” means as defined in the Recitals.

“Purchaser A” means as defined in the Preamble.

“Purchaser B” means as defined in the Preamble.

“Purchaser Election” means as defined in Section 2.4(a).

“Purchaser Liability Cap” means an amount equal to NIS 30,000,000.

“Purchaser Subscribed Shares” means as defined in the Section 2.3(b).

“Representative” means as defined in Section 5.3(a).

“Relevant Parties” means the directors and officers of the Seller and the Company, and the bondholders of the Seller and the Company, bondholder’s trustees, bondholders representative bodies, bondholder financial consultants and legal counsel, in each case, solely in their capacity as such.

“Restricted Matters” means, with respect to any Person, any of the following actions, effects or things: (a) issuance, sale, disposition of, grant, delivery, Encumbrance, or agreement, authorization, or commitment to the issuance, sale, disposition of, grant, delivery, or Encumbrance by such Person (in each case, whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) of any of its Equity Securities or debt securities (other than, solely in the case of Bezeq, issuance of Equity Securities of Bezeq pursuant to employee benefit plans disclosed in the Public Filings), (b) split, combination, subdivision, reclassification or redemption, repurchase or other acquisition by such Person of, directly or indirectly, any of such Person’s Equity Securities, (c) with respect to any BComm Company, declaration, set aside or payment of any dividend or other distribution (whether in cash, shares or property or any combination thereof) in respect of any of such Person’s Equity Securities, or any other actual, constructive or deemed distribution in respect of such Person’s Equity Securities, (d) amendment, replacement or other modification of such Person’s Organizational Documents; provided that the Company may, to the extent approved by the Court (in a decision the execution of which was not stayed) to amend its Organizational Documents only to the extent necessary to increase its authorized share capital and for no other purpose, (e) approval, proposal or adoption of, or other agreement by such Person to, a plan of complete or partial liquidation, dissolution, merger, consolidation, amalgamation, restructuring, recapitalization or other reorganization, (f) settlement of any pending or threatened derivative or class action brought against such Person; provided that the Company, subject to all applicable Legal Requirements, may settle the Horev Claim solely to the extent that such settlement does not impose or would result in any liabilities or obligations (monetary or otherwise, including any direct or indirect payment obligations or liabilities) to or of any of the BComm Companies (whether or not covered by insurance, and including under any D&O or other insurance policies maintained by or for the benefit of any of the BComm Companies), (g) settlement of any other material Proceeding, (h) entry into, amendment or other modification to any Contract with any controlling shareholder of such Person, other than termination of any such Contract without any liability or obligations to any of the BComm Companies or their respective subsidiaries, or (i) with respect to any BComm Company, (1) incurrence or assumption of, or amendment or other modification to, any Contract or other instrument evidencing, any long-term or short-term debt for borrowed monies or issuance of, or amendment or modification to the terms of, any debt securities by such Person (including the Company Debt Modifications), (2) assumption, guarantee or endorsement of, or otherwise becoming liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person, (3) the making of any loans, advances or capital contributions to or investments in any other Person, or (4) mortgaging or pledging any of such Person’s assets, tangible or intangible, or creation any Encumbrances thereupon (other than the Company Debt Modifications).

“RTP Law” means the Israeli Restrictive Trade Practices Law, 5748-1988, as amended from time to time, and any rules, regulations or guidelines promulgated thereunder.

“Sale Process” means all matters, whether occurring before, on or after the date of this Agreement, relating, directly or indirectly, to the sale of any interest in the Seller or any of the BComm Companies or any of their respective assets, including any arrangement with their respective bondholders and other creditors or other debt restructuring (and review of strategic alternatives with respect to any such transactions), and all activities in connection therewith, including matters relating to: (a) the solicitation of proposals from, and negotiating with, third parties, including the Purchasers, and (b) the drafting and negotiation of any of the provisions of any of the Transaction Documents.

“SCP Entity” means any of the investment funds or investment vehicles advised or managed (directly or indirectly) by Searchlight Capital Partners, L.P. or any of their respective portfolio companies (as such term is customarily used in the private equity industry).

“SEC” means the United States Securities and Exchange Commission.

“Securities Act” means the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder from time to time.

“Securities Laws” means the Israeli Securities Law, the Exchange Act and the Securities Act.

“Seller” means as defined in the Preamble.

“Seller Contribution Amount” means the Share Contribution Amount and the Debenture Contribution Amount.

“Seller Liability Cap” means an amount equal to NIS 22,500,000.

“Seller Purchase Price” means an amount of NIS 225,000,000 (two hundred twenty five million New Israeli Shekels).

“Seller Subscribed Debentures” means NIS 310,000,000 par value of Series C Debentures issued to the Seller by the Company by way of an expansion of the existing Series C Debentures, through a private placement.

“Seller Subscribed Shares” mean as defined in Section 2.4.

“Share Contribution Amount” means as defined in the recitals.

“Share Pledge” means as defined in Section 5.1(g).

“Series D Debentures” means a new series of Company debentures, in an aggregate amount of NIS 58,000,000 par value, to be issued by the Company at the Closing, having identical terms and conditions to those of the Company Series C Debenture, with the following exception: Within seven (7) days following the date on which 90% of the aggregate amount of dividends distributed by Bezeq to (and retained by) the Company following the Closing Date equals at least the principal amount of the Series D Debentures, the Company will issue an immediate report calling for a full prepayment of the Series D Debentures, which prepayment will be made in accordance with the terms of the applicable deed of trust.

“Shareholders Approval” means as defined in Section 5.9.

“SP1” means B Communications (SP1) Ltd., an Israeli limited company.

“SP1 Bezeq Shares” means as defined in Section 3.1(c)(ii).

“SP1 Securities” means as defined in Section 3.1(c)(ii).

“SP2” means B Communications (SP2) Ltd., an Israeli limited company.

“SP2 Bezeq Shares” means as defined in Section 3.1(c)(ii).

“SP2 Securities” means as defined in Section 3.1(c)(ii).

“Sponsor” means as defined in the Recitals.

“Sponsors’ Guarantee” means as defined in the Recitals.

“Subscription Price Per Share” means NIS 4.175.

“TASE” means as defined in the Recitals.

“Transaction Documents” means (i) this Agreement, (ii) the Commitment Letters, (iii) the Sponsors’ Guarantee, and (iv) the other documents, agreements, exhibits, schedules, statements or certificates being executed and delivered by the Seller, the Company or the Purchasers in connection with this Agreement and the transactions contemplated hereby.

“Transaction Expenses” means any of the BComm Companies’ fees, costs and expenses incurred or payable by the BComm Companies (including on behalf of their respective bondholders) in connection with the Sale Process (including the consideration, preparation, negotiation, execution, and performance of this Agreement, the Company Debt Modifications or the transactions contemplated hereby or thereby) or otherwise pursuant to the Company Series B Debentures or Company Series C Debentures, including all fees, costs and expenses of trustees, bankers, agents, representatives, counsel, accountants, economic advisors, or other advisors or representative, and including any such amounts incurred or payable by the BComm Companies on behalf of any other Person.

“Unsubscribed Shares” means as defined in Section 5.7(c).

“Withholding Tax Certificate” means as defined in Section 2.2(e).

2. SALE AND PURCHASE OF SHARES; SUBSCRIPTION; CONTRIBUTION

2.1 Sale and Purchase of Shares. Upon the terms and subject to the conditions of this Agreement, at the Closing, the Seller shall sell, assign, transfer, convey and deliver to each Purchaser, and each Purchaser shall purchase and accept from the Seller, its Pro Rata Share of all (but not part) of the Purchased Shares, free and clear of any Encumbrances.

2.2 Seller Purchase Price.

- (a) The aggregate purchase price of the Purchased Shares is the Seller Purchase Price.
- (b) [RESERVED].
- (c) [RESERVED].
- (d) [RESERVED].

(e) Each Purchaser shall pay its Pro Rata Share of the Seller Purchase Price in New Israeli Shekels, and shall, from any consideration payable hereunder by the Purchasers, only withhold or deduct any taxes under Israeli law as provided in the valid withholding tax certificate provided by the Seller or the Company, as applicable, to the Purchasers not less than three (3) Business Days prior to the Closing Date (the “Withholding Tax Certificate”); provided, however, that (i) such Withholding Tax Certificate will be in a form reasonably acceptable to Purchaser A, and (ii) if the Withholding Tax Certificate shall not have been provided, expired or ceased to be valid for any other reason, prior to the Closing, then the Purchasers shall deduct and withhold taxes from any such consideration payable by the Purchasers to the Seller hereunder as required by applicable Legal Requirements, unless and to the extent the Seller or the Company, as applicable, provides the Purchasers with a valid certificate issued by the Israel Tax Authority, at least three (3) Business Days prior to the applicable payment date, exempting the Purchasers from withholding tax from payments made under this Agreement or setting a lower withholding tax rate (in which case the Purchasers shall deduct and withhold an amount in accordance therewith). All amounts so deducted and withheld by the Purchasers shall be treated for all purposes of this Agreement as having been paid to the applicable payee.

2.3 Purchaser Subscription. Upon the terms and subject to the conditions of this Agreement, at the Closing, the Company shall issue, free and clear of all Encumbrances:

(a) To the Purchasers (allocated among them pro-rata, based on their respective Pro Rata Share), such number of newly issued Ordinary Shares (the “Adjustment Subscribed Shares”) equal to (i) the Cash Shortfall, divided by (ii) Subscription Price Per Share (rounded up to the nearest whole number) at no additional consideration (for the avoidance of doubt, nothing in this Section 2.3(a) of otherwise shall limit or otherwise affect Purchaser A’s rights pursuant to Section 6.2(i));

(b) To the Purchasers (allocated among them pro-rata, based on their respective Pro Rata Share), 62,275,450 newly issued Ordinary Shares (the “Purchaser Subscribed Shares”) in exchange for the Company Purchase Price;

(c) To Purchaser A, if the amount of the Unsubscribed Shares is greater than zero (0), additional newly issued Ordinary Shares in an amount equal to the Unsubscribed Share (the “Additional Purchaser Subscribed Shares”) in exchanged for the Additional Company Purchase Price; and

(d) To Purchaser A, if Purchaser A has made the Purchaser Election, the Election Subscribed Shares in exchange for NIS 35,000,000 (the “Election Purchase Price”)

2.4 Seller Contribution. Upon the terms and subject to the conditions of this Agreement, at the Closing:

(a) The Seller shall pay to the Company the Share Contribution Amount in exchange for the issuance by the Company to the Seller of 8,383,234 newly issued Ordinary Shares (as may be adjusted pursuant to the proviso in this Section 2.4(a), the “Seller Subscribed Shares”), free and clear of all Encumbrances and any transfer restrictions under applicable Legal Requirements; provided, however, that notwithstanding anything herein to the contrary, in the event that the Seller (x) is unable to satisfy its obligations pursuant to this Section 2.4(a) at the Closing if the Closing were then to occur, or (y) otherwise failed to satisfy its obligations pursuant to this Section 2.4(a), then, in each case, Purchaser A may (but shall not be obligated to) elect (in its sole and absolute discretion, the “Purchaser Election”), to subscribed for such 8,383,234 newly issued Ordinary Shares in lieu of the Seller (the “Election Subscribed Shares”) for the Election Purchase Price, and if such Purchaser Election has been made (i) the Seller Subscribed Shares shall equal zero (0) (and the Seller shall have no rights or obligations in respect thereof nor shall any of the Parties have any claim towards the Seller in connection with such related reduction of the Seller Subscribed Share), and (ii) the Share Contribution Amount shall be reduced to zero (0); and

(b) The Seller shall pay to the Company the Debenture Contribution Amount in exchange for the issuance by the Company to the Seller of the Seller Subscribed Debentures, free and clear of all Encumbrances and any transfer restrictions under applicable Legal Requirements.

2.5 [RESERVED].

