B. Communications Ltd.
Annual Report 2020

Chapter A

(Description of the Corporation's Business) For the 2020 Periodic Report

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<u>**Chapter A - Description of the corporation's business**</u>

B. Communications Ltd. (“**the Company**") together with the subsidiary Bezeq the Israeli Telecommunications Corporation Ltd. ("**Bezeq**") and Bezeq’s wholly owned subsidiaries, whose financial statements are consolidated with Bezeq's statements, will be called together in this periodic report - "**the Group**” or "**Bezeq Group**".

For convenience, Appendix A this chapter contains a glossary of terms in relation to the key terms mentioned in it.

1. <u>Description of the general development of the Group's business</u>

1.1. Group activity and description of the development of its business

1.1.1. General

The Company was incorporated in Israel in 1999 under the name Gold E Ltd. and on March 16, 2010 changed its name to its current name. From its inception until October 2007, the Company was fully owned by Internet Gold Ltd., in October 2007 the Company's shares were first issued on the NASDAQ stock exchange and in November 2007 the Company's shares were listed on the Tel Aviv Stock Exchange under the double listing arrangement. On December 2, 2019, the transaction with Searchlight II BZQ LP and a corporation controlled by the Fuhrer family (TNR Investments Ltd.) was completed, in which control of the Company and Bezeq was transferred to these entities, following the liquidation of Eurocom Communications Ltd., in which the holdings in the Company of its subsidiary, Internet Gold, were sold.

On September 9, 2020, the Company announced the voluntary delisting of its shares from trading on the NASDAQ Stock Exchange, and as of that date, the Company's securities are traded on the Tel Aviv Stock Exchange only and the Company is a “reporting corporation” within the meaning of this term in the Securities Law, 5759-1999. ("**Securities Law**").

As of April 14, 2010, the Company operates in the field of communication, through its holdings in Bezeq shares.

1.1.2. Acquisition of control of Bezeq

On April 14, 2010, the Company completed an acquisition of 30.44% of the issued and paid-up capital and voting rights in Bezeq, in exchange for a total amount of approximately NIS 6.5 billion in cash and became the largest shareholder in Bezeq and as of the financial statements Bezeq's finances.

As of the date of this report, the Company holds approximately 26.72% of Bezeq's issued and paid-up capital. For Bezeq shares acquired by the Company during the reporting period, see section 1.3 below.

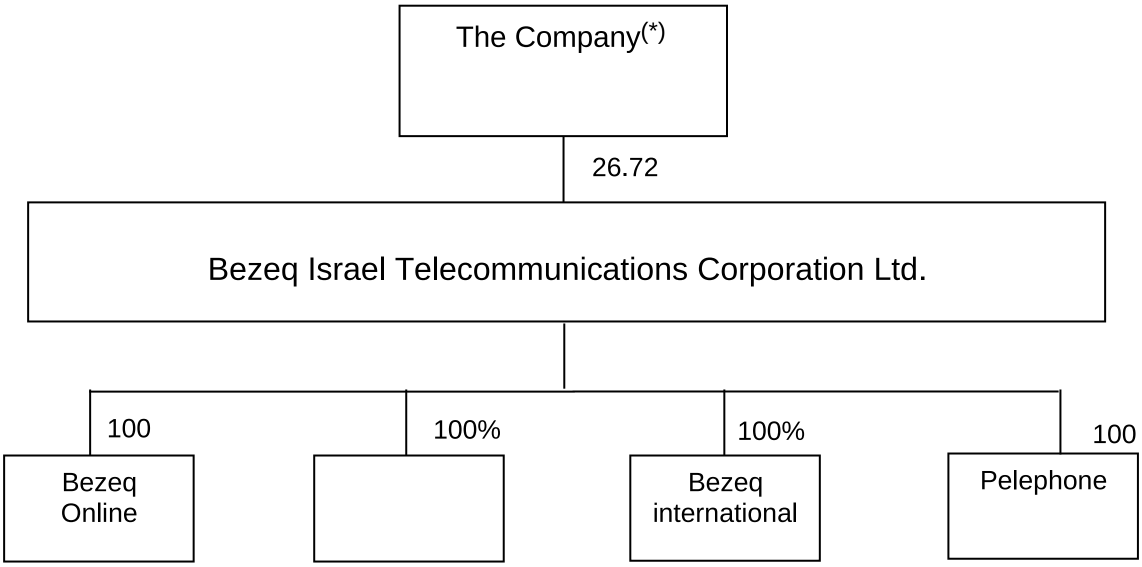
For further details regarding the control of the Company and the control permit in connection with the Company's holding in Bezeq shares, see section 1.1.4 below.

1.1.3. Bezeq Group - General

As of the date of publication of this periodic report, Bezeq Group is a major provider of communications services in the State of Israel. Bezeq Group performs and provides a wide range of Bezeq operations and Bezeq services, including landline interior communication services, mobile radio telephone services (cellular telephony), international communication services, and multi-channel television services over satellite and over the Internet (OTT), Internet infrastructure and access services, call center services, maintenance and development of communication infrastructure, providing communication services to other communication providers, including wholesale market services, distribution of television and radio broadcasts, supply and maintenance of equipment and services in customer premises (network endpoint services).

Bezeq was established in 1980 as a government company to which Bezeq's activities that had taken place up to that date in the Ministry of Communications were transferred, and it was privatized over the years. Since 1990, Bezeq has been a public company whose shares are traded on the Stock Exchange.

Below is a diagram of the structure of the holdings in the Group as of the date of approval of the report (March 25, 2021):



(*) Regarding the Company and the control of Bezeq - see sections 1.1.1, 1.1.2 and 1.1.4 in this chapter.

Regarding Walla - following previous decisions of Bezeq's Board of Directors regarding the Bezeq Group's business strategy, including activities for the sale of the subsidiaries Bezeq Online and Walla, on December 27, 2020, Bezeq's transaction with Jerusalem Post Ltd. (“**the Buyer**") was completed for the sale all of Bezeq's holdings in Walla, in exchange for a total of NIS 65 million, of which NIS 55 million in cash, and the balance through Bezeq's entitlement to receive from the Buyer and Walla (and entities related thereto) advertising space for a period of up to 7 years from the date of completion of the transaction. Accordingly, as of the aforesaid date, Walla is not a subsidiary of Bezeq, and it should be noted that the sale agreement included Bezeq's obligation to indemnify the Buyer in certain circumstances.

1.1.4. Company control

On December 2, 2019, a debt arrangement was completed between the Company and its bondholders, as part of which Searchlight II BZQ LP and a corporation controlled by the Fuhrer family (TNR Investments Ltd.) purchased control of the Company (and consequently, the control ofBezeq). The Company holds Bezeq through a company under its full (indirect) control, B. Communications (SP2) Ltd.[1]. In this regard, see also Bezeq's immediate report dated December 2, 2019 regarding the Company's announcement of the completion of the said transaction, as well as Bezeq's immediate reports dated January 2, 2020 regarding the holdings of stakeholders and those who became stakeholders in the corporation.

As of the date of completion of the debt arrangement as stated above, the controlling shareholders of the Company are Searchlight II BZQ LP, a limited partnership incorporated in the Cayman Islands ("**Searchlight**") and TNR Investments Ltd. ("**TNR**"), a private company incorporated in Israel. The final general partner of Searchlight is Searchlight Capital Partners II GP LLC, a limited liability company incorporated in the State of Delaware, which is held by a number of individuals including Eric Zinterhofer, Erol Uzumeri and Oliver Harmaann, the latter being among the only ones to receive the Company's control permit from the Ministry of Communications. TNR is wholly owned and fully controlled by Mr. David Fuhrer (50%) and Mrs. Michal Fuhrer (50%). Searchlight and TNR are considered controlling shareholders in the Company by virtue of a control permit dated

[1] 714,169,560 of Bezeq shares are owned by B Communications (SP2) Ltd., a private company registered in Israel, which is wholly owned and fully controlled by B Communications (SP1) Ltd., a private company registered in Israel. B Communications (SP1) Ltd. is wholly owned and fully controlled by the Company. In addition to the above, 24,784,153 shares of Bezeq shares are directly owned by the Company.

November 11, 2019 and by virtue of a voting agreement between them which gives them a cumulative holding, as of the date of publication of this report, of approximately 72% of the voting rights in the Company.

To the best of the Company's knowledge, the shareholders' agreement between Searchlight and TNR includes, among other things, a provision according to which as long as the holdings of an "Israeli factor" in Bezeq's controlling shareholder are required, Searchlight will grant TNR power of attorney regarding the amount of shares that will allow TNR to vote at the general meetings of the Company, an amount of shares equal to: (a) the number of shares held by TNR on the effective date of the meeting, or (b) the number of shares that reflects 19% of the issued capital and voting rights in the Company on the effective date of the meeting, whichever is higher. To the best of the Company's knowledge, the shareholders' agreement includes additional provisions, including an obligation by Searchlight to refrain from voting for the approval of certain issues without the consent of TNR.

The control permit

On November 11, 2019, the Minister of Communications, by virtue of his authority and by virtue of the Prime Minister's authority (jointly: "**the Ministers**") transferred thereto, granted Bezeq control permits under Article 4D of the Communications Law and Article 3 of the Communications Order (Bezeq and Broadcasting) (Determination of Essential Service Provided by Bezeq the Israel Telecommunications Coropration Ltd.), 5757-1997 ("**Communications Order**"), as follows:

a. A control permit for corporations is given to the Company and two private companies wholly owned by the Company[2], Searchlight Corporations, and TNR ("**Permit for Corporartions**").

b. A control permit for individuals to hold means of control in Bezeq and to control it is given to Michal Fuhrer, David Fuhrer, Oliver Harmaann, Erol Uzumeri, Eric Zinterhofer, and Darren Glatt[3] ("**Permit for Individuals**").

The Permit for Corporations and the Permit for Individuals will be jointly referred to as "**the Control Permits**" and the parties to whom such permits were granted will be referred to as "**the Permit Holders**".

The Control Permits were issued for the control and possession of means of control in Bezeq at a minimum rate of not less than 25%[4]. The control permits allow the Permit Holders to control Bezeq directly and indirectly, and they also allow Searchlight and TNR to make a "joint appointment" of directors, as defined in the Communications Order, in Bezeq and the Company.

The Control Permits also stipulate provisions regarding the minimum holding rate in Bezeq of an "Israeli entity" as defined in the Communications Order[5].

Preconditions set out in the Control Permits

The control permit stipulates, *inter alia*, as follows:

[2] B Communications (SP1) Ltd. and B Communications (SP2) Ltd.

[3] The permit is given to Mr. Darren Glatt for his status in Searchlight in the context of the acquisition of control of the Company. In addition, he serves as Chairman of the Company's Board of Directors and as a director in Bezeq.

[4] The minimum rate is defined as 25% of any type of means of control in Bezeq, or a lower rate according to the approval of the Ministers by virtue of Article 3 (a2) of the Communications Order. The minimum rate may change if the Minister of Communications becomes convinced that the conditions set forth in Article 3 (a3) of the Communications Order are met.

[5] The Control Permits were issued subject to the fact that David and Michal Fuhrer are citizens and residents of Israel, and it is stipulated therein that as long as the Communications Order requires the possession of a means of control by an Israeli entity, as defined in the Communications Order, TNR and / or Michal Fuhrer and David Fuhrer will not transfer means of control in Bezeq without the prior written approval of the Ministers, if such a transfer is sufficient to reduce their holdings, as the case may be, in means of control of any kind in Bezeq to a rate lower than the minimum rate according to the Communications Order. It was also determined that any change in the Israeli citizenship and residency of Michal Fuhrer and David Fuhrer would constitute a ground for revoking the control permit. In July 2020, after a hearing, the Ministry of Communications changed the requirement for the holding of a minimum percentage of means of control in a general licensee by an Israeli entity and expanded the discretion of the Ministers to approve holdings by non-Israeli entities. Following this, the Ministry of Communications amended the licenses of Cellcom and Partner, but the intended amendment proposed at the hearing in the Communications Order applicable to Bezeq has not yet been implemented.

"3.1. The Articles of Association of BCOM, Bezeq and its subsidiaries must include instructions as detailed below:

A. The method of appointing the directors set forth in the Company's Articles of Association will not be changed without the prior written approval of the Minister of Communications;

B. The Company shall report to the Ministers on a holder of a means of control therein holding excess holdings as soon as it becomes aware of the existence of such excess holdings;

C. The Company shall report to the Ministers on the transformation of a shareholder therein into a stakeholder in Bezeq within 48 hours from the date the Company became 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, for the appointment of directors therein, in accordance with Article 4(a)(2)(b)(2) of the Communications Order;"

In accordance with the above, the Company amended its Articles of Association as required.

On April 2, 2020, Bezeq's Board of Directors convened a general meeting of Bezeq shareholders for May 14, 2020, on the agenda of which is the amendment of Bezeq's Articles of Association in the wording requested by BCOM, as follows:

"After Regulation 95 of the Articles of Association, Regulation 95A shall be added as follows:

95 a. The method of appointing the directors set forth in the Company's Articles of Association will not be changed without prior written approval from the Minister of Communications;

After Regulation 42, Regulations 42A and 42B shall be added to the Articles of Association as follows:

42 a. The Company shall report to the Ministers as defined in the Communications Order, on a holder of a means of control therein holding excess holdings therein as defined in the Communications Order, as soon as it becomes aware of the existence of such excess holdings;

42 b. The Company shall report to the Ministers on the transformation of a shareholder therein into a stakeholder in Bezeq within 48 hours from the date the Company became aware of the change."

Bezeq's Board of Directors attached to the above summons a recommendation according to which "it was found that the requested changes in the Company's Articles of Association are in favor of the Company and all its shareholders". Of Bezeq that took place on 14.5.2020 did not approve the company's request to amend Bezeq's regulations as required by the control permit.

Regarding the manner of amending each of the Articles of Association of each of the subsidiaries (in order to include in each Articles of Association the provisions of Article 4(a)(2)(b)(2) of the Communications Order, regarding the rights of the Israeli entity, as defined in the Communications Order, to appoint directors in subsidiaries) - it was agreed that the amendment of the subsidiaries' Articles of Association will be made after the amendment of Bezeq's Articles of Association.

<u>The lien permit</u>

On November 11, 2019, Resnik Paz Nevo Trust Ltd. was granted, as a trustee for bondholders issued by the Company ("**the Trustee**") by the Ministers, a permit to hold means of control in Bezeq by way of encumbrance on the entire shares held by the Company, directly or indirectly, pursuant to Article 4d of the Communications Law and section 3 of the Communications Order ("**the Lien Permit**").

The Lien Permit stipulates that it constitutes a permit for holding or operating means of control in Bezeq by way of lien only, and it does not constitute a permit for control or transfer of control in Bezeq. In addition, it was determined that the rights granted to the Trustee and anyone holding bonds in the framework of which bonds were pledged to the Trustee for Bezeq should not be considered a transfer of ownership of the means of control of Bezeq, but only a lien as collateral.

In addition, the Lien Permit includes restrictions on the procedures for exercising the lien by virtue thereof, taking into account, among other things, the provisions of the Communications Order, including provisions according to which the lien will be carried out only by appointing a receiver and trustee whose identity has been approved by the Ministers according to various parameters specified in the permit. In addition, similar to the control permits as detailed above and the reuiqred changes, the Lien Permit also includes provisions allowing the Ministry of Communications to revoke it, including in circumstances of concern of harming State security or vital public needs and other cases[6] in which, If the Ministers see that there is a real concern of harm to the provision of the essential service by Bezeq or the ground for determining it as an essential service, the Ministers will be entitled to act as stated in the Communications Order, including the issue of provisions and revocation of the permit.

Contacts with the Ministry of Communications

The Company updated the Ministry of Communications on contacts between the Company and Bezeq in connection with the amendment of the Articles of Association as stated above.

On May 17, 2020, BCOM updated the Ministry of Communications on the results of Bezeq's general meeting, and attached the minutes of the general meeting dated May 14, 2020.

In view of the Company's efforts to approve the amendment of the Articles of Association, the Company appealed to the Ministry of Communications to refrain from taking steps in connection with Article 3.5 of the control permit (the article requiring the amendment of the Articles of Association) until the steps to implement the amendment are exhausted.

On October 28, 2020, the Company applied to the Ministry of Communications to cancel the condition set forth in the control permit granted to it in connection with its holdings in Bezeq shares, to make amendments to Bezeq's and Bezeq's subsidiaries' Articles of Association, after Bezeq's general meeting rejected the amendment. Among other reasons, the Company claims that the requested amendments anchor provisions that in any case exist in the Communication Order and other laws, and therefore do not create a new law and are not required.

1.1.5. In accordance with the decision of Bezeq's Board of Directors dated Spetember 4, 2007 in accordance with Article 50(a) of the Companies Law and in accordance with Regulations 119 and 121 (1) of Bezeq's Articles of Association - the powers of the CEO in all matters related to the corporations held, directly or indirectly, by Bezeq (Including Pelephone, Bezeq International, DBS And Bezeq Online) were transferred to the Board.

1.1.6. Mergers, acquisitions and structural changes

Bezeq and DBS merger

Until March 25, 2015 Bezeq held about 49.78% of the shares of DBS, and owned options that conferred thereon the right to about 8.6% of the shares of DBS and which Bezeq was prevented from exercising. The balance of DBS shares was held by Eurocom DBS[7].

[6] Including - inaccuracies in the data submitted in the permit application, failure on the part of the Trustee to provide a report as required or a material change in the details provided by the Trustee, and failure on the part of the Trustee on behalf of the bondholders to apply for the appointment of a receiver and trustee on the dates determined in the permit.

[7] A company that was (indirectly) controlled by Shaul and Yosef Elovich, who controlled the Company at the time.

On March 25, 2015, Bezeq exercised the options free of charge, and on June 24, 2015, Bezeq completed a transaction in which it acquired all the holdings of Eurocom DBS in DBS, as well as all the owner loans that Eurocom DBS provided to DBS (approximately NIS 1,538 million as of December 31, 2014) ("**The Acquisition Transaction**").

Upon completion, Bezeq transferred to Eurocom DBS the cash consideration for the Acquisition Transaction in the amount of NIS 680 million. Upon completion of the said Acquisition Transaction, DBS became a wholly owned (100%) subsidiary of Bezeq.

It should be noted that in accordance with the terms of the Acquisition Transaction, in addition to the cash consideration of NIS 680 million, the consideration also included two additional conditional consideration as follows:

a. One additional consideration in the amount of up to NIS 200 million in accordance with the tax synergy according to the terms defined in the Acquisition Transaction ("**First Conditional Consideration").** Most of the First Conditional Consideration was paid after Bezeq entered into an assessment agreement and a taxation decision with the Authority Taxes on financing revenue, owner loans, DBS losses and merger (See also Notes 7 and 13.2 to the 2020 statements).

b. An additional consideration of NIS 170 million, according to the business results of DBS in the years 2015-2017 ("**Second Conditional Consideration**"). Bezeq paid advances on the Second Conditional Consideration in total of about NIS 119 million.

Depending on DBS's financial results for 2017 and since the final amount of the Second Conditional Consideration was lower than the amount of advances that Bezeq paid to Eurocom DBS for the same consideration, Eurocom DBS must return the difference to Bezeq. In this context, Bezeq joined as a creditor in the liquidation process of Eurocom Communications. In addition, following Bezeq's demand that Eurocom DBS pay Bezeq the amount of the advance on the Second Conditional Consideration, together with interest as stipulated in the agreement, after the targets entitling Eurocom DBS to this consideration have not been achieved, on April 22, 2018, the Tel Aviv District Court, at Bezeq's request, garnted an order to dissolve Eurocom DBS, and Bezeq’s attorney was appointed as the liquidator of Eurocom DBS.

For details regarding conditions set forth in the Competition Authority’s approval of the merger (within the meaning thereof in the Economic Competition Law) between Bezeq and DBS, see section 2.16.8.3.

On December 25, 2016, a merger agreement was signed between Bezeq and DBS (“**the Merger Agreement**") which is subject to the conditions set forth therein, which included, *inter alia*, the receipt of various regulatory approvals from the Ministry of Communications, the Minister of Communications and the Head of the Civil Administration, on the date of completion of the merger, and retroactively from the effective date of the merger (December 31, 2016), all DBS activities will merge with and into Bezeq, without consideration, in accordance with the provisions of Article 323 of the Companies Law and in accordance with the provisions of Article 103B and Article 103C of the Income Tax Order [8], And DBS will cease to exist as a separate legal entity.

The main purpose of the merger, from a business and economic point of view, is to streamline the operations and activity of Bezeq and DBS and to consolidate them under one legal entity in a manner that will result in savings in operating costs over the timeline.

As of the date of this report, the merger in accordance with the Merger Agreement has not yet been carried out, in view of the non-fulfillment of the preconditions for the merger, in particular the elimination of the structural separation in the Group (see section 1.7.2.1).

For further details regarding what is stated in this section, see also section2.20.5 and Note 13.2 to the 2020 statements. See also Bezeq's immediate reports dated December 23, 2016, December 25, 2016, December 26, 2016, December 28, 2016, December 29, 2016 and November 8, 2018 included in this report by way of reference.

Examiation of a plan for structural change in the subsidiaries

Bezeq examines ways to deepen the synergy and operational streamlining of the

[8] Regarding taxation decision made on September 15, 2016 by the Tax Authority in the framework of an assessment agreement signed between the Company and the Tax Authority, which includes preliminary approval for tax purposes by the Tax Authority to merge DBS with and into the Company in accordance with Article 103B of the Income Tax Ordinance, see the Company’s immediate report dated September 18, 2016.

subsidiaries Pelephone, Bezeq International and DBS ("**the Subsidiaries**"), in order to maximize and unlock value in favor of each of them, among other things against the background of structural separation restrictions imposed on it (see section 1.7.2.1).

In this context, on March 24, 2021, Bezeq's Board of Directors adopted the decisions of the Subsidiaries' boards of directors to examine the deepening of the synergies and operational streamlining in the Subsidiaries, based on the main outline that will include Bezeq International's full and statutory merger with and into DBS (subject to regulatory approvals), following the splitting of Bezeq International's integration activity into a new separate corporation in the Group, while examining the deepening of the synergy between the Subsidiaries by providing certain administrative services to the Subsidiaries by Pelephone. The findings of the examination and the implementation plan for the examined change will be brought for discussion and approval (as required) by Bezeq's Board of Directors ("the **Change Outline**").

This decision comes against the backdrop of increasing service and business cohesion in the industry, increasing competition in the subsidiaries' operating segments, the business and regulatory changes that apply and are expected to apply to Bezeq International and DBS and their activities, and the need to examine the deepening synergies and operational streamlining in the Subsidiaries, in order to maximize and unlock value for the benefit of each of the Subsidiaries.

The Change Outline will allow, among other things, optimal adjustment of the activities of the Subsidiaries to the structure of the industry, and providing as uniform a response as possible to the needs of customers, in terms of sales and service, which will contribute to growth. As is well known, group synergy that also involves the Company is not possible at this stage in view of the structural separation set forth in the Company's license, the elimination of which the Ministry of Communications has not yet approved.

The move, insofar as it is completed, has the potential to contribute to the business results of the subsidiaries, both as a result of improving the ability to sell and retain subscribers to the companies' services and as a result of streamlining and reducing expenses estimated at tens of millions of shekels per year. In addition, splitting the integration activity may also unlock value for the Company.

The information contained in this section also includes forward-looking information, as defined in the Securities Law, which is based on the Company's assessments, assumptions and expectations, including in relation to market conditions, customer preferences and the realization of the Change Outline, which may not materialize or materialize in a materially different way that anticipated, according to developments in the communications market, competition, regulatory approvals and other aspects.

For details regarding processes for sharing management resources and utilizing synergies between the subsidiaries Pelephone, Bezeq International and DBS, see section1.8.

1.1.7. Investigations by the Israel Securities Authority and the Israel Police

Following the investigations of the Securities Authority from June 2017 and of the Securities Authority and the Israel Police from February 2018 on suspicion of committing offenses under the Securities Law and the Penal Code, 5737-1977 ("**Penal Code**"), in respect of transactions related to the previous controlling shareholder in the Company and former Chairman of Bezeq's Board of Directors, Shaul Elovich ("**Elovich**") regarding the purchase of DBS shares and the provision of satellite communication services to DBS, the Ministry of Communications' dealings with Bezeq ("**the DBS Case**") as well as suspicions of the exercise of powers by Prime Minister Binyamin Netanyahu, to advance issues concerning the business of Elovich and the economic interests of him and the Bezeq Group ("**Case 4000**") -

1.1.7.1 On January 28, 2020, an indictment was filed with the Jerusalem District Court in Case 4,000, *inter alia*, against Elovich for various offenses, including bribery and deliberate misstatement in an immediate report in connection with suspicions of exercise of powers by Prime Minister Binyamin Netanyahu to advance issues concerning the business of Elovich and the economic interests of him and the Bezeq Group.

1.1.7.2 On December 23, 2020, Bezeq received a notice from the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing on Case 4,000 ("**the Notice**")[9] According to which:

a) After examining the evidence before him, the Attorney General is considering filing an indictment against Bezeq on suspicion of bribery (an offense under Article 291 of the Penal Code and Article 23 of the Penal Code), and a reporting offense with the aim of misleading a reasonable investor (offense under Article 53(a)(4) of the Securities Act and Article 23 of the Penal Code).

b) According to the Notice, according to the suspicion, Bezeq's criminal responsibility for the offense of bribery stems from the actions and criminal thought of Elovich, who was its organ in the period relevant to the suspicions.

c) Also, according to the Notice, according to the suspicion, Bezeq's criminal responsibility for the reporting offense stems from the actions and criminal thought of Elovich who was its organ in the period relevant to the suspicions, and the actions and criminal thought of Stella Handler (former Bezeq CEO), who was Bezeq's organ in the relevant period (see section 1.1.5.3b). According to allegations in this context, Bezeq reported on a letter from the Director General of the Ministry of Communications that allegedly included a misstatement (of which Elovich and Stella Handler were aware), and only after the intervention of senior officials in the State's legal advice system, the letter was amended and the amendment was reported by Bezeq to the public.

d) According to the Notice, before the Attorney General makes a final decision regarding the criminal prosecution of Bezeq, and insofar as Bezeq wishes to argue against the possibility of criminal prosecution, it must coordinate a hearing within 30 days from the date of the Notice, and submit written arguments two weeks before the date scheduled for the hearing.

e) It should be noted that Walla (a former subsidiary of Bezeq) also received a similar notice according to which, after examining the evidence presented thereto, the Attorney General is also considering filing an indictment against Walla on suspicion of bribery (an offense under Article 291 of the Penal Code and Article 23 of the Penal Code) when, according to the suspicion, Walla's criminal liability for the offense of bribery stems from the criminal acts and thought of Elovich who was its organ in the period relevant to the suspicions.

f) Bezeq and Walla have received the core of the investigation material relating to the above suspicions, they are studying the notices and are preparing for the hearing, and they intend to argue at the hearing against the possibility of criminal prosecution.

1.1.7.3 On December 23, 2020, to the best of Bezeq's knowledge, an announcement by the State Attorney's Office was published, according to which, among other things, the State Attorney's Office (Taxation and Economics) filed on the same day an indictment against Elovich with the Tel Aviv District Court, as well as against former senior officials in Bezeq Group and BBS, Or Elovich, Amikam Shorer, Linor Yochelman , Ron Eilon and Mickey Neiman in the DBS Case. According to the publication:

a) The indictment attributes to the defendants the offenses of aggravated obtainment by fraud, fraud and breach of trust in a corporation, and reporting offenses under the Securities Law, in relation to two cases: Fraud in relation to the payment of the consideration for the purchase of DBS shares by Bezeq, and fraud in relation to the conduct of the independent committees established by Bezeq for the purpose of examining Bezeq transactions in which Elovitch had a personal interest.

b) The State Attorney's Office (Taxation and Economics) entered into a conditional settlement agreement under the Securities Law with Stella Handler, in which Stella Handler admitted the facts according to which she was involved in intentional misstatement in Bezeq's statements. In

[9] It should be noted that on November 20, 2017, Bezeq received a "letter of suspect notification" according to which the investigation file in the framework of which it was questioned as a suspect was transferred to the State Attorney's Office for review. Since then, no further notice has been received by Bezeq on this matter.

accordance with what is stated in the arrangement, the DBS case was closed in the case of Stella Handler.

c) The investigation files in respect of other suspects investigated in the cases mentioned above were closed, including against the former VP of regulation at Bezeq, as well as against Or Elovitch and Amikam Shorer (in relation to both - except with regard to the DBS Case as indicated in the preamble of this section).

1.1.7.4 Bezeq does not yet have complete information regarding the investigations, their content, materials and evidence in the possession of the law authorities in the matter (although in January 2021, Bezeq received the core of the investigation material in connection with Case 4000, following Bezeq's summons to a hearing on this matter as detailed in section1.1.7.2). Accordingly, Bezeq is still unable to assess the effects of the investigations, their findings and results on Bezeq and its financial statements. For this matter see Note 1.3 to the 2020 statements.

1.1.7.5 It should be noted that following the opening of the said investigations, a number of civil legal proceedings were opened against Bezeq, DBS, Bezeq's officers in the relevant period and companies from Bezeq’s former controlling group, including motions for approval of class actions and motions for disclosure of documents before filing a motion for approval of a derivative claim. For details regarding these procedures see section2.18.

1.1.7.6 Regarding the DBS, which on November 20, 2017, received a "letter of suspect notification" according to which the investigation case in which it was questioned as a suspect was forwarded to the State Attorney's Office - in accordance with the State Attorney's Office's notice received by DBS, after the Securities Authority case (Ref. No. 03/2017), in which it was questioned as a suspect, was examined by the State Attorney's Office, it was decided on January 11, 2021 to shelf the case against it, without filing an indictment therein.

1.2. Areas of activity

The Group has four main areas of activity that correspond to the corporate division among the Group's companies and are reported as business segments in Bezeq’s consolidated financial statements (see also Note 28 to the 2020 statements):

1.2.1. Bezeq – Landline interior communications

This area mainly includes the activities carried out by Bezeq as an NIO (National Interior Operator), including telephony services, Internet access and infrastructure services (including BSA wholesale service), transmission and data communication services and wholesale services of using Bezeq's physical infrastructure. Bezeq’s activity in the field of landline interior communications is described in section 2 of this report.

1.2.2. Pelephone - Cellular communication ("Mobile Radio")

Cellular radio-telephone services (cellular communications), marketing of end equipment, installation, operation and maintenance of equipment and systems in the field of cellular communications. Pelephone activity is described in section3 of this report.

1.2.3. Bezeq International - Internet, international communications and network endpoint services

Internet access services (ISP), international communication services, network endpoint services and the provision of ICT solutions. Bezeq International's activities are described in section4 to this report.

1.2.4. DBS - Multi-channel TV

Digital multi-channel TV broadcasting services to subscriptions over satellite (DBS) as well as over the Internet (OTT) and the provision of value-added services to subscribers. DBS activity is described in section3 to this report.

It should be noted that in addition, Bezeq's consolidated financial statements include the "other" segment, which includes mainly call center services for customers (via Bezeq Online) and included, until December 27, 2020, content services in the field of Internet (via Walla, the sale of Bezeq's holdings was completed on the date specified in section 1.1.1). This "other" segment is not material at the Group level.

1.3. Investments in the corporation's capital and transactions in its shares

Regarding the completion of the transaction for the transfer of control of the Company on December 2, 2019, see section 1.1.4 above.

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

No further investments were made in the Company's capital in the reporting year and the Company is not aware of any other material transactions made in Bezeq shares by a stakeholder outside the Stock Exchange.

1.4. Dividend distribution

From January 1, 2018 until the date of publication of this report, the Company has not distributed dividends to its shareholders and as of the date of this report, the Company does not have a valid dividend distribution policy.

1.5. Financial information regarding the areas of activity of Bezeq Group

All data in sections 1.5.1 to 1.5.4 are stated in NIS millions.

1.5.1. 2020

	Lnadline interior communication	Cellular communication (mobile radio telephone)	Internet and international communication services	Multi-channel TV (3)	Other	Consolidation adjustments (2)	Consolidated
Total revenue:							
External	3,813	2,127	1,217	1,286	280	-	8,723
From other areas of activity in the corporation	346	59	54	1	6	(466)	-
Total revenue	4,159	2,186	1,271	1,287	286	(466)	8,723
Total attributable costs:							
Variable costs attributed to the area of activity (1)	850	799	1,021	532	186		
Fixed costs attributed to the area of activity (1)	1,604	1,471	491	797	56		
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Costs that do not constitute revenue in another area of activity (3)	2,405	2,162	1,246	1,296	236	(77)	7,268
Costs that constitute revenue of other areas of activity	49	108	266	33	6	(462)	-
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Profit from ordinary activities attributed to the owner of the Cmpany	1,705	(84)	(241)	(42)	44	73	1,455
Total assets attributed to activity as of December 31, 2020	8,471	4,371	785	1,365	96	(1,847)	13,241
Total liabilities attributed to the area of activity as of December 31, 2020	11,764	1,742	580	505	42	(1,242)	13,391

(1) The Group companies, which are companies that provide services (as opposed to manufacturing companies), do not maintain a dedicated pricing system that distinguishes between fixed and variable costs. The above distribution was made for the purposes of this report only. Variable costs are costs in the management and control of which and in the effect of which on direct output the companies have flexibility in the short term, as opposed to fixed costs that are not flexible in the short term and do not directly affect output (in this regard, in relation to the definition of fixed costs and variable costs, it is clarified that "short term" means a period of up to one year).

The variable costs included non-recurring expenses (revenue) that were included in the other expenses (revenue) item of each company.

(2) Detailed consolidation adjustments - transactions between areas of activity.