3. REPRESENTATIONS AND WARRANTIES OF THE SELLER AND THE COMPANY

3.1 The Seller represents and warrants to each of the Purchasers that the statements contained in this Section 3.1 are true and correct as of the date hereof, and will be true and correct as of the Closing Date as though made as of the Closing Date:

(a) Organization, Corporate Power and Qualification. The Seller is a public company duly organized and validly existing under the laws of the State of Israel and has all requisite corporate power and authority to (a) conduct its business as and to the extent now conducted and to own, use and lease its assets and properties, and (b) execute and deliver this Agreement and the other Transaction Documents to which it is a party and, subject to the satisfaction of the conditions to Closing, to consummate the transactions and perform its obligations contemplated hereby and thereby (including the right, authority and power to sell, assign and transfer the Purchased Shares to the Purchasers in accordance with the terms of this Agreement). The Company is a public company duly organized and validly existing under the laws of the State of Israel and has all requisite corporate power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties. Each of SP1 and SP2 is a private limited company duly organized and validly existing under the laws of the State of Israel and has all requisite corporate power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties.

(b) Authorization; Binding Agreement. All corporate action on the part of the Seller necessary or required for the authorization, execution, delivery and performance of all its obligations under this Agreement and any other Transaction Document to which Seller is a party have been duly and validly taken, and (subject to obtaining the required approvals under Section 350 of the Companies Law) no other proceedings or Consents (including of Eurocom Communications Ltd., or any creditors or liquidators thereof or any other Governmental Body) on the part of the Seller are necessary or required to authorize the execution, delivery and performance of this Agreement and the other Transaction Documents to which Seller is a party and the consummation by the Seller of the transactions contemplated hereby or thereby. This Agreement is duly and validly executed and delivered by the Seller, and constitutes the valid and legally binding obligations of the Seller, legally enforceable against the Seller in accordance with its terms subject to bankruptcy, insolvency, reorganization and other Legal Requirements of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) Title and Ownership.

(i) The Seller is the holder and sole record, legal and beneficial owner of the Purchased Shares and has good, valid and marketable title to the Purchased Shares; and the Purchased Shares are fully paid, non-assessable and free and clear of all Encumbrances. There are no Contracts to which the Seller is a party (including subscriptions, options, warrants, rights, calls, puts, or other arrangements of any kind) or Orders which (i) obligate (or would obligate, upon the occurrence of any event) the Seller to sell, transfer, purchase or otherwise dispose of or acquire any Equity Securities of any BComm Company, or (ii) would restrict the Seller from selling, transferring, or otherwise disposing of, directly or indirectly, any Equity Securities of the Company, other than the Current Control Permit.

(ii) The Company is the holder and sole record, legal and beneficial owner of (i) all of the Equity Securities of SP1 (the “SP1 Securities”), and (ii) 14,204,153 of the Bezeq Shares (the Equity Securities described in the foregoing clauses (i) and (ii), collectively, the “Company Owned Securities”). The Company has good, valid and marketable title to the Company Owned Securities; and the Company Owned Securities are fully paid, non-assessable and free and clear of all Encumbrances (other than Encumbrances expressly contemplated by the Current Control Permit). There are no Contracts to which any of the BComm Companies is a party or by which any of them is bound (including subscriptions, options, warrants, rights, calls, puts, or other arrangements of any kind) or Orders which (i) obligate or would obligate the Company or any of its Affiliates to sell, transfer, purchase, or otherwise dispose of or acquire any Company Owned Securities or any other Equity Securities of Bezeq, SP1 or SP2 or any of their respective subsidiaries, or (ii) would restrict any of the BComm Companies from selling, transferring, purchasing, or otherwise disposing of or acquiring any of the Company Owned Securities or any other Equity Securities of SP1, SP2 or Bezeq, other than the Current Control Permit. SP1 is the holder and sole record, legal and beneficial owner of (1) all of the Equity Securities of SP2 (the “SP2 Securities”), and (2) none of the Bezeq Shares (the “SP1 Bezeq Shares”), and SP2 is the holder and sole record, legal and beneficial owner of 714,169,560 of the Bezeq Shares (the “SP2 Bezeq Shares”). SP1 has good, valid and marketable title to the SP2 Securities and the SP1 Bezeq Shares; and the SP2 Securities and the SP1 Bezeq Shares are fully paid, non-assessable and free and clear of all Encumbrances. SP2 has good, valid and marketable title to the SP2 Bezeq Shares; and the SP2 Bezeq Shares are fully paid, non-assessable and free and clear of all Encumbrances. There are no Contracts to which any of the BComm Companies is a party or by which any of them is bound (including subscriptions, options, warrants, rights, calls, puts, or other arrangements of any kind) or Orders which (I) obligate or would obligate any of SP1 or SP2 to sell, transfer, purchase, or otherwise dispose of or acquire any Equity Securities of its subsidiaries or Equity Securities of Bezeq or any of its subsidiaries, or (II) would restrict any SP1 or SP2 from selling, transferring, purchasing, or otherwise disposing of or acquiring any Equity Securities of its subsidiaries or Equity Securities of Bezeq, other than the Current Control Permit.

(d) Capitalization. The Purchased Shares represent as of the date hereof approximately 51.95% of the Issued and Outstanding Share Capital of the Company. Except for the Purchased Shares, the SP1 Securities, the SP2 Securities and the Bezeq Shares, (i) neither the Seller nor any of the BComm Companies, directly or indirectly, beneficially or of record, owns any Equity Securities of the Company or any of its subsidiaries (including Bezeq and its subsidiaries), and (ii) the Seller, directly or indirectly, beneficially or of record, does not own any Equity Securities of the BComm Companies.

(e) Consents and Filings: Non Contravention. Other than as detailed in Schedule 3.1(e) hereof, and subject to the required approvals under Section 350 of the Companies Law the execution, delivery and performance of this Agreement and any other Transaction Document (in accordance with their respective terms) to which Seller is a party, by the Seller and the consummation of the transactions contemplated hereby and thereby will not result in any violation of or be in conflict with or constitute, with or without the passage of time or giving of notice, a default under, or require any Consent of any Person pursuant to, (a) any provision of the Seller’s or any of the BComm Companies’ Organizational Documents, (b) any Order, Permit or Contract to which it or any of the BComm Companies is a party or, to the Knowledge of the Seller, by which it is bound, or would result in the loss of any rights, or the imposition or creation of any Encumbrance upon any assets or properties of the Seller or any of the BComm Companies, under any such Order, Permit or Contract or (c) any provisions of any Legal Requirement applicable to it or any of the BComm Companies.

(f) Brokers' Fees. No agent, broker, investment banker, or other Person acting in a similar capacity on behalf of or under the authority of the Seller is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, in connection with the transactions contemplated by this Agreement (including the sale and transfer of the Purchased Shares as contemplated under this Agreement), other than Oppenheimer & Co. Inc. and Migdal Capital Markets, for which the Seller shall be solely responsible.

(g) Undisclosed Proceeding Matters; Affiliate Transactions.

(i) Except as set forth on (i) Schedule 3.1(g)(i) or (ii) the Public Filings, to the Knowledge of the Seller, as of the date hereof (and not, for clarity, as of the Closing Date), there exist no event, occurrence or fact materially affecting any material Proceedings in which any of the BComm Companies or Bezeq (or any of their respective subsidiaries) is involved or that would materially and adversely affect any of them.

(ii) Except as set forth on Schedule 3.1(g)(ii), there are no Contracts or other arrangements for the provision of any services between the Seller, on the one hand, and any of the BComm Companies, on the other hand; no personnel, assets or properties of the Seller are used in or utilized for the conduct of the business of any of the BComm Companies.

(h) No Additional Representations. The representations and warranties made by the Seller in this Section 3.1 are the exclusive representations and warranties made by it in connection with the transactions contemplated hereby and the Seller hereby disclaims any other express or implied representations or warranties.

3.2 The Company represents and warrants to each of the Purchasers (and not any other Party) that the statements contained in this Section 3.2 are true and correct as of the date hereof, and will be true and correct as of the Closing Date as though made as of the Closing Date:

(a) Organization, Corporate Power and Qualification. The Company is a public company duly organized and validly existing under the laws of the State of Israel and has all requisite corporate power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties. Each of SP1 and SP2 is a private limited liability company duly organized and validly existing under the laws of the State of Israel and has all requisite corporate power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties. The Company has made available to the Purchasers true, correct and complete copies of all Organizational Documents of each of SP1 and SP2.

(b) Authorization; Binding Agreement. All corporate action on the part of the Company necessary or required for the authorization, execution, delivery and performance of all its obligations under this Agreement and any other Transaction Document to which the Company is a party have been duly and validly taken, and (subject to obtaining the required approvals under Section 350 of the Companies Law) no other proceedings or Consents (including any other Governmental Body) on the part of the Company are necessary or required to authorize the execution, delivery and performance of this Agreement and the other Transaction Documents to which the Company is a party and the consummation by the Company of the transactions contemplated hereby or thereby. This Agreement is duly and validly executed and delivered by the Company, and constitutes the valid and legally binding obligations of the Company, legally enforceable against the Company in accordance with its terms subject to bankruptcy, insolvency, reorganization and other Legal Requirements of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) Title and Ownership. The Company is the holder and sole record, legal and beneficial owner of all of the Company Owned Securities. The Company has good, valid and marketable title to the Company Owned Securities; and the Company Owned Securities are fully paid, non-assessable and free and clear of all Encumbrances. Subject to the fulfillment of the Conditions to Closing, there are no Contracts to which any of the BComm Companies is a party (including subscriptions, options, warrants, rights, calls, puts, or other arrangements of any kind) or Orders which (i) obligate or would obligate the Company upon the occurrence of any event to sell, transfer, purchase, acquire or otherwise dispose of any Company Owned Securities or any other Equity Securities of Bezeq, SP1 or SP2 or any of their respective subsidiaries, or (ii) would restrict (x) any of the BComm Companies from selling, transferring, purchasing, or otherwise disposing of or acquiring any of the Company Owned Securities or any other Equity Securities of SP1, SP2 or Bezeq, other than the Current Control Permit or (y) the Company from issuing the Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares (if any) or the Election Subscribed Shares (if any). SP1 is the holder and sole record, legal and beneficial owner of all of the SP2 Securities and the SP1 Bezeq Shares, and SP2 is the holder and sole record, legal and beneficial owner of the SP2 Bezeq Shares. SP1 has good, valid and marketable title to the SP2 Securities and the SP1 Bezeq Shares; and the SP2 Securities and the SP1 Bezeq Shares are fully paid, non-assessable and free and clear of all Encumbrances. SP2 has good, valid and marketable title to the SP2 Bezeq Shares; and the SP2 Bezeq Shares are fully paid, non-assessable and free and clear of all Encumbrances. There are no Contracts to which any of the BComm Companies is a party (including subscriptions, options, warrants, rights, calls, puts, or other arrangements of any kind) or Orders which (I) obligate or would obligate upon the occurrence of any event any of SP1 or SP2 to sell, transfer, purchase or otherwise dispose of or acquire any Equity Securities of its subsidiaries or Equity Securities of Bezeq or any of its subsidiaries, or (II) would restrict any SP1 or SP2 from selling, transferring, purchasing or otherwise disposing of or acquiring any Equity Securities of its subsidiaries or Equity Securities of Bezeq, other than the Current Control Permit.

(d) Capitalization. The Purchased Shares represent as of the date hereof approximately 51.95% of the Issued and Outstanding Share Capital of the Company. Except for the Purchased Shares, the SP1 Securities, the SP2 Securities and the Bezeq Shares, none of the BComm Companies, directly or indirectly, beneficially or of record, owns any Equity Securities of the Company or any of its subsidiaries (including Bezeq and its subsidiaries). (i) Except for the Company Owned Securities, the Company does not own or hold any Equity Securities of any Person, (ii) except for the SP1 Bezeq Shares and the SP2 Securities, SP1 does not own or hold any Equity Securities of any Person, and (iii) except for the SP2 Bezeq Shares, SP2 does not own or hold any Equity Securities of any Person other than as part of its investment portfolio, other than, in the case of the preceding clauses (i) through (iii), Equity Securities that are publicly traded on a recognized national stock exchange and held for short term investment purposes; provided that such Equity Securities, in the aggregate (with respect to all cases of clauses (i) through (iii)), do not represent more than half a percent (0.5%) of the Equity Securities of any issuer.