(3) See Note 11 to the 2020 statements regarding the neutralization of the impairment loss in assets in the multi-channel television and cellular communication segments. The impairment loss in the segmewnt is presented as part of the adjustments.

1.5.2. 2019

	Lnadline interior communication	Cellular communication (mobile radio telephone)	Internet and international communication services	Multi-channel TV (3)	Other	Consolidation adjustments (2)	Consolidated
Total revenue:							
External	3,757	2,316	1,283	1,344	229	-	8,929
From other areas of activity in the corporation	316	46	56	1	9	(428)	-
Total revenue	4,073	2,362	1,339	1,345	238	(428)	8,929
Total attributable costs:							
Variable costs attributed to the area of activity (1)	307	1,080	727	630	177		
Fixed costs attributed to the area of activity (1)	1,624	1,381	808	850	60		
Total costs	1,931	2,461	1,535	1,480	237	435	8,079
Costs that do not constitute revenue in another area of activity (3)	1,883	2,357	1,292	1,457	232	858	8,079
Costs that constitute revenue of other areas of activity	48	104	243	23	5	(423)	-
Total costs	1,931	2,461	1,535	1,480	237	435	8,079
Profit from ordinary activities attributed to the owner of the Cmpany	2,142	(99)	(196)	(135)	1	(863)	850
Total assets attributed to activity as of December 31, 2019	8,091	4,088	1,084	1,491	151	(1,914)	12,991
Total liabilities attributed to the area of activity as of December 31, 2019	12,466	1,434	604	576	79	(1,236)	13,923

(1) The Group companies, which are companies that provide services (as opposed to manufacturing companies), do not maintain a dedicated pricing system that distinguishes between fixed and variable costs. The above distribution was made for the purposes of this report only. Variable costs are costs in the management and control of which and in the effect of which on direct output the companies have flexibility in the short term, as opposed to fixed costs that are not flexible in the short term and do not directly affect output (in this regard, in relation to the definition of fixed costs and variable costs, it is clarified that "short term" means a period of up to one year).
The variable costs included non-recurring expenses (revenue) that were included in the other expenses (revenue) item of each company.

(2) Detailed consolidation adjustments - transactions between areas of activity.

(3) See Note 11 to the 2020 statements regarding the neutralization of the impairment loss in assets in the multi-channel television and cellular communication segments. The impairment loss in the segmewnt is presented as part of the adjustments.

1.5.3. 2018

	Lnadline interior communication	Cellular communication (mobile radio telephone)	Internet and international communication services	Multi-channel TV	Other	Consolidation adjustments (2)	Consolidated
Total revenue:							

External	3,883	2,401	1,338	1,473	226	-	9,321
From other areas of activity in the corporation	313	42	53	-	15	(423)	-
Total revenue	4,196	2,443	1,391	1,473	241	(423)	9,321
Total attributable costs:							
Variable costs attributed to the area of activity (1)	1,340	1,263	719	678	198		
Fixed costs attributed to the area of activity (1)	1,632	1,182	595	851	79		
Total costs	2,972	2,445	1,314	1,529	277	1,366	9,903
Costs that do not constitute revenue in another area of activity (3)	2,915	2,343	1,076	1,516	270	1,783	9,903
Costs that constitute revenue of other areas of activity	57	102	238	13	7	(417)	-
Total costs	2,972	2,445	1,314	1,529	277	1,366	9,903
Profit from ordinary activities attributed to the owner of the Cmpany	1,224	(2)	77	(56)	(36)	(1,789)	(582)
Total assets attributed to activity as of December 31, 2018	8,896	4,124	1,370	1,606	159	193	16,348
Total liabilities attributed to the area of activity as of December 31, 2018	14,284	1,425	733 (*)	687	84	(1,159)	16,054

(2) The Group companies, which are companies that provide services (as opposed to manufacturing companies), do not maintain a dedicated pricing system that distinguishes between fixed and variable costs. The above distribution was made for the purposes of this report only. Variable costs are costs in the management and control of which and in the effect of which on direct output the companies have flexibility in the short term, as opposed to fixed costs that are not flexible in the short term and do not directly affect output (in this regard, in relation to the definition of fixed costs and variable costs, it is clarified that "short term" means a period of up to one year).
The variable costs included non-recurring expenses (revenue) that were included in the other expenses (revenue) item of each company.

(2) Detailed consolidation adjustments - transactions between areas of activity.

For explanations about the developments in the financial data presented In sections1.5.1 to 1.5.3 aee Section 1 of the Board of Directors' report on the state of the corporation's affairs ("**Board of Directors' Report**").

1.5.4. Main results and operational data

The following is a summary of data on the results of each of the Company's main areas of activity in 2019 and 2020.

1.5.4.1 Bezeq Fixed Lines (Bezeq's activity as NIO)

	2020	2019	Q4/ 2020	Q3/ 2020	Q2/ 2020	Q1/ 2020	Q4/ 2019	Q3/ 2019	Q2/ 2019	Q1/ 2019
Revenue (NIS millions)	4,159	4,073	1,055	1,042	1,044	1,018	985	1,025	1,020	1,043
Operating profit (NIS millions)	1,705	2,142	356	446	464	439	296	440	875	531
Depreciation and amortization (NIS millions)	877	861	225	222	218	212	225	225	204	207
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	2,582	3,003	581	668	682	651	521	665	1,079	738
Net profit (NIS millions)	1,040	1,192	216	300	229	295	134	175	562	321
Cash flow from operating activities (NIS millions)	2,106	1,847	600	561	334	611	476	484	416	471
Payments for investments in fixed assets and intangible assets and other investments (NIS millions)	910	881	237	272	201	200	193	145 *	333 *	210
Receipts from the sale of fixed assets and	146	407	119	1	19	7	14	14	340	39 **

intangible assets (NIS millions)									**	
Lease payments	111	114	27	26	26	32	28	25	27	34
Free cash flow (NIS millions) (2)	1,231	1,259	455	264	126	386	269	328 ***	396 ***	266 ***
Number of active subscribers at the end of the period (thousands) (3)	1,639	1,718	1,639	1,653	1,675	1,693	1,718	1,743	1,768	1,792
Average monthly income per telephony subscriber (NIS) (ARPL) (4)	50	49	50	51	51	48	48	49	49	50
Outgoing usage minutes (millions)	3,985	3,499	1,004	1,019	1,079	883	820	888	865	926
Incoming usage minutes (millions)	5,107	4,291	1,326	1,368	1,293	1,120	1,046	1,099	1,056	1,090
Total number of Internet subscribers at the end of the period (thousands) (7)	1,556	1,575	1,556	1,565	1,571	1,566	1,575	1,589	1,613	1,635
Of which are Internet lines at the end of the period - wholesale (thousands) (7)	557	592	557	570	580	584	592	601	612	624
Of which are Internet lines at the end of the period - in retail (thousands) (7)	999	983	999	995	991	982	983	988	1,001	1,011
Average monthly income per Internet subscriber (NIS) - retail (ARPU)(8)	99	97	102	100	98	98	98	98	97	96
Average package speed for Internet subscriber – retail (Mbps) (5)	74.2	67.8	74.2	71.6	70.4	69.1	67.8	66.2	64.0	61.5
Churn rate of telephony subscribers (6)	12.5%	11.7%	3.2%	3.4%	2.7%	3.2%	2.9%	3.0%	2.7%	3.0%

(1) Operating profit before depreciation and amortization (EBITDA) is a financial index that is not based on generally accepted accounting principles. Bezeq presents this index as another index for evaluating its business results since it is an accepted index in Bezeq's area of activity which neutralizes aspects resulting from variability in capital structure, various taxation aspects and manner and period of amortization of fixed and intangible assets. This index is not a substitute for indices based on generally accepted accounting principles, and does not serve as a single index for assessing Bezeq's results of operations or cash flow. Also, the index presented in this report may not be calculated in the same way as other indices in other companies. Bezeq's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from impairment of fixed assets and intangible assets. As of January 1, 2019, and for the purpose of an adequate presentation of economic activity, Bezeq presents ongoing losses from impairment of fixed assets and intangible assets in DBS and Walla under the depreciation and amortization item, as well as ongoing losses from impairment of broadcasting rights under the operating and general expenses item (in the statement of income). For this matter see Note 11 to the financial statements and section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

(2) Free cash flow is a financial measure that is not based on generally accepted accounting principles. Free cash flow is defined as cash arising from current operations minus cash for the purchase / sale of fixed assets and intangible assets, net, and as of 2018, with the implementation of IFRS 16, lease payments are also deducted. Bezeq presents free cash flow as an additional index to evaluate business results and cash flows, since Bezeq is of the opinion that cash flow is an important liquidity index that reflects the cash derived by Bezeq from its current operations after investing cash in infrastructure and fixed assets and other intangible assets. For this matter see section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

(3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (excluding a subscriber who has not paid his debt to Bezeq on time in the first three months (approximately) of collection proceedings).

(4) Calculated according to the average of subscribers for the period. For this matter see also section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

(5) In plans where there is a range of speeds, the maximum speed in the plan is taken into account.

(6) Number (gross) of telephony subscribers who abandoned Bezeq Fixed Lines during the period divided by the average number of telephony subscribers registered in the period. See also section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

(7) Total number of Internet subscribers including retail and wholesale subscribers. Retail - Bezeq's direct Internet subscribers. Wholesale - Internet subscribers through wholesale service to other communication providers.

(8) Revenue from retail Internet services divided by the average number of retail customers in the period. For this matter, see also section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

(*) In the second quarter of 2019 - including payment of an improvements levy in respect of the sale of the "Sakia" complex in the amount of approximately NIS 149 million. In the third quarter of 2019 - including a receipt for the improvements levy received in the amount of approximately NIS 75 million.

(**) In the first quarter of 2019 - including consideration from the sale of Sakia in the amount of approximately NIS 5 million as well as a refund of land appreciation tax received in the amount of approximately NIS 5 million. In the second quarter of 2019 - including consideration from the sale of Sakia in the amount of approximately NIS 323 million.

(***) See (*) and (**)

1.5.4.2 Pelephone

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

(1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.

(2) The subscriber data include Pelephone subscribers (net of other operators' subscribers hosted on Pelephone's network, and net of IoT subscribers) and do not include subscribers connected to Pelephone's service for six months or more but are inactive. Inactive subscribers are subscribers who in the last six months have not received at least one call, did not make at least one call / message or did not perform a browsing operation or did not pay for Pelephone's services. Prepaid subscribers are included in the active subscriber base from the date of performing a charge and are deducted from the active subscriber base when no making outbound use for six months or more. It should be noted that a customer may have more than one subscriber ("line"). The number of subscribers includes subscribers who consume various services (such as data for in-vehicle media systems), the

average income from which is significantly lower than the rest of the subscribers. The subscriber base includes a retroactive classification of postapid subscribers as IoT subscribers (which are not included in the subscriber base), which resulted in a decrease in the number of postpaid subscribers by about 9k in 2019 and about 12k in 2020 without a change in the annual ARPU index.

(3) The average monthly income per subscriber (postpaid and prepaid). The index is calculated by dividing the average monthly revenue from all cellular services from both Pelephone's subscribers and other communication operators, including revenue received from cellular operators using Pelephone's network, repair service and extended warranty in the period by the average active subscriber base in that same period. See also section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

(4) The subscriber churn rate is calculated according to the ratio of the subscribers who disconnected from Pelephone services and the subscribers who became inactive during the period to the average of active subscribers during the period. See also section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

1.5.4.3 Bezeq International

	2020	2019	Q4/ 2020	Q3/ 2020	Q2/ 2020	Q1/ 2020	Q4/ 2019	Q3/ 2019	Q2/ 2019	Q1/ 2019
Revenue (NIS millions)	1,271	1,339	323	325	314	317	330	329	339	341
Operating profit (loss) (NIS millions)	(241)	(196)	(22)	(275)	27	29	(189)	(40)	7	26
Depreciation and amortization (NIS millions)	149	190	26	42	38	43	51	47	46	46
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	(92)	(6)	4	(233)	65	72	(138)	7	53	72
Net profit (loss) (NIS millions)	(275)	(157)	(13)	(305)	21	22	(149)	(32)	4	20
Cash flow from operating activities (NIS millions)	230	255	75	47	48	60	87	64	48	56
Payments for investments in fixed assets and intangible assets and other investments, net (NIS millions) (2)	116	128	21	28	33	34	21	40	34	33
Lease payments	30	32	7	7	8	8	8	8	8	8
Free cash flow (NIS millions) (1)	84	95	47	12	7	18	58	16	6	15
Subscriber churn rate (3)	30.2%	26.2%	10.2%	7.2%	6.1%	6.7%	6.3%	7.1%	6.2%	6.6%

Some of the data in the table were updated following the restatement of the Company's and Bezeq's financial statements as detailed in section 1.9 and in Note 1.5 to the Company's financial statements.

(1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.

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

(3) Number of Internet subscribers who left Bezeq International during the period is an average of the average Internet subscribers registered during the period. See also section 8 of the chapter on the description of the corporation's business in the periodic report for 2020.

1.5.4.4 **DBS**

	2020	2019	Q4/ 2019	Q3/ 2019	Q2/ 2020	Q1/ 2020	Q4/ 2020	Q3/ 2020	Q2/ 2020	Q1/ 2020
Revenue (NIS millions)	1,287	1,345	317	313	319	338	331	334	337	343
Operating profit (loss) (NIS millions)	39	(55)	(11)	18	23	9	(6)	20	(24)	(45)
Depreciation, amortization and ongoing impairment (NIS millions)	203	219	59	50	50	44	46	50	68	55

Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (NIS millions) (1)	242	164	48	68	73	53	40	70	44	10
Net profit (loss) (NIS millions)	24	(69)	(24)	16	18	14	(7)	15	(27)	(50)
Cash flow from operating activities (NIS millions)	163	143	14	69	39	41	31	37	22	53
Payments for investments in fixed assets and intangible assets and other investments, net (in NIS millions)	141	238	26	38	40	37	32	69	73	64
Lease payments	26	30	6	6	7	7	7	8	7	8
Free cash flow (NIS millions) (1)	(4)	(125)	(18)	25	(8)	(3)	(8)	(40)	(58)	(19)
Number of subscribers (at the end of the period, thousands) (2)	557	555	557	556	557	556	555	558	565	568
Average monthly income per subscriber (ARPU) (NIS) (3)	190	197	186	187	190	195	195	195	197	200
Subscriber churn rate (4)	21.0%	21.2%	4.9%	5.4%	4.8%	5.9%	5.2%	5.5%	4.9%	5.6%

(1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.
(2) Subscriber - one household or a small business customer. In the case of a business customer who owns more than a certain number of decoders (such as a hotel, kibbutz or gym), the number of subscribers is adjusted. The number of non-small business customers is calculated by dividing the total payment received from all non-small business customers by the average income per small business customer, which is determined once per period.
(3) The average monthly revenue per subscriber is calculated by dividing the total DBS revenue (excluding revenue from the sale of content to external broadcasters) by the average number of customers in the period. See also section 8 of the chapter on the description of the corporation's business in the 2020 periodic report. In the first quarter of 2020, DBS updated the definition of ARPU so that ARPU does not include the sale of content to external broadcasters. ARPU data for previous periods were restated accordingly.
(4) The number of DBS subscribers who abandoned DBS during the period divided by the average number of subscribers registered in the period. See also section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

1.6. Forecast in relation to the Bezeq Group

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

- Adjusted net profit[10] for shareholders is expected to be approx. NIS 1 billion

- God-Adjusted EBITDA[11] It is expected to be approx. NIS 3.45 billion

- God-CAPEX[12] It is expected to be approx. NIS 1.7 billion

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

[10] Adjusted net profit and adjusted EBITDA – net of the other operating expenses / revenue, net item, non-recurring losses / gains from impairment / increase in value, and expenses of options for employees. It should be noted that the adjusted EBITDA and the adjusted net profit for 2020 were approximately NIS 3.659 billion and approximately NIS 1.144 million, respectively.

[11] See footnote 10.

[12] CAPEX - Payments (gross) for investment in fixed assets and intangible assets. It should be noted that the CAPEX for 2020 was approximately NIS 1.50 billion.

The forecasts are based, among other things, on the Group's assessments regarding the structure of competition in the communications market and the regulation of the segment, on the current economic situation in the economy, and accordingly, the Group's ability to implement its plans for 2021, taking into account the changes in business conditions, regulatory decisions, technological changes, developments in the structure of the communications market, etc. or insofar as one or more of the risk factors listed in the 2020 periodic report materialize. There is also no certainty that the forecast will fully or partially materialize, among other things, in the face of the COVID-19 pandemic and the uncertainty as a result thereof.

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

1.7. General environment and the influence of external factors on the Group's activities

The communications industry in the world and in the Israeli economy is characterized by a rapid pace of development, and frequent changes in terms of technology, in terms of the business structure of the industry and in terms of the regulation applied to it. The main trends and main characteristics of the communications market in recent years, which have a significant impact on the Group's operations as a whole, will be described below.

In the communications market, there is fierce competition in most areas of the Group's activity:

In the field of cellular telephony, the multiplicity of competitors leads to fierce competition in the field that leads to low prices and increased customer mobility. In the field of landline telephony, competition, including on the part of cellular companies, leads to a decrease in the consumption of landline telephony minutes as well as the abandonment of landline telephony customers (including the proliferation of customers without a home landline), and consequently, damage to the Group’s results.

In the field of television services, there is an increase in competition through the transmission of television content (VOD services and linear channels) over the Internet (OTT), including by foreign providers such as Netflix, as well as the reception of "Idan+" channels, which are not subject to regulatory supervision and to the same duties as those of public multi-channel broadcasters.

In the field of Internet services and Internet access infrastructure, there is fierce competition with companies with infrastructure, including fiber infrastructure for households, and through the wholesale market (see section1.7.3 and section 2.16.4), and a deepening in the implementation of additional wholesale services.

In order to reduce the damage resulting from the aforesaid, the Group companies take streamlining measures as well as various moves to improve the services they provide and differentiate them from the competitors.

In view of the diversity in the areas of the Group's communications activities, regulatory and other developments may in some cases have a different effect (and even in opposite directions) on various areas of activity in the Group and on its risk factors (see sections 2.20, 3.19, 4.14 and 5.19), that is - changes in regulation and other factors that adversely affect one area may have a positive effect on another area. In some cases, adverse effects on areas of activity may be partially offset against each other at the Group level.

1.7.1. Communication groups in the Israeli market

In recent years, the market has been characterized by competition between communications groups (Bezeq Group, Hot Group, Cellcom Group and Partner Group) operating simultaneously in several segments of the communications market (landline and mobile telephony, landline and mobile Internet services, multi-channel television and international calls)[13].

Structural changes and mergers between communications groups and competing companies may have significant consequences for the structure of the communications market, the competition therein, and the Group's activities. As of this date, the Company is unable to assess these effects.

It should be noted that there are also competitors in the market who are not part of a communications group as described above (e.g. XFONE and MVNO operators in cellular, international operators and ISPs, including providers that provide service within the

[13] In this regard, a "group" is characterized by a close relationship that results from the identicality of shareholders, although in some groups there is a corporate, accounting or marketing separation between the entities belonging to the group.

wholesale market).

Competition between communication groups is reflected in an increase in the rate of consumption of "service baskets" or packages of several services that include combinations of several different communication services. Communication groups market service packages consisting of different communication services from each group's corporations, so that the customer can be offered a comprehensive solution that eliminates the need to communicate simultaneously with several different providers, and offer rates that are more attractive for the customer than the rate of purchasing each service separately (in some cases while "cross-subsidizing" between the components included in the basket). These trends intensified with the implementation of the BSA wholesale service market (see section 2.16.4.2), enabling infrastructure-less operators, including operators not part of a communications group, to offer a complete end-to-end service package to their customers (including infrastructure).

Providing a comprehensive service to the customer that meets his variety of needs has become easier both due to a trend of technological convergence (see section 2.1.4) and following regulatory changes and the transition to regulation through a general unified license, which was granted to different communication operators and under which different communication services, which previously required separate licenses, could be provided under the same license.

As of the date of the report, Bezeq Group is s ubject to stricter restrictions on the marketing of service packages than the other groups, as detailed below.

On August 26, 2020, Cellcom announced the completion of a contract for the acquisition of full ownership and control of Golan Telecom after the regulatory approvals for the acquisition were received. In addition, Cellcom, Hot and the Israel Infrastructure Fund hold, in equal parts, shares in a partnership that holds 70% of IBC. For this matter and for approvals received by Hot see section 2.6.3.5.

1.7.2. Bezeq Group's activity as a communications group and the limitations of structural separation

As of the date of the report, the Group is subject to a number of regulatory restrictions in the context of creating collaborations between the Group's companies, which include a structural separation obligation between Bezeq and its subsidiaries, as well as restrictions on marketing shared service baskets which include the services of Bezeq and its subsidiaries.

Against the background of the challenges the Group faces and the future needs that arise in the communication market environment, in parallel with Bezeq's activity for the elimination of structural separation, Bezeq's Board of Directors acts for the implementation of a comprehensive strategic plan for the Group as a communication group within the complex regulatory constraints imposed on the Group (see section1.8).

The following are additional details about the main restrictions that apply to the Group in its activities as a communications group:

1.7.2.1 Structural separation

a) Structural separation obligation – the Communications Law gives the Minister the power to order accounting separation between different services provided by the same group / company, as well as the power to require the existence of separate corporations for the purpose of providing different services, including separation between licensing services and subscriber services, and provisions on the implementation of the separation.

Bezeq's NIO license stipulates that Bezeq must maintain structural separation between itself and its subsidiaries[14]. In this context, full separation between Bezeq's management and the managements of the subsidiaries is required, including everything related to the business system, the financial system and the marketing system, and Bezeq is prohibited from transferring commercial information to a subsidiary (subject to exceptions).

The limitations of structural separation place the Group in a position of competitive disadvantage which exacerbates over time vis-à-vis the other communication groups which are not subject to restrictions of a similar extent, and in the face of the possibility for operators to provide end-to-end

14 Pelephone, Bezeq International, DBS and Bezeq Online.

services to subscribers through the use of wholesale services. In addition, the limitations of structural separation cause high overheads.

b) **Elimination of structural separation -** on February 14, 2019, Bezeq filed a petition with the High Court against the Ministry of Communications for the immediate elimination of the structural separation in Bezeq Group, after the Ministry did not respond to Bezeq's requests, even though, in Bezeq's opinion, all the conditions justifying the elimination of the structural separation, according to the policy document dated May 2, 2012 on the issue of expanding competition in the field of landline communications - wholesale market ("**the Policy Document**") were met, partly because in the field of television services there are companies that provide television services over the Internet, since as of February 17, 2015, there is a wholesale market in the field of broadband, in which there are a variety of providers who provide end-to-end broadband service on Bezeq's infrastructure to more than half a million customers, as well as in light of the fact that there is fierce competition in cellular services.

On July 15, 2020, the State submitted an update notice on its behalf to Bezeq's petition to the High Court. The State's notice included an update according to which on June 30, 2020 the The Director General of the Ministry of Communications submitted to the Minister of Communications the report of the inter-departmental team examining the update of the structural separation obligations in Bezeq and Hot groups ("**the Report**"), according to which the members of the Ministry of Communications team and observers from the Budget Division of the Ministry of Finance and the Competition Authority recommend to the Minister not to eliminate the structural separation obligation in Bezeq and Hot groups at this time. The announcement also stated that the team's recommendations had been presented to the Minister of Communications, and that after studying and examining the recommendations, he would decide on the matter. In light of the aforesaid, the State's position is that the petition should be rejected - and at least removed - while charging Bezeq expenses.

The report (which was attached to the Stat's notice and also published on the Ministry of Communications' website) stated regarding Bezeq, among other things, that:

- The team and the observers found that it was not the right time for the complete elimination of the structural separation in Bezeq Group, since Bezeq Group has significant market power and dominance in the communications market, and that the elimination of the structural separation at this time could increase Bezeq Group's power and harm its competitors.

- According to the team, the existing structural separation provisions have yielded results so far, and the elimination of the structural separation at this time will lead to severe damage to competition in the field of communications, resulting in harm to the public and media consumers.

- According to the observers, the current structural separation structure does not serve the competitive purposes of the separation and does not address the competitive problems in the market and therefore should not remain in its current configuration, but other alternatives should be promoted, such as separating wholesale and retail activities or separating ownership between passive infrastructure and other Bezeq Group activities.

- Despite the team's position regarding the elimination of structural separation at this time, the team did find that certain changes could be made to the overall regulation that have the potential to improve the service to the public and that will affect structural separation. For example, in parallel with the team's work, the Ministry of Communications promoted a sweeping change in the way of operation of the reverse bundle; In the last two years, the Ministry of Communications has not opposed Bezeq Group's moves that reduce the separation in activity between the subsidiaries; the team also recommends that the Minister of Communications examine a change in the separation customary in Israel between the infrastructure service and the ISP service (in this matter see update to section 1.7.2.2).

It was further noted that since the issue of structural separation is not binary, the team believes that the issue should be further examined, and in accordance with, among other things, changes in the market. The team recommends that a period of time be given for the continuation of the Ministry's ongoing administrative work or in any other way that the Minister of Communications decides to deepen and examine the alternatives and recommend regarding the implementation of the chosen alternative.

On February 16, 211, a hearing was held on the petition, at the end of which the Court noted that it believes that the petition will be rejected at the end of the day and therefore recommended that Bezeq withdraw the petition. Subsequently, on February 23, 2021, Bezeq informed the Court that it had decided to accept the Court's recommendation and withdraw the petition, and on February 24, 2021 the petition was removed.

1.7.2.2 Marketing a shared basket of services with a subsidiary and between subsidiaries

Bezeq was allowed to offer subscribers shared services ("Bundles") with the subsidiaries, subject to approval by the Ministry of Communications and subject to a number of conditions set forth in the NIO license, including:

- The baskets will be "detachable", that is - each service included in them will be offered separately outside the framework of a basket of services, under the same conditions.
- At the time of submitting the application for approval of the basket, there is a group of services in a similar format that is marketed to a subscriber as a package by a licensee who is not a Bezeq subsidiary, or there is a group that includes licensees who provide a private subscriber with all services included in the shared basket of services.
- The marketing of shared service baskets by the subsidiaries, which include Bezeq Services, is also subject, according to their licenses, to similar restrictions, including the requirement of "detachability" (except for a basket marketed by a subsidiary that includes only Bezeq's Internet infrastructure service).

These limitations, and in particular the "detachability" obligation, which severely limits the Group's ability to provide discounts on various components in the basket of services, place the Group in an inferior competitive position relative to competing communications groups that are not subject to similar restrictions on the marketing of bundles (except for restrictions that are limited to marketing a shared basket of Hot-Net and other companies from the Hot Group). The Ministry of Communications has approved Hot Telecom and Hot Systems to market to the private segment baskets which include broadcasting, Internet infrastructure and provider and telephony services by Hot. The Ministry later approved the marketing of a shared basket that includes cellular services and international calls. Bezeq's handicap is even more significant with the implementation of the BSA wholesale service, and the ability of Internet access providers (ISPs) to provide a full end to end service (infrastructure + provider) to customers at reduced prices, compared to the detachable baskets the Bezeq is allowed to market, insofar as they are approved.

Marketing a shared web infrastructure services basket along withISP

In 2017, following the Ministry's requirement, changes were carried out in the format of selling bundles, the main one of which is splitting the bundle (supplier and infrastructure) after one year. On June 18, 2020, Bezeq received a decision by the Director General of the Ministry of Communications, according to which the changes made temporarily (on March 25, 2020) in the reverse bundle marketing format, and especially the elimination of the obligation to split the bundle after one year and Bezeq's ability to contact customers and renew the bundle at any time, will be permanently valid. Eliminating the need to split the "reverse bundle" *per se* is expected to positively impact Bezeq's activity in the field of the Internet, to an extent that cannot be fully assessed at this stage, in part, since the results of Bezeq's activity as aforesaid are affected, apart from this decision, also by the moves of its competitors and the conduct of its customers.

Following a supervisory procedure in which it was alleged that Bezeq did not fully comply with the license provisions regarding splitting the reverse bundle after one year (before canceling this format), Bezeq was charged in June 2020 with a financial sanction for marketing the reverse bundle in the amount of NIS 2,013,760. This amount was paid by Bezeq.

Hearing on examining the separation between broadband infrastructure service and Internet access service (ISP):

On October 4, 2020, a hearing was published on examining the separation between broadband infrastructure service and Internet access service (ISP) ("the **First Hearing**") according to which the Ministry of Communications intends to take policy measures that include, among other things, amending the licenses of infrastructure owners - Bezeq and “Hot Telecom" so that from January 1, 2022 they will be allowed to provide customers with a unified Internet service that includes the components that are currently known as "broadband access service for ISP providers" and "ISP service", under the conditions set out in the hearing.

After references to the hearing were submitted, on February 24, 2021, a second hearing was published on the Ministry of Communications' website on the same matter (“**the Secondary Hearing**"), which includes substantive amendments to the outline proposed in the First Hearing, after the Ministry considered the responses received at the First Hearing. In line with the Ministry’s position, it is adamant that the consolidation of the retail Internet service into a unified product should continue to be promoted, along with the existence of a competitive market where each supplier will stand in a single line vis-à-vis the end consumer, when the main tool for reaching this goal is to improve the wholesale market and bring it to a state of self-government and substantial equality.

The following are the main outlines of the proposed amended application:

The parties (infrastructure owners and access seekers) must reach within two months agreements on output indices for the wholesale market. These agreements will be submitted as a shelf agreement for approval by the Ministry of Communications that can approve, reject or adopt it with changes. Then, a three-month period for the calibration and testing of the effectiveness of the model will begin. At the end of the calibration period, the Ministry will announce the beginning of an assessment period of three months, at the end of which infrastructure owners will be able to offer a unified service that includes access services and provider service. The preparation period in both networks will begin only at the end of the calibration period and run-up on the fiber network.

Infrastructure owners will be required to publish the wholesale market output indices to suppliers operating in the wholesale market and the Ministry, and act in accordance with the compensation mechanism, and the Ministry will be allowed to publish these indices to the public or any of the entities it oversees, with the possibility for the Ministry to initiate supervision and enforcement proceedings if the performance indices indicate a violation of the duty of equality in the provision of wholesale services, in addition to the agreed compensation payment included in the shelf offer.

If material difficulties arise in implementing a wholesale market, both with respect to new ultra-broadband networks and with respect to existing broadband networks, the Ministry will review the policy on this issue and operate with the tools at its disposal.

The Ministry intends to establish a mechanism of automatic mobility between suppliers that will take effect on the effective date.

One year after the lifting of the ban on infrastructure providers offering a unified service, the Ministry will examine the number of subscribers in a split and semi-unified configuration, and if it is found that a substantial number of subscribers are still in these configurations, the Ministry will consider taking further steps in order to bring about a situation where the landline Internet service is provided as an end-to-end service by one provider..

Bezeq and Bezeq International are studying the Secondary Hearing documents. Bezeq estimates that as long as the move is implemented and the ban on Bezeq offering a unified service (and Bezeq being able to offer a unified end-to-end Internet service) from the effective date, this is expected to have a positive effect on its business. As far as Bezeq International is concerned, the move could lead to damage to its results and to the impairment of its assets. The total impact on the Group in the coming years is expected to be positive. On March 11, 2021, the Company submitted its response to the Secondary Hearing, according to which the outline of the proposed application at the hearing is incorrect and gives providers instruments to delay the start of the reform and an incentive to distort the measurement results, the ground sof which is a baseless concern of discrimination. The Company offered a shorter and clearer outline for a shelf offer, which does not include fines.

In this regard, see also Bezeq's immediate report dated February 25, 2021, which is included in this report by way of reference.

Marketing a shared service basket with DBS - regarding restrictions on cooperation with DBS for the sale of shared baskets of services by virtue of Bezeq and DBS licenses, see also section 5.15.2. On March 27, 2017, the Ministry of Communications announced to Bezeq that it does not approve the Bezeq’s request to market a shared basket of services with DBS, as the Ministry is facing the completion of a number of regulatory moves that will enable fuller implementation of the wholesale market reform, including the telephony resale regulation, a new regulation of Bezeq retail rates, a regulation of the margin reduction mechanism and a regulation of the marketing conditions of a shared basket of services as part of which Bezeq markets infrastructure services together with ISP Services of an ISP provider ("**Reverse Bundle**"). Therefore, according to the Ministry's announcement, it will be right to examine such requests for a shared basket of services, including Internet, telephony and television, in at least six months, after examining the effect of the above moves on the market and when it becomes clear that Bezeq complies with the regulations. As of the date of the report, Bezeq has not submitted another request on the subject. It should be noted that on February 15, 2018, the Ministry referred to Bezeq's announcement regarding an intention to send interested customers a link to the DBS website and expressed its position that the marketing of DBS’s television over the Internet ("Sting") by Bezeq is not in accordance with the structural separation provisions detailed in Bezeq’s license, and Bezeq is not marketing the DBS "Sting" service in accordance with the aforesaid.

Marketing of a shared basket of services with Pelephone - On February 10, 2019, the Ministry rejected Bezeq's request of January 13, 2019, to market a shared basket of Internet infrastructure (with or without an Internet provider), together with Pelephone's cellular services, *inter alia*, for the reason that it was not found that the request has the potential to contribute to competition in the communications market, but can also lead to harm to the developing competition in the wholesale market and to the existing competition in the cellular market, and to the strengthening of Bezeq Group and its existing competitive advantages. The rejection letter also stated that the marketing of shared services baskets was discussed by an inter-ministerial team that examines the structural obligations that apply to Bezeq and Hot groups (the team examining the obligation of structural separation). It should be noted that in the past, shared baskets with Pelephone were approved.