(e) Consents and Filings; Non Contravention. Other than as detailed in Schedule 3.2(e) hereof and subject to the required approvals under Section 350 of the Companies Law, the execution, delivery and, subject to the Shareholders Approval performance, of this Agreement and any other Transaction Document to which it is a party by the Company and the consummation of the transactions contemplated hereby and thereby will not result in any violation of or be in conflict with or constitute, with or without the passage of time or giving of notice, a default under, or require any Consent of any Person pursuant to, (i) any provision of any of the BComm Companies' Organizational Documents, (ii) any Order, Permit or Contract to which it or any of the BComm Companies is a party or by which it is bound, or would result in the loss of any rights, or the imposition or creation of any Encumbrance upon any assets or properties of any of the BComm Companies, under any such Order, Permit or Contract, or (iii) any provisions of any Legal Requirement applicable to it, any of the BComm Companies or Bezeq (or any of its subsidiaries).

(f) Brokers' Fees; Transaction Expenses. No agent, broker, investment banker, or other Person acting in a similar capacity on behalf of or under the authority of any of the BComm Companies is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, in connection with the transactions contemplated by this Agreement (including the issuance and delivery of the Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares (if any) and the Election Subscribed Shares (if any) as contemplated under this Agreement).

(g) Undisclosed Proceeding Matters. Except as set forth on (i) Schedule 3.2(g) or (ii) the Public Filings, to the Knowledge of the Company, as of the date hereof (and not, for clarity, as of the Closing Date), there exist no event, occurrence or fact materially affecting any material Proceedings in which any of the BComm Companies or Bezeq (or any of their respective subsidiaries) is involved or that would materially and adversely affect any of them.

(h) Subscribed Shares.

(i) The Adjustment Subscribed Shares, the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares and the Election Subscribed Shares have been duly authorized and allotted in accordance with applicable Legal Requirement and the Organizational Documents of the Company, and shall be available for subscription by the Purchaser in the manner and time provided under this Agreement.

(ii) The Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares (if any) and the Election Subscribed Shares (if any), when issued at the Closing, shall be duly issued in accordance with applicable Legal Requirements and the Organizational Documents of the Company, fully paid and non-assessable and shall be free and clear of any Encumbrances.

(iii) The Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares (if any) and the Election Subscribed Shares (if any), as of the Closing, will not be subject to avoidance or liquidation in bankruptcy, composition or other solvency proceedings relating to the Company, as the case may be.

(i) The representations and warranties made by the Company in this Section 3.2 or in any other Transaction Document are the exclusive representations and warranties made by it in connection with the transactions contemplated hereby and the Company hereby disclaims any other express or implied representations or warranties.

3.3 The Company represents and warrants to the Seller that the statements contained in this Section 3.3 are true and correct as of the date hereof, and will be true and correct as of the Closing Date as though made as of the Closing Date:

(a) Seller Subscribed Shares and Debentures.

(i) The Seller Subscribed Shares (if any) and the Seller Subscribed Debentures, when issued at the Closing, shall be duly authorized and allotted in accordance with applicable Legal Requirement and the Organizational Documents of the Company, and shall be available for subscription by the Seller in the manner and time provided under this Agreement.

(ii) The Seller Subscribed Shares (if any) and the Seller Subscribed Debentures, when issued at the Closing, shall be duly issued in accordance with applicable Legal Requirements and the Organizational Documents of the Company, fully paid and non-assessable and shall be free and clear of any Encumbrances and any transfer restrictions under applicable Legal Requirements and tradeable.

(iii) The Seller Subscribed Shares (if any) and the Seller Subscribed Debentures, as of the Closing, will not be subject to avoidance or liquidation in bankruptcy, composition or other solvency proceedings relating to the Company, as the case may be.

(b) No Additional Representations. The representations and warranties made by the Company in this Section 3.3 are the exclusive representations and warranties made by it to the Seller in connection with the transactions contemplated hereby and the Company hereby disclaims any other express or implied representations or warranties made to the Seller in connection with this Agreement, the other Transaction Documents or the transactions contemplated hereby and thereby.

4. REPRESENTATIONS AND WARRANTIES OF EACH PURCHASER

Each Purchaser, severally (and not joint and severally), with respect to itself only, represents and warrants to the Seller and the Company that the statements contained in this Section 4, with respect to such Purchaser, are true and correct as of the date hereof, and will be true and correct as of the Closing Date as though made as of the Closing Date:

4.1 Organization, Corporate Power and Qualification. In the case of Purchaser A, such Purchaser is a Cayman Islands exempt limited partnership duly organized, validly existing under the laws of the Cayman Islands, or in the case of Purchaser B, an Israeli company duly organized, validly existing under the laws of the State of Israel, and has all requisite corporate power and authority to execute and deliver this Agreement and all other Transaction Documents to which it is a party and to consummate the transactions and perform its obligations contemplated hereby and thereby (including the right, authority and power to purchase and acquire the Purchased Shares and subscribe and acquire the Subscribed Shares in accordance with the terms of this Agreement).

4.2 Authorization; Binding Agreement. All corporate action on the part of such Purchaser necessary or required for the authorization, execution, delivery and performance of all its obligations under this Agreement and all other Transaction Documents to which it is a party have been duly and validly taken, and no other proceedings on the part of such Purchaser are necessary or required to authorize the execution, delivery and performance of this Agreement and the other Transaction Documents to which it is a party and the consummation by such Purchaser of the transactions contemplated hereby or thereby. This Agreement is duly and validly executed and delivered by such Purchaser, and constitutes the valid and legally binding obligations of such Purchaser, legally enforceable against such Purchaser in accordance with its terms subject to bankruptcy, insolvency, reorganization and other Legal Requirements of general applicability relating to or affecting creditors' rights and to general equity principles.

4.3 Consents and Filings; Non Contravention. Subject to obtaining the Control Permit and the Antitrust Clearance, the execution, delivery and performance of this Agreement and any other Transaction Document to which it is a party by such Purchaser and the consummation of the transactions contemplated hereby and thereby will not result in any violation of or be in conflict with or constitute, with or without the passage of time or giving of notice, a default under, or require Consent of any Person pursuant to, any provision of such Purchaser's Organizational Documents or any Order, Permit or Contract to which it is a party or by which it is bound or any provisions of any Legal Requirement applicable to it.

4.4 Financial Capacity.

(a) Taking into account the Financing Commitment, such Purchaser has, and at the Closing will have, sufficient resources to pay, in cash any and all amounts necessary for it to consummate the transactions contemplated hereby at the Closing, including payment of its Pro Rata Share of the Seller Purchase Price and the Company Purchase Price, and in the case of Purchaser A only, the Additional Company Purchase Price and the Election Purchase Price (to the extent payable hereunder) and all the fees and expenses expressly required to be paid by such Purchaser hereunder without any restrictions to transfer such funds at Closing to the Seller and the Company, as and to the extent required to be paid pursuant to, and subject to the terms of, this Agreement. The Sponsor affiliated with such Purchaser has, and at the Closing will have, sufficient resources to meet its obligations under its Commitment Letter as they become due.

(b) As of the date of this Agreement, such Purchaser has delivered to the Seller a true, correct and complete copy of the Commitment Letter provided by its affiliated Sponsor, dated as of the date hereof. Such Commitment Letter has not been amended or modified, and the respective commitments contained in such Commitment Letter have not been withdrawn, terminated or rescinded. Such Commitment Letter (i) is in full force and effect, (ii) constitutes the legal, valid and binding obligation of such Purchaser and the Sponsor party thereto, and (iii) is enforceable by the Seller and the Company against such Purchaser and the Sponsor party thereto, in accordance with its terms, subject to bankruptcy, insolvency, reorganization and other Legal Requirements of general applicability relating to or affecting creditors' rights and to general equity principles. There are no side letters or other Contracts related to the funding or investing, as applicable, of the applicable Financing Commitment other than such Commitment Letter. There are no conditions precedent to the consummation of such Financing Commitment other than those set forth in such Commitment Letter. As of the date of this Agreement, the Sponsor affiliated with such Purchaser is not subject to bankruptcy proceedings.

(c) Notwithstanding anything to the contrary contained herein, in no event shall this Section 4.4 be deemed breached (and no condition set forth in Section 6.3 shall be deemed to have failed as a result of any actual or alleged breach of this Section 4.4), if (notwithstanding any actual or alleged breach), such Purchaser is willing and able to consummate its obligations at the Closing if and when it is otherwise required to do so under the terms and conditions of this Agreement.

4.5 Compliance.

(a) Such Purchaser hereby confirms that it is familiar with the requirements of the Communications Law and Communications Order and has conducted independent investigations (including with consultants on its behalf) related thereto and that it has reviewed the Current Control Permit, and such Purchaser is not aware, as of the date of this Agreement, of any facts or circumstances that would prevent it from complying with all such requirements, including with respect of the 'Israeli Entity' (as such term is defined in the Communications Order) under the Communications Order, in each case, as such Legal Requirements are in effect as of the date of this Agreement; provided that it is understood and acknowledge by all Parties that the Purchasers are proposing to effect the transaction contemplated by this Agreement through a contractual arrangement between them pursuant to Section 4(a)(3) of the Communications Orders.

(b) Neither such Purchaser nor any of its 'Interested Parties' (as such term is defined in the Communications Law) (including the Sponsors) has, on its own behalf or in acting on behalf of any other Person, directly or indirectly, engaged in any transactions, or otherwise had any trade, commercial, financial or other relationships with (i) any Person organized, domiciled, managing business, or located in, or that is a national any of the states listed in Schedule 4.5(b) hereof (each, an "Enemy State"), (ii) a Governmental Body of or within an Enemy State, or (iii) a Person that is supervised by an Enemy State.

(c) For the avoidance of doubt, such Purchaser has not made and is not making any representations or warranties with respect to, and does not guarantee that, and nothing herein or otherwise shall be construed or interpreted as (or deemed) a representation or warranty with respect to, or a guarantee that, the Control Permit allowing the consummation of the transactions contemplated by this Agreement will be obtained and any deemed representations, warranties or other promises or commitments to the contrary are hereby expressly disclaimed.

4.6 No Operations in Israel. Solely with respect to Purchaser A, such Purchaser (and any affiliated entity (other than the Local Sponsor and it affiliated entities), as would be deemed "affiliated" for the purposes of the RTP Law) has no operations or business activities or "sales turnover" (as such term is used in Section 17(a)(2) of the RTP Law) in the State of Israel, except as set forth on Schedule 4.6.

4.7 Investment Experience. Without limiting any of the representations, warranties, covenants or agreements of the Seller contained in this Agreement or the other Transaction Documents or fraud claims, such Purchaser has such knowledge and experience in financial and business matters, and is capable of evaluating the merits and risks of the transactions contemplated by this Agreement.

4.8 Own Account. such Purchaser is acquiring the Purchased Shares and the Subscribed Shares to be acquired thereby solely for its own account and not as a nominee, agent or trustee of any third party.

4.9 Waiver and Exemption. Such Purchaser does not object to any waiver or exemption being granted to the Relevant Parties in connection with the Court Approval.

4.10 No Other Representations or Warranties.

(a) Such Purchaser acknowledges and agrees that, except for the representations and warranties contained in Section 3 above and without limiting fraud claims, the transactions contemplated hereby or in any other Transaction Document shall be consummated without reliance by such Purchaser on any other representations and warranties by the Seller or the Company with respect to the Purchased Shares or the Subscribed Shares, the Company, and its businesses, operations, rights, assets, liabilities or prospects, the condition or legal status of any of the above or otherwise.

(b) Subject to and without limiting any of the representations and warranties of the Seller or the Company set forth in Section 3.1 (g)(i) or Section 3.2(g), such Purchaser acknowledges and agrees that such Purchaser has not relied on, and the Seller and Company do not make nor has any of them made, any representation or warranty, either express or implied, whether written or oral, concerning Bezeq or any of its subsidiaries or any of their respective businesses, operations, assets, liabilities, Proceedings (including by regulatory authorities and other Governmental Bodies in Israel or outside Israel), results of operations, condition (financial or otherwise) or prospects.