1.7.2.3 Additional restrictions on collaboration and preference between group companies

There are additional restrictions on cooperation between Bezeq and the Group companies both by virtue of competition law and conditions set by the Competition Commissioner for mergers between Bezeq and Group companies, which prohibit discrimination in favor of the Group companies in the provision of certain services (see section 2.16.8), and by virtue of the provisions of Bezeq's license, which require it to provide its services equally. For additional restrictions see also section5.15.2.

Removal of the restrictions on structural separation and other restrictions that apply to collaborations between the Group companies as detailed above, insofar as they are removed, may create different opportunities for the Group to exploit such synergies or facilitate the exploitation of such synergies..

1.7.3. Regulatory supervision and changes in the regulatory environment - wholesale market

In recent years, a model of "wholesale market" has been implemented in Israel, in which the owners of the nationwide landline access infrastructure in Israel (Bezeq and Hot) have been required to allow other communications operators to use Bezeq infrastructure at the prices set in the regulations.

In this context, the Ministry of Communications established "service portfolios" for the various services, in which the format of the provision of services by the infrastructure was determined:

1.7.3.1 Wholesale BSA service

This service allows infrastructure-less service providers to offer their customers a full Internet service that includes both an Internet connection service (of the service provider) and an Internet infrastructure service (based on Bezeq's network). Since the launch of the service, hundreds of thousands of customers have moved to receive service through such service providers.

1.7.3.2 Wholesale physical infrastructure use service

This service allows infrastructure-less providers to use Bezeq's physical infrastructure for the passage of communication cables, as well as the use of dark fiber.

The service was expanded after Bezeq was obliged to allow other NIO license holders, who are not necessarily infrastructure-less providers, to use its passive infrastructure for the purpose of performing any Bezeq operation and providing any Bezeq service according to their licenses. Bezeq was also given the right to use the physical infrastructure of other companies.

1.7.3.3 Wholesale telephony service

This service enables infrastructure-less service providers to offer their customers telephony service at wholesale rates through Bezeq's network. Until August 2018, a temporary arrangement for one year was in force, which allowed Bezeq to provide the service in a resale format, namely - a format in which the service provider purchases a line and call minutes and receives a package of services (including technician services) from Bezeq, while in accordance with the Ministry of Communications' announcement, as of August 2018, Bezeq is obligated to provide the service in a "Wholesale" format, namely - a service format in which the service is provided using Bezeq's switch, but the call also goes through the service provider's switch, both as ann individual service and as an additional service to the BSA service. As of August 2018, Bezeq is prepared to provide resale services at wholesale rates (excluding technician services) - although in this service the call does not pass through the service provider's switch, and as of early 2019 Bezeq is prepared to provide a wholesale telephony service solution that passes through the service provider's switch, and is based on both Bezeq's subscribers switch and an additional component external to the switch (for more details, see also sections2.1.8, 2.7.2 and 2.16.4). As it became clear after discussions that took place, *inter alia*, in the Ministry of Communications, the service providers are not prepared to act according to the format of the service portfolio.

Regarding the new switch that complies with the requirements of the Ministry of Communications for the service format, see section2.7.2.

The maximum rates that Bezeq may charge for the provision of services are regulated in the regulations.

The sale of wholesale services on the Hot network began, to the best of Bezeq's knowledge, in the middle of 2018, and Bezeq estimates that the volume of wholesale subscribers on the Hot network is not high at this stage.

The regulatory determinations in relation to the wholesale market as well as its implementation and development during the reporting period have an impact on a significant part of the Group's activities. For more details about the wholesale market services and their regulation, see section2.16.4.

1.7.4. Additional regulatory aspects that are relevant to the whole Group or to a number of companies in it

1.7.4.1 Interconnectivity rates

The Group's communications companies (Bezeq, Pelephone and Bezeq International) pay interconnectivity fees to other communications operators for calls that end in the networks of those operators and some (Bezeq and Pelephone) receive interconnectivity fee payments for calls that ended in their networks and from international communication operators for outgoing and incoming calls to their networks. Interconnectivity rates are set as maximum rates by the regulator in the interconnectivity regulations. Changes in interconnectivity rates have a offsetting effect at the Group level in light of their effect on Bezeq's expenses and income and the subsidiaries in this matter.

1.7.4.2 Limiting the exit fee that a licensee may charge from a subscriber

In accordance with the provisions of the Communications Law, NIO, international operator and broadcasting licensees (including Bezeq, Bezeq International, DBS and BAP) are not allowed to charge an exit fee for cancellation of contract by a subscriber whose average monthly bill is less than NIS 5,000, or deny him a benefit he would have received if he had not terminated the contract[15]. Cellular operators (including Pelephone) - are not allowed to charge exit fees from customers who hold up to 100 telephone lines or link a contract for the receipt of cellular services to a contract for the purchase, rent or borrowing of end equipment ("disconnection"). As a rule, these restrictions make it difficult for operators subject thereto to retain customers.

1.7.4.3 Prohibition of discrimination in the provision of benefits and unique rate plans

The Ministry of Communications has previously expressed, among other things, in motions for approval of class actions filed against Pelephone, Bezeq International and DBS claiming customer discrimination, various positions stemmed from the fact that communications companies may be limited in certain circumstances in their ability to offer unique benefits and rate plans to their new customers or prevent a subscriber from switching to plans that are marketed to new customers. The Ministry of Communications announced in the past that it intends to examine the holding of a hearing in relation to the change in the provisions of the licenses regarding price discrimination between subscribers in order to create unification in the licenses aiming to create unification and in a manner that is consistent with changes and permutations in the market, and has not yet done so. On December 9, 2019, the Tel Aviv-Yafo District Court issued a ruling in which the Court addresses the changing positions of the Ministry of Communications in the matter and expressed its position that there was no need to adopt the position of the Ministry of Communications, since there were a number of major flaws in the formulation of its opinion and the manner in which it was made (lack of factual infrastructure, lack of consultation wit the Competition Authority, lack of reasoning, incoherence and failure to hold a hearing). The ruling rejected the approval of the class actions and an appeal was filed against it. For further details, including an appeal filed against the ruling, see sections3.16.1d and e, 4.12.1, 4.12.1c and 5.17.1a.

1.7.4.4 License amendments and related legislation

a) Response times at call centers

The amendment to the licenses of Bezeq, Pelephone and Bezeq International have established, among other things, provisions regarding the obligation to route calls in certain matters to professional human response, response times, as well as provisions regarding call center hours, recording and documentation of calls and reporting obligations. The amendment entered into force on the date of its entry into force of the amendment to the Consumer Protection Law (July 25, 2019), which deals, among other things, with the waiting period for a human response. The DBS's broadcasting license has been similarly amended. The amendments led to an increase in the operating costs of the Group companies' call centers. It should be noted

[15] With regard to the operators' claim in the hearing held by the Ministry in connection with this directive, according to which discounts or benefits stipulated by conditions that the subscriber is required to comply with do not constitute a violation of the directive, the Ministry stated that it will examine whether the condition is true and relevant also when the subscriber remains a subscriber with the operator.

that in November 2019, the Ministry of Communications issued a demand for data as part of an inspection of the operation of all communications companies regarding waiting times for a human response at call centers. A similar demand was addressed to DBS in January 2020. On June 15, 2020, Bezeq received an inspection report according to which, in light of the low deviation rate (7%), it was decided not to continue enforcement proceedings against Bezeq. In January 2021, Bezeq International received a notification from the Ministry of Communications stating that Bezeq International had exceeded the waiting times for a human response it was required to meet, and therefore the Ministry intends to impose a financial sanction of approximately NIS 285k. In February 2021, Bezeq International submitted a response to the Ministry of Communications, in which it challenged the financial sanction and the manner of measuring the deviations.

b) Amendment of the IPv6 protocol (Internet addresses)

On July 3, 2019, the Ministry of Communications issued a decision by way of hearing and amendment to the license according to which the transition to the IPv6 protocol will be executed according to the milestones determined. For Bezeq (as a holder of a landline NIO license) and for holders of Internet access licenses, it has been determined, among other things, that the network and its components will be adapted in a way that allows access to Internet service subscribers via IPv6 protocol from any end equipment supporting the IPv6 protocol, that the licensee must proactively transfer to addresses in the IPv6 protocol existing and new subscribers with end equipment that supports the IPv6 protocol. The transfer of subscribers will be done according to milestones, so that up to 24 months from the date of the amendment, 50% of the subscribers will move, up to 36 months - 75% and up to 48 months – 100% (except subscribers who hold private end equipment which does not support the IPv6 protocol and decided not to replace it, provided that the licensee, among other things, will sign a waiver). Regarding holders of mobile radio telephone licenses (such as Pelephone), it was determined that the proactive transfer will reach 100% within 24 months. Bezeq is preparing for the transition, and at this stage does not anticipate a material expense in respect thereof.

1.7.4.5 Consumer legislation and privacy protection laws

Changes in consumer legislation affect the activities of the Group companies on an ongoing basis. In recent years, various amendments to the Consumer Protection Law and its regulations have been approved, including cancellation of transactions even after the service has begun, disconnection from ongoing services, the need for explicit consent to continue transactions after the stipulated period, the sending of messages, provisions regarding the refund of charges collected from a subscriber not in accordance with an engagement agreement plus a fixed handling fee in accordance with the law, as well as maximum waiting time for human response and extension of technicians' visiting hours at customers' homes. In addition, a variety of bills for additional amendments to the Consumer Protection Law have been brought before the Knesset, which may have an impact, among other things, on the terms of the Group's contracting and conduct with their subscribers.

On November 24, 2020, an amendment to the Consumer Protection Law was published, according to which a database will be established and managed by the Consumer Protection Authority to restrict a dealer's marketing inquiries through telephone calls (including an electronic communication call) in order to engage in a transaction. Pursuant to the amendment, the database will register telephone numbers of consumers who wish to restrict such marketing inquiries to them and a dealer will not be allowed to contact a consumer whose telephone number is registered in the database with marketing offers (subject to exceptions provided by law). The date of commencement of the amendment in this matter is 18 months from the date of its publication. The Group companies are unable to assess at this stage the effect of the amendment on their marketing and sales ability.

In addition, the activity of the Group companies is affected by the provisions of the Privacy Protection Law and its regulations regarding the management and maintenance of databases and the security of the information contained therein.

In May 2018, the Privacy Protection Regulations (Information Security), 5777-2017, entered into force, imposing various obligations on the database owner, including obligations to establish procedures and perform risk assessments in relation to information security, as well as the use of advanced security measures for information protection.

1.7.4.6 Enforcement and financial sanctions

In the last few years, the Communications Law, the Economic Competition Law, the Securities Law, the Consumer Protection Law, the Law for Increasing the Enforcement of Labor Law and the Telegraph Order were amended and by virtue thereof, regulators were granted powers of enforcement, supervision and the imposition of significant tiered financial sanctions for violations of the said laws or regulations and provisions thereunder. Such legislation has an effect on the conduct of the Group's companies, *inter alia*, in terms of the concern of the imnposition of sanctions on them, their defense capability, etc.

In recent years, the Ministry of Communications has made extensive use of its powers to supervise and issue notices of intent to impose financial sanctions on Bezeq in current regulatory matters. For the financial sanction regarding the implementation of the wholesale market, see section 2.16.4.2 and for the announcement regarding the imposition of a financial sanction regarding wholesale telephony service, see section 2.16.4.4. For the financial sanction for passive infrastructure in the matter, see section2.16.8.5. For the financial sanction in the matter of the Reverse Bundle, see section1.7.2.2.

The Consumer Protection and Fair Trade Authority also makes use of the enforcement powers conferred on it by the Consumer Protection Act, and from time to time data demands are issued, investigations are conducted against the Group companies on suspicion of violating this law and fines are imposed. In this context, in February 2021, Bezeq received a notification from the Consumer Protection Authority of an intention to charge Bezeq a financial sanction of NIS 6.75 million for alleged violation of Article 2(a)(1) of the Consumer Protection Law, claiming that Bezeq did not supply thousands of consumers who purchased a browsing package of the type TOP 100 with this speed. Bezeq submitted its response to the notification and requested that the notification be canceled, since after understanding the findings, they do not arise of any concern of misleading customers.

1.7.4.7 The Centralization Law

In December 2013, the Centralization Law was published. The following is a summary of the main provisions of the law relevant to the Group:

a) Restrictions on granting credit to business groups

The Minister of Finance and the Governor of the Bank of Israel have been authorized to establish regulations and directives regarding credit restrictions to be granted by financial entities in Israel, cumulatively, to a corporation or business group (a group of companies under joint control and ownership).

b) Consideration of centralization considerations of the economy in the allocation of rights - restrictions on the allocation of rights in essential infrastructure are to a " centralized entity "

The law establishes a special and restrictive procedure which each regulator must take before allocating rights (such as a license, franchise, entering into a contract with the State to operate an essential infrastructure and in some circumstances also an extension of existing licenses) in areas defined as "essential infrastructure" to factors who were defined as "centralized entities". In this regard, a list has been defined of areas that will be considered "essential infrastructure areas", including activities in which certain communication licenses are required (NIO except for unique NIO (such as VoB operators) and cellular), broadcasting licenses and other areas. The Company and corporations under its control are included in a list published by the Competition Authority and are considered a "centralized entity". The procedure established by law regarding allocation of rights to a centralized factor shall also apply to the granting of approval for the transfer of means of control in companies held by the State or which were previously state-owned companies (including Bezeq) at the rates prescribed by law, to a centralized entity.

The law may have adverse effects on the Group's ability to operate in new areas of activity and even on its activities in its existing areas of activity.

c) Separation between significant real corporations and significant financial entities

The law sets limits on the holdings of financial entities in significant non-financial corporations, on certain types of cross-holdings in significant non-financial corporations and in significant financial entities and on cross-holdings in such entities. The company and corporations under its control are defined as significant real corporations under the Centralization Law.

1.7.4.8 Millimeter waves

Millimeter-wave technology makes it possible to wirelessly transmit significantly larger bandwidth than previously available technologies. The technology can be used both from point to point and from point to multiple points.

Following the hearing published by the Ministry on September 9, 2019 regarding the application of the use of frequencies that enable the operation of millimeter wave technology. On April 6, 2020, an amendment to the Wireless Telegraph Order (Non-Applicability of the Order) (No. 2), 5742-1982 was published, which provides, under certain conditions, non-applicability of the Wireless Telegraph Order with respect to use in the field of V-Band at frequencies 57-66 GHz (it should be noted that on September 15, 2020 an amendment was published extending the exemptions to the above frequency range under certain conditions, both intended to be used as fixed stations in a wireless line from point to point outside the building (outdoor) and intended to operate inside buildings only (indoor). Also, on August 2, 2020, an additional amendment was published to the above Order stipulating, under certain conditions, the non-applicability of the Wireless Telegraph Order with respect to additional uses. On December 15, 2020, the Wireless Telegraph Regulations (Licenses, Certificates and Fees) (Amendment), 5720-2020 and the Wireless Telegraph Regulations (Licenses, Certificates and Fees) (Temporary Order) (Amendment No. 2), 5780-2020 were published, relating to reduced fees in light licensing in the frequency ranges: 74 to 76 GHz and 84 to 86 GHz.

1.7.4.9 Asymmetry in infrastructure information

Following the hearing held on the subject, the Ministry of Communications issued a decision on November 2, 2020, regarding asymmetry in information regarding infrastructure and amendment of the wholesale BSA + telephony service portfolio, which, among other things, imposes on infrastructure owners, including Bezeq, periodic advertising obligations on the computerized interface (API) and on its website regarding advanced network deployment. In addition, Bezeq must publish detailed statistical information on an internal interface between the operators, which relates to a wide range of parameters. The service portfolio amendment also stipulates that Bezeq must provide the service providers with the characterization of the mechanized interface that is appropriate for the service providers and complete its development and the publication of the network's deployment, within the deadlines set in the service portfolio amendment. An amendment to Bezeq's license was also subsequently issued regarding the submission of an engineering plan and the preparation of upgrades / developments in the network.

1.7.4.10 Changing the format of the regulation of the provision of Bezeq services

On March 3, 2021, Communications (Bezeq and Broadcasting) Law (Amendment No. 75) (change in the Format of Bezeq Regulation), 5781-2020, was published. The bill proposes to change the format of the existing regulation in the law (according to which the main tool for the regulation is a license to provide Bezeq and broadcasting services) in such a way as to eliminate the obligation to obtain a specific license in advance (per person and operation) as a condition for performing a Bezeq operation. It is proposed instead that the default regulation of the provision of communications services in Israel be through registration in a register maintained by the Director General of the Ministry of Communications, after testing only for minimum threshold conditions. The conditions registered in the register will be subject to conditions to be determined in the general authorization, which prescribes clear and detailed conditions, which may apply in the same way to all service providers, allows any person interested in providing a Bezeq service to know in advance the conditions for such activity, and start operating without requesting or obtaining a license. According to the explanatory statement, the change in the format of the regulation is proposed in a way that will reduce the bureaucratic burden, lower barriers to market entry, and conform to what is accepted in the world in the field of communications. In addition, the definition of "Bezeq service" subject to the regulation will be changed, to reduce the services subject to regulation. "Bezeq service" is defined as a service provided to the public or part of it through Bezeq's network, which is one of the following: (1) a service for the purpose of which the Bezeq network is operated and is a data transmission service, or other service in respect of which there is a public interest concerning state security, public safety or the promotion of competition and shall be a subscriber under the First Schedule (2) telephony; (3) Internet access.

The bill also proposes that the obligation to obtain a license apply when it comes to (a) Bezeq service for the purpose of providing the operation of a Bezeq network that is a mobile radio telephone system or a Bezeq network whose number of users or the number of network endpoints or end points in which exceeds the number determined by the Minister (B) Bezeq service for the purpose of providing direct operation of a Bezeq network operating via satellite under certain conditions; (c) Bezeq service for the purpose of providing direct operation of a Bezeq network which is an underwater communication cable; (d) Bezeq operation with an underwater cable. Also, a local authority (including a municipal company or a municipal subsidiary) will not provide a Bezeq service without a license. The Minister has the authority to determine additional Bezeq services that will be subject to a license, as well as additional service providers to whom the licensing obligation will apply. Under the bill, Article 5(j) of the law is amended so that passive use of the Company's infrastructure will be possible for an "authorized provider", including a permit holder. It should be noted that in Bezeq's comments on the law memorandum dated August 9, 2020 which preceded the above proposal, it was clarified that despite the need to facilitate essential services (especially those based on physical infrastructure), multiplicity of operators may affect other regulations in the market in a way that may undermine Bezeq's investment considerations in light of its inability to compete on equal terms in areas where deployment by providers by virtue of a general permit is expected. Moreover, amending the law could lead to the entry of dozens of elements into Bezeq infrastructure and their uncontrolled use thereof, with all that that implies.

1.7.4.11 Data demand hearing - Consumption of Communication Services

On January 17, 211, the Ministry of Communications issued a hearing according to which the Ministry intends to demand a very large monthly transfer of data on the characteristics of the consumption of communication services by subscribers (including identifying details about the subscriber, the package consumed thereby, and details regarding each of the services consumed by the subscriber). The data demand will be sent to all operators in the communications market that provide services to end customers (private and business) as well as to various licensees and it applies to all types of customers who receive service from the licensee (private and business), both wholesale and retail. According to the hearing, cross-referencing the information will allow the Ministry to obtain a complete picture of the activities of communications providers on the one hand, as well as the characteristics of the communications consumer on the other, and it is expected to allow the Ministry to monitor the level of competition in the various sub-markets. On March 9, 2021, Bezeq submitted its response to the hearing, according to which the hearing is fundamentally flawed by many problems and failures, including a breach of privacy and business secrecy; Information that is vast in scope without defining a purpose on the basis of which an adapted data demand has been clearly formulated, when this is not intended by authority in law; Creating a very tangible danger due to the construction of a huge database, which centralizes detailed information, at the personal, financial and business level, of all citizens of Israel and the business companies active in it, while creating endless opportunity for cross-referencing information; The individual resolution of the requested data creates an opening for a jungle of legal issues. The reporting format is often irrelevant and / or inapplicable; The scope of resources required by Bezeq for the benefit of the matter is very significant and requires a diversion of manpower in the field of information systems from critical business activities. Bezeq believes that the solution to these problems is to shelf the intention presented at the hearing for the comprehensive transfer of all Bezeq's customer data, or alternatively a specific definition of goals and objectives on the basis of which the data relevant for their achievement will be clearly and accurately defined, and which complies with the Ministry's powers in receiving information and is supported by the structure of Bezeq's information systems. A similar reference was also submitted by the subsidiaries Pelephone, Bezeq International and DBS.

1.7.4.12 For the decision by hearing regarding licensing for new operators for the provision of Internet access infrastructure services - see section2.6.3.6.

1.7.4.13 Inactive subscribers

On September 10, 2020, the Ministry of Communications contacted the telecommunications operators (including Bezeq, Pelephone and Bezeq International) in a letter in which it raised concerns that some of the subscribers to the operators' services are not using them and are not even aware of it. The Ministry recommended in its appeal to operators to act to notify and stop charging subscribers who do not use these services, and also requested periodic reports on the matter, over the next 6 months. It was also stated that the Ministry will consider in the future whether to set binding provisions in the matter, in case proactive actions will not lead to a significant reduction therein. Regarding the handling and consequences of the Ministry of Communications' request to Bezeq International, see section 4.4. Bezeq and Pelephone transmit the requested information and from an examination of the issue by them, it does not appear that this is a phenomenon with significant consequences for them. On January 14, 2021, a preliminary request was also sent to DBS by the Cable and Satellite Broadcasting Council regarding "Demand for information about "dormant" subscribers as well as about services that subscribers pay for and do not use". In March 2021, DBS replied that due notice was given to its subscribers, and that it could not provide the requested information due in part to the lack of established information in its hands, due to the Council's lack of authority in at least some of its requests, and due to additional difficulties inherent in the Council's application**.**

1.7.5. Restrictions on creating liens on the assets of the Group companies

For the sake of convenience, the following are references to sections in the 2020 periodic report that relate to the restrictions that apply to the Group companies in the lien on their assets and the main restrictions:

1.7.5.1 Regulatory restrictions - The Communications Law, the Communications Order (applicable to Bezeq) and some of the communications licenses of the Group companies include restrictions on the granting of rights to third parties in the assets used to provide the essential service or in the license assets.[16], as the case may be, including the need to obtain regulatory approvals to create liens on these assets. In some cases, for example Pelephone's mobile radio telephone license and Bezeq International's unified license, there are exceptions that allow the creation of liens in favor of a banking corporation without the need for advance regulatory approval, provided that the lien agreement includes provisions ensuring that the exercise of the lien by the banking corporation will not impair the provision of the services under the license. In addition, according to the provisions of the law and the media licenses, the license and the rights under it are not transferable, and cannot be encumbered or foreclosed (subject to exceptions). See also sections2.16.3.7, 3.14.2 and5.15.1.7.

1.7.5.2 Restrictions on agreements- Bezeq undertook to certain financiers in an undertaking not to encumber its assets unless it creates in favor of those financing bodies at the same time a lien of the same type, rank and amount (negative lien), subject to certain exceptions. see also Note 14.4 to the 2020 statements.

1.7.6. Pandemic - Outbreak of COVID-19

At the beginning of 2020, a global outbreak of the Coronavirus (COVID-19) began, which is an incident with many implications, including macroeconomic ("**the Incident**"). Following

[16] The assets needed to ensure the provision of services by the licensee.

the Incident, many countries, including Israel, have taken and are taking significant steps in an attempt to prevent the spread of the virus, such as restrictions on the movement of citizens, gatherings, transport restrictions on passengers and goods, closing borders between countries, and so on. As a result, the Incident and the actions taken as aforesaid have significant implications for many economies as well as for the capital markets in the world, including a general decline in the levels of business activity in the economy (see section2.20.10), leading to payment problems in certain segments.

In view of the effects of the pandemic on the whole economy, on the world and on the Group companies, which also involve a great deal of uncertainty, there may be a material adverse effect on the Group's results, mainly as a function of the duration and scope of the restrictions. During 2020 until the date of publication of the report, the impact of the Incident is mixed - a significant decrease in revenues from roaming services in Pelephone and a certain decrease in revenues from the business segment in all Group companies were offset almost entirely by increased consumption and revenues from landline communications services in the private segment. In addition, the prolongation or exacerbation of the crisis may damage revenues from the sale of mobile end equipment as well as collection amounts and dates, mainly from some of the Group's small to medium-sized business customers.

The Group companies take various actions to deal with the risks and exposures arising from the consequences of the Incident, including remote work, training for employees required to be in contact with the public, purchase of required accessories, activities to increase equipment inventory and expanding core product supply sources.

It should be noted that since the beginning of 2021, an operation to vaccinate the population in Israel against the virus has begun, an activity that may mitigate the effects of the pandemic and allow, to a certain extent, a return to the economy's routine of economic activity.

The Company's estimates as aforesaid are forward-looking information and may vary depending on various developments regarding the COVID-19 pandemic and its effects, in particular the duration and extent of the Incident, the nature and extent of the economic and other restrictions associated with it, and the intensity and duration of the economic recession.

It should be noted that during the period various actions were taken by the Ministry of Communications (and also by the Council and the Chairman of the Council regarding DBS) to deal with the consequences of the Pandemic, including providing temporary relief to communications companies (some of which have already expired), *inter alia*, regarding response times at call centers, mobility, connection and collection of equipment and TReverse Bundle.

For the purposes of this section, see also section __ of the Board of Directors' Report and Note 1.4 to the 2020 statements.

For this matter, see also the description of the risk factors in all areas of activity in sections2.20.13, 3.19.1.2, **Error! Reference source not found.** and 5.19.1.4.

1.7.7. For a description of additional regulatory developments during the reporting period and to describe the main restrictions that apply to the Group's areas of activity, see sections 2.16, 3.14, 4.11 and 5.15.

1.8. Bezeq Group Business Strategy

The Group's vision

Bezeq Group will lead the communications market in Israel, satisfy the entire communications needs of the private and business market and strive for continuous improvement in its business results.

Group strategy

- Leading the communications market In Israel, through investment in quality and advanced infrastructure and the provision of quality and efficient service.
- Focus on broadband infrastructure: fiber optics and the 5G network (core areas), as the Group's continuous growth engines.
- Profitability and market share:

  Subsidiaries - striving to improve profitability without impairing market share

  Bezeq Fixed Lines - striving to preserve market share / increase in specific segments, while maintaining profitability

- Continued streamlining based on focusing on core business and administrative reduction, and striving to improve managerial flexibility and responsiveness
- Maintaining financial resilience and stability
- Initiating business development measures (including M&A), in areas that touch / expand on the core areas
- Striving for regulatory elimination of the structural separation, which will enable a full merger of the companies in order to improve customer service, strengthen competitive capacity and bring value to shareholders
- Connecting and harnessing management and employees to create value for the Company through incentives and rewards.

Streamlining moves and promoting the assimilation of synergies between subsidiaries

The subsidiaries Pelephone, Bezeq International and DBS (the "**Subsidiaries**") have implemented and are implementing significant moves to promote and assimilate the synergy between them, including the signing of collective agreements which include streamlining and synergy procedures; Transition to managements in a similar composition, while streamlining decision-making processes, along with savings in expenses; Implementing streamlining measures and saving on operating expenses; Sales of the companies' services through the distribution channels of the other companies; Implementing a shared customer management system (CRM) over an advanced Cloud platform; Implementing additional synergistic moves such as cross sales, deepening shared procurement and using shared resources. In this matter, see also section **1.1.4.**

For details on additional strategic objectives in relation to each of the Group companies, see sections2.19, 3.17, 4.13 and 5.18.

In respect of decisions by Bezeq's Board of Directors and DBS's Board of Directors regarding an outline for a gradual transition from satellite broadcasts to transmission via the Internet (OTT) see section5.19.

The assessments described in this section are forward-looking information that may be affected by various factors, including future changes in the Israeli market in general and in the communications market in particular, strategic and other moves to be made by Bezeq and its subsidiaries, regulatory changes, Bezeq's competitive position, etc. The above may be affected by the materialization of some of the risk factors listed in the sections 2.20,3.19, 4.14 and 5.19.

1.9. Incident outside the scope of the corporation's business

As part of the preparation of the quarterly report and as part of the process of preparing and closing the financial statements for the period ended September 30, 2020, Bezeq International found that there are discrepancies between the assets and liabilities listed in its books and the actual assets and liabilities, due, among other things, from the non-imputation of costs from previous years in respect of payment of advances to suppliers to the income statement and improper recognition of advance expenses. Following the discovery of the discrepancies, Bezeq International's Management began an immediate examination of the issue and carried out compensatory actions, tests and procedures, while investing a great deal of effort and resources, in order to prepare the financial statements lawfully.

Bezeq's Board of Directors has appointed an independent external examiner[17] for an in-depth investigation of the incidents and circumstances. On February 4, 2021, the external auditor presented his findings to Bezeq's Board of Directors as part of an examination report prepared by him (the "**Examination Report**"). The findings mainly referred to: payable balances of suppliers that were not reflected in Bezeq International's statement of income in 2001-2003 (as part of the audit, documentation was found that some of Bezeq International's CFOs had known for years about unexplained debit balances); Lack of recognition of expenses in parallel to revenue in service agreements with customers between the years 2018-2019; Failures in the control systems that enabled the occurrence of the incidents and their duration; And disruption of data presented to the auditor. The executive summary of the Examination Report is attached as an appendix to Bezeq's immediate report dated February 7, 2021, which is included in this report by way of reference. It should be noted that the Examination Report did not reveal any new findings in relation to the data that Bezeq reported in relation to the amounts of the discrepancies discovered between the assets and liabilities registered in Bezeq International's books and the actual assets and liabilities, or in

[17] An examination team from Fahn Kana & Co. headed by CPA Mickey Blumenthal.

relation to the effect of these discrepancies on Bezeq International's financial results as included in Bezeq's financial statements as of September 30, 2020 and its financial statements as of December 31, 2019 and September 30, 2019, which were restated. After discussing the findings of the Examination Report and its conclusions, Bezeq's Board of Directors and Bezeq International's Board of Directors decided to adopt the external examiner's recommendations included in the Examination Report and complete the implementation of the recommendations from the Examination Report, as part of the deficiencies correction plan that Bezeq International's Management began to carry out immediately upon its discovery of the discrepancies. Bezeq International’s Board of Directors also decided to act in accordance with the law to terminate the employment of a number of employees in the Finance Division at Bezeq International who were involved in the incidents subject to the investigation (who are not officers therein). It should be noted that the Examination Report states that from the examination results and the samples made by the external examiner, no indications were found that raise suspicion of the occurrence of an embezzlement incident during the examined period. In addition, Bezeq's Board of Directors decided to authorize Bezeq's Audit Committee to continue discussing the findings and recommendations of the report, including monitoring the implementation of the recommendations, discussing implications for audit and control issues and examining the need to draw conclusions and take further action.

For further details on this matter, including the details of the effect of the discrepancy corrections on the Group's capital and the recognition of an additional impairment loss as a result of the update of the value of the activity and the book value of Bezeq International, as well as adjsutment by way of restatement of the Group's financial statements made in light of the examintion results as stated above, see also immediate reports by Bezeq and the Company dated Septmber 11, 2020, November 18, 2020, November 19, 2020, November 30, 2020 and December 3, 2020 included in this report by way of reference, as well as Chapter E of the 2020 statements. Also, regarding legal proceedings related to this matter see section2.18.1.

2. Bezeq – Landline interior communications

2.1. General information about the field of activity

2.1.1. The field of activity and changes that apply to it

Bezeq owns a general license for the provision of landline interior communications services and provides a variety of communication services as specified in section 2.2, the main ones being: Internet access infrastructure services, landline interior telephony, transmission and data communication services, Cloud and digital services and wholesale services (for wholesale services, see section2.16.4).

2.1.2. Legislative and regulatory constraints and special constraints

2.1.2.1 Communications Law and Bezeq's NIO license

Bezeq's activities are subject to governmental regulation and comprehensive supervision arising from Bezeq's status as a general licensee under the Communications Law, subject to the provisions of the Communications Law, the provisions, regulations, orders and rules enacted thereunder and the provisions of the NIO license and other laws. In this regard and for the restrictions on Bezeq's activities, *inter alia*, regarding the determination of rates, structural separation, approvals for new services and service baskets as well as wholesale market see section1.7.2 and section 2.16.

Additionally, Bezeq has been declared an essential Bezeq service provider under the Communications Order. By virtue of this declaration, Bezeq is obligated to provide a number of basic services under the NIO license and may not discontinue or reduce them without approval. The order further stipulates restrictions on the transfer and purchase of means of control of Bezeq and certain restrictions on Bezeq’s activity. For details, see section2.16.3.

2.1.2.2 Laws of Economic Competition

Bezeq has been declared a monopoly in the main areas of its operations, and it is also subject to supervision and restrictions under the Economic Competition Law (see section2.16.8).

2.1.2.3 Environmental law and planning and construction law

Some of Bezeq's activities involve the use of wireless frequencies and the operation of facilities that emit electromagnetic radiation, which are subject, respectively, to the Telegraph Order (see section 2.16.9), to the Non-Ionizing Radiation Law (see section2.15.2), and to National Outline Plan 36 and National Outline Plan 56 (see section 2.16.10).

2.1.3. Changes in the scope of activity in this field and its profitability and developments in the market and in the characteristics of customers

For key data on the scope of activity in the field of landline interior communications and its profitability in 2019 and 2020, see section 1.5.4.1. The following is a description of the main changes in the scope of activity in this field during the reported period[18]:

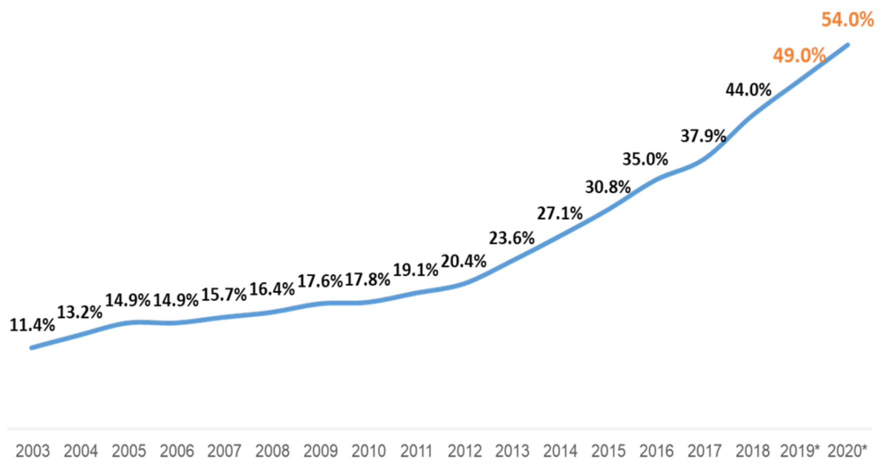
2.1.3.1 Wholesale market - At the beginning of 2015, Bezeq began providing a wholesale BSA service for service providers, when as of the end of 2020, the number of wholesale Internet subscribers on Bezeq’s network was approximately 557k subscribers, constituting approximately 36% of all Bezeq's Internet subscribers. In this context, it should be noted that within these subscribers there are also subscribers that were not on Bezeq’s network in the first place (new or from a competing network). There is no demand for wholesale telephony services (zero subscriptions as of the date of publication of the report). For this matter see section2.16.4.

2.1.3.2 The field of landline telephony - in recent years, the field of landline telephony has been characterized by a decrease in demand, which is reflected in a decrease in the rate of landline telephone subscribers and a gradual erosion in the number of calls originating in landline networks. In Bezeq's estimation, this trend is mainly due to the increase in the use of cell phones in light of large-scale

[18] For details of the data as well as subscrber definitions and average income, see the notes to the table in section 1.5.4.1.

call packages that cellular companies have marketed extensively in recent years and a decrease in prices in the field (Bezeq estimates that 85% of all calls originate in the cellular network), as well as an increase in the number of calls over the Internet (See section2.1.4). In 2020, there was a decrease of about 5% in the number of Bezeq subscribers. Also, probably due to the effects of the COVID-19 crisis, there was a 17% increase in the number of call minutes (outgoing and incoming) on Bezeq landline telephone lines compared to 2019, and a corresponding increase of about 2% in the average monthly income from a telephone subscriber.

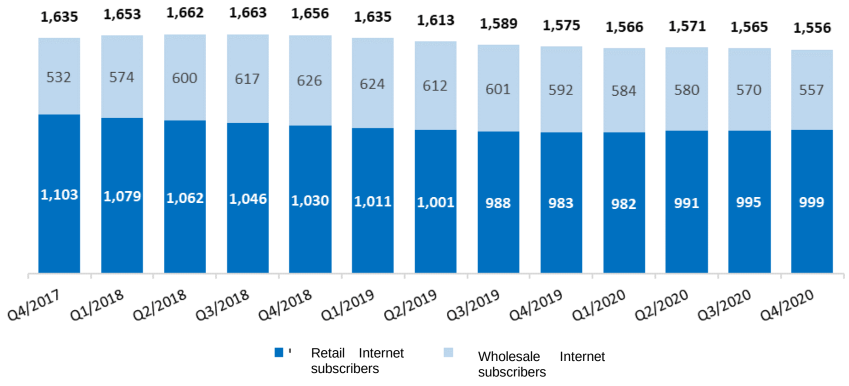
Diagram - Rate of households without a landline telephone line[19]



2.1.3.3 The field of Internet access - in the Internet market, there has been growth in recent years in terms of the number of customers. In addition, the Internet field is characterized by an increase in browsing rates and the adoption of advanced services and value-added applications. During 2020, Bezeq estimates that there will be a 2% increase in the number of landline Internet subscribers in Israel compared to 2019. In 2020, there was a 1% decrease in the number of Bezeq Internet subscribers (retail and wholesale) compared to 2019. In 2020, there was an increase in Internet subscribers through fiber optic infrastructures of competing companies. The COVID-19 crisis has accelerated the shift of subscribers to other infrastructures that can provide higher speeds. In addition, in 2020 there was an increase in the number of subscribers to the wholesale market on Hot's cable infrastructure, the number of Hot subscribers is not known and Bezeq does not have information about this figure. Bezeq began marketing the 200Mb speed in November 2020 to potential customers using 35B technology. As of the end of 2020, the number of subscribers in this technology constitutes about 1% of the number of retail Internet subscribers. The average monthly income per Bezeq Internet subscriber (retail) increased by about 2% compared to 2020.

19 The data were taken from the publications of the Central Bureau of Statistics (press releases, preliminary findings from the Household Expenditure Survey 2017) dated November 26, 2019 and December 12, 2018. In relation to the data for the years 2019-2020 - in accordance with the assessment of Bezeq based on surveys by the Central Bureau of Statistics from previous years.

Diagram - Distribution of Internet subscribers on Bezeq infrastructure (quarterly, in thousands):



2.1.3.4 Data transmission and communication services

The areas of transmission and communication data for business customers and communication providers are characterized by a rapid increase in customers' bandwidth needs, but generally a decrease in the price of a given volume of traffic, which stems from the development of technology to increase bandwidth at lower costs than in the past (see section 2.6.4). In addition, there is a decrease in the use of Bezeq's transmission and data communications services by telecommunications providers, mainly due to the shift to the use of the telecommunications providers' own infrastructure, including within the wholesale market. For this matter see section2.16.4.3.

2.1.3.5 Use of physical infrastructure - for the purpose of wholesale service and for the provision of the possibility to competitors with infrastructure to use Bezeq's passive infrastructure, see section 2.16.4.

2.1.3.6 Service packages

For an increase in the rate of consumption of packages and baskets of services, see section1.7.1. Regarding Bezeq's shared service baskets, see section 1.7.2.

2.1.4. Technological changes that have a significant impact on this field of activity

2.1.4.1 In the communications market, a trend has been established towards IP-based technologies, which promote the phenomenon of "technological convergence" between the various communication systems (such as telephony and DATA). There has also been an increase in the penetration of integrated end devices that enable the consumption of various communication solutions on the same device (such as cellular and Wi-Fi services). These two, together with the increase in the availability of IP protocol-based technologies and the continuing trend of increasing bandwidth, enable the customer, including the business customer, a wide range of applications and services on IP based infrastructures, such as telephony services, including private exchange services, video transmission services , TV, private networks, network services with enterprise applications on the Internet infrastructure (ERP, CRM, etc.) and Cloud services. These developments are leading to an increase in bandwidth demand by Bezeq's Internet infrastructure, transmission and data communications customers. For the deployment of optical cables and ultra-fast browsing speeds, see section2.7.2. Technological developments and declining equipment prices may even allow other operators to provide services similar to those provided by Bezeq at lower costs.

Technological changes can also lead to the cannibalization of services. An example of this is a decrease in the consumption of the Group's traditional landline telephony services (for competition in the field of telephony through the provision of services on Bezeq's Internet infrastructure (VoB), see section2.6.2). The increase in the speedds of the cellular service enables the cellular operators to compete with Bezeq's telephony and Internet services, and to market greater bandwidths to their customers at lower prices than in the past. In the Bezeq's opinion, as of the date of the report, the increase in the number of customers browsing the cellular Internet did not materially affect the scope of Bezeq's Internet activity. However, the potential for increase in the use of cellular networks at the expense of the use of the Bezeq network exists and may increase with the establishment of 5G (see section3.1.5), since it will also be able to provide ultra-fast internet at the customer's home.

The COVID-19 crisis has highlighted the need for greater bandwidth in home browsing. The competitors who have fiber optic infrastructure and cable infrastructure of up to 500Mb took advantage of this to recruit subscribers to their infrastructure.

2.1.4.2 Bezeq also develops and provides services based on wireless technologies for IoT (Internet of Things) solutions, including for homes, businesses and smart complexes. See section2.2.5. In 2020, Bezeq launched the new "smart home" based on the Be router capable of a variety of IoT solutions.

2.1.5. The critical success factors in the field of activity and the changes that apply to them

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

2.1.5.2 Regulatory decisions and the ability to deal with them.

2.1.5.3 The ability to maintain innovation and technological leadership and translate it into advanced, reliable and valuable applications for the customer in short response times, as well as marketing primacy.

2.1.5.4 Preservation of brand values and their adaptation to the conditions of the changing competitive environment.

2.1.5.5 Effectiveness of sales and service systems.

2.1.5.6 Informed pricing policy management, subject to regulatory restrictions.

2.1.6. The main barriers to entry and exit of this field of activity and changes that apply to them

Activities in the field of landline interior communications require the receipt of appropriate NIO licenses. For a memorandum of understanding of the bill regarding a change in the format of the regulation and transfer to the issuance of general permits, see section 1.7.4.10.

Traditionally, the main barrier to entry into this field has stemmed from the need for heavy investments in technological infrastructure and enveloping systems to achieve size advantages, and high costs associated with setting up marketing, sales, collection and customer support systems and brand building. Over the years, the traditional barriers to entry into Bezeq's areas of activity have been significantly reduced, as a result of the following factors: technological improvements, declining prices of infrastructure and equipment, changes in the rules of regulation (see sections2.7.2 and 2.16.12), regulatory relief granted to new competitors, obligation to allow the use of Bezeq (and Hot) infrastructure and services - including within the wholesale market and the use of VoB technology that enables telephony services over another operator's broadband infrastructure, without the need for independent landline telephony infrastructure.

The main barriers to exit stem from the following: Bezeq's obligation, set forth in its license, to provide its services on a universal basis (to the general public in Israel, except in relation to fiber as specified in section 2.16.12); Its subordination to the provisions of the Communications Order, regulations under the Communications Law, as well as provisions under Article 13a of the Communications Law regarding emergency activities; Its commitment to some of its employees employed under collective agreements; Large investments that require a long return on investment; And a commitment to repay long-term loans taken to finance investments. Some of these exit barriers are unique to Bezeq and are not relevant to other operators operating in this field of activity.

2.1.7. Substitutes for products in this field of activity and changes that apply thereto

Cellular communication services are a substitute product for Bezeq services, both in the field of telephony, Including through apps and in IP technologies such as VoB (see section2.6.2), and in the field of the Internet (see sections2.6.2 and2.6.3), transmission and data communication. Technological developments (such as 4G and 5G in cellular, fiber-optic-based infrastructure and advanced cable Internet protocols) enable the provision of new services at high speeds and at competitive prices.

2.1.8. The structure of competition in this field of activity and changes that apply thereto

The field of landline interior communications is regulated and supervised by the Ministry of Communications, among other things, through the issuance of licenses to bodies operating in the field.

In the communications market there are two licensees for the provision of landline interior communications services obligated to provide service to everyone, nationwide deployment and universal service (except in relation to fiber): Bezeq, and Hot Telecom. IBC is also bound by an obligation of a limited deployment to at least 40% of households in Israel within 10 years from the date of receipt of a single general license of a unique general type (infrastructure) (July 31, 2019) that replaced the general license (NIO Infrastructure)[20]. The three companies compete with each other. At the same time, they were allowed to make mutual use of each other's physical infrastructure (except for infrastructure owned by the IEC needed to provide essential service) and infrastructure of another NIO, so that in fact the competition can be through physical infrastructure of another licensee, and in practice, mainly on Bezeq's infrastructure (see on this matter2.16.4.4).

The companies Cellcom and Partner, which have unique NIO licenses (which do not require universal deployment), have deployed an independent fiber network, including Bezeq's physical infrastructure (regarding Cellcom and Hot joining IBC see section2.6.3.5).

The Internet field is characterized by high penetration rates attributed to the deployment of national access infrastructure. Bezeq's main competitor in this field is Hot. With the implementation of the wholesale market, Internet access service providers (ISPs) have become Bezeq's competitors that provide a package of services that includes broadband Internet access infrastructure through Bezeq infrastructure which they use in wholesale services, and Partner and Cellcom are competing with Bezeq through broadband fiber infrastructure they deployed. In addition, Bezeq is also exposed to competition from the cellular networks (see section2.1.4).

The field of landline telephony is in competition, and Bezeq's competitors, some of whom are within the framework of communication groups (see section 1.7.1), are the cellular companies (see section 2.6.2.2), Hot Telecom, as well as VoB service providers operating under licenses without universal service obligation for several years, without their own independent access infrastructure. For details on wholesale telephony services see section2.16.4.

For a hearing on the elimination of the separation between the Internet infrastructure service and the access service (ISP) - see section1.7.2.2.

In the field of wholesale services, Hot competes with Bezeq as an infrastructure owner obligated to provide wholesale services. In practice, BSA services started on Hot's network in the second half of 2018 (see also section2.16.4).

In the field of data transmission and communication, Bezeq's main competitors are Hot Telecom, Cellcom and Partner, operating within the framework of communication groups and offering a complete communication solution to the customer.

Competition in the industry depends on various factors such as: regulatory decisions, possible changes in the terms of the licenses of Bezeq and its subsidiaries and the terms of the licenses of their competitors; Mergers and collaborations between companies competing with the Group companies; Possible implications of the Centralization Law; Continued development of the wholesale market and the asymmetry between Bezeq's ability and the ability of competitors to sell a comprehensive service; The new services that Bezeq will be allowed to provide; The rates policy, Cancellation of the structural separation and the degree of flexibility that will be given to Bezeq in offering undetachable service packages, including with subsidiaries and technological developments.

For a description of the development of competition, see section1.7 and2.6.

2.2. Products and services

2.2.1. General

Bezeq provides a wide range of communication services to its business and private customers as detailed below.

20 The duty of nationwide service for all also applies to holders of general licenses for the provision of mobile radio telephone services such as Pelephone, Cellcom and Partner, as well as in the field of internaiotnal operator services - such as Bezeq International.

2.2.2. Telephony

Bezeq's telephony services mainly include the basic telephone services via the home telephone line, and ancillary services such as: voicemail and caller ID.

Bezeq also provides its customers with national numbering services for businesses ("1-800", "1-700"), the calls in which are paid in full or in part by the business.

Bezeq operates a unified call center[21], under the code (1344) established by the Ministry of Communications also for operators of landline and cellular telephony, as well as a unified website free of charge, in addition to Bezeq's 144 service.

For the provision of a resale service and for wholesale telephony service, see section2.16.4.4.

2.2.3. Internet access infrastructure services

Bezeq provides broadband Internet access infrastructure services using xDSL technology.

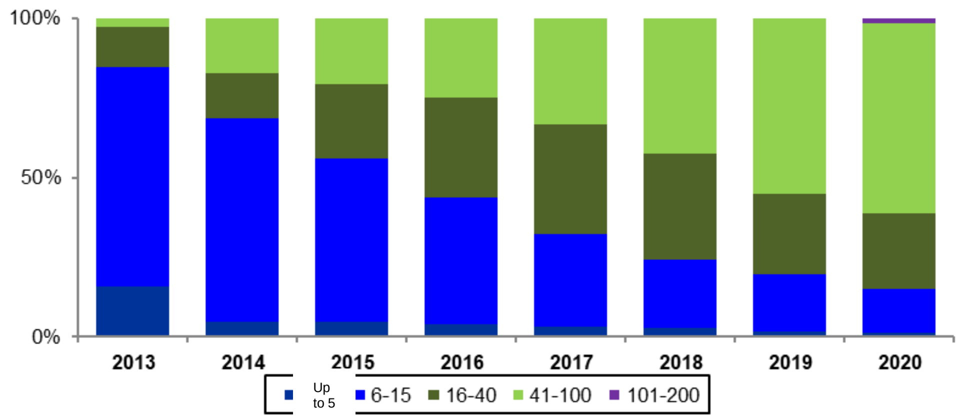
For details regarding changes in the number of Bezeq Internet subscribers and the average monthly income per Internet subscriber, see section 1.5.4. For details regarding Bezeq's market share in this field, see section2.6.3.

The Internet service is one of Bezeq's main occupations and a major route in its investments in technologies, marketing, advertising and customer acquisition and upgrade. The average package speed of Bezeq's Internet subscribers[22] At the end of 2020 amounted to about 74.2Mbps, compared to an average package speed of 67.8Mbps at the end of 2019. The minimum package provided in the service to new customers is usually at a maximum speed of 15Mb.

xDSL service is also provided on a subscriber line without telephony at no extra charge for the access line. It should be noted that in accordance with the decision of the Ministry of Communications, Bezeq may not discriminate in the price of the xDSL service between a subscriber who consumes the service together with a telephony service and a subscriber who consumes only the xDSL service.

Bezeq is committed to providing a broadband Internet access service in the BSA wholesale format to service providers who provide their customers with an end-to-end Internet service in this manner, including infrastructure. For this service see section2.16.4.

Diagram - Changes in the package speeds of Bezeq Internet subscribers in the years 2013-2020 (Mbps, as of the end of each year)*:



* In packages where there is a range of speeds, the maximum speed in the package is taken into account

2.2.4. Data transmission and communication services

Data communication services are network services for transferring data from point to point, data transfer between computers and various communication networks, services for

21 "Unified" information service is an information service that contains data regarding the subscribers of all operators. Landline and cellular telephony operators are required to provide unified intelligence services by virtue of their communications licenses. The activity is exempt from receiving a restrictive arrangement approval, valid until November 11, 2023.

22 In packages where there is a range of speeds, the maximum speed in the package is taken into account.

connecting communication networks to the Internet and remote business access services.

Bezeq offers transmission services, including at high speeds, to communications operators and its business customers in a variety of interfaces (see section2.6.4).

There is a decrease in the use of Bezeq's transmission and data communications services by telecommunications operators (see section2.1.3.4).

2.2.5. Cloud and digital services

This category includes, among others, virtual server services, Bcyber service, "smart home", "smart business" and smart complexes services, virtual private hub services (IP Centrex), as well as the B144 service which is Bezeq's advertising platform for digital advertising and marketing for small businesses, BCAM, SMS, WiFi and remote backup.

2.2.6. Other services

2.2.6.1 Additional services for communications operators

Bezeq provides services to other communications operators, including: cellular operators; International operators; Hot; Network endpoint operators; Internet Service Providers (ISPs); Interior operators; Palestinian communications providers.

The services that Bezeq provides, as stated, include infrastructure services, linking to the Bezeq network, billing and collection services, renting areas and providing services in rented properties.

For the provision of wholesale services to communications operators and for the possibility of using Bezeq's physical infrastructure also for infrastructure owners, see section1.7.3. In this regard, it should be noted that as of 2019, there has been a certain deterioration in the payment ethics of communications operators, deferral of payments and an increase in the volume of dispute claims. This state of affairs, in parallel with the erosion in the financial strength of various operators, increases the risk of having to recognize loan-loss. However, as of this date, this deterioration does not have a material effect on Bezeq. On April 27, 2020, Bezeq, through its attorney, contacted the Ministry of Communications and announced that it does not intend to allow the continued provision of wholesale services to service providers who do not pay for these services. On May 12, 2020, the Ministry announced that it is examining the issues that arose from the letter by Bezeq’s attorney, and on February 10, 2021, the Ministry published a hearing to determine an updated procedure for dealing with a licensee's complaint about another licensee in matters that are regulated by the Ministry, according to which, among other things, the team handling complaints can recommend to the competent body in the Ministry to make a decision that the Ministry will not prevent injured licensees from taking action against the licensee against whom the complaint was filed, such as discontinuing service, not connecting new subscribers and more, all according to the circumstances and severity of the case. On March 3, 2001, Bezeq submitted its response to the procedure, according to which the team's powers must be clarified and binding schedules must also be set for examination and enforcement.

2.2.6.2 Broadcast services

Bezeq operates and maintains radio transmitters, among others, for the broadcasting corporation, Galei Tzahal and a number of regional radio stations. Bezeq also operates the DTT broadcasters for the Second Authority. Bezeq is responsible solely for operating and maintaining the transmitters for the purpose of distributing the broadcast of the radio and television programs, and not for the content of the broadcasts. For this matter, see also section2.15.

2.2.6.3 Contractor work

Bezeq performs construction and operation of networks or sub-networks for various customers (such as the Ministry of Defense, radio and television broadcasting companies, cellular operators, international communications operators, local authorities, municipalities and government bodies).

2.2.7. Sales of end equipment

As of 2019, Bezeq has been selling smartphones (in addition to other end equipment sold thereby). Bezeq intends to expand its supply to additional end equipment in the future.

2.3. Revenue segmentation of products and services

The following is data about the distribution of the Company's revenues according to the main products and services in its field of activity in the years 2018-2020 (in NIS million):

	2020	2019	2018
Revenue from Internet infrastructure services	1,622	1,578	1,596
Rate out of the total Company revenue in the field of activity	39.0%	38.74%	38.04%
Revenue from landline telephony	1,008	1,039	1,156
Rate out of the total Company revenue in the field of activity	24.24%	25.50%	27.55%
Revenue from transmission and data communication services	1,011	948	977
Rate out of the total Company revenue in the field of activity	24.31%	23.27%	23.28%
Revenue from Cloud and digital services	288	274	260
Rate out of the total Company revenue in the field of activity	6.92%	6.73%	6.20%
Revenue from other services and sale of end equipment	230	234	207
Rate out of the total Company revenue in the field of activity	5.53%	5.74%	4.93%
Total revenues from the field of landline interior communications	**4,159**	**4,073**	**4,196**

2.4. Customers

Bezeq is not dependent on a single customer, and there is no customer Bezeq's revenues from whom constitute 10% or more of its total revenues. Bezeq's revenues are divided into two main types of customers: private customers (approximately 50%) and business customers (approximately 50%).[23]. The aforesaid distribution is according to revenue, as detailed in the table below (in NIS millions):

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

2.5. Marketing, distribution and service

Bezeq has marketing, sales and service systems for businesses and private customers, including customer managers for the business segment, integrated sales and service centers throughout Israel, technical support centers for private customers and business customers,Several points of sale and service (Bezeq Store chain of stores) throughout Israel, as well as an online virtual store.

Bezeq markets its services mainly through advertising in the mass media, telephone sales centers, customer managers and through a system of marketers that includes outsourced sales centers, as well as Internet providers (ISPs) which, with the establishment of a wholesale market, mostly market end-to-end service packages based on Bezeq's wholesale BSA service. In addition, Bezeq has independent service and sales channels on its website, in a dedicated application (My Bezeq), and through a computerized voice response.

2.6. Competition

The following is a description of the development of competition in the field of landline interior communications:

2.6.1. Wholesale market (see also section 2.16.4)

23 Including revenue from wholesale service providers.

The wholesale market allows telecommunications providers to compete with Bezeq using its physical infrastructure and services, at regulated prices not determined by Bezeq. The wholesale market allows telecommunications providers to offer their subscribers, among other things, broadband services and end-to-end service packages.

In June 2017, rates for some of the wholesale market services were published on the Hot network. To the best of Bezeq's knowledge, the volume of wholesale subscribers on the Hot network is not large (see in this regard section 2.16.4).

2.6.2. The field of telephony

The field of private landline telephony is characterized by a decrease in the number of owners of a landline telephone line and a gradual erosion in the number of calls originating from landline networks (see section2.1.3.2). Bezeq estimates that in 2020 the entire telephony market continued to erode at a similar rate to 2019 and at a higher rate compared to previous years. For this matter, see also section2.4.In Bezeq's estimation, as of the end of 2020, its market share in the landline telephony market was about 54% in the private market and about 70% in the business market, an increase of 1% compared to 2019 in the private market and a decrease of 1% compared to 2019 in the business market[24].

2.6.2.1 Competition from additional NIO licensees

Bezeq and Hot Group have a fixed telephony infrastructure nationwide, and there is competition between them, which is reflected, among other things, in the fact that Hot Group markets a "Triple" (which combines Internet infrastructure, telephony and cable television), and possibly also cellular services, especially for households (regarding the marketing of a business service basket for Hot Group as well as the marketing of service baskets of Bezeq Group, see section1.7.2.2). In addition, Hot Group markets telephony services for business customers.

In addition, there is competition with existing licensees for the provision of landline interior communications services, including VoB (see section 2.1.8), which provide the service (including via "Triple"), *inter alia*, over Bezeq's broadband access service, including the wholesale BSA service.

As of July 2017, Bezeq allows holders of unified licenses who are authorized to provide NIO services, reselleing telephony service over Bezeq's network. As of August 2018, Bezeq offers a wholesale telephony service available in a format similar to that of the service portfolio in the rates of use regulations, and as of January 2019, a service that also passes through the service provider switch. As of the date of the report, there is no demand for service. For this matter and for the purpose of wholesale telephony service, see section2.16.4.

2.6.2.2 Telephony competition from cellular companies

According to Bezeq, the high penetration rate, combined with low airtime rates compared to the rest of the world and packages that include call minutes with no effective limit on a fixed monthly fee, have made cellular telephony a substitute for landline telephony. In Bezeq's estimation, the deepening of the interchangeability between a landline and a mobile line is one of the main reasons for the decrease in the average traffic per line, and the high rate of removal of telephone lines (see section2.1.3).

In the field of cellular telephony, there is a trend of moving to the use of applications allowing you to make calls and send text messages over the Internet.

Partner and Cellcom also provide landline NIO services through corporations owned by them and also sell service baskets that combine landline telephony, cellular telephony and Internet services.

2.6.3. The field of Internet infrastructure

In Bezeq's estimation, as of the end of the 2020, its market share in the Internet infrastructure market (retail and wholesale customers) amount to about 61% (compared to approx. 63% at the end of 2019). In addition, Bezeq estimates that its market share in terms

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[24] These market shares are in terms of lines and are based on Bezeq's estimates.It should be noted that Hot is not a reporting corporation, and its data is not public, and accordingly, there is difficulty in obtaining accurate data regarding the market shares, and these are only estimates.

of retail customers as of the end of 2020 amount to approx. 39%[25].

There is fierce competition in the field of Internet infrastructure:

2.6.3.1 Competition from Hot Group - Hot has nationwide Internet infrastructure through which a variety of communication services and interactive applications can be provided.

Hot's network is currently a major alternative competing with Bezeq infrastructure in the private segment. Hot was obliged to provide wholesale services, including BSA service, and to the best of Bezeq's knowledge, wholesale BSA service on the HOT network has been marketed since the middle of 2018. For that matter, see also section2.6.1.

During 2019, Hot began marketing Internet services at a speed of 500 megabits per second (500Mbps).

To the best of Bezeq's knowledge, after a number of postponements and facilitations given to Hot over the years in implementing its universal service obligation, on Kuly 28, 2019, the Minister of Communications adopted the recommendations of the Advisory Committee and approved Hot to provide its services in infrastructure-free areas in the form of technological neutrality, i.e., without being required to deploy wired infrastructure, but being allowed to use any cellular network to provide its services at download speeds of up to 12/30Mbps, immediately. The adopted recommendations also set out, among other things, milestones for upgrading the network for the cellular network alternative, minimum service quality and reporting obligations.

2.6.3.2 Competition from ISPs and communication groups based on wholesale BSA service – the activation of the wholesale market allows Internet providers and related companies (with a unified license) to offer customers service packages that also include Internet infrastructure based on Bezeq's infrastructure and its services (in exchange for regulated rates to be paid by the communications providers to Bezeq). If and to the extent that a "margin reduction" prevention mechanism is activated, similar to that described in the Ministry of Communications hearing (see section2.16.4.2), at the same time, Bezeq's ability to market marketing offers of its retail services will be impaired - both in terms of timing (Time to Market) and regarding the prices at which the services are offered. Also, regarding Bezeq's bundles, see section1.7.2.2.

2.6.3.3 Competition by the Partner and Cellcom communication groups on the basis of an independent fiber network that enables the provision of an ultra-fast Internet service - in addition to what is stated in section2.6.3.2, the Partner and Cellcom communication groups provide, on an increasing scale, ultra-broadband Internet services over an independent fiber infrastructure, while also using Bezeq's passive infrastructure within the wholesale market. According to the publications of the two companies in March 2021, the volume of Partner's deployment reaches about 760k households (of which about 150k are connected customers) as of March 2021, and the volume of Cellcom's deployment (including IBC), as of the end of 2021, reaches about 560 households (of which 105k are connected as of March 2021).

2.6.3.4 Competition from cellular operators - cellular companies have deepened their activity in the field of the Internet on the cellular medium in both the private segment and the business segment. In contrast to the field of landline communications (where there is a separation between the provision of access infrastructure services and the provision of Internet access services), the cellular internet service is provided as one piece. Browsing services are provided both from the cellular device and through a cellular modem that connects to laptops and desktops.

[25] Bezeq's estimate regarding its market share in the field of Internet infrastructure services by the end of 2020 is based on the number of customers who consume services on Bezeq infrastructure (retail and wholesale), and on its estimate of the number of Hot (retail and wholesale), Partner (fiber) and Cellcom (fiber and IBC) subscribers. It should be noted that Hot is not a reporting corporation and its data is not public. Accordingly, it is difficult to obtain accurate data regarding market shares and these are only estimates. Also, Partner and Cellcom (IBC) do not report the number of subscribers connected to their fiber and these are estimates only.

2.6.3.5 Competition from IBC - IBC is setting up a fiber infrastructure to provide Internet over the electricity grid (and has started operating commercially in a limited number of cities). According to media reports, as of the date of publication of the report, the number of customers recruited by IBC is not significant.

In accordance with the decision of the Minister of Communications dated August 8, 2018, the deployment obligation of IBC was reduced and has been determined as no less than 40% of households in Israel within 10 years, when only after the "Cherry Picking" period (which will last three and a half years) will the new licensee be required to make at least one household accessible in the periphery for every household accessible in the center (for this matter, see also section2.1.8).

IBC’s license enables the provision of services to licensees. On January 13, 2020, a hearing document was published regarding the privision of the possibility for IBC to provide a Reverse Bundle service to private end subscribers and additional services to large business customers (“**the Hearing Document**"). Pursuant to the hearing document, the Ministry is considering approving IBC's requests as follows: (1) enable it to cooperate with access providers in an outline whereby IBC and the access provider will jointly engage with the end customer so that the access provider will provide the end customer with IBC’s Internet infrastructure service and Internet access service, and IBC will provide the end customer with ancillary services ("Reverse Bundle Service"), and (2) enable IBC under its special license, to sell its services to companies in the business segment and also serve as an ISP in providing services to the business market. According to the Hearing Document, the approval of the applications will be granted while setting conditions (including approval to market a Reverse Bundle Service for a limited period of 5 years or to up to 400k end subscribers, whichever is earlier, equal marketing with access providers and end subscribers, as well as maintaining structural separation obligations and the prohibition of preference), in a way that would contribute to increased competition in the landline infrastructure market and while reducing gaps compared to the regulation applied to IBC's competitors. The Hearing Document also stated that since the State’s decision stipulates that IBC will only deal with licensees and not directly with private consumers (except for large business customers with the approval of the Minister of Communications), as long as the recommendations in the hearing are finalized, the State’s decision will need to be amended, and appropriate amendments to the IBC license will be required. On February 3, 2020, Bezeq submitted its reference, focusing on (1) the significant gap between the purpose on which the IBC project was established and the state of affairs at the current point in time, cumulatively. According to Bezeq's position, in this state of affairs it is not possible to continue to act by providing additional relief to IBC. (2) In that it turns out that the deal to sell Cellcom's fiber network to IBC and IBC's alleged reliance on that network as a primary platform for meeting its license terms and providing Internet services to end customers fundamentally change the rules of the game. Bezeq believes that since at the present point in time, the details of the transaction and its meanings are not fully visible to Bezeq and are not mentioned at all in the Hearing Document, it is not possible to hold a hearing without receiving full and complete information in this matter. Accordingly, Bezeq requested the full information and the Ministry's reference to the new circumstances that the Ministry claims have been created. It was further clarified that in this state of affairs, and prior to receiving the requested details and clarifications, any move offering changes and benefits to IBC is invalid, lacks transparency and is not accepted or implied on the basis of complete information. In a hearing dated December 15, 2020 regarding a change of regulation following Hot's request for approval by the Minister of Communications to acquire control and means of control in IBC (see below), it was stated that as long as the request is approved, it is proposed not to change the existing regulation that applies to IBC regarding its activity in the "suppliers’ supplier" format, and to shelve the format detailed in the hearing above.

To the best of Bezeq's knowledge, the acquisition of control of IBC by Cellcom and another investor (Israel Infrastructure Fund) was completed on July 31, 2019, in which Cellcom sold the fiber-optic infrastructure to IBC. Also, to the best of Bezeq's knowledge, after an investment agreement was signed in September 2020 under which Hot will enter into a partnership in the IBC fiber venture and an IRU agreement between Hot and IBC under which Hot will acquire the right to use the infrastructure to be established by IBC, at the beginning of 2021 the approvals of the Competition Commissioner and the Ministry of Communications were received so that after the merger IBC is owned by the Israel Electric Corporation (30%) and by HOT, Cellcom and the Israel Infrastructure Fund (23.3% each). In addition, the Ministry of Communications made an amendment to the HOT license, which allows, among other things, the marketing of a shared basket of services on the IBC network and the IBC license, which requires it to submit to the Ministry for approval a shelf offer to purchase its services (in IRU format) at a reduced rate.