4.11 Due Diligence: Independent Decision. Subject to and without limiting any of the representations, warranties, covenants or agreements of the Seller or the Company contained in this Agreement or fraud claims, such Purchaser represents that (a) it conducted a due diligence process during which it had an opportunity to ask questions and to receive answers from the Company and the Seller, regarding all Company and Bezeq business, activities and financial situation, (b) it has had access to, and an adequate opportunity to review, financial and other information, documents and materials as it deemed necessary to make its decision to purchase the Purchased Shares and the Subscribed Shares, (c) it has made its own assessment and has satisfied itself concerning all considerations relevant to the transactions contemplated hereunder, and (d) it has made its own independent decisions to enter into the transactions contemplated by this Agreement and as to whether they are appropriate or proper for it, based upon its own judgment and upon advice from such advisers as it has deemed necessary.

4.12 Forward-looking Statements. In connection with the due diligence investigation of the Company and Bezeq by such Purchaser, such Purchaser has received and may continue to receive after the date hereof from the Seller and the Company certain estimates, projections, forecasts and other forward-looking information, as well as certain business plan information, regarding the Company and Bezeq and their respective Affiliates and subsidiaries and their respective business and operations. Such Purchaser hereby acknowledges and agrees (a) that there are uncertainties inherent in attempting to make such estimates, projections, forecasts and other forward-looking statements, as well as business plans, (b) to take full responsibility for making its own evaluation of the adequacy and accuracy of all such estimates, projections, forecasts and other forward-looking statements, as well as such business plans, so furnished to it (including the reasonableness of the assumptions underlying such estimates, projections, forecasts, forward-looking statements or business plans), and (c) that none of the Company, Bezeq or the Seller, has made or is making any express or implied representation or warranty with respect to such estimates, projections, forecasts, forward-looking statements or business plans (including the reasonableness of the assumptions underlying such estimates, projections, forecasts, forward-looking statements or business plans).

4.13 Brokers' Fees. No agent, broker, investment banker, person or firm acting in a similar capacity on behalf of or under the authority of such Purchaser is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, in connection with the sale and transfer of the Shares as contemplated under this Agreement, other than Citigroup Global Markets Limited and RBC Capital Markets, LLC, for which the Purchasers shall be solely responsible.

5. COVENANTS

5.1 Control Permit; Filings; Cooperation.

(a) As soon as practicable following the date of this Agreement (and in any event no later than ten (10) Business Days following the date of this Agreement), the Purchasers shall file an application to the Israeli Ministry of Communication for the purpose of obtaining the Control Permit in accordance with the applicable Legal Requirements. Each Party shall take all necessary actions and use its reasonable best efforts in good faith, to file, without any undue delay, all notices, reports and other documents required to be filed by such Party with any Governmental Body in order to obtain the Control Permit and the Antitrust Clearance with respect to the transactions contemplated by this Agreement, to submit, without any undue delay, any additional information requested by any such Governmental Body to effect all applications, notices, petitions and filings and to obtain as promptly as possible the Control Permit and the Antitrust Clearance. Without limiting the generality of the foregoing, each of the Seller and the Company shall, subject to applicable Legal Requirements, use its reasonable best efforts in good faith to cause Bezeq and its subsidiaries to cooperate with each Party's efforts to obtain the Control Permit, including to promptly answer any questions or inquiries of, and promptly submit any information requested by, any Governmental Body with respect to the transactions contemplated by this Agreement or the Control Permit to be issued to the Purchasers.

(b) Without derogating from the above, each Party hereby agrees (as applicable) (i) to provide any Governmental Body with any and all information regarding the corporate and holding structure of such Party, the ultimate shareholders of such Party and the various holdings, business affairs and interests of such Party and any affiliate thereof throughout the world as may reasonably be requested by such Governmental Body in connection with the Control Permit, (ii) to waive any confidentiality or other restriction (other than attorney-client or similar privilege) in connection with any examination or investigation by a Governmental Body concerning such Party and any 'Interested Party' (as such term is defined in the Communications Law) thereof as may reasonably be requested by such Governmental Body in connection with the Control Permit, (iii) to reasonably cooperate with the other Parties and allow a counsel of the other Parties to participate in any material meeting with a Governmental Body with respect of the request to obtain a Control Permit to the extent permitted by the applicable Governmental Body, (iv) to allow review and comment and shall consult in good faith with the other Parties on all material filings submitted to a Governmental Body in connection with the request to obtain the Control Permit prior to the submission thereof, provided that such Party may redact competitively sensitive or confidential information from the materials provided to the other Parties for review, (v) to provide the other Parties with a copy of any letters and/or other material correspondence with any Governmental Body in connection with the Control Permit, provided that such Party may redact competitively sensitive or confidential information from the materials provided to the other Parties for review, and (vi) to keep the other Parties reasonably updated, on a timely basis, of the status of matters relating to the discussions with the Governmental Bodies, including, if reasonably requested by the other Parties, on weekly basis, a telephonic update on the status and progress of obtainment of the Control Permit. For the avoidance of doubt, nothing in this Section 5.1 shall in any way limit or restrict the rights of the Parties pursuant to Section 8.1(d).

(c) Subject to and without limiting Section 5.1(f), (A) each Purchaser undertakes not to, and further undertakes to use its commercially reasonable efforts to cause any of its 'Interested Parties' (as such term is defined in the Communications Law) (including the Sponsors) not to, engage in or take any action that would reasonably be expected to prevent it from complying with the Legal Requirements pertaining to the obtaining of the Control Permit, and to cause any of its 'Interested Parties' not to engage in any transactions, or otherwise have any trade, commercial, financial or other relationships with (i) any Person organized, domiciled, managing business, or located in, or that is a national of any Enemy State, (ii) a Governmental Body of or within an Enemy State, or (iii) a Person that is supervised by an Enemy State; (B) each Purchaser shall be willing to accept, and shall not assert that it will refuse to accept, for any reason, a Control Permit on substantially the same terms as the Current Control Permit; and (C) shall not condition the acceptance of a Control Permit on terms which are not included in the Current Control Permit or which are more favorable to such Purchaser than those contained in the Current Control Permit.

(d) Each of the Parties hereto shall, as promptly as practicable and before the expiration of any relevant legal deadline, file with any other Governmental Body, any filings, reports, information and documentation required for the transactions contemplated hereby pursuant to the Antitrust Law. Each of the Parties shall furnish to each other's counsel such necessary information and reasonable assistance as the other may request in connection with its preparation of any filing or submission that is necessary under the Antitrust Law, provided that a Party may redact competitively sensitive or confidential information from the materials provided to the other Party for review. Each of the Parties commits to instruct its counsel to cooperate with each other Party and its counsel and use reasonable best efforts to facilitate and expedite the identification and resolution of any such issues and, consequently, the expiration of the applicable waiting periods under the Antitrust Law at the earliest practicable dates.

(e) Each of the Parties shall keep the other Parties reasonably apprised, in a timely manner, to the best of its Knowledge, with respect to any discussions between the Purchasers, the Seller, the Company or Bezeq and its subsidiaries, on the one hand, and any Employee Body, on the other hand. Without limiting the generality of the foregoing, each of the Parties shall notify the other Parties in writing of any material development in the negotiation with any Employee Body of Bezeq and its subsidiaries, promptly upon obtaining knowledge thereof.

(f) Notwithstanding anything in this Agreement to the contrary, nothing in this Agreement shall be deemed to require the Purchasers to agree to any condition, or take any action, that constitutes a Burdensome Condition, and neither the Seller nor the BComm Companies shall, without the prior written consent of the Purchaser A, agree to any Burdensome Condition. For purposes of this Agreement, a "Burdensome Condition" means any conditions imposed by, commitment or undertaking made to, or any Order of, any Governmental Body in connection with or related to the Control Permit or the transactions contemplated by this Agreement, that (i) individually or in the aggregate, has, or would reasonably be expected to have, a material and adverse effect on either Purchaser, after giving effect to the transactions contemplated by this Agreement, (ii) would impose, grant or otherwise require that either Sponsor, with respect to the investment contemplated by this Agreement, exercises or possesses any rights or powers to direct or influence (or other means of control) that are, individually or in the aggregate, greater than, or otherwise disproportionate to, such Sponsor's Pro Rata Share, or (iii) would bind or impose any obligation on any of the SCP Entities or the Local Sponsor and its Affiliates (other than the Purchasers) or their respective businesses (other than solely with respect to the SCP Entities operation and business in the State of Israel); provided that conditions that are expressly included in the Current Control Permit, the Communication Law and the Communication Order, in each case, as each of them is in effect as of the date of this Agreement (expressly disregarding any subsequent amendments, supplements, changes or other modifications, however effected or enacted), shall not be deemed Burdensome Conditions.

(g) Each Party shall take all reasonable and necessary actions and use its commercially reasonable efforts in good faith, to file, without any undue delay all notices, reports and other documents required to be filed by such Party with any Governmental Body in order to allow the pledge of the Bezeq Shares for the benefit of the Company's bondholders pursuant and subject to Company Debt Modifications (the "Share Pledge"). Such efforts shall require the Purchasers to (i) file, following the date of this Agreement (without undue delays), a formal request with the Israeli Ministry of Communication to authorize the Share Pledge (and to timely respond to subsequent requests for information by the Israeli Ministry of Communication in connection therewith), and (ii) coordinate with the Company and representatives of its bondholders in respect of matters related to the Share Pledge. For the avoidance of doubt, nothing in this Section 5.1(g) shall in any way limit or restrict the rights of any Party pursuant to Section 8.1(d). For the avoidance of doubt, in any event, the Company Series C Debentures and the Series D Debentures shall include negative pledge covenants, in accordance with the terms thereof and the Company Debt Modifications.

5.2 Conduct of Business.

(a) From and after the date hereof and until the earlier of the Closing or the termination of this Agreement in accordance with Section 8.1 (the “Interim Period”), without limiting anything contained in Section 5.2(c), and unless otherwise agreed to in advance and in writing by Purchaser A (such agreement not to be unreasonably withheld) each of the Seller and the BComm Companies shall use (subject to applicable fiduciary duties under applicable Legal Requirements) its entire voting rights in the Company and Bezeq, respectively (in case such matters are brought to a shareholders’ vote) so that the BComm Companies and Bezeq and its subsidiaries shall, not take, do, effect or allow (or commit or agree to take, do, effect or allow) any of the Restricted Matters (except as set forth in Schedule 5.2(a) hereof).

(b) During the Interim Period, without limiting anything contained in Section 5.2(c), the Company shall, and the Company shall cause the other BComm Companies to:

(i) conduct its business in the ordinary course and in compliance with applicable Legal Requirements; and

(ii) except as set forth in Schedule 5.2(b)(ii) hereof, not take, do, effect or allow (or commit or agree to take, do, effect or allow) any of the Restricted Matters, unless otherwise consented to in advance and in writing by Purchaser A (such consent not to be unreasonably withheld).

(c) Until the end of the Interim Period, without the prior written consent of Purchaser A (such consent not to be unreasonably withheld) (i) the Seller shall not, directly or indirectly, sell, transfer, convey, exchange, assign, gift, Encumber, or otherwise dispose of any of the Purchased Shares or any rights therein or thereto, (ii) the Company shall not, directly or indirectly, sell, transfer, convey, exchange, assign, gift, Encumber, or otherwise dispose of any of the Company Owned Securities or any rights therein or thereto, (iii) the Company shall cause SP1 not to (and the Company shall be responsible if SP1 does), directly or indirectly, sell, transfer, convey, exchange, assign, gift, Encumber, or otherwise dispose of any of the SP2 Securities or the SP1 Bezeq Shares, and (iv) the Company shall cause SP2 not to (and the Company shall be responsible if SP2 does), directly or indirectly, sell, transfer, convey, exchange, assign, gift, Encumber, or otherwise dispose of any of the SP2 Bezeq Shares.

5.3 Exclusivity; Acquisition Proposal.

(a) During the Interim Period, neither the Seller nor the Company shall, and the Company shall cause each of the BComm Companies not to, and each of them shall use its reasonable best efforts to cause their respective directors, officers, employees, and advisors (including, without limitation, financial advisors, bankers, attorneys, accountants, consultants) and other representatives (it being understood that the representatives of the bondholders of the Seller and of the Company, respectively, shall not be considered their representatives unless acting at the direction of, the Seller or the BComm Companies, respectively) (collectively, “Representatives”) not to, (i) solicit, initiate, knowingly encourage or knowingly facilitate any Acquisition Proposal or any inquiry, proposal or offer that could reasonably be expected to lead to any Acquisition Proposal or the making or consummation thereof, (ii) other than to inform any Person of the existence of the provisions contained in this Section 5.3(a), enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any Person any information in connection with, or enter into any agreement with respect to, any Acquisition Proposal or any inquiry, proposal or offer that could reasonably be expected to lead to any Acquisition Proposal, or (iii) enter into any Contract with respect to any Acquisition Proposal. Without limiting the generality of the foregoing, to the extent not already done, each of the Seller and the Company shall, and shall use its reasonable best efforts to cause its Representatives to, immediately cease and cause to be terminated any existing activities, including discussions or negotiations with any Person (other than the Purchasers and their Affiliates) with respect to any Acquisition Proposal.

(b) Without limiting the foregoing, promptly, and in no event later than twenty four (24) hours after its receipt (including receipt by any of its Representatives) of any Acquisition Proposal, the Seller or the Company, as applicable, shall advise Purchaser A in writing of such Acquisition Proposal (including the material terms and conditions of such Acquisition Proposal and the identity of the Person making or submitting such Acquisition Proposal) and shall provide Purchaser A a copy of such Acquisition Proposal and any related draft agreements or other documentation or materials delivered in connection therewith. The Seller or the Company, as applicable, shall keep Purchaser A informed on a reasonably prompt basis with respect to any material change to the material terms of any such Acquisition Proposal (and in no event later than twenty four (24) hours following any such change).

(c) The Parties acknowledge that either the Seller or the Company may be subject to disclosure requirements under applicable Legal Requirements and no Party shall have any claim with respect to such disclosure.

(d) A breach of this Section 5.3 by any Representative of the Seller or the Company shall be deemed a breach by the Seller or the Company, as applicable, and the Seller or the Company, as the case may be, shall be liable therefor.

(e) Nothing in this Agreement shall be deemed to prevent, restrict or limit in any way, any arrangement among the Seller and its creditors, as long as such arrangement (i) does not prevent, conflict or is otherwise inconsistent with, directly or indirectly, the Seller's obligations hereunder or thereunder, and (ii) does not constitute an alternative to the transactions contemplated by this Agreement (and such arrangement shall not be considered an "Acquisition Proposal").

5.4 [RESERVED].

5.5 Directors.

(a) At least ten (10) Business Days prior to the Closing Date, Purchaser A shall deliver to the Seller and the Company a list of individuals to be appointed as members of the board of directors of the Company as of the Closing (the "Company Designated Directors"). The Company Designated Directors shall satisfy the qualification requirements under Legal Requirements applicable to board members of the Company.

(b) At least ten (10) Business Days prior to the Closing Date, Purchaser A shall deliver to the Seller and the Company a list of two (2) individuals to be appointed as members of the board of directors of Bezeq as of the Closing (the "Bezeq Designated Directors"). The Bezeq Designated Directors shall satisfy the qualification requirements under Legal Requirements applicable to board members of Bezeq.

5.6 Notification. During the Interim Period, (a) each of the Parties shall promptly notify the other Parties if it becomes aware of any event that would make the satisfaction of any of the conditions in Section 6 impossible or unlikely to be satisfied as of the End Date, and (b) each of the Seller and the Company shall, upon reasonable request of Purchaser A, and subject to applicable fiduciary duties under Legal Requirements, update Purchaser A promptly following the occurrence of any material developments in any of the BComm Companies, Bezeq or any of its subsidiaries which are within the Knowledge of the Seller or the Knowledge of the Company, as the case may be, including with respect to regulatory matters or developments, all material matters related to the Israeli Ministry of Communications and any other material commercial matters. This Section 5.6 and any notification provided pursuant hereto shall not modify or limit in any way the Parties' representations, warranties, covenants, obligations, rights and remedies under this Agreement. No breach of this Section 5.6 shall be deemed a breach of this Agreement, including for the purposes of Section 6.2(c), unless such breach is made knowingly, willfully and intentionally.

5.7 Equity Offering.

(a) As soon as practicable after the date of this Agreement, subject to the provisions of this Section 5.7, the Company shall offer the shareholders of the Company (other than the Seller) (the "Eligible Shareholders") the right to subscribe for a total of 8,383,234 newly issued Ordinary Shares of the Company (the "Additional Subscription Shares") at a price per share equal to the Subscription Price Per Share (the "Additional Equity Offering").

(b) The Company shall take all actions in accordance with all applicable Legal Requirements in order to effect the Additional Equity Offering in accordance with the terms of this Agreement, including the filing of a registration statement with the SEC and a prospectus with the ISA, in each case to the extent required by under applicable Legal Requirements, and to receive all permits, approvals and orders required for the consummation of the Additional Equity Offering, including the receipt of all permits and approvals in order to list the Additional Subscribed Shares on the TASE and Nasdaq. The Company shall take all necessary actions and use its reasonable best efforts in good faith, to file, without any undue delay, all required filings with any Governmental Body in order to effect the Additional Equity Offering, to submit, without any undue delay, any additional filings requested by any such Governmental Body to effect the Additional Equity Offering and take all other actions required in order to effect as promptly as possible the Additional Equity Offering.

(c) The Additional Equity Offering shall expire no later than twenty (20) Business Days prior to the Closing Date, and any Additional Subscription Shares not irrevocably subscribed for by the Eligible Shareholder in accordance with the foregoing prior to or on such date (such shares, the "Unsubscribed Shares") shall no longer be available for subscription by the Eligible Shareholders.

(d) Upon the terms and subject to the conditions of this Agreement, effective as of, and conditioned upon, the Closing, Purchaser A subscribes for all of the Unsubscribed Shares (if any, including any Unsubscribed Shares arising due to the failure of the Company to complete its undertaking under Section 5.7(b)) at a price per share equal to the Subscription Price Per Share, to be issued thereto in accordance with the terms of this Agreement at, and conditioned upon, the Closing.

(e) For the avoidance of doubt, nothing in the Section 5.7 shall in any way limit, modify or otherwise affect the obligations of the Seller pursuant to Section 2.4.

5.8 Court Approval. (a) As soon as practicable after the date hereof (and in any event no later than ten (10) Business Days following the date of this Agreement), the Seller and the Company shall jointly approach the Court, in order to obtain the Court Approval, and subject to and in accordance with the approval of the Court, each of the Seller and the Company shall establish a record date for, call, publicize the convening of, convene and hold a meeting of the bondholders of the Company and the Seller, respectively (the “Stakeholders’ Meetings”), (b) the Seller and the Company, respectively, shall timely prepare and file all notices required by applicable Legal Requirements in connection with the Stakeholders’ Meetings, it being agreed and understood that this Agreement and all of the Transaction Documents and the Company Debt Modifications and the amended deed of trust of the Company Series C Debenture and the deed of trust for the Series D Debentures, should be brought to the approval of the Stakeholders’ Meetings of the Company, (c) each of the Seller and the Company shall take all necessary actions and make all reasonable efforts in order to receive the Court Approval and shall respond to and comply with, without undue delay, any queries, requests or instructions of the Court within the Court Approval process, (d) each of the Seller and the Company shall allow Purchaser A (and its representative, including its legal counsel) to review and comment on all material materials and filings submitted to the Court (or any other Governmental Body) only in connection with its respective Court Approval prior to the submission thereof, and shall incorporate into and reflect in any such submissions or filings any and all reasonable comments made by Purchaser A or its representatives, provided such implementation shall not cause a delay in the relevant submission, and (e) each of the Seller and the Company shall provide Purchaser A (and its legal counsel) with a copy of any material letters and/or other material correspondence and decisions (including any interim decisions) of the Court as part of the Court Approval process, and shall share, in cooperation with Purchaser A, all correspondence with, and decisions of, the Court or any bondholders (and in the case of the Company also shareholders) and shall keep Purchaser A (and its legal counsel) reasonably fully updated of the status of matters relating to the Court Approval (including the discussions with its bondholders and shareholders and any other creditors or relevant parties), including, if reasonably requested by Purchaser A, on weekly basis, a telephonic update on the status and progress of obtaining its respective Court Approval, and bondholders and shareholders approvals, as applicable. For the avoidance of doubt, nothing in this Section 5.8 shall in any way limit or restrict the rights of Purchaser A pursuant to Section 8.1(f). Without limiting anything herein contained, each of the Parties shall use its commercially reasonable efforts to obtain through the Court Approval a release of any lock-up restrictions (חסומי וטפסור) that might otherwise be applicable to the securities being issued hereunder by the Company at the Closing.

5.9 Special Shareholder Meeting of the Company. As soon as practicable following the date of this Agreement (and in any event no later than ten (10) Business Days following the date of this Agreement), the Company shall file a motion with the Court requesting that the court issue an order to convene a special meeting of the shareholders of the Company (the “Company Shareholders Meeting”) for the purpose of approving this Agreement and the transactions contemplated hereby (including the sale and issuance of the Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares (if any), the Seller Subscribed Shares (if any), the Election Subscribed Shares (if any) and the Seller Subscribed Debentures hereunder) (the “Shareholders Approval”). Promptly following the Court issuing such order, and in any event within three (3) Business Days following the date of such order, the Company shall publish a notice calling the Company Shareholders Meeting to be held on the date that is no later than thirty five (35) days following such notice for the purpose of obtaining the Shareholders Approval. The Company shall solicit from the shareholders of the Company written ballots and proxies in favor of the Shareholders Approval in accordance with applicable Legal Requirements, and shall use its reasonable best efforts to secure the Shareholders Approval at the Company Shareholders’ Meeting. The Company shall prepare and file all notices required by applicable Legal Requirements in connection with the Company Shareholders’ Meeting, and shall respond promptly to all inquiries of any Governmental Body in connection therewith. For the avoidance of doubt, nothing in this Section 5.9 shall in any way limit or restrict the rights of Purchaser A pursuant to Section 8.1(f).

5.10 TASE Approval. Each of the Parties shall use its reasonable best efforts to obtain, as promptly as practicable after the date of this Agreement, the approval of the TASE to the issuance, at the Closing, of the Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares (if any), the Seller Subscribed Shares (if any), the Additional Subscription Shares and the Seller Subscribed Debentures, and to the adoption of the Company Debt Modifications.

5.11 Debt Covenants. Following the Closing, the Purchasers shall not cause the Company to (a) enter into any transaction with the Purchasers or any Affiliate of the Purchasers including payment of management fees other than expenses reimbursement and standard directors compensation, or (b) effect any dividend distributions, in either case, to the extent such transaction or dividend distributions would violate, and cause the Company to be in default under, the terms of its Series C Debentures (as modified by the Company Debt Modifications).

5.12 Liquidity Information. At least five (5) Business Days prior to the Closing, the Company shall deliver to the Seller and Purchaser A a reasonably detailed calculation of the anticipated Available Cash, along with reasonable documentation supporting such calculation, and allow representatives of the Seller or Purchaser A to discuss such calculation and supporting documentation with an authorized officer of the Company; provided that notwithstanding anything herein or otherwise to the contrary, except in the event of fraud (and then solely against the Person committing such fraud), neither the Seller nor any of its Non-Recourse Parties shall have any claims, rights or recourse against any Person (including any of the BComm Companies or the Purchasers or any of their respective Non-Recourse Parties) in respect of such calculation of Available Cash or any of the information or documentation provided pursuant to, or otherwise for the failure to comply with, this Section 5.12. For the avoidance of doubt, and notwithstanding anything to the contrary, nothing in this Section 5.12 shall limit, modify or otherwise affect any Purchaser's rights under this Agreement (including under Section 6.2).

6. CONDITIONS PRECEDENT

6.1 Conditions to the Obligations of the Seller, the Company and Purchasers. The obligations of each of the Seller, the Company and the Purchasers to consummate the transactions contemplated by this Agreement is subject to the satisfaction as of the Closing of all of the following conditions precedent (any of which may be waived in whole or in part by a mutual agreement in writing of the Seller, the Company and the Purchasers):

(a) Control Permit. A Control Permit was issued and is in full force and effect permitting the Purchasers to acquire the Purchased Shares, the Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Share (if any) and the Election Subscribed Shares (if any) which Control Permit does not include any Burdensome Conditions.

(b) Antitrust Commissioner's Approval. The Antitrust Clearance shall have been obtained.