2.6.3.6 Licensing for new operators for the prvoisoin of Internet access infrastructure service

On October 13, 2020, a decision was issued by the Minister of Communications in a hearing (published in March 2020) in which the threshold requirements for obtaining a license that allows the provision of broadband infrastructure services were significantly reduced, while this reduction will be made temporarily by providing an option to obtain a special license (for a period of thirty-six months from the date of the decision) instead of a unified license. The special license will be granted subject to the conditions set out in the decision, including that through the special license a service will be provided to no more than 8k private subscribers and to no more than 800 network endpoints of business subscribers. *Prima facie*, Bezeq believes that in certain circumstances the Minister's decision may lead to a possible harm to Bezeq's business, the extent of which Bezeq cannot assess at this stage.

2.6.3.7 Regarding the announcement by the Minister of Communications as part of the draft economic plan for 2020 regarding an examination for the reorganization of the retail Internet market in Israel, including the elimination of the separation of Internet service provision between infrastructure service and Internet access service (ISP) and a hearing to examine the separation between broadband infrastructure service and Internet access service (ISP) see sections 1.7.2.2, 2.7.22.16.12.

2.6.4. The field of transmission and data communication

In addition to Bezeq, operating in this field are mainly Cellcom and Partner, as well as ISP companies.

To the best of Bezeq's knowledge, Cellcom has established a transmission network, which is used both for its own needs and for competition with Bezeq’s services in the transmission and data communications market. Partner also operates in the field of providing transmission and data communication services, combined with telephony and Internet, to business customers.

Cellcom and Partner use Bezeq's physical infrastructure as part of the wholesale service (see section2.16.4.3)[26], *inter alia*, in order to compete with Bezeq in this field and / or for its own needs.

Operating in this field are also infrastructure owners IBC (to the date of the report, to an insignificant extent) and Hot (in national but not complete deployment). These infrastructure owners may use Bezeq's physical infrastructure. In this matter see sections 2.16.4.3 and2.6.5.

According to IBC’s license, IBC will contact the IEC for the right to use its fiber optic network, and will be the operator of the network. In addition, IBC has a special license (which does not impose a universal obligation) for the provision of landline interior data communication services, under which it is eligible to provide IPVPN services and broadband data communication lines.

2.6.5. Additional competing infrastructures[27]

In addition, there are currently a number of infrastructures in Israel that have the potential to serve as communications infrastructures, which are based on fiber optics and mostly owned by companies and government bodies, such as: Israel Railways, Mekorot, Oil Infrastructure Company and Trans-Israel Highway. Some local authorities are also trying

[26] Unified license owners eligible to provide NIO services are also eligible to receive wholesale service for the use Bezeq’s physical infrastructure.

27 Beyond Hot and IBC infrastructure.

to create an alternative for laying pipes or fibers using the infrastructure of these local authorities. It should be noted that the amendment of the Communications Law regarding the deployment of fibers and the decision of the Ministry regarding the granting of special licenses that allow for a limited deployment may accelerate the deployment by such bodies.

2.6.6. Bezeq's preparations and ways of dealing with the growing competition

Bezeq faces competition in the landline interior Bezeq services in a number of ways:

2.6.6.1 Bezeq launches communication services and new value-added applications (such as a smart home, smart business, smart complexes, integration services and more) as well as product and service packages and shared baskets (equivalent to certain baskets marketed by its competitors, although under a detachability limit, see section 1.7.2), in order to expand the scope of use of subscriber lines, to meet customer needs and strengthen its image of technological innovation. Bezeq is investing in the improvement and modernization of Bezeq's infrastructure, in order to enable the provision of advanced services and products to its subscribers.

Bezeq is working to introduce the high-speed Internet infrastructure service, as well as to increase the number of its customers in this field and create added value for the customer by expanding the consumption of content, leisure and entertainment applications (see also sections2.2.3 and2.7.2, including in the matter of fiber deployment). Bezeq manufactures and markets value-added solutions and services for quality and secure browsing. During 2019, Bezeq launched a new browsing speed that meets customer needs to increase the rate of data upload (upload speed of up to 5Mbps). In addition, in November 2020, Bezeq launched a browsing package up to 200Mb, using the 35B technology, under feasibility conditions.

2.6.6.2 Bezeq is constantly working to improve the quality of its services and retain its customers, simplify processes and automate and adapt its operations to the structure of competition in its areas of activity.

2.6.6.3 Bezeq offers alternative payment baskets to telephony customers (see section2.16.1.4), packages, consumption-adjusted routes and promotions.

2.6.6.4 Bezeq is working to reduce its operating expenses and to focus investments on growth activities and as a means of reducing maintenance expenses. Despite the above, Bezeq's ability to make short- and medium-term adjustments to its expenses is limited due to its cost structure, which is mainly rigid short- and medium-term costs (mainly depreciation and payroll-related expenses, as well as operating costs, such as infrastructure maintenance and rental and maintenance of buildings).

2.6.6.5 As of 2018, Bezeq has been marketing its Be router. This is an advanced router with an innovative design, and with advanced capabilities that include, among other things, Smart Wi-Fi that enables quality and continuous browsing over the home Internet, Cyber protection and preparation for a smart home. The router and services are managed by a dedicated app. As of the end of 2020, Bezeq's customer base using the Be router is approximately 537k customers (approximately 54% of Bezeq's retail Internet customers). Bezeq also markets products to improve the reception range of the Bspot and Be mesh home Internet networks, and as of the end of 2020, about 248k units of these products were marketed by Bezeq.

2.6.7. Main positive and negative factors affecting Bezeq's competitive position

2.6.7.1 Positive factors

a) Quality nationwide infrastructure, through which a variety of services are provided.

b) Presence in most businesses and households.

c) A well-known and strong brand.

d) Technological innovation.

e) High positive cash flow.

f) Extensive service infrastructure and diverse customer interfaces.

g) Professional, experienced and skilled personnel.

2.6.7.2 Negative factors

Bezeq believes that various restrictions that apply to it make it difficult for it to compete in its areas of activity. The following are the main limitations in this regard:

a) Wholesale market (see section2.16.4) - operating a wholesale market at regulated prices, arrangements prone to intervention by the regulator, implementation of a mechanism for supervising Bezeq's retail marketing offers, Expanding uses and those authorized to use Bezeq infrastructure.

b) Limited rate flexibility

Bezeq is limited in its ability to provide discounts on its main services and offer differential rates. For this matter as well as for a hearing regarding a change in the rate control mechanism, see also section2.16.1.

For the hearing on the prevention of "margins reduction" in the wholesale market, see section 2.16.4.2.

c) Structural separation obligation

Regarding the obligation of structural separation applicable to Bezeq, see section1.7.2.

d) The universal service and fiber deployment obligation

Bezeq has an obligation to provide service to the general public in Israel at a uniform price (universal service). By virtue of this obligation, Bezeq is required to provide services even in non-economic circumstances (subject to the possibility of obtaining an exemption in exceptional circumstances). Regarding the scope of the obligation in relation to the provision of services on an ultra-broadband fiber infrastructure, see section2.7.22.16.12. This obligation does not apply to unique NIO license holders, who can offer their services to Bezeq's profitable customers only, who constitute a substantial source of income for Bezeq, and these companies actually carry out an accelerated deployment of fibers in economically viable areas. In addition, Hot, which has a universal service obligation, received various reliefs in the implementation of full deployment obligation, significant exemptions and reliefs were granted to IBC, and Bezeq is committed to allowing Hot and IBC to use Bezeq's passive infrastructure. (see section2.16.4).

e) Restrictions on the marketing of shared service packages by Bezeq and Group companies

See section1.7.2.2.

f) The nature of end equipment in landline telephony

End equipment in the field of landline telephony does not have personal characteristics. It is also less technologically advanced compared to cellular end equipment, and the range of advanced services that can be consumed through it is limited.

2.7. Fixed assets and facilities

2.7.1. General

Bezeq's fixed assets include, mainly: infrastructure and equipment for interior communications, real estate assets (land and buildings), computer systems, vehicles and office equipment.

2.7.2. Infrastructure and stationary interior communications equipment

2.7.2.1 Telephony network

The infrastructure of Bezeq's telephony network consists of exchanges (used to switch the calls and transfer them from the origin to the destination), a transmission network (through which the connection between the exchanges takes place), data communication networks, an access network (connecting the subscriber's endpoint to the subscriber), and end equipment installed with the end consumer. The connection from the end equipment to the access network is based on copper cables, and this copper network forms Bezeq's access infrastructure for telephony services (it should be noted that those copper cables also form part of Bezeq's Internet network as detailed below). Subscriber management is performed using a Class 5 telephony switch. During 2020, Bezeq completed the replacement of its telephony switch with a new switch and the conversion of all telephony customers to the new switch.

2.7.2.2 Internet

Bezeq has an NGN network based on the core of an IP network and the deployment of fiber optic infrastructure to street cabinets (a network topology known as FTTC-Fiber To The Curb), as well as an access network (a system that connects the network endpoint with the network subscriber) and engineering systems. The connection from the home to the access network is based on the copper cables (mentioned in the description of the telephony network above) and the connection from the access systems to the transmission network (Backbone) is based mainly on optical cables. In addition, some of the end equipment (equipment installed by the subscriber, such as routers) is owned by Bezeq and is rented by the customer. The NGN network can now provide, through VDSL2 technology, bandwidths of up to 100Mbps in the downloading channel, as well as innovative value-added services. Additional benefits of this network are simplification of network structure and improved management capability.

On July 12, 2020, the Ministry of Communications approved the use of the 35B technology by Bezeq (extension of xDSL technology) through which Bezeq can provide rates of up to 200Mb depending on the quality of the copper infrastructure. Due to the characteristics of the technology, the deployment, which was completed by Bezeq, does not cover all Bezeq sites (the connection potential is about 350k households).

2.7.2.3 Ultra-broadband fiber infrastructure

Bezeq is expanding the deployment of infrastructure, including, starting in 2013, deploying optical fibers so that they reach as close as possible to the customer's premises (FTTH / FTTB), as a basis for the future provision of advanced communication services and larger bandwidths than those provided to its customers today, among other things, on the basis of new technologies that use the copper cables in the customer's premises.

The main advantage of optical fiber over copper is the ability to transmit at higher rates. There are also operational advantages that are insignificant compared to this advantage. In the past, Bezeq froze the deployment of fiber to the customer's premises until an appropriate arrangement due to the lack of certainty required for the existence of a business plan with economic sustainability, on the one hand, and the lack of economic justification for Bezeq to launch the service on the other. The deployment of fiber by Bezeq's competitors increases competition and adversely affects Bezeq. However, Bezeq estimates that due to the operational advantages it holds and especially the access to a professional and skilled workforce, and the beginning of the execution of the fiber project as detailed below, it will remain in the lead in the medium and long term.

On September 14, 2020 (in light of developments in the matter and further to the State’s approval prior to the legislative procedures detailed in section 2.16.2), Bezeq's Board of Directors approved the launch of the Bezeq plan for the deployment of ultra-broadband landline infrastructure (“**the Fiber Project**"). The Fiber Project is a complex and resource-intensive project that involves significant investments of billions of NIS by Bezeq over the years of the project and is expected to include a massive deployment of fiber optics throughout Israel that will allow ultra-fast Internet services. It should be noted that up to that date, Bezeq had deployed fibers directly to about 120k buildings and in certain areas to a point in the center of a group of buildings, with a total connection potential of up to about 1.5 million households and businesses. Following the above-mentioned Board decision, Bezeq began deploying fiber to buildings, including deploying vertical GPON equipment in buildings, and on March 14, 2021, Bezeq announced the launch of services to its customers on its fiber optic network. Bezeq's fiber network, which has been deployed as of this date, covers about a quarter of a million households throughout Israel, and the Company estimates that by the end of 2021 it will cover about one million households, constituting about 40% of all households in Israel.

Some of the information contained in this section is forward-looking information, as defined in the Securities Law, which is based on the Company's assessments, assumptions and expectations, and may vary depending on regulatory developments and decisions, technological developments, communications market developments and technical and other difficulties in the implementation of the plan.

2.7.3. Computing

Bezeq's computing system supports four main areas: marketing and customer management, Bezeq's engineering infrastructure, Bezeq's resource management and lateral systems.

Bezeq's computer system is a large and complex system, which supports critical work processes and handles very large volumes of data. This system consists of a large number of systems, some are information systems whose development began many years ago, and some of which are modern systems developed and implemented in recent years. Most systems operate in open computing environments.

2.7.4. Real estate

2.7.4.1 General

Bezeq has real estate assets from two sources: assets transferred to Bezeq by the State in 1984 as part of the asset transfer agreement (see section 2.17.1.1), and assets in which rights were acquired or received by Bezeq after this date, including assets that it leases from third parties.

The real estate assets are used by Bezeq for communications activities (switchboards, concentration rooms, broadcasting sites, etc.) and for other activities (offices, warehouses, etc.). Some of Bezeq's assets are undeveloped or partially developed assets, which can be utilized further.

Below is a list of Bezeq assets in accordance with the nature of the rights in the asset. In addition, Bezeq has easements (passage rights, etc.) in other real estate (such as for the purpose of setting up transmitters and laying cables):

The essence of the right	Number of assets	Lot area (sqm. thousands)	Built-up area (sqm. thousands)	Notes
Ownership, lease or right to lease	Approx. 304	Approx. 849	Approx. 101	From this, approx.. 300 field assets in the area approx. 820k thousand sqm. of plots, approx. 80k sqm. built-up are assets for communication needs and the rest are for administrative needs. Approx. 14 assets shared with the Ministry of Communications and / or the Israel Postal Company Ltd., with which an agreement was signed for the definition and regulation of the parties' rights in these properties (see section2.17.1.3). The parties act as required by the provisions of the agreement, and *inter alia*, for the separation of charges and shared systems.
Possession (authorized by right / right of possession according to law)	Approx. 40	Approx. 1.5	Approx. 0.8	Properties in Israeli localities in Judea and Samaria, all for communication purposes. There is no written series of contractual rights, but in Bezeq's opinion this does not create material exposure.
rent	Approx. 332	Approx. 30.6	Approx. 63	Approx. 316 assets, of which a built-up area of about 15k sqm. are for communication needs and the rest for administrative needs. Approx. 2k sqm. built-up of which are sublet.
Various rights in "concentration rooms"	Approx. 2,428	Irrelevant	Approx. 26.6 (based on an estimate)	These are cable rooms and facilities for neighborhood communication needs. As for most of the properties, this is a right-of-use granted to Bezeq in accordance with the Communications Law and regulations thereunder, and there is no written rights arrangement with the asset owners. In Bezeq's opinion and based on past experience, this does not create material exposure.

2.7.4.2 Registration

As of the date of publication of the periodic report, Bezeq's rights in a significant portion of its real estate assets are not registered with the Land Registry, and therefore are contractual rights. Bezeq is in the ongoing process of registering in its name the real estate assets that can be registered with the Land Registry.

2.7.4.3 Settlement agreement regarding the real estate

On March 10, 2004, an agreement signed on May 15, 2003 between Bezeq and the Israel Land Administration (now ILA) and the State ("**Settlement Agreement**") regarding most of the real estate assets which were transferred to Bezeq as part of the transfer agreement signed prior to the beginning of Bezeq's business operations was given the validitiy of a ruling. The Settlement Agreement stipulated that the assets remaining with Bezeq are in the status of a capitalized lease, and subject to the signing of individual lease contracts, Bezeq will be entitled to carry out any transaction in the assets, as well as to carry out improvement operations in them. The agreement stipulates a mechanism for payment to ILA for improvement actions to be performed on the assets (if any) beyond rights under plans approved until 1993 as stipulated in the agreement, at a rate of 51% of the increase in value of the asset following the improvement actions (and deducting some of the amounts to be paid in respect of an improvements levy or to the Administration in respect of an increase in value, if an improvements levy is paid). The Settlement Agreement also stipulates that 17 assets will be returned to the State, through ILA, on various dates (until 2010) and under the conditions set forth in the Settlement Agreement.

As of the date of publication of this periodic report, Bezeq returned to ILA 15 assets. Two additional assets will be returned to ILA after Bezeq receives alternative assets in their place in accordance with the Settlement Agreement.

2.7.4.4 Real estate exercise

General

Subject to the approval of the Board of Directors, Bezeq continues to act for the sale of assets that are inactive and / or that can be vacated relatively easily and without significant expenses, in accordance with the lists presented to the Board from time to time. The move to the NGN network made it possible for Bezeq to streamline the structure of the network and exercise some of the real estate assets that were evacuated as a result of the move to this network.

In recent years, Bezeq has sold real estate that was inactive or could have been relatively easily vacated while recording capital gains on these sales, which in some years were significant (during 2020, Bezeq sold real estate for a total of approximately NIS 16.5 million.

Bezeq has completed the sale of most of the assets (in terms of value) that met the aforesaid definition and intends to complete the sale of the balance of such assets in the coming years. The sale of the balance of such assets may yield Bezeq additional capital gains in substantial amounts (although in a significantly lower amount than the cumulative amount of capital gains that Bezeq has recorded in recent years).

It should be emphasized that the aforesaid also applies to real estate assets for the sale of which a concrete decision has not yet been made and there is no certainty as to the timing of their sale, if any. Also, the sale of some assets may involve difficulties, including circumstances of lack of demand or various planning constraints.

In light of the aforesaid, it should be emphasized that Bezeq's assessments as aforesaid are forward-looking information as defined in the Securities Law, which may not materialize or materialize in a materially different manner than anticipated. These assessments are based, among other things, on Bezeq's assessments of the value of the real estate assets it owns in relation to their book value, since Bezeq does not have appraisals in relation to some of the assets, or Bezeq's appraisals are not up-to-date, therefore, the assessments are also based on Bezeq's internal estimates, and in light of Bezeq's inability to anticipate the amount of consideration actually paid in respect of the assets to be sold (if and to the extent that they are sold).

The asset in Sakia

On January 21, 2018, Bezeq entered into an agreement for sale of the asset in Sakia (property near the Mesubim junction where Bezeq had a discounted lease right) to Migdalei Naimi Ltd. On May 5, 2019, the transaction was completed, when the total consideration received by Bezeq for the asset (including linkage differences and interest in accordance with the provisions of the agreement) amounted to NIS 511 million, plus VAT.

On May 21, 2018, Bezeq received a demand from ILA for the payment of a permit fee in the amount of NIS 148 million plus VAT, in respect of a property improvement plan approved prior to the signing of the agreement (“**the Demand**"). On January 20, 2019, ILA rejected all of Bezeq's claims in the legal attainment, however, the parties conducted contacts within the framework of the dispute resolution mechanism set forth in the Settlement Agreement. At the same time, Bezeq submitted an appraisal contention on the Demand. On August 5, 2018, Bezeq received a demand from the Or Yehuda Local Planning and Construction Committee to pay an improvements levy in the amount of NIS 143.5 million due to the sale of the asset by way of a sale ("**the Improvements Levy Demand**”). On September 17, 2018, Bezeq filed an appeal against the Improvements Levy Demand, and sent ILA a demand for payment of the full improvements levy in accordance with the Authority's obligation under the Settlement Agreement. On January 20, 2019, ILA rejected Bezeq's demand for payment of the said improvement levy. Upon completion of the sale transaction as stated above and receipt of the full consideration, Bezeq paid half of the improvements levy in the amount of NIS 75 million and provided a bank guarantee for the other half of the levy, without detracting from or harming the proceedings that Bezeq has taken or will take in order to cause the cancellation or reduction of this levy. It should be noted that the amount of the permit fee to be determined at the end of the proceedings can also affect the amount of the improvements levy that Bezeq will have to pay to the Planning Committee. In Bezeq's estimation, the amount of the permit fee and the improvements levy that it will be required to pay is expected to be low and may even be significantly lower than the total amount of the demands. Following Bezeq's request, an attempt was made between it and the Accountant General's Division of the Ministry of Finance and the Israel Land Authority in early 2020 to clarify and resolve the above disputes within the framework of the dispute settlement mechanism set forth in the settlement agreement. In March 2021, Bezeq received a notice from the Accountant General and the Israel Land Authority that given the significant differences in positions between the parties that do not seem to be possible to bridge, they accept the Company's request to end the dispute resolution process and allow the dispute to be transferred to the courts. Under these circumstances, Bezeq intends to file a claim against the Israel Land Authority, as soon as possible, for the return of the full amount of money it paid as a permit fee and improvements levy. In its financial statements for the second quarter of 2019, Bezeq recorded a capital gain of NIS 403 million. The capital gain recorded as aforesaid is on the basis of Bezeq's assessment regarding the amount of the permit fee and the improvements levy that it will be required to pay as aforesaid. To the extent that Bezeq’s aforesaid estimates do not materialize, the final capital gain will range from approximately NIS 250 million to approximately NIS 450 million. For this matter see also Note 6.6 to the 2020 statements.

The information contained in this section regarding Bezeq valuations and capital gains as a result of the sale of the asset is forward-looking information as defined in this term in the Securities Law, and is based, *inter alia*, on the above as well as on Bezeq's assessments of Bezeq's claims regarding the payment of the requirements. The information may not fully materialize as long as the said Bezeq assessments take place in a manner different than expected.

Sale of a Bezeq asset at 8 Harakevet Street in Tel Aviv

On February 25, 221, Bezeq entered into an agreement for the sale of a real estate asset located at 8 Harakevet Street, Tel Aviv ("**the Asset**") to the Azrieli Group Ltd. ("**The Buyer**") in exchange for a total amount of NIS 180 million + VAT. It should be noted that the Asset was jointly owned by Bezeq and the Israel Postal Company and that the sale transaction includes the purchase of the Israel Postal Company’s share by Bezeq and the sale of this share together with Bezeq's share to the Buyer. The full consideration was paid by the Buyer at the time of signing the agreement[28]. Bezeq is expected to record in its financial statements for the first quarter of 2021 a capital gain in the amount of NIS 125 million before tax for the sale of the Asset (after deducting the cost of purchasing the Israel Postal Company’s share, purchase tax, expenses and reduced cost value to Bezeq).

The information contained in the above paragraph regarding the registration of capital gain as a result of the sale of the Asset is forward-looking information as this term is defined in the Securities Law and is based, *inter alia,* on the above and on Bezeq estimates regarding completion of the agreement, transaction costs, taxes and levies in respect thereof, as well as various costs to Bezeq in connection with the Asset. The information may not fully materialize as long as the said Bezeq assessments take place in a manner different than expected.

<u>Bezeq moving its headquarters</u>

In October 2020, Bezeq vacated the Bezeq headquarters offices in Azrieli Towers in Tel Aviv and moved to its new offices at 7 HaManor Street in Holon. In accordance with the lease agreement signed in December 2018, Bezeq leases areas in the amount of approximately 20k sqm. for a period of 10 years, which can be extended for a number of additional periods.

2.8. Intangible assets

2.8.1. Bezeq's NIO license

Bezeq operates under an NIO license, which, among other things, forms the basis for its activity in the field of landline interior communications (for a description of the main points of the NIO license, see section2.16.2).

2.8.2. Trademarks

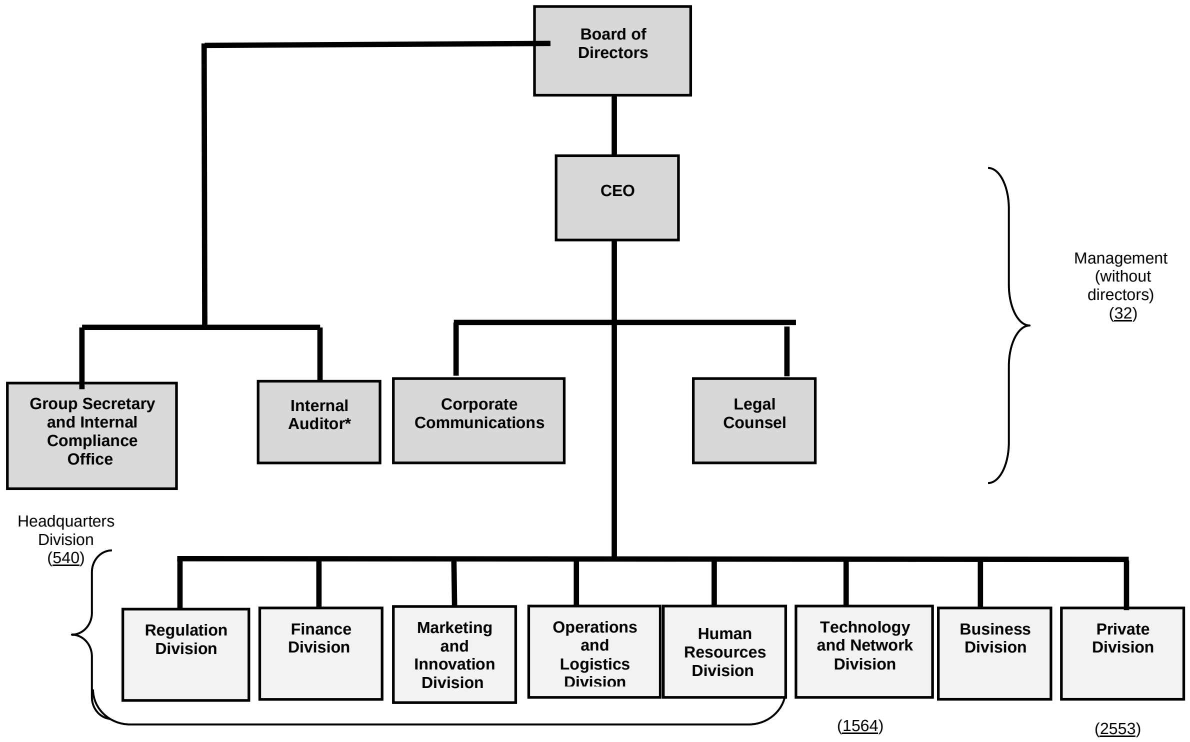
Bezeq uses trademarks that characterize its services and products. As of the date of publication of the periodic report, approximately 200 trademarks are registered in Bezeq's name, or are in the process of being registered with the Registrar of Trademarks. The main trademarks are **Bezeq** – Bezeq’s name and "**B**" – Bezeq’s logo. Also, Bezeq registered a patent for Bezeq’s Be router and the new Be router.

2.9. Human capital

2.9.1. Organizational structure and employee base according to organizational structure

The following is a diagram of Bezeq's general organizational structure as of December 31, 2020:

[28] The full consideration except VAT has been deposited in trust to secure various liabilities of Bezeq, the trustee will transfer to Bezeq the trust funds in accordance with the provisions of the agreement.



*Until December 10, 2020, was organizationally subordinate to the CEO and from that date was organizationally subordinate to the Chairman of Bezeq's Board of Directors.

2.9.2. Number of Bezeq employees and employment frameworks

The number of employees at Bezeq as of December 31, 2020 was 5,408 employees (compared to 5,256 employees at the end of 2019). The increase in the number of employees was mainly due to the absorption of infrastructure workers and technicians in favor of the fiber project (see section 2.7.2.3). About 92% of Bezeq employees are employees employed under collective agreements (of which approximately 59% of Bezeq's employees are permanent employees and the rest are non-permanent employees). The rest of Bezeq's employees (approximately 8%) are employed under individual agreements not within the framework of the collective agreements.

For details regarding the special collective agreement from December 2006 and its amendments, see section2.9.4.

2.9.3. Early retirement plans for employees

During a 2020, 98 permanent Bezeq employees retired in accordance with the early retirement plan.

On December 16, 2018, Bezeq's Board of Directors approved, among other things, a provision for an early retirement plan, until the end of the collective agreement period (end of 2021), for all Bezeq employees transferred to Bezeq from the Ministry of Communications ("**Transferred Employees**") (94 employees) retiring in 2020 and 2021.

On December 10, 2020, as part of the implementation of Bezeq's streamlining plan, Bezeq's Board of Directors approved the retirement of approximately 50 veteran permanent employees in the early retirement track at a total cost of approximately NIS 68 million. In light of the aforesaid, Bezeq recorded in its financial statements for the fourth quarter of 2020 an expense in the amount of NIS 65 million. It should be clarified that this retirement is in addition to the retirement plan of Transferred Employees as stated above.

For this matter see also Note 17.5 to the 2020 statements.

2.9.4. The nature of the employment agreements with Bezeq

The employment relationship with Bezeq is regulated in collective agreements signed between Bezeq and the representatives of Bezeq employees and the Histadrut, and in individual agreements. Bezeq employees are also subject to extension orders for certain general collective agreements, such as cost increase agreements.

In December 2006, following the transfer of control of Bezeq from the State of Israel to AP.SB.AR Holdings Ltd. (the former controlling shareholder in Bezeq), a special collective agreement was signed between Bezeq and the employees' organization and the Histadrut that regulates labor relations in Bezeq (see section 2.9.1). The following are the main points of the collective agreement and the amendments to it that have been signed over the years (jointly referred to as "the Agreement" in this section):

According to the Agreement, all existing agreements, arrangements and practices at Bezeq on the eve of the signing of the Agreement, including the wage linkage mechanism for the public sector, will continue to apply only to Bezeq's veteran permanent employees, to whom the Agreement applies, subject to changes explicitly included in the Agreement. The employment of existing and new temporary employees will be carried out on the basis of monthly / hourly wage agreements based on a market wage model by occupation, with high managerial flexibility. The Agreement set limits on certain types of future organizational changes, as well as a mechanism for notification, dialogue and arbitration with the employees' organization in the event of organizational changes.

According to the Agreement, during the period of validity of the Agreement, two directors from among the employees will serve on Bezeq's Board of Directors[29] which will be proposed by the employees' organization (subject to the approval of their identity by the Chairman of the Board and their election to the general meeting). The directors from among the employees will not be entitled to payment for their office as directors and will not participate in Board discussions regarding the terms of employment of senior executives.

The status of "new permanent employee" has been defined, whose terms of employment are different from Bezeq's veteran permanent employee (according to the collective agreement): his salary model will be in accordance with Bezeq's salary policy in accordance with market wages. Upon termination of his employment with Bezeq, he will be entitled to an increased severance track only (in accordance with seniority).

As part of the retirement arrangements, Bezeq will be entitled to terminate at its discretion the employment of up to 203 permanent employees (including a new permanents) each year (the figure is relevant for the years 2017-2021).

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

2.9.4.1 Amendment and extension of the collective agreement until 31.12.2025 and the retirement arrangement in the collective agreement until 31.12.2026.

2.9.4.2 As part of its retirement arrangements, Bezeq may, at its discretion, terminate the employment of up to 80 permanent employees (including a new permanent) each year (in addition to the retirement quota of approximately 300 permanent employees remaining from the previous agreement, which Bezeq may terminate at the end of the agreement).

2.9.4.3 The estimated cost of the Agreement, not including the retirement of employees subject to Bezeq's discretion (but including the additional retirement cost of Transferred Employees) is approximately NIS 65 million throughout the period of the Agreement.

For a list of other material agreements in the field of labor relations, see section 2.17.2.

2.9.5. Labor disputes

Upon signing the amendment to the collective agreement as specified in section 2.9.4, the collective conflict that was declared on January 23, 2019 ended.

2.9.6. Officers and employees of Bezeq's senior management

As of the date of publication of the periodic report, Bezeq has 8 directors (out of a composition of 9 directors decided by the Board of Directors), of which two are external directors, one independent director (who is not an external director) and 5 directors who are not independent directors (including one director from among the employees). In addition, Bezeq has 10 senior management members.

As of August 27, 2020, Mr. Gil Sharon has served as Chairman of the Board of Directors,

29 At the beginning of 2016, the employees' representation announced that it agrees that as long as up to 15 directors serve on Bezeq's Board of Directors, one representative from among the employees will serve on the Board, and as the number of directors exceeds 15, another representative from among the employees will serve on the Board.

after the former Chairman of the Board of Bezeq, Mr. Shlomo Rodav, resigned on June 22, 2020. (In the period between June 23, 2020 and August 16, 2020, independent director Mr. David Granot, served as interim Chairman of the Board).

Senior management members are employed under personal agreements that include, but are not limited to, pension coverage, payment of target-based bonuses and early notice months upon retirement.

For details regarding benefits for officers, see Section 7 of Chapter D of this periodic report and Note 29 to the 2020 statements.

On May 23, 2019, the general meeting re-approved Bezeq's remuneration policy in accordance with Article 267A of the Companies Law, including the update thereof, for a period of 3 years, starting on January 1, 2019.

on June 2, 2020 the general meeting of Bezeq's shareholders approved, *inter alia*, amendment to the letters of indemnification and exemption granted to Bezeq's officers and directors who serve at Bezeq and / or who will serve at Bezeq from time to time (including those who are Bezeq's controlling shareholders and / or relatives and / or offciers in the controlling shareholders' companies), as well as amendments to Bezeq's regulations and its Remuneration Policy.

On May 14, 2020, the general meeting of Bezeq's shareholders approved, among other things, additional amendments to the Remuneration Policy of Bezeq's officers as detailed in Bezeq's immediate reports of April 2, 2020 and May 14, 2020 regarding the convening and results of the meeting included in this report.

On December 10, 2020, Bezeq's Board of Directors approved a capital compensation plan ("**the Plan**") under which options will be allotted which are exercisable into up to 84,000,000 ordinary shares, constituting approximately 2.94% of Bezeq's issued and paid-up capital fully diluted after exercise, for which an outline was published on December 12, 2020 (as amended on January 14, 2021) ("**the Outline**"). As part of the approval, an allocation of up to 58,735,000 options was approved for up to 117 executives, managers and employees in Bezeq and in the subsidiaries, including Bezeq's Chairman of the Board and Bezeq's CEO, by virtue of the outline and a material private offer report. On February 10, 2021, Bezeq's Board of Directors approved the allocation of up to 2,730,000 additional options by virtue of the Outline to 4 Bezeq officers and / or employees (including an officer expected to be appointed at Bezeq and who has not yet taken office as of the date of the report), subject, *inter alia*, to the approval of the stock exchange of the listing for trade of the shares that will result from the exercise of the options, which have not yet been received as of the date of the report.