(c) No Injunction. There shall not be in effect any injunction or other Order or Legal Requirement that (i) prohibits, enjoins or restrains the consummation of the transactions contemplated by this Agreement, and (ii) has been adopted or issued, or has otherwise become effective.

(d) Court Approval. The Court Approval shall have been obtained.

(e) TASE Approval. The TASE has approved the issuance of the Adjustment Subscribed Shares (if any), the Purchaser Subscribed Shares, the Additional Purchaser Subscribed Shares (if any), the Seller Subscribed Shares (if any), the Election Subscribed Shares (if any), the Additional Subscription Shares and the Seller Subscribed Debentures and Series D Debentures, and the adoption of the Company Debt Modifications.

6.2 Conditions to the Obligations of the Purchasers. The obligations of the Purchasers to consummate the transactions contemplated by this Agreement is subject to the satisfaction as of the Closing of all of the following additional conditions precedent (any of which may be waived in whole or in part by Purchaser A in its sole discretion):

(a) Seller Representations and Warranties. Each of the representations and warranties of the Seller contained in Section 3.1 shall be true and correct in all respects, as of the date of this Agreement and as of the Closing Date, as if made at and as of the Closing Date, except for any representations and warranties specifically made as of a particular date, in which case such representations and warranties shall be true and correct in all respects as of such date.

(b) Company Representations and Warranties. Each of the representations and warranties of the Company contained in Section 3.2 shall be true and correct in all respects, as of the date of this Agreement and as of the Closing Date, as if made at and as of the Closing Date, except for any representations and warranties specifically made as of a particular date, in which case such representations and warranties shall be true and correct in all respects as of such date.

(c) Performance of the Obligations of the Seller and Company. Each of the Seller and the Company shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by the Seller or the Company, as applicable, at or prior to the Closing.

(d) No Material Adverse Effect; No Debt Instrument Default. (i) As of the Closing Date there shall not exist any Material Adverse Effect, and (ii) there shall not be (for the purpose of this clause (ii), as of the Closing) any Effect that would reasonably be expected to constitute an event of default under the BComm Companies' debt instruments (including under the Company Series B Debentures or the Company Series C Debentures).

(e) Company Board of Directors. Each of the Company Designated Directors shall have been appointed as a member of the board of directors of the Company effective as of the Closing, and (ii) effective as of the Closing, the Company Designated Directors constitute a majority of the directors on the board of directors of the Company.

(f) Bezeq Board of Directors. (i) The total number of directors on the board of directors of Bezeq as of the Closing Date shall not exceed nine (9), and (ii) at least two (2) of the Bezeq Designated Directors shall have been appointed as member of the board of directors of Bezeq effective as of the Closing.

(g) Nasdaq and TASE Listing. (i) The Company, Bezeq, Nasdaq or the TASE shall not have announced on or after the date of this Agreement a delisting or threatened (in writing by Nasdaq or the TASE) delisting of the Company's or Bezeq's Equity Securities from Nasdaq or the TASE, as applicable, (ii) (x) the Company is in compliance with all continued listing requirements of Nasdaq and the TASE, and (y) Bezeq is in compliance with all continued listing requirements of the TASE, and (iii) no suspension of trading specific to the Company's or Bezeq's Equity Securities on the Nasdaq or the TASE, as applicable, shall have occurred for more than two (2) trading days.

(h) Capitalization. (i) None of the Bezeq Shares has been transferred, sold, granted, delivered or otherwise disposed of, or is subject to any Encumbrance, (ii) none of the Effects set forth in causes (a), (b), (c), (d) or (e) of the definition of Restricted Matters has occurred, from and after the date of this Agreement, with respect to any of the BComm Companies or their respective Equity Securities, and (iii) the Company Owned Securities shall represent, as of the Closing, direct and indirect holding of at least twenty five and a tenth percent (25.1%) of Bezeq's issued and outstanding share capital.

(i) Cash; Indebtedness. (i) The Company shall have, as of immediately prior to the Closing (without giving effect to the transactions contemplated by this Agreement, but taking into account all Transaction Expenses of the BComm Companies) at least NIS 680,000,000 of Available Cash, (ii) the consolidated amount of indebtedness (including for borrowed money or as evidenced by bonds, debentures, notes or other debt instruments) of the BComm Companies, determined in accordance with IFRS, shall not exceed two billion, four hundred and sixty six million, forty eight thousand and three hundred and thirty three New Israeli Shekels (NIS 2,466,048,333) (par value), and (iii) from and after the date of this Agreement, no BComm Company has entered into any transaction (including entering into any new Contract or amending or modifying any existing Contract) in connection with debt restructuring, debt refinancing, creditors arrangement or otherwise affecting its debt Contracts or securities, other than the Company Debt Modifications.

(j) BComm Debt Modifications. The Company Debt Modifications have been duly approved in accordance with the terms of all applicable Contracts (including the Company Series B Debentures and Company Series C Debentures) and all applicable Legal Requirements, and are in full force and effect as of the Closing.

(k) Shareholders Approval. The Shareholders Approval shall have been obtained; provided that the condition to Closing specified in this Section 6.2(k) shall be deemed satisfied if the Court Approval has been obtained and such Court Approval has become final and nonappealable (and, for the avoidance of doubt, no appeal is pending).

6.3 Conditions to the Obligations of Seller and Company. The obligation of the Seller and the Company to consummate the transactions contemplated by this Agreement is subject to the satisfaction as of the Closing of all of the following additional conditions precedent (any of which may be waived in whole or in part by notice in writing of the Seller and the Company in their sole discretion):

(a) Purchaser Representations and Warranties. Each of the representations and warranties of the Purchasers contained in Section 4 shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date, as if made as of the Closing Date, except for any representations and warranties specifically made as of a particular date, in which case such representations and warranties shall be true and correct in all material respects as of such date.

(b) Performance of the Obligations of the Purchasers. The Purchasers shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by the Purchasers at or prior to the Closing.

6.4 Material Adverse Effect. To the extent Purchaser A wishes to claim that the condition to Closing set forth in Section 6.2(d) has not been satisfied as a result of the occurrence of a Material Adverse Effect, it shall provide the Seller and the Company a written notice to that effect, signed by a duly authorized representative of Purchaser A. For the avoidance of doubt, no failure or delay of Purchaser A to provide a notice pursuant to this Section 6.4 shall in any way affect or otherwise impact the determination of whether a Material Adverse Effect has occurred or whether or not any of the conditions to the Closing has been satisfied.

7. CLOSING

7.1 The Closing. The consummation of the transactions contemplated under this Agreement shall take place at a closing (the “Closing”) at the offices of GKH law firm, 1 Azrieli Center, Tel-Aviv, Israel, at 12:00 (Israel time) on the thirteenth (13th) Business Day following the date on which the last of the conditions set forth in Section 5.9 is fulfilled or waived, or at such other location, time and date as shall be mutually agreed upon in writing between the Parties (the “Closing Date”).

7.2 Transactions at the Closing. At the Closing, the following transactions shall occur, which transactions shall be deemed to occur simultaneously and no transaction shall be deemed to have been completed or any document delivered until all such transactions have been completed and all required documents delivered:

(a) Delivery of Securities, Documents and Actions by the Seller. The Seller shall deliver to the Purchasers the following securities and documents, and shall take the following actions:

(i) Without limiting anything contained in Section 2.1, the Seller shall deliver to the Purchasers (allocated among them on a pro rata basis, based on their respective Pro Rata Share) all of the rights, title and interest in, and cause the transfer of, the Purchased Shares, free and clear of any and all Encumbrances, to such bank or brokerage account of each Purchaser maintained in its name at a bank or brokerage firm in Israel, details of which will be provided by each Purchaser at least two (2) Business Days prior to the Closing Date, against the payment of such Purchaser Pro Rata Share of the Seller Purchase Price as forth herein.

(ii) The Seller shall deliver to the Purchasers (with a copy to the Company) executed resignations, effective as of the Closing Date, of each director of the Company or Bezeq set forth on Schedule 7.2(a)(ii)(A), in the forms attached as Schedule 7.2(a)(ii)(B).

(iii) The Seller shall deliver to the Purchasers a certificate executed by a duly authorized officer of the Seller and dated as of the Closing Date, certifying that each of the conditions set forth in Sections 6.2(a), 6.2(c) (with respect to the Seller), 6.2(h) and 6.2(i) have been satisfied.

(iv) The Seller shall pay, or cause to be paid, by wire transfer of immediately available funds, an amount equal to the Seller Contribution Amount, into a bank account maintained in the name of the Company in a bank in Israel, details of which will be provided by the Company at least two (2) Business Days prior to the Closing Date. It is understood and agreed that a portion of the Seller Contribution Amount equal to the Seller Purchase Price shall be paid directly to the Company by the Purchasers, on behalf of the Seller, pursuant to Section 7.3.

(b) Delivery of Securities, Documents and Actions by the Company. The Company shall deliver the following securities and documents, and shall take the following actions:

(i) Without limiting anything contained in Section 2.3, the Company shall deliver to the Purchasers (allocated among them on a pro rata basis, based on their respective Pro Rata Share) all of the Adjustment Subscribed Shares (if any) and the Purchaser Subscribed Shares, free and clear of all Encumbrances, to such bank or brokerage account of each Purchaser maintained in its the name at a bank or brokerage firm in Israel, details of which will be provided by such Purchaser at least two (2) Business Days prior to the Closing Date.

(ii) Without limiting anything contained in Section 2.3, the Company shall deliver to Purchaser A all of the Additional Purchaser Subscribed Shares and Election Subscribed Share (if any), free and clear of all Encumbrances, to a bank or brokerage account maintained in the name of Purchaser A at a bank or brokerage firm in Israel, details of which will be provided by the Purchaser at least two (2) Business Days prior to the Closing Date.

(iii) The Company shall deliver to the Purchasers (with a copy to the Seller) executed resignations, effective as of the Closing Date, of each director of Bezeq set forth on Schedule 7.2(b)(iii)(A), in the forms attached as Schedule 7.2(b)(iii)(B).

(iv) Unless a Purchaser Election has been made, the Company shall deliver to the Seller all of the Seller Subscribed Shares, free and clear of all Encumbrances to a bank or brokerage account maintained in the name of the Seller at a bank or brokerage firm in Israel, details of which will be provided by the Seller at least two (2) Business Days prior to the Closing Date.

(v) The Company shall deliver to the Seller all of the Seller Subscribed Debentures, free and clear of all Encumbrances to a bank or brokerage account maintained in the name of the Seller at a bank or brokerage firm in Israel, details of which will be provided by the Seller at least two (2) Business Days prior to the Closing Date.

(vi) The Company shall repay in full all principal and interest (but without any default interest or any other penalty charges or payments) outstanding on the Company Series B Debentures as of such repayment date.

(vii) The Company shall deliver to the Purchasers a certificate executed by a duly authorized officer of the Company and dated as of the Closing Date, certifying that each of the conditions set forth in Sections 6.2(b), 6.2(c) (with respect to the Company), 6.2(h), 6.2(i) and 6.2(j) have been satisfied.

(viii) The Company shall issue to the Series C Bondholders existing on the record date of the Closing the Series D Debentures.

(c) Delivery of Documents and Actions by the Purchasers. The Purchasers shall deliver, the following documents, and shall take the following actions:

(i) Each Purchaser shall pay, or cause to be paid, by wire transfer of immediately available funds, its Pro Rata Share of the Seller Purchase Price, in accordance with and subject to Section 7.3, into a bank account maintained in the name of the Company in a bank in Israel, details of which will be provided by the Company at least two (2) Business Days prior to the Closing Date.

(ii) Each Purchaser shall pay, or cause to be paid, by wire transfer of immediately available funds, its Pro Rata Share of the Company Purchase Price into a bank account maintained in the name of the Company in a bank in Israel, details of which will be provided by the Company at least two (2) Business Days prior to the Closing Date.

(iii) Purchaser A shall pay, or cause to be paid, by wire transfer of immediately available funds, the Additional Company Purchase Price (if any) and the Election Purchase Price (if any) into a bank account maintained in the name of the Company in a bank in Israel, details of which will be provided by the Company at least two (2) Business Days prior to the Closing Date.

(iv) Each Purchaser shall deliver to the Seller and the Company a certificate executed by such Purchaser and dated as of the Closing, certifying that the conditions set forth in Section 6.3(a) (with respect to itself only) and Section 6.3(b) (with respect to itself only) have been satisfied.

7.3 Payment Directions. The Seller hereby irrevocably directs and instructs each Purchaser, on the Seller's behalf, to transfer directly to the Company, the full amount of the Seller Purchase Price that the Seller would otherwise be entitled to receive at Closing pursuant to this Agreement (subject to Section 2.2(e)), towards satisfaction of the Seller's payment obligations to the Company pursuant to Section 2.4 and Section 7.2(a)(iv). All amounts so directly transferred to the Company pursuant to this Section 7.3 shall be deemed, for all purposes, as having been paid to the Seller and immediately thereafter paid to the Company by the Seller.

8. TERMINATION

8.1 Termination Events. This Agreement may be terminated and the transactions contemplated hereby abandoned prior to the Closing:

(a) by written mutual consent of Purchaser A, the Company and the Seller;

(b) by the Seller or the Company, if either Purchaser has breached any covenant or agreement contained in this Agreement, or if any representation or warranty of either Purchaser has become untrue, in each case, such that the conditions set forth in Section 6.1 or Section 6.3, as the case may be, would not be satisfied at a Closing on or prior to the End Date; provided, however, that neither the Seller nor the Company may terminate this Agreement pursuant to this Section 8.1(b) if any such breach or failure to be true has been cured within seven (7) Business Days after written notice by the Seller or the Company to Purchaser A informing Purchaser A of such breach or failure to be true, except that no cure period shall be required for a breach which by its nature cannot be cured prior to the End Date; provided, further, that neither the Seller nor the Company may terminate this Agreement pursuant to this Section 8.1(b) if either of them is then in breach of this Agreement in any material respect; further, provided, that, for the avoidance of doubt, nothing in this Section 8.1(b) shall in any way limit or otherwise modify the rights of Purchaser A pursuant to Section 8.1(f);

(c) by Purchaser A, if the Seller or the Company has breached any covenant or agreement contained in this Agreement, or if any representation or warranty of the Seller or the Company has become untrue, in each case, such that the conditions set forth in Section 6.1 or Section 6.2, as the case may be, would not be satisfied as of the Closing on or prior to the End Date; provided, however, that Purchaser A may not terminate this Agreement pursuant to this Section 8.1(c) if any such breach or failure to be true has been cured within seven (7) Business Days after written notice by Purchaser A to the Seller and the Company informing the Seller and the Company of such breach or failure to be true, except that no cure period shall be required for a breach which by its nature cannot be cured prior to the End Date; and, provided, further, that Purchaser A may not terminate this Agreement pursuant to this Section 8.1(c) if the Purchasers are then in breach of this Agreement in any material respect;

(d) by any of Purchaser A, the Company or the Seller if the Closing has not occurred on or before the End Date; provided that the End Date may be extended with the written consent of all the Parties by up to three (3) additional thirty (30)-day periods; and, provided, further, that the right to terminate this Agreement under this Section 8.1(d) shall not be available to (A) to Purchaser A if the Purchasers' breach of any provision of this Agreement causes the failure of the Closing to be consummated by the End Date, or (B) to the Seller or the Company if any breach by the Company or the Seller of any provision of this Agreement causes the failure of the Closing to be consummated by the End Date.

(e) by any of Purchaser A, the Company or the Seller, if the consummation of the transactions contemplated hereby is permanently enjoined or prohibited by the terms of a final, non-appealable Order of a Governmental Body of competent jurisdiction.

(f) By Purchaser A, if any of the Court Approval or the Shareholders Approval has not been obtained prior to or on the date that is sixty (60) calendar days after the date of this Agreement.

8.2 Notice of Termination; Effect of Termination.

(a) A Party desiring to terminate this Agreement pursuant to Section 8.1 shall give written notice of such termination to the other Parties, specifying the provision pursuant to which such termination is effective.

(b) Notwithstanding anything in this Agreement or otherwise to the contrary, if this Agreement is validly terminated prior to Closing in accordance with Section 8.1, except in the event of fraud, the maximum aggregate liability of a Party, its Non-Recourse Parties and their respective successors and assigns for any and all Losses (whether at law, in equity, in contract, in tort or otherwise) in connection with, relating to or arising out of the Transaction Documents (including any breach or nonperformance thereof) or the transactions contemplated hereby and thereby, shall in no event exceed (i) in the case of the Company, the Company Liability Cap, (ii) in the case of the Seller, the Seller Liability Cap, or (iii) in the case of the Purchasers, the Purchaser Liability Cap (provided that no Purchaser shall be responsible in excess of its Purchaser's Pro Rata Share of the Purchaser Liability Cap).

(c) Each Party acknowledges that the agreements contained in this Section 8.2 are an integral part of the transactions contemplated by this Agreement, and that without these agreements, neither Party would enter into this Agreement.

(d) Each Party's right of termination under Section 8.1 is in addition to the specific performance rights as set forth in Section 9.13.

(e) If this Agreement is validly terminated pursuant to Section 8.1, all further obligations of the Parties under this Agreement will terminate and there shall be no liability on the part of any Party, except that (i) the provisions of Section 8.2 and Section 9 hereof (to the extent applicable) shall survive the termination of this Agreement, and (ii) subject to and without limiting Section 8.2(b), nothing herein shall relieve or release any Party from any liability to the other Party for any breach of any of its representations, warranties, covenants or agreements set forth in this Agreement or for fraud, in each case, occurring prior to such termination.

(f) For the avoidance of doubt: (i) neither the Seller or the Company nor any of their Affiliates or Representatives is making any representations or warranties with respect to, and does not guarantee that, and nothing herein shall be construed or interpreted as (or deemed) a representation or warranty with respect to, or a guarantee that, the Court Approval will be obtained or that the Agreement will be approved by the Seller's or the Company's bondholders or shareholders and any deemed representations, warranties or other promises or commitments to the contrary are hereby expressly disclaimed; and (ii) without derogating from the obligations of the Seller or the Company hereunder, the occurrence of a Material Adverse Effect in and of itself shall not entitle the Purchasers to any remedy other than not to consummate transactions contemplated hereby; provided that nothing in this clause (ii) shall relieve or release any Party from any breach or noncompliance with any of its obligations under this Agreement.

9. MISCELLANEOUS

9.1 Expenses; Taxes. Each Party will bear its own expenses incurred in connection with the preparation, execution, and performance of this Agreement and the transactions contemplated hereunder, including all court proceedings, fees and expenses of agents, representatives, counsel, and accountants, and applicable value added tax. Except as expressly provided in this Agreement, all transfer, documentary, sales, use, stamp, registration and other such taxes and mandatory payments imposed by any Governmental Body, and all fees and charges (including any penalties and interest) incurred in connection with the consummation of the transactions contemplated hereunder shall be borne by each respective Party to the extent such Party is liable for such taxes, fees and charges, in accordance with applicable Legal Requirement.

9.2 Further Assurances. Each of the Parties shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the Parties as reflected thereby.

9.3 Survival; Limitation on Liability; Indemnification.

(a) Survival. The representations and warranties contained in this Agreement or in any certificates delivered pursuant to this Agreement shall survive the Closing for a period of four (4) months following the Closing. Each covenant and agreement of the Parties contained in this Agreement shall survive the Closing in accordance with its terms. Notwithstanding the foregoing, any breach of representation, warranty, covenant or agreement in respect of which indemnity may be sought under this Agreement shall survive the time at which it would otherwise terminate pursuant to the foregoing, if written notice with respect thereto has been given by Purchaser A to the Seller or the Company, as applicable, prior to such time.

(b) Indemnification. Subject to the limitations set forth in this Section 9.3, from and after the Closing, the Seller shall indemnify the Purchasers and their Affiliates and their respective Representatives, successors and assigns against, and shall defend and hold each of them harmless from, any and all liabilities, losses, damages, fines, penalties, deficiencies, taxes, judgments, interest, awards, and other costs and expenses of whatever kind, including reasonable attorneys' and accountants' fees ("Losses"), to the extent arising out of, relating to or resulting from (i) a breach by the Seller of its representations or warranties set forth in this Agreement or in the certificate delivered thereby pursuant to Section 7.2(a)(iii), or (ii) any breach by the Seller of any covenant or agreement contained in this Agreement required to be performed before, at or after the Closing.

(c) Limitation on Liability. Except in the case of fraud, (i) the Seller's maximum aggregate liability for any and all Losses in connection with, relating to or arising out of this Agreement or the transactions contemplated hereby shall in no event exceed the Seller Liability Cap, (ii) the Company's maximum aggregate liability for any Losses in connection with, relating to or arising out of this Agreement or the transactions contemplated hereby shall in no event exceed the Company Liability Cap, and (iii) each Purchaser's maximum aggregate liability for any Losses in connection with, relating to or arising out of this Agreement or the transactions contemplated hereby shall in no event exceed such Purchaser's Pro Rata Share of the Purchaser Liability Cap.

(d) No Consequential Damages. In no event, whether before or following Closing, shall any of the Parties be responsible for any indirect or punitive damages of the other Parties, including consequential or special damages of any nature whatsoever, the loss of any profits, revenues, opportunities or goodwill, even if the other Party has been advised of the possibility of such damages, except to the extent such damages arise out of fraud. It is clarified, without limiting from anything contained herein or any other rights under applicable Legal Requirements, that payment by a Party to any third party (other than, with respect to the Purchasers only, the Sponsors or any investor therein) pursuant to a judgement of a competent court, shall be considered indirect damages.

(e) It is clarified that any Restricted Matters taken by Bezeq or any subsidiary thereof (without any breach of any of Seller's or the Company's obligations hereunder), shall not, in and of itself, constitute a breach of the Seller's or the Company's representations and warranties hereunder, without limiting, modifying or otherwise affecting Purchaser's rights under Section 6.2 (including Section 6.2(e)).

9.4 Investigations. The representations, warranties, covenants and agreements of the Parties (and the conditions relating thereto) shall not be affected or deemed waived by reason of any investigation made (or not made) by or on behalf of any Party or its Affiliates (or their respective Representatives), or by reason of the fact that a Party or any of its Representatives knew or should have known of any facts or matters, including that any such representation and warranty is or might be inaccurate or untrue, whether prior to the date hereof or the Closing, and including if notwithstanding such knowledge a Party entered into this Agreement or proceeds to Closing. Each of the Parties hereby acknowledges that, regardless of any investigation made (or not made) by or on behalf of any of the other Parties or any of its Affiliates (or their respective Representatives), and regardless of the results of any such investigation, such other Parties have entered into this Agreement (and will effect the Closing) in express reliance upon the representations, warranties covenants and agreements of each Party made herein and the conditions and indemnification obligations relating thereto.

9.5 Assignments, Successors. No Party may assign any of its rights under this Agreement without the prior consent of the other Parties; provided, however, that each Purchaser may assign its rights and obligations hereunder (in whole or in part) to any Affiliate of such Purchaser without the consent of the Seller or the Company, except that such transfer or assignment will not relieve the assigning Purchaser of any of its obligations hereunder, except to the extent such assignment would have a material and adverse effect on the ability of such Purchaser to obtain the Control Permit in a timely manner. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the Parties.

9.6 No Third-Party Beneficiaries. This Agreement, specifically excluding express provisions contained in the Commitment Letters, shall not, and is not intended to, confer any rights or remedies upon any Person other than the Parties hereto and their respective successors and permitted assigns.