Also on January 18, 2021, the general meeting of Bezeq shareholders approved:

A. Increasing Bezeq's registered share capital by 24,485,753 ordinary shares of NIS 1 par value each, in order to enable future allocation of capital remuneration up to the maximum possible volume for allocation under the Plan.

B. Mr. Gil Sharon's term of office and employment as Chairman of Bezeq's Board of Directors, which will apply retroactively from August 27, 2020, and the effective date of his entry into office (including the allocation of 12,000,000 options in accordance with the Plan).

C. Allocation to Mr. Dudu Mizrahi, CEO of Bezeq, of 9,000,000 options in accordance with the Plan.

D. Amendments and updates to Bezeq's Remuneration Policy.

For further details on this matter, see Bezeq's amended immediate reports dated January 14, 2021 regarding the convening of a special general meeting of Bezeq's shareholders and regarding an outline for the issuance of options to employees included in this report by way of reference.

2.10. Equipment and suppliers

2.10.1. Equipment

The main equipment used by Bezeq is: exchanges, communication cabinets (MSAG), copper cables, optical cables, transmission equipment, data communication systems and equipment, servers, routers and Internet modems. Bezeq purchases most of the equipment needed for its communications infrastructure from Israeli companies associated with manufacturers of communications equipment from around the world. Bezeq purchases hardware and software from a number of major suppliers.

2.10.2. Rate of purchase from major suppliers and the form of contact therewith

Bezeq sees as a "major supplier", for the purposes of Article 23 of the First Schedule to the Prospectus Details Regulations, a supplier whose scope of Bezeq's annual purchases exceeds 5% of the Group's total annual purchases and the volume of purchases from which out of the total volume of purchases in the field of activity exceeded 10%.

During 2020, Bezeq had no major supplier as defined above.

2.10.3. Dependence on suppliers

Most of the equipment purchased in the fields of data communications, branding, transmission and radio systems is unique equipment and throughout all its years of operation the possibility of receiving support, other than from the manufacturer, is limited.

In Bezeq's opinion, given the importance of the manufacturer's support for certain systems used by Bezeq, it may be dependent on the following suppliers:

Supplier name	Field
Nokia Solutions and Networks Israel Ltd.	Metro transmission and network access systems - NGN (It should be noted that GPON equipment for the fiber network was also purchased from the supplier. This is equipment that has not yet been activated as of the date of publication of the report, but when it is activated, Bezeq may also be dependent on the supplier in this field)
Juniper Networks	Metro transmission
Cisco / BroadSoft	Subscriber switches
Dialogic Networks (Israel) Ltd.	Transition switchboards for linking operators to the Bezeq switching network
Adtran Holdings Ltd.	Network access systems - NGN
IBM	Hardware and solutions for backups, restorations and system and infrastructure survivability, storage equipment
VMware	Infrastructure for most of the server virtualization system
Hits Telecom Ltd.	Be Router

Agreements with suppliers on which Bezeq may have a dependency as stated in this section usually include a warranty period for a period of time and under the conditions set forth in the agreements, followed by another period of maintenance or support. If necessary, Bezeq may enter into an agreement with the supplier for the provision of support and / or maintenance services for an additional period of time. As a rule, these agreements will include various remedies to Bezeq in the event of a breach of the agreement by the supplier. Usually, at the time of contracting with these providers, the contract is long term.

2.11. Working capital

For details regarding Bezeq's working capital, see Section 1.4 of the Board of Directors' Report.

2.12. Investments

For information on investments in investee companies, see Note 13 to the 2020 statements, and also see sections 3 and 4 of Chapter D of this periodic report.

2.13. Funding

2.13.1. The average and effective interest rate on loans

As of December 31, 2020, Bezeq is not financed by short-term credit (less than a year). The following is the distribution of long-term loans (including current liabilities):

Loan period	Source of funding	The principal amount (NIS millions)	Currency or linkage type	Type of interest rate and change mechanism	Average interest rate	Effective interest rate	Interest rate range in 2019
Long-term loans	Banks	1,113	NIS unlinked	Fixed	3.49%	3.64%	3.20% - 5.30%
	Non-banking sources	71	NIS unlinked	Variable on the basis of the short-term loan interest rate per year *	1.43%	1.51%	1.43% - 1.54%
	Non-banking sources	3,971	NIS unlinked	Fixed	3.10%	3.19%	3.20% - 5.25%
	Non-banking sources	3,189	CPI-linked NIS	Fixed	1.92%	1.95%	1.70% - 3.70%

* Yield of the short-term loan for the year (212) - minus 0.00200% (average of the last 5 trading days of February 2021) for the interest period that began on March 1, 2021.

For more details about Bezeq loans, see Note 14 to the 2020 statements.

2.13.2. Credti receipt limitations

2.13.2.1 Limitations included in Bezeq loans

See Note 14 to the 2020 statements. As of the date of the financial statements, as well as the date of publication of this periodic report, Bezeq meets all the restrictions that apply to it.

2.13.2.2 Restrictions of the Bank of Israel related to a single borrower and a group of borrowers

The directives of the Supervisor of Banks in Israel include restrictions on the liability of a borrower and a group of borrowers towards the banks. The Supervisor of Banks' instructions may from time to time influence the ability of banking corporations to grant additional credit to Bezeq. Regarding the authorization to set restrictions on the provision of credit to a business group in the Centralization Law, see section 1.7.4.7.

2.13.3. Reportable credit

As of December 31, 2020, Bezeq's reportable credit, in accordance with legal position 104-15 of the Securities Authority (reportable credit incident) is Bezeq's bonds from series 6, 9, 10, 11 and 12, all as specified Note 14 to the 2020 statements and in section 4 of the Board of Directors' report.

2.13.4. Amounts of credit received during the reporting period

For details regarding the credit received during the reporting year through a private placement of tradable bonds, see section 2.13.5.

On April 7, 2020, Bezeq published a prospectus of registration for trading and unblocking of Bezeq bonds (Series 11 and 12) and a shelf prospectus (dated April 8, 2020) ("**the Prospectus**"). Further, pursuant to section 2.1.2 of the prospectus and in accordance with the provisions of section 2.3 (e) of the trust deeds for Bezeq's bonds (Series 11 and 12) dated July 10, 2019, on April 26, 2020, these bonds, which were originally listed for trading in the "Institutional Sequence" system of the TASE, were delisted from trading from this system and listed for trading on the TASE's main list.

On May 27, 2020, Bezeq completed a placement according to a shelf offer report from May 26, 2020, which was published according to the Prospectus, of Bezeq's bonds (Series 11 and 12) by expanding the series listed for trading on the Stock Exchange's main list. In this framework, 231,906,000 bonds (Series 11) in exchange for an amount of approximately NIS 243,919,000 million and 470,000,000 bonds (Series 12) in exchange for an amount of approximately NIS 480,481,000 were issued.

It should be noted that during 2020, Bezeq made two early repayments of private loans (from an institutional body and a bank) in the total amount of NIS 860 million (principal).

2.13.5. Bezeq's bonds

For details regarding the bonds issued by the Company and by Bezeq see Note 14 to the 2020 statements and Section 4 of the Board of Directors' Report. Also, see section 2.13.4.

2.13.6. Credit rating

As of August 13, 2020, the Company's bonds are not rated in any rating. On the eve of the termination of the rating, the rating of the Company's bonds (Series C) by Midroog was Caa2.il, with a stable rating horizon.

Bezeq's bonds are rated by Standard & Force Maalot Ltd. as il/AA-/Stable and by Midroog Ltd. as Aa3.il rating with a stable rating horizon. On December 22, 2020, Midroog announced that it was placing the Bezeq rating under examination with negative consequences.

For details regarding the history of Bezeq ratings in the last two years, see Bezeq's immediate reports dated May 7, 2019, June 25, 2019, July 10, 2019, August 12, 2019, November 25, 2019 and December 10, 2019, May 4, 2020, May 26, 2020 (Standard & Force Maalot Ltd.), and dated April 8, 2019, June 25, 2019, July 10, 2019, August 6, 2019, November 25, 2019 and December 10, 2019, April 22, 2020, May 26, 2020, December 22, 2020 (Midroog Ltd.) included in this report by way of reference.

For this matter see also section 4 of the Board of Directors' Report.

2.13.7. Bezeq's assessment in relation to debt raising in the coming year (2021) and the sources of raising

During 2021, Bezeq is expected to repay a total of NIS 1.3 billion for the principal and the interest on its loans, including bonds (including an amount planned for early repayment of credit at Bezeq's discretion).

Bezeq raises funds from time to time for the purpose of managing its cash flow. The financing options available to Bezeq are: Raising debt through new loans from banking corporations and / or through raising private or negotiable debt. Bezeq intends to continue operating during 2021 to adjust its debt structure to its needs and sources.

2.13.8. Liens and collateral

For information regarding Bezeq's liens and collateral, see Note 20 to the 2020 statements.

2.14. Taxation

For information on taxation, including losses carried forward for tax purposes in DBS, see Note 7 to the 2020 statements. Also, regarding the application for approval of a derivative claim regarding the assessment agreement in connection with DBS losses, see section 2.18i.

2.15. Environmental risks and ways of managing them

2.15.1. General

Some Bezeq facilities, such as broadcasting facilities, wireless communication facilities, or high-voltage facilities[30] are sources of electromagnetic radiation which are included in the definition of "radiation source" in the Non-Ionizing Radiation Law.

2.15.2. The Non-Ionizing Radiation Law

The law regulates the practice of radiation sources, their establishment and operation, as well as their supervision. Among other things, the law stipulates that the construction and operation of a radiation source is subject to a permit; Provides for punitive provisions, and strict liability for a company that has violated the provisions of the law, its employees and its officers; Imposes registration and reporting obligations on the permit holder and confers supervisory powers mainly to the Commissioner for Non-Ionizing Radiation in the Ministry of Environmental Protection (in this section - "**the Commissioner**"), including regarding conditions in the permit, revocation of the permit and disposal of radiation source.

Bezeq has issued operating permits from the Commissioner for the communication facilities and broadcasting sites operated by it. In addition, Bezeq performed the necessary actions for issuing radiation permits for high-voltage facilities located in Bezeq's assets,

[30] The construction and operation of these facilities requires an establishment permit as well as an operating permit in accordance with the Non-Ionizing Radiation Law. The construction of high-voltage facilities (transformers) at Bezeq sites is intended for the supply of energy for the use of Bezeq facilities.

and as of the date of the report, radiation permits exist for 13 high-voltage facilities, all of which have a construction and operating permit or a valid type approval.

It should be noted that the Commissioner requires building permits as a condition for the continued validity of operating permits for communication facilities (including broadcasting facilities) issued by him, as well as the existence of additional conditions, *inter alia*, in relation to "wireless access facilities" that have a "type certificate" issued by the Commissioner . See also section2.16.10.

The law includes a penalty chapter which stipulates, *inter alia*, that the construction or operation of a radiation source in violation of the terms of the permit and the construction or operation of a radiation source without a permit after receiving written notice from the commissioner, are a criminal offense.

2.15.3. Permits

For permits for broadcasting facilities required by the Planning and Construction Law, see section 2.16.10.

2.15.4. Bezeq policy regarding radiation risk management

Bezeq implements a work procedure regarding the establishment, operation and measurement of non-ionizing radiation sources, and an appropriate enforcement procedure approved by Bezeq's Board of Directors. Bezeq has been appointed an enforcement procedure implementation officer. Periodic reports on the status of radiation sources are forwarded to Bezeq's CEO and the Board of Directors.

2.16. Restrictions and supervision of Bezeq operations

Bezeq is subject to various legal systems that regulate and limit its business activities. The main body that supervises Bezeq's activities, as a communications company, is the Ministry of Communications.

2.16.1. Supervision of Bezeq rates

Arrangements under Sections 5 and 15 to 17 of the Communications Act and under the NIO license apply to Bezeq’s rates, as detailed later in this section.

Bezeq rates supervision (as detailed below) has several implications - Bezeq rates are subject to regulatory intervention (even if not provided for in regulations or alternative payment baskets), and from time to time, Bezeq is exposed to significant changes in its rate structure and rate level. The mechanism of updating the supervised rates, as stipulated in the authorizing legislation and regulations, leads to the fact that on average the supervised Bezeq rates have actually eroded over the years. Rate control creates or may create difficulties for Bezeq in providing an appropriate competitive response to changes in the market and competitors' offers in short schedules. In addition, the restrictions on the granting of discounts in rates limit Bezeq’s participation in certain tenders.

The following are the main principles of the control arrangements on Bezeq rates:

2.16.1.1 In accordance with the Communications Law, the Minister of Communications may, with the consent of the Minister of Finance, determine payments (including maximum or minimum) for licensee services. Determination of payments can be made, *inter alia*, based on (1) cost according to a calculation method ordered by the Minister plus a reasonable profit; Or (2) by reference points derived from the following: payment for services provided by the licensee, payment for comparable services, payments in other countries for such services.

2.16.1.2 Rates set by regulations (FIX) - Bezeq's supervised service rates (telephony and other services) set in the regulations were updated according to the linkage formula minus a reduction coefficient as stipulated in the regulations, so that on average Bezeq's supervised rates were eroded in real terms. After five years in which the rates were not updated, on May 23, 2018, the Ministry of Communications issued an announcement updating the Bezeq rates set forth in the regulations as of June 1, 2018, based on the formula of the update set forth in the Communications (Bezeq and Broadcasting) Regulations (Calculation of Payments for Bezeq Services and their Linkage), 5767-2007, so that the rates for the services provided by Bezeq set forth in the regulations decreased by an average of 11.88%, except for the fixed monthly payment for a telephone line which remained unchanged. In accordance with the temporary provisions from June 1, 2019 and June 1, 2020, the payments have not been updated and the details in the formula have been updated to the date of the next update that will apply on June 1, 2021. For the hearing regarding the determination of maximum rates for Bezeq's retail telephony services, see section2.16.1.6.

2.16.1.3 The Minister of Communications and Finance have the authority (according to Article 5 of the Communications Law) to determine payments for interconnectivity or for a licensee's use of another licensee's Bezeq facilities and to issue instructions (including in relation to ancillary arrangements), *inter alia*, based on the parameters stated in section 2.16.1.1.

2.16.1.4 Alternative payment baskets - if rates that are not maximum or minimum are set for the supervised services, Bezeq may offer an alternative payment basket for a group of those services, provided that the Ministers of Communications and Finance do not oppose the basket. In the Gronau report[31] It is stipulated that an alternative payment basket will only be approved if it is worthwhile to 30% or more of the subscribers who consume the services offered in the basket and that the maximum allowable discount rate in an alternative payment basket will be higher the smaller the Group's market share in fixed telephony.[32]

If maximum or minimum payments have been determined under Articles 5 or 15 of the Communications Law for Bezeq services provided to another licensee, Bezeq may, in a non-discriminatory manner, offer each other licensee both an alternative payment basket for a group of services in maximum or minimum payments, and such services together with together with services for which no payment has been prescribed under Article 5 or 15 of the Communications Law, insofar as the Ministers have not objected.

2.16.1.5 For a service for which no payment has been determined or for which a maximum or minimum payment has been determined according to Article 5 or 15, Bezeq may demand a reasonable payment. The Minister of Communications may order Bezeq to inform him of a payment that it intends to demand as aforesaid and of any change in payment before the service is provided or the change is made. If the Minister of Communications sees that Bezeq intends to demand an unreasonable payment, or a payment that raises concerns in respect of competition, he will be entitled to order Bezeq (for a period not exceeding one year) the amount of payment it may demand for the service, or order the separation of the payment for a service from the payment for the group of services. The Minister's examination of whether a payment is unreasonable may be made, *inter alia*, in accordance with the parameters as stated in section2.16.1.1(1), and the Minister may examine the payment based on what is stated in section2.16.1.1(2).

2.16.1.6 On December 15, 2020, a hearing was published by the Ministry of Communications regarding the determination of maximum rates for Bezeq's retail telephony services (“**the Hearing**"). This Hearing replaces an earlier hearing from June 2017 regarding the change in the mechanism for supervising Bezeq's retail rates and is significantly different from it.

a) According to the Hearing documents, in view of the elapsed time since the establishment of the existing retail telephony rates ("**the Rates**") and the changes in the communications industry, the Rates supervision mechanism and the level of Rates must be adjusted to these changes. Also, following an earlier hearing published by the Ministry in 2017 regarding the Rates control mechanism in which two alternatives were proposed (transition to maximum Rates and removal of Rates control from major telephony services), the Ministry believes that at present the alternative of removing Rates control is irrelevant and will not necessarily reduce Rates. The level of Bezeq's Rates must be examined and updated in accordance with the passage of time, the current cost structure and the state of competition.

[31] Report of the Gronau Committee for the Rules of Competition in the Field of Communications in a letter from the then Minister of Communications dated August 13, 2008 regarding the adoption of the report (as amended) ("**the Gronau Report**").

[32] Maximum discount rate of 25% when the Group's market share is between 75% and 85% and 40% when the market share is between 60% and 75%.

b) Accordingly, and based on an economic opinion attached to the Hearing documents, it is proposed in the Hearing to adopt a uniform usage fee rate and that the usage fee rates and call minutes be set as maximum rates. According to the Hearing, the basis for determining the proposed rates is the wholesale costs plus a proposed retail margin component of 25%.

c) Accordingly it is proposed that the maximum rates for line and calls (in NIS) be as follows:

Service	**Current rate**		**Rate proposed at Hearing (maximum)**	
	VAT free	VAT included	VAT free	VAT included
Monthly usage fee for telephone line	49.5	57.92	20.82	24.36
Rate for one minute of call to landline networks[33]	Low - 0.035 High - 0.0857	Low - 0.041 High - 0.010	0.012	0.014
Rate for one minute of call to mobile networks[34]	0.1098	0.128	0.072	0.084

d) In addition, it is proposed to set a maximum rate for a line package of minutes and a quota of minutes that Bezeq will be obligated to market to its subscriber, which will include 500 minutes of calls to landline and mobile destinations at a maximum rate of NIS 28 plus VAT plus the fixed rate for each minute. At the same time, it is proposed to cancel all existing alternative payment baskets while allowing Bezeq to market new service packages at reasonable rates in relation to the maximum rates that are proposed to be determined at the Hearing and which are not higher thereof.

e) According to the Ministry of Communications, the proposed change in rates is expected to reduce the expenses of the individual lines segment subscribers in a way that will reduce the expenses of Bezeq's fixed telephony consumers by NIS 331 million per year (approximately 390 million including VAT).

f) It should be noted that the Hearing proposes additional changes to Bezeq's rates, including adjustments to the new rates proposed at the Hearing, determining the existing rates for ancillary services to the telephone line as maximum rates and enabling Bezeq to set lower prices relative to them, and terminating the rates of calls initiated by business customers In my PRI axis.

g) Also, according to the Hearing, insofar as there is a change in the interconnectivity rates, this will result in a change in the corresponding call minute rates that include this component.

In addition, a draft amendment to Bezeq's rates regulations was attached to the Hearing documents.

In Bezeq's opinion, as the changes proposed in the Hearing are implemented, a material adverse effect on Bezeq's financial results is expected.

Some of the information contained in this section is forward-looking information as defined in the Securities Law based on assessments, assumptions and expectations, including the final decisions to be made in the Hearing, the Ministry of Communications' assessments in the Hearing, demands for Bezeq services and the behavior of various communications operators. Accordingly, the

33 Includes an interconnectivity rate for landline destinations.

34 Includes an interconnectivity rate for mobile networks.

information may not materialize or materialize differently from what is stated depending on the materialization of the above assessments.

On December 17, 2020, Bezeq sent a request to the Ministry of Communications for a postponement of its response to the Hearing in light of the complexity of the issue, and in this context, it expressed initial substantive reservations about the Ministry of Communications' position in the Hearing.

On January 11, 21, Bezeq submitted a report to the office of the international research company Cullen International with a concise overview of EU policies, rules and experience regarding the issue of the hearing, according to which, among other things - the practice of intervening in any form in retail rates through an update mechanism known as price cap has not existed in the world for over a decade, *a fortiori*, when it comes to unilaterally setting the rates of services. Even when telephony rates were regulated (in the 1990s and early 2000s), pricing was always based on "top down" models based on the Full Distributed Costing of accounting costs (sometimes with adjustments), and that methods of determining prices based on bottom-up models that reflect the cost structure of a hypothetical efficient operator were used solely when determining wholesale prices. This is because operating this method when setting retail prices does not by definition allow for actual cost coverage, and thus will lead to a continuous loss to the point of the veteran operator leaving the market.

On February 28, 2021, Bezeq submitted to the Ministry an economic opinion from the consulting firm Ernst & Young ("**the EY Opinion**"), regarding the regulation of Bezeq's landline telephony rates, according to which the implementation of the recommendations in the Hearing document is expected to lead to a material impairment of Bezeq's revenues and profits. EY writes that the Ministry has an obligation to justify the regulatory intervention in the market and if it is found that there is justification for the intervention, it must be reasonable and proportionate in the face of economic justification and in the face of the expected harm to Bezeq. According to the EY Opinion, analysis of the landline telephony market in Israel shows that no regulatory intervention is required, among other things, because the definition of the product market should include both landline telephony and mobile telephony, since these are products that constitute close alternatives. The EY Opinion clarifies that the economic opinion on which the Hearing is based does not provide the necessary justification for the proposed regulation and that the recommendations contained therein are the result of methodological biases, mistakes and computational error, when instead of an orderly competitive economic analysis (basic practice in Israel and around the world), the economic opinion is based on biased or unfounded determinations that are also inconsistent with reality; Instead of determining the rate on the basis of Bezeq's actual data and costs, the economic opinion deviates from the practice of previous committees and European practice and states in an unprecedented manner that the retail rate should be determined on the basis of the cost structure of a hypothetical efficient operator. This has a crucial impact on the actual results; The assumptions made for the purpose of determining retail rates by estimating retail costs as a percentage of the wholesale cost of telephony services are unfounded, erroneous and biased. Some even contradict the findings of previous work by the Ministry of Communications itself in a way that significantly reduces the maximum retail rate recommended in the Hearing; Once a result was obtained that meant a dramatic reduction in the rate - a reduction of tens of percent - no in-depth examination was conducted regarding the reasonableness of the outcome and an examination of its expected implications for competition and consumers. In addition, the aforesaid correction of the deficiencies illustrates that the rates recommended in the Hearing are tens of percent lower than those required in order to cover Bezeq's costs and are therefore unreasonable.

In Bezeq’s letter accompanying the EY Opinion, Bezeq stated that the economic opinion on the basis of the Hearing and its conclusions could not stand. They express unreasonableness and obvious failures in relation to the intervention itself, both in relation to the process and to the results. In view of this and in light of the analysis presented in the EY Opinion, the obvious conclusion is that the implementation of regulation in the landline communications market no longer serves a legitimate consumer interest but on the contrary, in a market where there are no barriers to entry and a high level of competitiveness exists, achieved in light of technological, regulatory and structural changes, applying regulation creates damage to the consumer interest. Therefore, the adoption of the Hearing recommendations will be a decision made in an unreasonable manner, which creates an arbitrary and unjustified violation of Bezeq's rights. In addition, Bezeq believes that in the circumstances presented in an orderly manner in the EY Opinion, the correct and required step is to remove the supervision of Bezeq's telephony service rates.

2.16.1.7 For the hearing dated August 29, 2017 regarding the mechanism for preventing margin reduction, and the submission of marketing proposals for approval by the Ministry of Communications, as well as for wholesale service rates and for updating the wholesale rates for the years 2019-2021 - see section 2.16.4.

2.16.1.8 Regarding wholesale market rates in the BSA service - on February 20, 2020, the Minister of Communications decided to amend the Communications (Bezeq and Broadcasting) Regulations (Use of an NIO Public Network), 5774-2014 (“**the Amendment**" and “**the Regulations**", respectively) as detailed below:

a) The amendment includes formulas for updating the maximum payments to which Bezeq is entitled for use of its network (wholesale BSA service) on January 1 of each year, between the years 2019 and 2022, and also stipulates that the Minister of Communications will publish on November 15 each year the demand forecast index, which is a component of the update formula. The demand indices for the years 2019 and 2020 were determined in the Minister's announcement which was attached to the Minister's decision. The amendment will apply retroactively from January 1, 2019.

b) It was further determined that with the entry into force of the regulations, a reduction of certain payment components will apply in a manner that will offset Bezeq and another licensee, who consumed the services between February 2017 (the date of the decision to update the maximum payments) and July 2018 (the date of updating the regulations) until the end of the offsetting for that period.

The update of the maximum payments for the years 2019 and 2020 resulted in an insignificant decrease in Bezeq's revenues in relation to the revenues that would have been received on the basis of the current rates at which the communications market operated from July 2018.

On November 29, 2020, a Public Notice (Bezeq and Broadcasting) (Use of an NIO Public Bezeq Network), 5720-2020 (“**the Notice**") was published, in which the demand forecast indices for 2021 were updated in the regulations, from which Bezeq’s rates for wholesale infrastructure ownership services in accordance with the formulas are derived. Bezeq's revenues in respect of such services are affected by both the rates and the extent of the actual use of Bezeq’s network, which depends on the behavior of the various communications operators. Based on Bezeq's estimates of the extent to which telecommunications operators use its network during 2021, Bezeq estimates that the updated rates, which are expected in light of the demand forecast indices in the Notice, may have a material adverse effect on its results for 2021. Bezeq has reservations about the procedure and the manner of determination of some of the demand forecast indices in the Notice by the Ministry of Communications, which were presented, among other things, in Bezeq’s letter to the Ministry, and Bezeq is examining its steps in this regard.

Some of the information contained in the above paragraph is forward-looking information as defined in the Securities Law based on Bezeq's assessments, assumptions and expectations, including the scope of use of Bezeq’s network and the behavior of the various communications operators. Accordingly, the information may not materialize or materialize differently from what is stated depending on the materialization of the above assessments.

For wholesale market rates on Hot’s network, see section2.16.4.

2.16.1.9 On September 17, 2020, the Ministry of Communications approved a new arrangement proposed by Bezeq, which includes prior approval of alternative payment baskets that include increased use, following a hearing published by the Ministry regarding unusual uses of landline call minutes in the face of the outbreak of the COVID-19 pandemic and following a temporary amendment of alternative payment basket provisions provided by Bezeq in accordance with the outline proposed by Bezeq which enabled a retroactive increase of packages in cases of use in excess of a certain threshold. The validity of the arrangement has been extended from time to time (as of the date of publication of the report, it is valid until July 31, 2021).

2.16.2. Bezeq's NIO license

Bezeq operates, among other things, under the NIO license[35]. The NIO license contains provisions that mainly concern:

2.16.2.1 The scope of the license, the services that Bezeq must provide and the universal service obligation

Bezeq must provide its services to everyone on equal terms for each type of service, regardless of location or unique cost. The license is not limited in time; The Minister may change, revoke, and suspend the license; The license and any part thereof may not be transferred, encumbered or foreclosed. Regarding the addition of wholesale services to the Bezeq license, see section1.7.3. Regarding the deployment and universal service obligation in connection with ultra-broadband infrastructure, see section2.7.2.

2.16.2.2 Rules of structural separation

For a description of the structural separation rules applicable to Bezeq, see section1.7.2.

2.16.2.3 Rates

Bezeq will provide a service or package of services for which no rate has been set under Articles 15 or 15A of the Communications Law at a reasonable price, and will offer it to everyone, without discrimination, and at a uniform rate. See also section2.16.1.

2.16.2.4 Marketing shared service baskets

For the provisions in the NIO license that allow Bezeq to apply to market baskets of shared services subject to restrictions, see section 1.7.2.2.

2.16.2.5 Operation of Bezeq’s networks and the level of its services

Bezeq must maintain and operate the network, and maintain its services at all times, including in times of emergency, in a proper and regular manner, in accordance with the technical requirements and the quality of service requirements, and act to improve its services. The license includes an appendix regarding the "level of service to the subscriber", which was determined to be amended after Bezeq provides the Ministry with data. Bezeq forwarded proposals to the Ministry to amend the appendix while adapting it to the reality and licenses of other operators, but as of the publication of the report, the amendment has not yet been made. For the amendment to the license regarding answering at the call centers, see section1.7.4.4a).

2.16.2.6 Interconnectivity and use

Provisions have been made regarding the obligation of interconnectivity to another public network and allowing the use of another licensee (including wholesale service); There is also an obligation to provide infrastructure services to the another licensee on reasonable and equal terms, and to refrain from preferring a licensee who is an affiliated company.

2.16.2.7 Arrangements in the field of security

Provisions have been made regarding the operation of Bezeq’s network in time of emergency, including an obligation to operate in a manner that will prevent it from collapsing in an emergency.

Bezeq must perform Bezeq services and construction and maintenance services for infrastructure and end equipment for defense forces in Israel and abroad, as stipulated in its agreements with the defense forces. Bezeq will also provide special services to the defense forces. Bezeq will work to ensure that all

[35] A copy of the NIO license is published on the Ministry of Communications' website at - www.moc.gov.il.

purchases and installation of hardware in its Bezeq facilities, with the exception of terminal equipment, will be made in full compliance with the instructions given to Bezeq under Article 13 of the Communications Law.

Bezeq must appoint a security officer and strictly comply with the security provisions in the appendix to the license.

2.16.2.8 Supervision and reporting

Bezeq has extensive reporting obligations to the Ministry of Communications. In addition, the Director General of the Ministry of Communications (as defined in Bezeq's license) was granted access rights to the facilities and offices used by Bezeq and the seizure of documents. On August 1, 2019, Bezeq's general license was amended so that the reporting obligations were consolidated and reduced.

2.16.2.9 Miscellaneous matters

a) The NIO license includes restrictions on the acquisition, possession and transfer of means of control in accordance with the provisions of the Communications Order (see section 2.16.3), as well as restrictions on "cross-ownership", the main principle of which is the prohibition on cross-holding by entities that have an affiliation with another material NIO[36] as stated in the license, and restrictions on cross-holding by entities with NIO licenses or general licenses in the same segment of activity.

b) Bezeq provided the Director General of the Ministry of Communications with a bank guarantee in the total amount of NIS 15 million to ensure compliance with the terms of the license and to indemnify the State for any damage caused to it due to their violation by Bezeq.

c) The Director General of the Ministry of Communications is authorized to impose a financial sanction for violating the terms of the license (for this matter, see also section 1.7.4.6).

d) Bezeq may invest during a calendar year up to 25% of its annual income in activities not intended for the provision of Bezeq services (when the income of subsidiaries is not considered Bezeq's revenue for this purpose).

e) On October 26, 2020, Bezeq was received from the Communications and Postal Service Officer in the Judea and Samaria Civil Administration a general license for the provision of landline interior Bezeq services in the Judea and Samaria area. In accordance with what is stated in the preamble to the license, this is a license in the form of a reference to Bezeq's general license granted to it by the competent bodies in the Ministry of Communications, while making the necessary adjustments in the area, and it is nothing but an existing snapshot in the field of infrastructure that is under the responsibility and ownership of Bezeq. Accordingly, no material change is expected in Bezeq's conduct in Judea and Samaria in relation to the existing situation prior to the granting of the license (at the same time, it should be noted that the license in principle allows Bezeq to streamline the service in the area through the use of technicians from the entire Group, subject to the approval of an appropriate procedure to be formulated by Bezeq and brought for approval by the Communications Officer).

For the wholesale market and wholesale service portfolios see section 2.16.4.

2.16.3. The Communication Order

Bezeq has been declared a provider of essential Bezeq services in accordance with the Communication Order. By virtue of this declaration, Bezeq is obligated to provide certain types of services and may not stop or reduce them, including basic telephone service, infrastructure service, transmission service and data communication service, including interconnectivity, and other services listed in the addendum to the Order.

Main additional provisions in the Communication Order:

2.16.3.1 Restrictions on the transfer and purchase of means of control in Bezeq, including a restriction on the possession of means of control of a certain type at a rate of 5% or more without the prior written approval of the Prime Minister and the

36 NIO with a market share of 25% or more.

Minister of Communications ("**the Ministers**").

2.16.3.2 The transfer or acquisition of control of Bezeq requires the approval of the Ministers ("**Control Permit**"). The Control Permit will determine a minimum holding rate in each of Bezeq's means of control by the Control Permit holder, with the transfer of shares or the issuance of shares by a company, as a result of which the controlling shareholder's holdings fall below the minimum rate – is prohibited without the Minsiters' prior approval, subject to permissible exceptions (including public offering under a prospectus or sale or private allotment to institutional investors)[37].

2.16.3.3 Holdings that have not been approved as aforesaid will be considered "excess holdings". The Order stipulated that there would be no validity to the exercise of a right by virtue of excess holdings, and also stipulated provisions authorizing the Ministers and Bezeq to apply to the court for a forced sale of excess holdings.

2.16.3.4 Bezeq was required to report to Ministers, upon request, on all information on matters related to the provision of an essential service.

2.16.3.5 At least 75% of the members of Bezeq's Board of Directors will be citizens of Israel and its residents with a security classification and security suitability, as determined by the General Security Service. The Chairman of the Board of Directors, the external directors, the CEO of Bezeq and other Bezeq officials as specified in the Order will be citizens of Israel and its residents and have a security classification according to the classification of the position.

2.16.3.6 "Israeliness" requirements have been set for the controlling shareholder in Bezeq: in the case of an individual - he is an Israeli entity (as defined in the Order), in the case of a corporation - it is incorporated in Israel, its business center in Israel and an Israeli entity (as defined in the Order) holds at least 19% of any of the means of control in it, or holds at least 19% of the voting rights at the general meeting and the right to appoint directors of the controlling shareholder and he has the right to appoint at least one-fifth of the number of directors in Bezeq and Bezeq's subsidiaries, and no less than one director, in each them, to be appointed by him, provided that the rate of his holdings in Bezeq, both directly and indirectly, shall not at any time be less than 3% of any type of means of control in Bezeq.