9.7 Notices. All notices, consents, waivers and deliveries under this Agreement must be in writing and will be deemed to have been duly given when (i) delivered by hand (against receipt), (ii) sent by fax or email (with confirmation of receipt) (iii) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), or (iv) five (5) days after being sent registered or certified mail, return receipt requested, in each case to the appropriate addresses and fax numbers set forth below (or to such other addresses and fax numbers as a Party may hereafter designate by similar notice in accordance with this Section 9.7):

If to the Seller, to:	Internet Gold - Golden Lines Ltd. 2 Dov Friedman St., Ramat Gan, Israel Attention: Doron Turgeman, CEO Email: Doron@igld.com
with a copy (which shall not constitute notice) to:	GKH Law Firm One Azrieli Center Tel Aviv 6701101 Israel Attention: Dr. Eyal Diskin, Adv. And Yoav Friedman, Adv. Fax No.: +972-3-6914177 Email: yoavf@gkh-law.com; eyald@gkh-law.com;
If to the Company, to:	B Communication Ltd. 2 Dov Friedman St., Ramat Gan, Israel Attention: Ami Barlev, CEO E-mail: Amib@eurocum.co.il
with a copy (which shall not constitute notice) to:	Gissin & Co Adv. 38B Habarzel St. Tel Aviv Guy Gissin and Yael Hershkovitz Guy@gissinlaw.co.il Yael@gissinlaw.co.il
If to Purchaser A, to:	c/o Searchlight Capital Partners 745 Fifth Avenue, 27th Floor New York, NY 10151 Attention: Darren Glatt; Nadir Nurmohamed Email: dglatt@searchlightcap.com; nurmohamed@searchlightcap.com

with a copy (which shall not constitute notice) to: Latham & Watkins LLP
885 Third Avenue
New York, New York 10022-4834
Attention: David A. Kurzweil; Eyal N. Orgad
Email: david.kurzweil@lw.com; eyal.orgad@lw.com

with a copy (which shall not constitute notice) to: Meitar Liquornik Geva Leshem Tal
16 Abba Hillel Silver Rd., Ramat Gan 52506, Israel
Attention: Cliff Felig, Advocate
Telephone No.: +972-3-6103100
Facsimile No.: +972-3-6103111
E-mail: cfelig@meitar.com

with a copy (which shall not constitute notice) to: Shibolet & Co.
4 Berkowitz St., Tel Aviv 6423806, Israel
Attention: Adi Zaltzman
Telephone No.: +972-3-7778384
E-mail: A.Zaltzman@shibolet.com

If to Purchaser B, to: [An entity wholly-owned by the Fuhrer Family]
[address]
Attention: [-]
Fax No.: [-]
Email: [-]

with a copy (which shall not constitute notice) to: Herzog Fox & Neeman
Asia House, 4 Weizmann St., Tel Aviv 6423904, Israel
Attention: Niv Sivan
Telephone No.: +972-3-6927442
E-mail: sivann@hfn.co.il

Adv. Cliff Felig, of Meitar Liquornik Geva Leshem Tal (16 Abba Hillel Silver Rd. Ramat Gan 52506, Israel) is hereby appointed and authorized, such appointment shall not be terminated until such other Person in the State of Israel is appointed by Purchaser A, by Purchaser A to receive any and all judicial documents from the Seller or the Company pursuant to regulation 478 of the Israeli Civil Procedure Regulations 5744-1984, and any such judicial documents served to Adv. Cliff Felig, of Meitar Liquornik Geva Leshem Tal shall be considered duly served to Purchaser A for all purposes.

9.8 Governing Law. This agreement shall be governed by, and construed in accordance with, the laws of the State of Israel without giving effect to its conflict of laws principles.

9.9 Jurisdiction. Any Proceeding brought with respect to this Agreement must be brought in any court of competent jurisdiction in Tel Aviv-Jaffa, Israel and, by execution and delivery of this Agreement, each Party (i) accepts, generally and unconditionally, the exclusive jurisdiction of such courts and any related appellate court, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement and (ii) irrevocably waives any objection it may now or hereafter have as to the venue of any such suit, action or Proceeding brought in such a court or that such court is an inconvenient forum.

9.10 Amendments and Waivers. Any term of this Agreement may be amended only with the written consent of all Parties. The observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the waiving Party(ies).

9.11 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any of the Parties upon any breach or default by the other Party or Parties under this Agreement shall impair any such right or remedy nor shall it be construed to be a waiver of any such breach or default, or any acquiescence therein in any similar breach or default thereafter occurring.

9.12 Entire Agreement. This Agreement (together with the other Transaction Documents) supersedes all prior agreements among the Parties with respect to its subject matter and constitutes a complete and exclusive statement of the terms of the agreement between the Parties with respect to its subject matter, except for the Non-Disclosure Agreement, dated as of October 21, 2018, by and between the Seller and Searchlight Capital Partners L.P. The exhibits and schedules identified in and attached to this Agreement are incorporated herein by reference and shall be deemed as a part hereof as if set forth herein in full.

9.13 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid, illegal or unenforceable under applicable law, then such provision shall be excluded from this Agreement and the validity, legality and enforceability of the remainder of this Agreement and the remaining provisions shall not in any way be affected or impaired thereby (unless the exclusion of such provision materially undermines the purpose and intent of the Parties, in which case this Agreement shall be null and void); provided, however, that in such event, this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable Legal Requirements, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

9.14 Enforcement. Each Party agrees that the other Parties shall have the right to enforce its rights and the obligations hereunder by an action or actions for specific performance, injunctive or other equitable relief.

9.15 Headings; Construction.

(a) The captions, titles and headings used in this Agreement are for convenience of reference only, shall not be deemed part of this Agreement and shall not affect its construction or interpretation. Except where otherwise expressly provided: (i) all references to "Sections", "Exhibits" or "Schedules" refer to the corresponding Sections, Exhibits or Schedules of or to this Agreement; (ii) all words used in this Agreement will be construed to be of such gender or number as the circumstances require; (iii) the words "include", "includes" and "including" do not limit the preceding words or terms and shall be deemed followed by the phrase "without limitation" whether or not so specified; (iv) the words "hereof," "herein," and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement; (v) terms defined in the singular have a comparable meaning when used in the plural, and *vice versa*; (vi) references to "NIS" and "New Israeli Shekels" are to the currency of the State of Israel; (vii) the term "or" is not exclusive and has the meaning represented by the phrase "and/or" whether or not specified; (viii) the phrase "to the extent" means the degree to which a subject or other theory extends and such phrase shall not mean "if"; (ix) whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified; (x) any reference in this agreement to "a day" or "days" shall mean calendar days, unless otherwise expressly specified; and (xi) all references herein to the subsidiaries of a Person shall be deemed to include all direct and indirect subsidiaries of such Person unless otherwise indicated or the context otherwise requires. If any action is to be taken or given on or by a particular calendar day, and such calendar day is not a Business Day, then such action may be deferred until the next Business Day.

(b) The Parties have participated jointly in the drafting of this Agreement and the other Transaction Documents, and each party was represented by counsel in the negotiation and execution of the Transaction Documents. The language used in this Agreement shall be deemed to be the language the Parties have chosen to express their mutual intent. In the event an ambiguity or question of intent or interpretation arises, the Transaction Documents shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of the Transaction Documents, and no rule of strict construction will be applied against any Party.

9.16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same instrument.

9.17 Several and not Joint Liability. For the removal of doubt, each Purchaser hereby acknowledges and agrees that any and all of the representations, warranties and covenants of the Seller or the Company are made severally and not jointly, and, without limiting any express representations made by a Party in this Agreement, in no event shall any of the Company or the Seller be responsible or liable in any way for any breach of the representations, warranties and covenants of the other Party.

9.18 Non-Parties. This Agreement may only be enforced against, and any claim or cause of action based upon, arising out of, or related to this Agreement or the transactions contemplated hereby may only be brought against, the Persons that are expressly named as parties hereto and then only with respect to, and to the extent of, the specific obligations set forth herein with respect to such party. Without limiting the generality of the foregoing, and notwithstanding anything that may be expressed or implied in this Agreement or any other Transaction Document or the Commitment Letters, and notwithstanding the fact that a Purchaser may be limited liability company, by entering into this Agreement, each of Parties acknowledges and agrees that: (a) no Person other than a Purchaser, the Company and the Seller shall have any obligations or liabilities under or in connection with this Agreement, and (b) no liability shall attach to, and no recourse shall be had by a Purchaser, the Company or the Seller, or any of their respective Affiliates or any Person purporting to claim by or through any of them or for the benefit of any of them under any theory of liability (including by attempting to pierce a corporate, limited liability company or partnership veil, by attempting to enforce any assessment, or by attempting to enforce any purported right at law or in equity, whether sounding in contract, tort, statute or otherwise) against, any Non-Recourse Party (as defined below) in any way under or in connection with this Agreement, the other Transaction Documents, the Commitment Letters or any other agreement or instrument delivered in connection with this Agreement or the Commitment Letters, or the transactions contemplated hereby or thereby (whether at law or in equity, whether sounding in contract, tort, statute or otherwise), including in the event a Purchaser breaches its obligations under this Agreement (whether willfully, intentionally, unintentionally or otherwise); except that: (i) the Seller or the Company may assert claims solely against the Purchasers, to cause the Purchasers to seek specific performance of each Sponsor's obligations under the Commitment Letters (in accordance with its terms and subject to its conditions), (ii) the Seller or the Company may assert claims solely against the Sponsors, under and subject to the terms and conditions of the Commitment Letters, and (iii) each of the Seller, the Company and the Purchasers may assert claims solely against the other Party, solely under, in accordance with and subject to the terms and conditions of this Agreement and the other Transaction Documents. As used herein, "Non-Recourse Parties" means, collectively, (1) each Party's direct or indirect former, current or future equity holders, stockholders, members, officers, directors, employees, investment professionals, managers, management companies, general or limited partners, co-investors, controlling persons, advisors, agents, representatives, affiliates, creditors (including their trustees, representatives, advisors and attorneys), assignees or successors, (2) any and all direct or indirect former, current or future equity holders, stockholders, members, officers, directors, employees, investment professionals, managers, management companies, general or limited partners, co-investors, controlling persons, advisors, agents, representatives, affiliates, assignees or successors of any of the foregoing, (3) to the extent not already included in clauses (1) or (2) of this definition of Non-Recourse Parties, Searchlight Capital Partners, L.P., a Delaware limited partnership and any of its affiliates or any direct or indirect former, current or future equity holders, stockholders, members, officers, directors, employees, investment professionals, managers, management companies, general or limited partners, co-investors, controlling persons, advisors, agents, representatives, affiliates, assignees or successors of any of the foregoing, (4) to the extent not already included in clauses (1), (2) or (3) of this definition of Non-Recourse Parties, Local Sponsor and any of its affiliates or any direct or indirect former, current or future equity holders, stockholders, members, officers, directors, employees, investment professionals, managers, management companies, general or limited partners, co-investors, controlling persons, advisors, agents, representatives, affiliates, assignees or successors of any of the foregoing, (5) any and all former, current or future estates, heirs, executors, administrators, trustees, successors or assigns of any of the foregoing, and (6) any financial institution or other Person (other than the Sponsors pursuant to the foregoing clause (i)) which provided, provides or is committed to or will provide financing in connection with the transactions contemplated by this Agreement or the other Transaction Documents.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

Internet Gold - Golden Lines Ltd.

By _____
Name:
Title:

B Communications Ltd.

By _____
Name:
Title:

Searchlight II BZQ, L.P.

By: Searchlight II BZQ GP, Ltd., its general partner

By: _____
Name: Darren Glatt
Title: Authorized Person

T.N.R. Investments Ltd.

By _____
Name:
Title:

LIST OF SUBSIDIARIES

We own the following subsidiaries:

B Communications (SP1) Ltd., or SP1, an Israeli company and wholly-owned subsidiary.

B Communications (SP2) Ltd., or SP2, an Israeli company and wholly-owned subsidiary. SP2 is directly held by SP1.

We own a 26.34% interest in Bezeq The Israel Telecommunications Corp. Ltd. (TASE:BZEQ), an Israeli company.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Tomer Raved, certify that:

1. I have reviewed this annual report on Form 20-F of B Communications Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 23, 2020

/s/ Tomer Raved

Tomer Raved
Chief Executive Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Itzik Tadmor, certify that:

1. I have reviewed this annual report on Form 20-F of B Communications Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 23, 2020

/s/ Itzik Tadmor

Itzik Tadmor
Chief Financial Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of B Communications Ltd. (the "Company") on Form 20-F for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tomer Raved, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Tomer Raved

Tomer Raved
Chief Executive Officer

April 23, 2020

- * The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

This certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of B Communications Ltd. (the "Company") on Form 20-F for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Itzik Tadmor, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Itzik Tadmor

Itzik Tadmor
Chief Financial Officer

April 23, 2020

- * The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

This certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.