It should be noted that on March 8, 2020, Bezeq received hearing documents published by the Ministry of Communications regarding "changing the requirement for a minimum percentage of means of control of a general licensee held by an Israeli entity". During the hearing, it was proposed to amend the Communications Order as well as additional legislation stipulating Israeliness requirements in relation to additional holders of communications licenses, so that it will be possible to convert the Israeliness requirement in the legislation under Article 13 of the Communications Law and the procedure set forth therein. The date for reference to the hearing is set for March 29, 2020. On July 8, 2020, an amendment was published in Reshumot to some of the communications regulations that stipulate an Israeli requirement so that the possibility of converting the Israeliness requirement into a provision under Article 13 of the Communications Law and in the procedure set forth therein, which will apply to the relevant licensee alternative provisions to the Israeliness requirement. The date for reference to the hearing is set for March 29, 2020. On July 8, 2020, an amendment was published to some of the Communications Regulations stipulating the requirement of Israeliness, so that the possibility of converting the requirement of Israeliness into a provision under Article 13 of the Communications Law, which will apply alternative provisions to the Israeliness requirement on the relevant licensee. To the best of Bezeq's knowledge, no parallel amendment has yet been made to the Communications Order.

2.16.3.7 The approval of the Ministers is required for the granting of rights in certain Bezeq assets (switches, cable network, transmission network and databases and information). In addition, the granting of rights by means of control of Bezeq's subsidiaries, including the allotment of shares in excess of 25% by the subsidiary, requires the approval of the ministers.

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[37] Per lesson The minimum holding in the control permit of a group flashSee section 8 lEpisode D' report This period is.

2.16.3.8 Certain Bezeq operations require the approval of the Minister of Communications, including voluntary dissolution, compromise or settlement between Bezeq and its creditors, change or reorganization of Bezeq's structure, merger and splitting of Bezeq.

2.16.4. Wholesale market

In recent years, Bezeq has been providing services under the "wholesale market" model, in which it has imposed obligations on the owners of the lanlinde interior access infrastructure in Israel (Bezeq and Hot) to sell wholesale services to other communications operators.

The regulatory determinations in relation to the wholesale market as well as its implementation and development during the reported period have an impact on a significant part of the Group’s activity.

2.16.4.1 Policy document

The wholesale services are set out futher to the policy document dated May 2, 2012, in which the Minister of Communications adopted the main recommendations of the committee for examining the structure of Bezeq's rates and updating them and for determining rates for wholesale services in the field of communications (Hayek Committee). The policy document stipulates, *inter alia*, that owners of landline interior access infrastructures, which provide retail services, including Bezeq, will be required to sell wholesale services to communications license holders, on the basis of non-discriminatory conditions and no size discounts. The document set out conditions for the elimination of structural separation (See section 1.7.2.1b) and that the Minister will work to move to the method of controlling Bezeq rates by setting a maximum price, within 6 months of publishing a "shelf offer" for the sale of services by infrastructure owners, and that the Ministry will formulate a regulation within 9 months aimed at increasing investment in Israel's fixed communications infrastructure.

Following the policy document, at the end of 2014, the Ministry of Communications established service portfolios for the various services, which determine the format of the provision of services by the infrastructure owners. The maximum rates that Bezeq may charge for these services were set by the Minister of Communications with the consent of the Minister of Finance in the regulations for the use of that year. On June 26, 2017, the rates for Hot’s wholesale services were announced.

2.16.4.2 BSA service

Bezeq began providing the service on February 17, 2015. This service enables infrastructure-less service providers to offer their customers an Internet servicefull (end to end) which includes both an Internet connection service and Bezeq's infrastructure service. Since the launch of the service, hundreds of thousands of customers have moved to receive service through such service providers, in this regard, see sections 1.5.4.1 and- 2.1.3.

In the first days of the service, the Ministry conducted a supervisory procedure in Bezeq that led to the imposition of sanctions in the amount of NIS 8.5 million. Bezeq paid the amount of the sanctions. Bezeq's petition to the court against this procedure was rejected. Bezeq's appeal on the rejection og the petition was denied.[38]. In addition, disputes arose between Bezeq and the service providers and the Ministry of Communications regarding the implementation of the service portfolio. These disputes concerned, among other things, the payments due to Bezeq for the service, the division of responsibility for installation and malfunctions.

On August 29, 2017, the Ministry of Communications issued a secondary hearing (to a hearing published on November 17, 2014), regarding the determination of a format for examining the margin squeeze by owners of broadband fixed

38 It should be noted that on January 19, 2020, a judgment was rendered in the framework of which a motion was partially accepted for the disclosure of documents under Article 198A of the Companies Law regarding this financial sanction. The applicant seeks to examine through the disclosure of the documents the possibility of submitting a motion for approval of a derivative claim against Bezeq officers / employees who were involved in dealing with the issue, with the relevant derivative claim amounting to the financial damage caused to Bezeq as a result of the financial sanction imposed on Bezeq (NIS 8.5 million). Bezeq informed the applicant that Bezeq's Board of Directors has appointed an independent claims committee, *inter alia*, in matters subject to the ruling, which examines Bezeq's claim rights in connection with the financial sanction.

communications infrastructure in marketing proposals. Margin squeeze is an operation in which the infrastructure owner lowers his retail prices and thereby reduces the gap between his retail prices and the wholesale price at which he sells the infrastructure inputs to service providers in a way that reduces the profit of service providers to economic inefficiency. According to the secondary hearing, the Ministry is considering allowing an independent examination track to rule out margin squeeze, using testing tools that will be approved by the Ministry (in addition to the limited testing track). According to the considerations, the effective rate of the tested service or the group of tested services will not be lower than the minimum price threshold set for the marketing of those services tested by the licensee. The "licensee" at the hearing includes Bezeq, Bezeq International, DBS, Hot Broadcasting, Hot Telecom and Hot Net. Bezeq submitted its response to the hearing, according to which there is no need to determine a format for examining the margin squeeze, but insofar such is detemined determines, the mechanism of self-examination proposed at the hearing should be expanded. In Bezeq's estimation, the format of examining the margin squeeze, insofar as it is implemented, may impair Bezeq's and the Group's ability to market packages in terms of the timing of the offers and the prices they can offer.

To the best of Bezeq's knowledge, the sale of wholesale services on the Hot network has begun. Also, to the best of Bezeq's knowledge, the volume of wholesale subscribers on the HOT network is not large at this stage, although Bezeq estimates that there has been an increase recently.

For service rates BSA on fibers See section2.7.22.16.12.2.

2.16.4.3 Wholesale service use of physical infrastructure

a) Format and applicability of the service

The "Use of Physical Infrastructure" service file (the "**original service file**") came into force on the July 31, 2015 and accordingly allows Bezeq for infrastructure-less suppliers to use Bezeq's available physical infrastructure for the passage of communication cables, as well as to use available dark fiber from Bezeq's available optical cable, when for connecting the service provider's infrastructure to Bezeq's infrastructure the service provider must establish a passive infrastructure facility near Bezeq's passive infrastructure facility.

In December 2016, as part of the amendment to the Communications Law, every holder of NIO license was obliged to allow other NIO license holders (who are not necessarily infrastructure-less licensees) to use his passive infrastructure (except for passive NIO infrastructure held by the Electric Company and required by it for the purpose of its activity as an essential service provider licensee), for the purpose of performing any Bezeq operation and providing any Bezeq service according to its license. This provides the possibility of using Bezeq's passive infrastructure to IBC, and as of October 1, 2017 - also to Hot Telecom.

On January 16, 2019, the Ministry of Communications issued a decision regarding a service portfolio for the reciprocal use of passive infrastructure. The administrative instruction and the amendment of the service file attached to the decision determined, among other things, and differently from the original service file[39]- that for the purpose of deployment, an operator using the infrastructure owner will not be required to build a passive infrastructure facility, not even at pit zero (the last pit before the buildings). Connection of "other NIO" infrastructure (i.e. - NIO licensee, including infrastructure owner, who uses the physical infrastructure of another licensee) to the infrastructure of the infrastructure owner will be done by the passive infrastructure component (canal / piping, etc.) to be installed between the passive infrastructure facilities of the operator using the infrastructure (pit, branch cabinet, junction box, etc.) and the passive infrastructure facility of the infrastructure owner. In addition, the definition of the physical infrastructure available to an operator using the infrastructure has been expanded to include, among other things, communication rooms. The amendment and provision also anchored the eligibility of an infrastructure owner to pay for the ancillary activity of the operator's employees using the infrastructure.

[39] These provisions were also anchored in the mutual service portfolio which replaced the administrative order described.

On December 31, 2019, the Ministry of Communications issued a decision and service portfolio to complete the regulation for the implementation of the obligation of mutual use of physical infrastructure. The Ministry established the "mutual use of passive infrastructure" service portfolio (the "**mutual service portfolio**") as a uniform portfolio, in the licenses of all operators with a general license for the provision of landline interior Bezeq services (including holders of a unique general license). The mutual service portfolio replaces the aforesaid administrative directive dated January 16, 2019, and combines both new provisions and some of the provisions that were in the original service portfolio and the administrative directive.

The mutual service portfolio does not include instructions for the dark fiber rental service and the optical wavelength service. Respectively, the original wholesale service portfolio was amended and the regulation regarding the use of dark fiber and wavelengths remained. Thus, the original wholesale service portfolio is used only by holders of a unique general interior operator license, while the mutual service portfolio is used by all operators with a general license to provide landline interior services.

The application processes are anchored in the mutual service portfolio and apply to both service portfolios. The implementation processes include, among other things, provisions regarding the stages of service delivery (access to information, planning, execution of works), principles and components of the service (so that an infrastructure owner intending to establish an underground infrastructure in an area where there is no physical infrastructure will offer each NIO to share expenses. The infrastructure that owes a universal service obligation will not have to allow NIOs with such an obligation that refused its offer to use the infrastructure, but only after 5 years from the completion of the construction of the infrastructure). Preference will be given to the use of infrastructure between interior operators will be done using the FIFO method.

b) Operators of the works

Following the decision of the Ministry of Communications and the rejection of Bezeq's petition against it, the works in Bezeq's infrastructure within the wholesale market are carried out by the service providers through contractors on their behalf. Also, since this is a service in a new format, disagreements arise from time to time.

In this context, On April 16, 2018. the Ministry of Communications ordered, among other things, that Bezeq allow service providers to run a communication cable through the Bezeq pit located at the entrance to the canal leading to private real estate and perform all the work required in the pit for this purpose, without detracting from the service providers' consent.

For the notice of the Competition Authority in the matter of infrastructure and for the appeal by Bezeq, see section2.16.8.5, and for the motion for approval of a class action and two demands for the exercise of rights before filing a derivative claim in this matter, see section 2.18.1k.

c) Rates

The rates for the use of Bezeq's physical infrastructure by the service providers (NIO with a unique general license) were set in the regulations of use. Until such determination, the rates set forth in the use regulations shall apply, and after the determination of such rates, a retroactive settlement will be made between Bezeq and Hot Telecom only. The rate will be the same as the payments currently set in the use regulations for NIOs who has a unique general license. On September 9, 2018, Bezeq submitted its reference to the hearing (together with an economic opinion), in which it was clarified, among other things, that there is a need to preserve the distinction between infrastructureless operators and operators with infrastructure, and certainly those who have a universal service obligation. Rates have not yet been set as of the date of the report. It should be noted that in accordance with the letter from the Ministry of Communications dated August 9, 2018, the Ministry is considering not determining a maximum or minimum payment for a service provided by other NIO for which no such payment has been determined. For the Minister's authority to reduce rates in use mainly in incentive areas, see section2.7.2.

2.16.4.4 Wholesale telephony service

On May 18, 2017, a decision was issued by the then Minister of Communications, according to which Bezeq will provide, starting on July 31, 2017 and for a year thereafter, telephony services in a resale format at prices set by him (higher than the wholesale rates in light of the content of the service). The aforesaid decision is the result of a petition filed by Bezeq to the High Court, *inter alia*, against the Minister of Communications' decision of November 14, 2014 regarding the provision of a wholesale telephony service in the format of the service file as of May 17, 2015. The petition included, among other things, allegations of lack of applicability of the service in the format of the service portfolio (BSA + telephony) and lack of authority. Bezeq appealed to the Ministry in 2018 that the Ministry extend the period of the arrangement, in its format and at its existing prices, and become a permanent arrangement. Bezeq clarified that the service format in the service portfolio is not applicable, has no justification and contradicts the global trend.

On June 5, 2018, the Ministry of Communications informed Bezeq that it was not extending the temporary arrangement regarding the resale telephony service, and that accordingly, as of August 1, 2018, Bezeq will provide a wholesale telephony service in the format specified in the "Wholesale Service Portfolio "BSA - Bit Stream Access + Telephony ", and that Bezeq will have to provide the said service as both a discrete service and as an additional service to the BSA service. Upon receipt of the notice, Bezeq clarified that it expects not to meet the schedule specified in the notice because the service format in the service portfolio is not technologically feasible and requires the replacement of a switch which is a complex and lengthy move, and that it intends to contact the Minstry to find a solution to the issue. After talks with the Ministry, Bezeq offered, as of August 1, 2018, a telephone call service and related wholesale services in the wholesale market based on the service portfolio in a technological format similar to that of the resale arrangement and wholesale market rates. Bezeq’s license was amended about two months later and included this service as a voluntary service. At the same time, Bezeq has begun the process of replacing a switch that will also enable it to meet the requirements of the service portfolio

During December 2018, Bezeq offered the Ministry of Communications another technological solution for providing the wholesale telephony service. In view of the fact that this solution is intended to be a temporary solution which will be implemented for a limited period, until the switch is replaced, and taking into account its estimates in relation to a relatively low potential scope of customers in the service. Bezeq reiterated its claim that the wholesale telephony service in the engineering outline defined in the service portfolio in the Carrier Preselection format at the Telco-Grade level was and still is inapplicable on a Bezeq switch.

On January 31, 2019, the Ministry replied that it does not intend to confirm in advance that the proposed solution complies the service file, and that only after coordination with the service providers, and after the service is launched, the Ministry will examine whether the violation has stopped, and that the Ministry will not accept a solution that does not fully meet the instructions. As of the beginning of 2019, Bezeq is prepared to provide a wholesale telephony service solution that passes through the service provider switch, and is based on both Bezeq's subscriber switch and an additional component external to the switch. Bezeq clarified to the Ministry of Communications that in light of the expected low volume of customers and the stage of transition to a new switch, the fact that the solution is not at the Telco Grade level is not expected to be significant.

On May 27, 2020, Bezeq received a letter from the Ministry of Communications regarding the minutes of telephone call service, which includes a dispute between Bezeq and the service providers "Partner" and "Cellcom" regarding the interpretation of the service portfolio regarding the provision of ancillary services. The Ministry accepted Bezeq's position on the matter, stating that the telephony service that Bezeq will offer to service providers is a service that will allow the service provider to receive incoming calls and create outgoing calls and also enable the provision of all ancillary services to the basic telephony services provided to its customers. The service provider and Bezeq will not be obliged to offer the ancillary services using the switch it operates (except in the event that it is not possible to provide them via the service provider's switch).[40]. In accordance with the Ministry's announcement, after completing all the actions required to provide the telephony service, Bezeq is required to update the Ministry regarding the date on which it will be prepared to provide the service as required in the service portfolio. As Bezeq stated in its statements from the beginning of 2019, Bezeq is prepared to provide a wholesale telephony service in a manner consistent with the Ministry’s decision in its announcement (currently Bezeq is prepared to provide the service on its new switch in the service portfolio format but at this stage there is no demand for the service).

Bezeq estimates that the application of wholesale telephony in general will adversely affect its financial results, but at the same time Bezeq cannot assess, at this time, the extent of the impact that could have a material effect, as it depends on various variables, including demand for service. In the market today (such as service VoB) and more.

Supervision and financial sanction reports

On October 19, 2017, the Ministry of Communications sent Bezeq a final supervision report regarding the implementation of a wholesale telephony service ("**the first supervision report**"). In accordance with the supervision report, Bezeq violated the instructions by failing to provide the wholesale telephony service on May 17, 2015. At the same time as the supervision report, Bezeq was notified that after it was found that Bezeq violated the provisions of the Bezeq Use Regulations and License, and in accordance with the authority set forth in the Communications Law, Bezeq is notified of an intention to impose a financial sanction on Bezeq in the amount of NIS 11,343,800. Following the supplementary supervision report to the first supervision report dated August 8, 2018, on December 27, 2018, Bezeq received a notification from the Ministry of Communications, according to which the Director General of the Ministry of Communications decided to impose a financial sanction of NIS 11,163,290 on Bezeq for violation of provisions regarding the implementation of a wholesale telephony service for the period between August and December 2018 (after the Advisory Committee on Financial Sanctions did not approve the imposition of a sanction for the period stated in the first supervision report). Bezeq filed a petition against the decision. The State submitted its response on January 22, 2020, in which it rejected Bezeq's claims and insisted on the sanction decision, arguing that not only is it reasonable, but also necessary for the Ministry to play a key role in promoting competition. A hearing on the petition is scheduled for April 6, 211. For this purpose, see also two motions for approval of class actions in which it is alleged, among other things, that Bezeq acted to delay and thwart the wholesale market reform. (section2.18.1c).

2.16.5. Powers over real estate

Pursuant to the provisions of Article 4 (f) of the Communications Law, the Minister of Communications granted Bezeq real estate-related powers in accordance with the provisions of Chapter F of the Law.

The law distinguishes between state-owned land, the Development Authority, the Jewish National Fund, a local authority or a corporation established by law and held by one of them, as well as a road ("**public land**") and other land ("**private land**"). With regard to public land, Bezeq, and any person authorized thereby, may enter for the purpose of performing works for laying and maintaining a network and providing Bezeq services, provided that the laying of the network was done in accordance with the provisions of the Planning and Construction Law. The amendment to the Communications Law and the Planning and Construction Law abolished the obligation to obtain approval from the local planning and construction committee, so that certain actions are not subject to a building permit if they are carried out by a licensee who has been granted powers under Chapter F of the Communications Law if they are made according to an approved plan.

Laying ofnetwork on private land will be done in accordance with the provisions of the

[40] It should be noted that the Ministry's letter states that the Ministry's decision does not express a position regarding Bezeq's compliance with the service portfolio's provisions regarding the telephony service, and does not prevent the Ministry from taking supervision and enforcement procedures in this matter.

Planning and Construction Law, and requires the consent of the landowner, the tenant for generations or the protected tenant, as the case may be.

Pursuant to the provisions of the Bezeq Regulations (Installation, Operation and Maintenance), 5745-1985, if Bezeq believes that the provision of a Bezeq service to the applicant requires the installation of a Bezeq facility, in the applicant's premises (or in common premises), Bezeq may require the applicant as a precondition for providing the requested Bezeq service to assign a suitable place to Bezeq in the premises for the installation of the facility, for Bezeq use only, and it may provide service through the facility to other applicants as well.

According to the Planning and Construction Regulations (Application for a Permit, its Terms and Fees), 5730-1970, an applicant for a permit for the construction of a residential building, it is mandatory to install infrastructure for telephone, radio, television and Internet services so that the customer can choose a provider of his choice. In commercial buildings, if communication facilities are installed, underground infrastructure will be laid. At the same time, Bezeq's license (as well as the Hot Telecom and DBS licenses) was amended so that as long as Bezeq uses the internal threading (the part of the access network, installed in a person's premises and common premises, and intended to serve that person's premises only), it is obligated to provide a maintenance service for the internal threading installed by the permit applicant, without giving it any property rights in the internal threading. Regarding the draft amendment of these regulations for the purpose of imposing an obligation on the laying of infrastructure in favor of fiber, see section 2.16.12.

2.16.6. Immunities and limitations of liability

The Minister of Communications granted Bezeq certain immunities from liability for damages, listed in Chapter I of the Communications Law, in accordance with his authority to grant immunities to a general licensee.

In addition, Article 13 of the Communications Law stipulates restrictions on criminal and civil liability in fact made in the framework of the fulfillment of a provision for the provision of services to the security forces by virtue of the article.

2.16.7. Regulations and rules under the Communications Law

As of the date of publication of the periodic report, Bezeq is subject to regulations in two other main areas: (1) cessation, delay or limitation of Bezeq operations and Bezeq services; (2) Installation, operation and maintenance.

2.16.8. Laws of Economic Competition

2.16.8.1 The Competition Commissioner (in this section - "**the Commissioner**") declared Bezeq as having a monopoly in these areas:

a) Basic telephone services, provision of communication infrastructure services, and transmission and transmission services of public broadcasts[41].

b) Providing fast-access services through subscriber access network[42].

c) Providing fast access services to Internet providers through a central Bezeq public network.

The declaration by the Commissioner of Bezeq as having a monopoly constitutes *prima facie* evidence to all that is determined in it, in any legal proceeding, including in criminal proceedings.

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

2.16.8.3 In accordance with the conditions set forth in the approval of the Competition Authority dated March 26, 2014 for the merger (as defined in the Economic Competition Law) between Bezeq and DBS, the following restrictions

41 Announcement dated 30.7.1995.

42 On November 10, 2004, the Commissioner split his announcement of December 11, 2000 in the field of Internet access infrastructure into two separate Announcements (Announcements B and C).

apply in relation to Bezeq and DBS:

a) Bezeq and any person related to it (in this section - "Bezeq") will not impose any restriction on the consumption of landline Internet infrastructure services resulting from the customer's cumulative browsing volume, nor will they cause a restriction or block of the customer's ability to use any service or application the Internet.

b) Bezeq will deduct from the payments of an Internet provider for its connection to the Bezeq network sums for the provision of multi-channel television services.

c) Bezeq will sell and provide Internet infrastructure services and television services on equal terms to all Bezeq customers (sale of Internet infrastructure services as part of a basket of services will not in itself be considered for sale on unequal terms).

d) Bezeq and DBS will cancel all exclusivity arrangements regarding non-original productions and will not be a party to such exclusivity arrangements (except in relation to a third party who has a license to broadcast at the time of the decision). In addition, for two years from the date of approval of the merger (which have since passed), Bezeq will not prevent any party (except those who have a broadcasting license at the time of the decision) from acquiring rights in original productions (does not apply to new productions).

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

On November 24, 2020, the Competition Authority published an amendment considered by it to the terms of the merger, in accordance with which, in light of changes in the market, which impose barriers to entry into multi-channel television and the entry of competition, the Commissioner considers: (1) cancelling the merger terms that require sale on equal terms to all Bezeq customers, whether or not they purchase additional communication services from Bezeq as mentioned in the section 2.16.8.3c); (2) to update the terms of the merger, which stipulates that Bezeq and Yes will cancel all exclusivity arrangements to which they are a party with respect to television content that is not original productions, and will not be parties to such exclusivity arrangements (as mentioned in section2.16.8.3d)), So that the section does not apply to the purchase of foreign content (excluding sports content). The deadline set for the submission of comments on the proposed amendment to the terms of the merger was December 24, 2020. To the extent that the considered amendment is carried out, it will allow DBS to sell a package of services that includes a television service and Bezeq's Internet services in an unobtrusive manner. Regarding the sale of such a package of services by Bezeq, it now requires the approval of the Ministry of Communications only.

2.16.8.4 As part of the approval of the merger of Bezeq and Pelephone dated August 26, 2004 (as amended below), restrictive conditions were imposed, the main of which is the prohibition of discrimination in favor of Pelephone in the supply of a product in which Bezeq is a monopoly, prohibition of the conditioning of the supply of certain products by one of the companies with the purchase of products or services from the other and restrictions on certain joint activities.

2.16.8.5 On March 7, 2018, Bezeq received a notice from the Competition Authority, according to which the competition commissioner is considering determining in accordance with its authority under Article 43 (a) (5) of the Economic Competition Law that Bezeq abused its position in violation of Article 29A (a) and Article 29A (b) (3) of the law, and to impose financial sanctions on Bezeq and the former CEO of Bezeq for alleged violation of the provisions of Article 29 of the law and of the provisions of the aforementioned sections. According to the announcement, the evidence in its possession indicates that Bezeq allegedly used the market power it has as a result of its control of the passive infrastructure and has placed barriers on new players seeking to use Bezeq's passive infrastructure in order to provide Bezeq with competing networks in providing communication services to consumers, in a way that could have deterred and even prevented them from setting up an independent landline communications network or at least delayed them and limited the scope of the network. According to the notice, Bezeq's actions raise concerns about harm to the final consumer. The violations alleged against Bezeq are the blocking of access to private areas and placing a demand for fiber cutting.

Following a hearing held in the matter, in which Bezeq and the former CEO of Bezeq presented arguments and evidence that there was no defect in their moves and that they did not violate the Economic Competition Law, on September 4, 2019, Bezeq received a determination ("**the Determination**") from the Competition Commissioner regarding the abuse of Bezeq's position in violation of the provisions of Article 29A of the Economic Competition Law and the demand for payment under the provisions of Article 50H of the law of NIS 30 million from Bezeq and NIS 0.5 million from the former Bezeq CEO. On May 7, 2020, Bezeq filed an appeal on the Determination. The Competition Commissioner submitted a response to the appeal which was submitted to Bezeq on December 23, 2020, and Bezeq requested that its response be submitted 90 days after the end of the procedures for submitting to Bezeq the materials in the Authority's file or 90 days after presenting a full copy of the Commissioner's response to the appeal (since the copy transferred to Bezeq is partial), whichever is later. Along with receiving the ruling, Bezeq also received a notification of a new billing intent from the Competition Authority, according to which the Competition Commissioner is considering imposing an additional financial sanction on Bezeq in the amount of NIS 8,285,810 due to non-response to the requirement to provide information and data and providing incorrect information, as part of an inspection conducted by the Competition Authority in connection with the issue of the Determination. Bezeq submitted its comment according to which Bezeq did not violate the Economic Competition Law, therefore, there is no need to exercise any enforcement powers against it by virtue of the law, and the Competition Commissioner was asked not to impose the financial sanction under consideration. In addition, Bezeq claimed that even if it had been possible to determine that it had violated the Economic Competition Law in connection with this matter (and it did not), then the amount of the sanction under consideration was incorrect, and must be immeasurably lower than the amount considered. On July 24, 2020, the Competition Court approved an agreement between Bezeq and the Competition Commissioner regarding an agreement agreed under the Economic Competition Law in connection with the announcement of a bill of intent, according to which Bezeq will pay the State Treasury a total of NIS 4.2 million (“**the Agreement**") and gave it the validity of an order. As part of the agreement, Bezeq admitted that it did not provide full information as required in meeting the data requirements of the Competition Authority in connection with the determination (before the determination was given), thereby violating Article 46 (b) of the Economic Competition Law, and on the other hand, Bezeq did not admit that it knew at the time of the response that the information provided was incorrect. The Agreement stipulates that subject to the approval of the order agreed by the Competition Court and the payment to the State Treasury, the Competition Commissioner or the Competition Authority will not take enforcement action against Bezeq or anyone on its behalf for violating the provisions of Article 46 (b) of the Economic Competition Law. The information required in the examination that preceded the Determination and which was submitted to the Competition Authority by Bezeq prior to Bezeq's Agreement (“**the Arrangement**"). It should be emphasized that the said arrangement does not affect the continuation of the proceedings in the matter of the determination itself, for which Bezeq filed an appeal to the Competition Court on May 7, 2020. Regarding a new motion for approval of a class action and requirements for exercising rights before filing a derivative claim, further to this Determination, see section2.18.1k.

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

a) Imposing an independent and increased duty on officers to monitor and prevent violations of the law.

b) Aggravation of criminal punishment for a restrictive arrangement - five years imprisonment without the requirement of aggravating circumstances.

c) Raising the ceiling for the imposition of a financial sanction of up to NIS 100 million (for each violation).

d) Another definition for "monopolist", based on a market power test (in addition to the alternative of those who hold more than 50% market share).

e) Raising the aggregate sales turnover threshold, which requires merger announcements to NIS 360 million.

2.16.9. Telegraph Order

The government is addressing the existing shortage of radio frequencies for public use in Israel (due in part to the allocation of many frequencies for security uses), by limiting the number of licenses that can be used for frequencies, and by providing incentives for the efficient use of frequencies.

The Telegraph Order regulates the use of the electromagnetic spectrum, and applies, among other things, to Bezeq's use of radio frequencies, as part of its infrastructure. Establishment and operation of a system that uses radio frequencies is subject, under the Telegraph Order, to licensing, and the use of radio frequencies is subject to the commission and allocation of an appropriate frequency. According to the Telegraph Order, license fees and fees are imposed for the Frequencies Committee and their allocation.

2.16.10. Establishment of communication facilities

The National Communications Outline Plans, National Outline Plan 36 (within the Green Line) and National Outline Plan 56 (in the Territories) are intended to regulate the deployment and manner of construction of communications facilities in such a way as to enable transmission and reception of radio, television and wireless communications, while preventing radiation and minimizing environmental and landscape damage, and with a view to simplifying and streamlining the construction processes of the facilities.

Bezeq has established and is setting up transmission facilities and wireless communication facilities for the transmission services of its customers, and also uses wireless communication facilities mainly for the purpose of providing services to areas that are not connected to the fixed communication infrastructure (remote areas or new localities).

National Outline Plan 36 - Communication facilities within the Green Line

The classification of the facilities according to their technical variables and physical dimensions, which ultimately affect the determination of safety ranges for protection against radiation effects and the degree of their prominence in the landscape, determined which facilities will be included in Part A of National Outline Plan 36 and in Part B of the plan. National Outline Plan 36 deals with guidelines for the construction of small and miniature broadcasting facilities and Part B deals with guidelines for the construction of large broadcasting facilities.

Bezeq has issued building permits for most of the small transmission facilities in accordance with National Outline Plan 36A. From time to time, there is a need to add transmission facilities that require the issuance of building permits in accordance with National Outline Plan 36A. Bezeq believes that it is not obliged to obtain building permits for miniature broadcasting facilities, due to the exemption granted in this matter in the Planning and Construction Law and in the Communications Law with respect to "wireless access facilities" (which include the miniature broadcasting facilities). It should be noted that in 2008 a draft was submitted for the amendment of National Outline Plan 36A, which concerns a change in the guidelines for licensing small and miniature transmission facilities. As of this date, the draft has not been adopted.

NAP 56 - Communication facilities in the Territories

National Outline Plan 56 regulates the manner of construction and licensing of communications facilities in the Territories. The plan includes transitional provisions to facilities established in the permit and to existing facilities.

The plan includes a requirement to obtain a communications license and to obtain the consent of the Commissioner of Government Property in the Civil Administration.

Bezeq has regulated the licensing of 71 facilities located in the Territories and which are owned by Bezeq (there are a few additional sites that have not been regulated). In addition, Bezeq also arranged with the Communications Officer in the Civil Administration the licensing of the facilities located in the premises of the customer in accordance with the requirement that the Communications Officer sent to Bezeq in November 2016.

Radiation permits

Regarding radiation permits for communication and transmission facilities, see section2.15.

Exemption from the permit to add antennas to legally existing transmission facilities

Addition of an antenna to a legally existing transmission facility is exempt from obtaining a permit subject to the existence of cumulative conditions and exceptions specified in the Planning and Construction Regulations (exemption from the permit).

2.16.11. Consumer legislation

Regarding consumer legislation applicable to Bezeq, see section 1.7.4.5.

2.16.12. Fiber - Ultra-broadband landline infrastructure

2.16.12.1 Amendment to the Communications Law to regulate the "advanced network" deployment

Following a public appeal and hearings published by the Ministry of Communications, the recommendations of the report of the inter-ministerial team on examining the policy of deploying ultra-broadband landline infrastructure in Israel, and their adoption with a number of changes by the Minister of Communications and a government decision on the matter – on December 24, 2020, an amendment to the Communications Law was published. The following are the main points of the amendment to the law:

Obligation to deploy and provide service to non-general public throughout Israel:

1. Bezeq may select the statistical areas in which it seeks to deploy an advanced network (which is not based on its metallic network) and provide it with an Internet access service even though not to the general public throughout Israel. This, in a notice that Bezeq will submit to the Minister of Communications within five months from January 1, 2021. The Minister may extend this period by up to two months. The Minister will determine in Bezeq's license the obligation to deploy and provide an Internet access service to anyone who requests it in a service area that includes all the areas Bezeq has chosen, in accordance with the conditions to be determined, including milestones for deployment.

"Advanced network" - a network based on fiber optics that reaches the end point of a network in an end user's apartment, or an equivalent network in terms of the level of service that can be provided according to criteria ordered by the Minister and published on the Ministry of Communications' website; For this purpose, "apartment" - a room or compartment, or a system of rooms or compartments intended to serve as a complete and separate unit for residence, business or any other need, including a ground-level apartment;

2. Bezeq will meet the deployment obligation in all areas listed in its announcement no later than the end of six years from (1) the date on which Bezeq began providing paid Internet access service over the advanced network, (2) the date of determination of the Bezeq license obligation, whichever is earlier.

3. The Minister may not prescribe a deployment obligation in a Bezeq license and consider it as if no Bezeq notice was given - if it is found that Bezeq's announcement includes a limited number of areas that indicate that the choice of areas was made for reasons of economic viability and that this would significantly impair the ability to bring about the nationwide deployment of an advanced network. Bezeq will be entitled to deliver a new notice provided that the time limit for submitting such notice has not yet expired.

4. Once the obligation in the Bezeq license has been determined regarding the said service area, a holder of a general NIO license other than Bezeq (for example Hot) will be entitled to deploy an advanced network (which is not based on his metallic access network) and to provide Bezeq service collection not to the general public throughout Israel and not least in the service area. The Minister may prescribe conditions for deployment and the provision of the service in licenses.

5. The Minister may permit, in Bezeq and other general NIO licenses, the provision of service on their metallic access network that has been upgraded to an advanced network, not to the general public throughout Israel and not least in the service area, provided it contributes to competition and service.

Incentives for deployment in the incentive areas

6. After determining the obligation as stated in the Bezeq license, an incentive fund will be opened, which will be managed by the Accountant General in the Ministry of Finance, in order to encourage deployment while participating in statistics in areas not chosen by Bezeq for deployment ("incentive zones").

7. In the fund will be deposited annual mandatory payments from obligated bodies, including Bezeq, at a rate of 0.5% of the annual income of such bodies. The Minister of Communications, with the consent of the Minister of Finance and with the approval of the Economy Committee, can change this rate.

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

Tenders for the allocation of incentive fund money

9. The allocation of the incentive fund money will be through tenders. Under the terms of the tenders, the Tenders Committee may determine a threshold condition for participation in the tender, including a condition according to which the tenderer must be a licensee.

10. The only criterion for selecting winners in the tenders will be the ratio between the number of households in the incentive areas in the bidders' proposals and the amounts from the incentive fund that will be allocated as part of the tenders. No weight will be given to the geographical location of the incentive areas in the bidders' proposals or to the characteristics of the households in the incentive areas.

11. In the first three years of the incentive fund's activity, the Minister may order that the minimum percentage of households in the incentive areas to be included in the bidders' proposals - which does not exceed 15% of the households to be distributed in incentive areas per year - be in geographical areas; Lack of economic and social resilience and level of services in the field; Low population density in the same field; Its geographical location or distance from population centers and the center of Israel; The need to reduce disparities.

12. The license of the winner of the tender will stipulate an obligation to deploy an advanced network in a service area that includes the incentive areas which it won, including an obligation to provide Internet access service on the network to any one who requests them in the area (even if it has a unique general license). With regard to the determination of an obligation as aforesaid in the area of Judea and Samaria, the provisions of the law in this matter applicable in the area of Judea and Samaria shall apply.

Prohibitions on Bezeq and an affiliated corporation in relation to the incentive areas

13. Bezeq and any corporation with an affiliation to Bezeq are not allowed to participate in the tender for the allocation of the incentive fund's money, and will be able to deploy and provide service in the incentive area on an advanced network that deployed only five years after the obligation to deploy.

14. Bezeq and an affiliated corporation may not deploy an advanced network in the incentive areas and provide Bezeq services on an advanced network they deployed, unless the Minister allowed Bezeq, at its request, to do so in incentive areas for which the fund money have not yet been allocated, provided that 10% of households in areas included in the statistical areas selected by Bezeq.

15. The above limitations do not detract from the possibility for Bezeq or an affiliated corporation to deploy an advanced network in the incentive area in order to provide a Bezeq service to a business subscriber, or to provide a service to a business subscriber on an advanced network deployed.

Internal threading

16. Ownership of the internal threading shall be that of the subscriber whose threading is used for his premises only. A licensee may demand a reasonable fee for its installation.

Sanctions

17. The authority of the Director General of the Ministry of Communications to impose a financial sanction of up to 10 times the basic amount for violating a license provision regarding the obligation to deploy an advanced network or provide a service for it.

2.16.12.2 Rates in service over ultra-broadband fiber infrastructure

Regarding the determination of a uniform price for fiber-optic-based Internet services (FTTP) - on June 25, 2020, the Ministry of Communications issued a decision at a hearing according to which in providing fiber-optic Internet access services to the residential building (FTTH) for private subscribers, licensees will not be able to offer subscribers offers on different terms or at different rates, depending on In the proposed infrastructure. The decision further stated that what was stated in the letter from the Director General of the Ministry dated February 23, 2015 (which included clarification that the type of infrastructure offered would constitute a reasonable characteristic justifying the differentiation of one subscriber group from another) would continue to apply to non-fiber internet access services to the residential building.

In the matter of service rates of wholesale BSA on the Bezeq network - Following a hearing on setting a maximum rate for a managed ultra-broadband access service on the Bezeq fiber network, the Minister of Communications' decision was published on August 25, 2020, according to which the Minister decided to adopt the Ministry's professional echelon's recommendations, and subsequently came into force the Communications Regulations Bezeq and Broadcasts (Use of NIO Public Network) (Amendment No. 2), 5742-2020, which sets the maximum rates for an ultra-broadband access service managed on Bezeq's fiber network. Accordingly, the maximum rate for BSA service via fiber for accessibility and data transfer service at a cumulative rate of up to 550 megabits / second will be NIS 71 per customer per month (excluding VAT), and for accessibility and data transfer services at a cumulative rate above 550 megabits / second and up to 1,100 megabits / second - 79 NIS per customer per month (excluding VAT). The regulations do not set a supervised rate for the initial installation of an internal cable to the subscriber premises, and Bezeq will be entitled to demand a reasonable payment for this service (the rates are stated in June 2020 prices and will be updated once a year on January 1, starting in 2021. According to the recommendation of the professional team in the Minstry, the said rates will be valid for a period of three years and then will be replaced by a fixed rate.

2.16.12.3 Joint use of fiber optic infrastructure in existing residential buildings

On July 27, 2020, the decision of the Ministry of Communications dated July 22, 2020 was announced at the hearing. In accordance with the decision, a directive was issued regarding the manner of sharing fiber-optic infrastructure in existing residential buildings, which includes, among other things, the principles for shared use (including the obligation to contact an interior operator that lays the fiber infrastructure in a residential building where there is no fiber infrastructure for any other interior operator in the proposal to make joint use of the fiber infrastructure to be deployed in the building), the procedure for making shared use, principles for determining payment for shared use (based on the cost of establishing the fiber infrastructure plus a reasonable premium for the participating operator), the need to reach an agreement between the interior operators regarding the level of service and maintenance of the fiber and the prohibition of discrimination. The decision also states that the determination of an arrangement for the joint use of existing buildings in which fiber-optic infrastructure has already been deployed will be examined by the ministry separately, and that the need for adjustments in the inter-ministerial team's recommendations for examining the deployment of ultra-broadband stationary communications infrastructure adopted by the Minister of Communication on July 15, 2020 (see this section). In this regard, see also Bezeq's immediate report dated July 27, 2020, which is included in this report by way of reference.

With regard to deployment in new residential buildings, a draft amendment to the Planning and Construction Regulations (application for permit, conditions and fees) was distributed, which stipulates, among other things, provisions regarding the installation of communications infrastructure in new buildings. According to the explanatory memorandum to the draft amendment, according to the current wording of the regulations, the communications infrastructure currently installed in new buildings includes coaxial cable (used for cable and satellite transmissions) as well as additional communications infrastructure of copper cables used for telephony and Internet. This amendment is intended to establish provisions regarding the establishment of advanced fiber-optic communication infrastructure in new buildings by the contractors already at the time of construction. On August 17, 2020, Bezeq submitted professional comments on the draft amendment to the regulations.

2.16.12.4 On January 19, 2021, the Director General of the Ministry of Communications announced the appointment of a dedicated team aimed at the existence of an active and effective wholesale market on advanced networks.

2.17. Substantial agreements

The following is a concise description of material agreements, not in the ordinary course of Bezeq's business, that were signed during the period of the periodic report and / or that were in force during the said period:

2.17.1. Real estate

2.17.1.1 Agreement on the transfer of assets between Bezeq and the state dated January 31, 1984

An agreement between the state and Bezeq, according to which Bezeq was granted the State's rights in assets available to the Ministry of Communications for the provision of Bezeq services, and Bezeq replaced the state with respect to the rights in the said assets and regarding the obligations and duties relating to those rights on the eve of the agreement. In addition, according to the said agreement, Bezeq was transferred the rights, powers, obligations and duties of the State under the agreements, as well as the agreements and transactions that were valid in the field of Bezeq services on the eve of the beginning of the agreement.

2.17.1.2 Settlement agreement dated May 15, 2003 between Bezeq and the State and the Israel Land Administration regarding the rights relating to the land. See section2.7.4.3.

2.17.1.3 Agreement between Bezeq and the Postal Authority (now the Israel Postal Company) dated June 30, 2004

An agreement between Bezeq and the Postal Authority for the definition and regulation of Bezeq and the Postal Authority in their joint assets. The agreement specified the common assets and defined the share of each party in them. It is stipulated that each of the parties will have exclusive rights in part, except in the matter of rights in common property, building rights or rights in respect of which it is expressly stated otherwise. The agreement stipulates, among other things, a mechanism of the right of refusal if a party wishes to make a sale transaction and a right of way in the matter of a lease transaction. With respect to a number of additional assets it has been determined that the sole rights holder in them, in its entirety, will be one determined party.

2.17.2. Employment agreements

2.17.2.1 A comprehensive pension agreement dated September 21, 1989 between Bezeq, the Histadrut and the Joint Representation of the Employees' Committees and the Makefet Fund for Pension and Benefits Cooperative Association Ltd. stipulates a complete and autonomous arrangement regarding the pension insurance of Bezeq employees. The agreement applies to all transferred employees (transferred from the Ministry of Communications to Bezeq), to all members of the accruing pension fund who were employed by Bezeq on the day the pension agreement was signed, and to all permanent and temporary employees at Bezeq, except special groups of employees.

2.17.2.2 A special collective agreement for early retirement dated November 23, 1997, as amended and extended on September 4, 2000, March 18, 2004, April 17, 2005 and June 28, 2005 between Bezeq and the Histadrut and the employees' representatives.

A collective agreement for the early retirement of employees in the pension track and in the increased compensation track in which Bezeq employees previously retired. The collective agreement from December 2006 specified in section2.17.2.6 is based, *inter alia*, on this agreement. For information on this matter and on the subject of early retirement, see also Note 17 to the 2020 statements.

2.17.2.3 Anchoring rights agreement dated September 4, 2000 between Bezeq and the Histadrut and the employees' representatives

A special collective agreement, among other things, regarding the anchoring of the rights of the transferred employees (who were transferred from the Ministry of Communications to Bezeq). This agreement enshrines the rights of the transferred employees, to receive any entitlement to pensions that arose for them as former civil servants under Bezeq's pension agreement, which were adopted by Bezeq under its pension agreement. Under this agreement, these rights become "personal rights" that cannot be revoked, except in a way that a personal right can be waived by law (that is, through a personal waiver by the employee).

2.17.2.4 "Generation 2000" agreement dated January 11, 2001 between Bezeq and the Histadrut and the employess' representatives

Following an amendment from July 2000 to the Employment of Workers by Manpower Contractors Law (Amendment), 5760-2000, a special collective agreement was signed on January 11, 2001 for the absorption of new employees and the determination of their wage conditions. The agreement applies to new employees and employees who were previously employed by Bezeq through manpower companies in the positions specified in the appendix to the agreement (for example, customer service representatives at call centers, typists, warehouses, secretaries, sorters and mail distributors, porters, drivers and forklift operators, etc.). As part of the special collective agreement from December 2006 (see section 2.17.3.6), it was agreed that the "Generation 2000" agreement will not apply to such employees who were absorbed into Bezeq from July 1, 2006 onwards. It was also agreed to introduce insignificant changes in the terms of employment of employees who were hired in accordance with the "Generation 2000" agreement.

2.17.2.5 Agreements with alternative entities in place of a comprehensive fund with regard to early retirement arrangements for Bezeq employees

As of 2005, early retirement arrangements for Bezeq employees are carried out through alternative entities instead of a comprehensive fund.

On April 24, 2014, Bezeq signed an agreement with Menora Mivtachim Insurance Ltd. ("**Menora**") for the arrangement of pension payments for early retirement of Bezeq employees, as well as the differences in old-age and survivors' pension payments, to employees retiring from Bezeq in accordance with a special collective agreement signed between Bezeq, the employees' representative and the Histadrut on February 12, 2014. The insurance policy was approved by the Supervisor of Insurance and came into effect on March 31, 2016. Accordingly, as of May 1, 2016, Menora is issuing policies to retiring employees, and benefit payments and related payments are paid on the basis of these policies. The term of the agreement (after being extended twice) is until the end of 2021.

2.17.2.6 A special collective agreement from December 2006 and amendments to it, see section 2.9.4.

2.18. Legal Proceedings

Bezeq's reporting policy is based on qualitative considerations and quantitative considerations. Bezeq decided that the quantitative materiality threshold in relation to events affecting the net profit would be an effect of about 5% and more on Bezeq's net profit, after deducting the effects of events outside the ordinary course of business which have a one-off effect on Bezeq results such as impairment of assets, cancellation of tax assets, provisions for retirement, capital gains, etc., According to Bezeq's most recent consolidated annual statements. Therefore, in the absence of relevant qualitative considerations, this section describes legal proceedings to the extent of NIS 65 million or more[43], before tax, as well as legal proceedings in which the amount claimed is not specified in the statement of claim, unless it is a claim that does not reach the aforementioned quantitative threshold (and all - unless Bezeq assesses additional aspects or consequences of the procedure beyond its financial scope). With regard to class actions, attention is drawn to the fact that the filing of class actions in Israel does not involve the payment of a fee as a derivative of the amount of the claim. Thus, the claim amounts in such claims may be significantly higher than the actual exposure volume in respect of those claims.

2.18.1. Procedures are pending

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
a.	January 2015	Shareholder vs. Bezeq and former Bezeq executives	District (Tel Aviv - Economics Department)	Motion for approval of a class action	Claim for compensation of shareholders for losses alleged to have been caused by "Bezeq's failure to report to the Tel Aviv Stock Exchange and concealment of material information from the investing public" regarding two significant and material moves: "Reduction of reciprocal link fees" and "Wholesale market reform". On August 27, 2018, the decision of the Economic Department of the Tel Aviv District Court was approved, approving the claim as a class action ("**the Approval Decision**"). With regard to the cause in the wholesale market matter, the Group was defined as having purchased Bezeq shares as of June 9, 2013 and holding Bezeq shares (in whole or in part) until the date of filing the lawsuit. In this matter, the Court ruled that the petitioner proved the existence of alleged damage, due to the fact that during the period of the discovery, Bezeq shares fell by 10%, but the calculation of the damage itself will be made during the hearing in the main case. With regard to the reason for the reduction of the connectivity fee, the Group was defined as the one that purchased Bezeq shares as of February 28, 2013 and held them until May 29, 2014. In this matter, the Court ruled that no impairment was recorded that could be attributed to the discovery of the deception, but that the applicant should be allowed to prove the damage alleged by her in the main case. On October 28, 2018, Bezeq and the defendants submitted to the Economic Department of the Tel Aviv District Court a request for a reconsideration of the approval decision in which the Court was requested to revoke the approval decision and reject the application for approval of a class action. On December 1, 2019, a ruling was given in the retrial, which stated as follows: 1. In the matter of reducing the interconnectivity fee - the Court granted the motion as far as claims concerning reports of reduction of the interconnectivity fee were concerned, after concluding that the plaintiff had not even ostensibly proved the existence of damage as a result of the reduction of the reciprocal link fee, and therefore there was no need to approve the class action on this ground.	687

43 In order to examine the compliance of the claim amounts with the said threshold, the amounts were linked to the consumer price index. The amounts specified in this section are the original amounts (excluding linkage differences). With regard to the aforesaid threshold, in the case of similar proceedings against several companies in the Group, the amount of the claim may be examined cumulatively in respect of all the proceedings together. It is also clarified that if certain proceedings largely concern common legal or factual issues, or it is known that such issues are examined or considered together, then for the purpose of meeting the quantitative materiality threshold as stated in these sections, the amount involved in all those proceedings together.

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					2. In the matter of wholesale market reform - the Court denied the motion in relation to the defendants' claims regarding the reports about the wholesale market reform. At the same time, regarding the definition of the group of plaintiffs, the Court accepted the defendants' claim that the date June 9, 2013 is irrelevant in relation to the alleged misrepresentation in the report dated Janury 16, 2014 (reporting the decision on the list of services and the price hearing document) and ruled that a distinction must be made between the ground relating to this report and the ground relating to the allegation of lack of reporting regarding the receipt of a hearing document for the list of services dated June 9, 2013. Accordingly, the Court reduced the definition of the group of plaintiffs in relation to the report dated January 16, 2014 for all those who purchased Bezeq shares (except the respondents and / or those on their behalf) as of January 16, 2014 (instead of June 9, 2013) and held these shares (in whole or in part) during the period between January 15 and 20, 2014. Following the Court’s proposal and with the consent of the parties, the case was referred to mediation but the mediation was unsuccessful. On July 12, 2020, an amended statement of claim was filed that includes amendments, including deletion of the matter of reducing the interconnectivity fee and reducing the definition of the group of plaintiffs regarding the wholesale market reform, following the Court ruling in the retrial. In addition, the total amount of the claim was amended and it is estimated by the plaintiff in the amount of NIS 687 million (instead of a total amount of NIS 2 billion according to the "financial damage" method or alternatively NIS 1.1 billion according to the "approximate financial damage" method. The statement of claim has not been amended). It should be noted that the amended statement of claim was not accompanied by an economic opinion.	
b.	March 2015	Shareholder vs. Bezeq and former Bezeq executives	District (Tel Aviv - Economics Department)	Motion for approval of a claim as a derivative claim together with a derivative claim statement	Motion against Bezeq, as well as against Mr. Shaul Elovich, former controlling shareholder and chairman of the board of Bezeq against directors of Bezeq at the relevant times who voted in favor of Bezeq's engagement in the transaction that is the subject of the motion as detailed below (“**the Respondents**"). The matter of the application, according to what is alleged in it, IS Bezeq's decision, through the respondents, to enter into a transaction for the purchase of full holdings and shareholder loans of Eurocom DBS (a company under the indirect control of Bezeq's controlling shareholder) in DBS for NIS 680 million in Cash and contingent consideration of up to an additional NIS 370 million. According to the applicant, the consideration that was expected to be paid for the transaction is excessive, and the Respondents' decisions to enter into the transaction caused Bezeq a great deal of damage after they violated their duties of care and reliability to Bezeq, and were negligent in their role. It was also alleged by the applicant that Bezeq's controlling shareholder had breached its duty of fairness, and that Bezeq had breached the duty of disclosure and reporting regarding the trustee's commitment to Eurocom DBS's holdings in DBS to sell the holdings beginning at the end of March 2015. In light of the aforesaid, the petitioner requests that the Court approve the filing of a derivative claim on behalf of Bezeq against the Respondents for the claim for damage caused to us by Bezeq as a result of the Respondents' decisions regarding the transaction in the amount of NIS 502 million. on July 3, 2017, the Court approved the filing of an amended motion by the applicant, which includes additional allegations relating, *inter alia*, to the independence of the entities that advised Bezeq, alleged defects in the work of	502

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					the Audit Committee, the Board of Directors and the general meeting, and alleged defects resulting from Eurocom being represented by Bezeq directors. In light of the Securities Authority's investigation, *inter alia*, regarding the engagement that is the subject of this lawsuit (see section1.1.7) and the position of the Securities Authority that it was improper to delay the proceedings, the Court decided to delay the proceedings in this case. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings). Following the Attorney General's request, the procedure is delayed at this stage until September 6, 2021, in light of the Securities Authority's investigation and indictments filed later in it (see section1.1.7). Regarding motions for disclosure of documents before submitting an application for approval of a derivative claim that the Court ordered to unite in April 2018, see subsectionh.	
c.	November 2015 And March 2018	Customer against Bezeq	Central District Court	Two claims together with motions for approval as class actions	<u>The motion from November 2015</u> - It is alleged that Bezeq abused its monopolistic position, *inter alia*, by "preventing and blocking the existence of competition in general and the existence of effective competition in the communications market in Israel" and acted to delay and thwart the wholesale market reform, thereby harming the Israeli public and earning unreasonable profits as a result of the abuse of power as a monopoly. According to the plaintiffs, the damage caused by Bezeq to the communications market in Israel is reflected in Bezeq's excess and unreasonable profitability, and they seek to claim damage in the amount of NIS 800 million, which they claim is based on 10% of Bezeq's excess operating profit due to abuse of monopolistic power. The plaintiffs set the amount of the claim at NIS 556 million, after a reduction of the amount claimed in another proceeding (which in the meantime ended in departure). In December 2017, the Court approved the attachment as evidence in the case of an immediate report published by Bezeq on October 22, 2017, in which Bezeq reported on a final inspection report by the Ministry of Communications regarding the implementation of a wholesale telephony service and an announcement of an intention to impose a financial sanction. In December 2018, the Ministry of Communications imposed a financial sanction in the amount of NIS 11 million on Bezeq (for these matters, see section2.16.4.4). On March 3, 2019, Bezeq informed the Court that in light of the expected change of case in the case as soon as the request for approval is received, it agrees to the Court's proposal to approve the motion to conduct the class action without a reasoned decision by the Court and preserving all its claims. It should be noted that in the same announcement, Bezeq informed the Court that on February 25, 2019, it filed an administrative petition against the decision of the Director General of the Ministry of Communications from December 2018 described above. Subsequently, on March 5, 2019, the Court approved the motion to conduct the class action lawsuit and clarified that all the parties' claims are reserved for them to discuss the lawsuit itself and that all evidence and investigations heard in the motion for approval will form part of the evidence in the class action lawsuit. <u>The motion from March 2018</u>- a motion similar to the November 2015 motion submitted by the same applicants in which it was also alleged that Bezeq abused its monopolistic position, *inter alia*, by preventing competition in the communications market, thereby harming the Israeli public and gaining unreasonable profits as a result of abusing its	556 in the motion from November 2015 and 258 in the motion from March 2018

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					monopoly power. While in the motion from November 2015 the remedies and damages claimed related to the date of filing the same motion, in this motion the remedies and damages defendants relate to the period from the date of filing the application from November 2015 to the end of 2017, in view of the plaintiffs' claim In addition to the abuse of power by Bezeq, there were also "acts of corruption and unlawful acts and foreign and improper purposes of the Director General of the Ministry of Communications". According to the plaintiffs, the damage caused by Bezeq to the communications market in Israel is reflected in Bezeq's excess and unreasonable profitability. The damage claimed in the amount of NIS 258 million is also based in this motion on 10% of Bezeq's excess operating profit resulting from the claim regarding the abuse of its monopolistic power (in addition to the damage claimed in the previous application). On May 31, 2018, Bezeq submitted a request to delay the procedure in light of the Securities Authority's investigation (see section1.1.7**).** In light of the Securities Authority's investigation, the Court approved a request on behalf of the Attorney General to continue delaying the proceedings in the case until May 2, 2021. The Attorney General will update on his current position by this date. In September 2019, the applicants submitted a request for the submission of a new motion for approval of a class action (a request filed against Bezeq in September 2019 following the determination dated Septemebr 4, 2019 of the Competition Commissioner regarding the abuse of Bezeq's status - see description below subsection k) to the Court where this proceeding is conducted and to the deletion of that motion on the ground that it was a similar late motion. In addition, on October 23, 2019, Bezeq was submitted a request from the applicants for the motion for approval to order the amendment of the motion for approval by adding respondents (directors and officers from the relevant period, some of whom still serve at Bezeq) and to attach additional evidence to the motion for approval. On October 30, 2019, the Court announced that in view of its decision to delay the proceedings in the case, it does not consider it appropriate at this time to order the transfer of the request to amend the motion for approval for Bezeq's response, and that upon termination of the proceedings in the case, the applicants must petition for appropriate instructions.	
d.	August 2016	Customers against Bezeq	Tel Aviv District Court	A claim with a motion for approval as a class action	A motion alleging that Bezeq illegally and without consent charges a monthly fee for "support and / or warranty" services in connection with the use of its Internet infrastructure, and illegally attaches customers to this service, that Bezeq charged for Internet access services even after the end of the "bundle" package, and that Bezeq has added to the plan a browsing speed that is not suitable for the existing infrastructure. On January 11, 2021 the Court approved a hearing arrangement formulated between the parties, according to which the decision on the motion for approval will be given on the basis of the statements of claim in the case, without the need for a hearing of evidence.	* Claim in unknown amount
e.	February 2017	Customers against Bezeq	Central District Court	Motion for approval as a class action	A motion in which it is claimed that some of Bezeq's customers are charged a fee for "antivirus service" while in practice it does not provide them with the service and that it begins to charge for the provision of the service from the conclusion of the agreement with the customers and not from the actual provision of service. Accordingly, the applicant seeks to obligate Bezeq to compensate Bezeq customers who purchased the service and did not actually receive it for the damages caused to them, including restitution of amounts collected for the service. Following the mediation procedure that took place in the case, the parties submitted to the Court a motion for approval of a settlement.	* There is no exact estimate, estimated at tens of millions of NIS

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					The Attorney General forwarded his comments to the settlement. The settlement has not yet been approved	
f.	April 2017 And May 2017	Customers against Bezeq	Tel Aviv District Court	Two motions for approval as class actions	The motions deal with Bezeq's B144 service, a service that enables advertising to business owners via the Internet ("**the Service**"), and according to the petitioner the respondents charged the subscribers for the Service in unlawful payments. On January 25, 2018, the Court decided, following the requests submitted by Bezeq and other respondents, to dismiss *in limine* the first motion on the grounds that the applicant does not meet the criteria set forth in the Class Actions Law, the existence of defects in the motion, and in view of the existence of the second motion whose matter is similar to the first motion (an appeal against this decision was dismissed). On July 21, 2019, the parties submitted a motion for approval of a settlement in the second motion in an insignificant amount for Bezeq, which is awaiting objections from the public as well as the position of the Attorney General and the Regulator.	* The amount of the claim is not estimated
g.	June 2017	Bezeq shareholders Against Bezeq, Chairman of the Board of Bezeq and former members of the Board of Bezeq, as well as members of the Eurocom Group (the first application also against the former CEO of Bezeq and the former CEO and CFO of DBS)	In the District Court (Economic Department) in Tel Aviv	Two motions for approval of class actions	The interest in the requests in the 2015 transaction in which Bezeq acquired from Eurocom DBS (a company controlled by Bezeq's controlling shareholders at the time) the balance of DBS shares held by it (in this section: "**the Transaction**"): The first motion was submitted on behalf of everyone who purchased the Bezeq shares from February 11, 2015 until June 19, 2017 (except for the respondents and / or those on their behalf and / or related to them). The motion alleges misleading and / or missing reporting in connection with the Transaction, and that following an open investigation by the Securities Authority regarding the Transaction, the public became aware of details regarding the transaction and its implementation, which led to a decline in Bezeq's share price. According to the applicant, the respondents acted in violation of the provisions of the Securities Law and in violation of other legal provisions, causing Bezeq's securities holders heavy financial damages, amounting to hundreds of millions of NIS, if not more than that. The second motion was submitted on behalf of three sub-groups - anyone who purchased on the Tel Aviv Stock Exchange from May 21, 2015 to June 19, 2017 (1) the Bezeq shares, (2) the Company's shares and (3) the Internet Gold shares. According to the applicant, a serious misrepresentation of the investors who invested in the shares of the aforementioned companies was made, which was revealed following the opening of an open investigation into the Securities Authority on June 20, 2017, by increasing the increase in DBS' cash flow reported in Bezeq According to the claim, artificially misleading the reasonable investor who relied on DBS' cash flow data to estimate its value, which led to overpricing of the above companies. The applicant also claims additional damages caused to groups of Company and Internet Gold shareholders. Pursuant to a hearing arrangement approved earlier by the Court, the petitioners have agreed in the above petitions on their joint management and they are to file a consolidated petition on their behalf. Following the request of the Attorney General (who	About 1,240 in the first application and-568 in the second application

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					announced in 2017 his appearance in the proceedings regarding the delay of the proceedings and not the body of the proceedings), the proceedings are delayed at this stage until September 6, 2021 in light of the Securities Authority investigation and indictments filed further thereto (see section 1.1.7)	
h.	June - August 2017 and June 2018	Bezeq shareholders against Bezeq and DBS	Tel Aviv District Court	Various motions for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law	An amended and consolidated motion submitted following the Court's decision of April 15, 2018 regarding the consolidation of four applications filed in the same matter. The Court is requested to order Bezeq (and DBS, as the case may be) to provide the applicants with certain documents in connection with a stakeholder transaction between DBS and Space from 2013 as amended at the beginning of 2017 (in this section: "**DBS-Space Transaction**")[44]. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings). Following the Attorney General's request, the procedure is delayed at this stage until September 6, 2021, in light of the Securities Authority's investigation and indictments filed later in it (see section1.1.7).	
i.	February 2018	Bezeq shareholders against Bezeq as a formal respondent, as well as against Bezeq directors at times relevant to the motion and against Bezeq's controlling shareholders at the times relevant to the motion, Mr. Shaul Elovich and Mr. Yosef Elovich (the "Respondents").	Tel Aviv District Court - Economic Department	Motion for approval of a derivative claim	The matter of the motion, according to what is claimed in it, is Bezeq's conclusion in an assessment agreement with the Tax Authority which was signed on September 15, 2016 (“**the Assessment Agreement**") and according to which Bezeq paid tax to the Tax Authority on financing income from loans to DBS in the amount of NIS 462 million, while on the other hand, it was agreed, among other things, that DBS' losses in respect of financing expenses in respect of Bezeq's owner loans to DBS will be fully recognized to Bezeq after the merger between Bezeq and DBS.. According to the applicants, as a result of the signing of the assessment agreement, Bezeq paid a total of NIS 660 million. Of this total, NIS 462 million was paid to the Tax Authority and approximately NIS 198 million was paid to Bezeq's controlling shareholders as a **conditional consideration** stipulated in the agreement for the acquisition of full holdings and shareholder loans of Eurocom DBS, a company under the indirect control of the controlling owner of Bezeq, in DBS ("**DBS Transaction**"). According to the petitioners, Bezeq's engagement in the assessment agreement constituted an exceptional transaction of a public company in which Bezeq's controlling shareholders have a personal interest, and was carried out illegally because it was contrary to Bezeq's favor and because the required legal approvals were not obtained. According to the plaintiffs, the damage caused to Bezeq following the conclusion of the Assessment Agreement ranges from a minimum threshold of NIS 65 million (as long as all DBS losses in respect of financing expenses are allowed to be offset by Bezeq) to a maximum threshold of NIS 219 million (to the extent that all DBS losses in respect of financing expenses are not allowed to be offset by Bezeq). The alleged damage was estimated by comparing the payments charged to Bezeq (tax liability and contingent	65 Minimum threshold 219 Maximum threshold

44 It should be noted that on July 23, 2017, a motion was submitted to the District Court (Economic Department) in Tel Aviv for approval of a class action in the amount of approx. NIS 37 million against Space, controlling shareholders and officers in it as well as against Bezeq CEO and Bezeq Secretary at the relevant times to the claim in connection with the DBS-Space Transaction. The proceedings in this motion are also delayed, at this stage, until September 6, 2021.

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					consideration) and the tax asset created for it in the Assessment Agreement, compared to the payments it could have been liable for and the tax asset it would have created had it entered into a settlement agreement with the tax authorities which was proposed by the tax authorities at the time of approval of the DBS Transaction. According to the plaintiffs, the respondents who are directors violated, *inter alia*, the duties of care and trust (and with regard to the respondents controlling Bezeq, also the duty of fairness), and accordingly the plaintiffs motion that the Court approve the filing of a derivative claim on behalf of Bezeq and Yes, because it will oblige them to compensate Bezeq for the said damages caused to it, according to them, as a result of the breach of their obligations to Bezeq. At the request of the Securities Authority, the procedure was delayed in light of the investigation and its derivatives. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings) and on that date a motion was submitted by the State Attorney's Office to continue the proceedings until September 6, 2021. Following the Attorney General's motion, the procedure is delayed at this stage until September 6, 2021, in light of the Securities Authority's investigation and indictments filed later there (see section1.1.7).	
j.	June 2018	Shareholder against Bezeq, DBS, Mr. Shaul Elovich, and Mr. Or Elovich	Tel Aviv District Court (Economic Department)	Motion for disclosure and review of documents under Article 198A of the Companies Law	It is requested that the Court order Bezeq, DBS, the former controlling shareholder in Bezeq, Mr. Shaul Elovich, and his son, Mr. Or Elovich (hereinafter collectively "**Elovich**"), to submit to the applicant, as a shareholder in Bezeq, various documents for examination Filing an application for approval of a derivative claim in the name of Bezeq. According to the applicant, the controlling shareholder of Bezeq, the Company, and Elovich violated their fairness and fiduciary obligations to Bezeq by selling 115 million Bezeq shares on February 2, 2016 by the Company using Bezeq's company and Elovich's insider information, and at a value significantly higher than the true value of the shares. According to the applicant, this sale provided the Company with illegitimate profits in the amount of approximately NIS 313 million.. The insider information that was allegedly used in the application is, among other things, that the financial statements of DBS and Bezeq do not reflect Bezeq's *de facto* financial position, but rather a "free cash flow" inflated for the purpose of increasing the consideration as part of the transaction in which Bezeq acquired the shares of Eurocom Communications in DBS ("**the Yes Transaction**"). It should be noted that Bezeq is pending another motion for approval of a derivative claim in the matter of the Yes Transaction (see section2.18.1b). According to the applicant in the motion that is the subject of this report, although his motion is based in part on the same factual background, its matter is different from the existing procedures in the matter. At the request of the Securities Authority, the procedure is delayed, at this stage until September 6, 2021, in light of the Securities Authority's investigation and its derivatives. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings).	
k.	(1) September 2019	Customers against Bezeq	Tel Aviv District Court	Application for approval of a class action	Motion submitted following the determination dated September 4, 2019 of the Competition Commissioner regarding the abuse of Bezeq's status ("**the Determination**") (for this matter, see section 2.16.8.5) in which it was alleged that Bezeq's acts and omissions as described in the Determination (blocking the transition of Bezeq competitors from Bezeq's infrastructure to the building access section, as well as refusing to thread cables	400

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					in the continuous method and conditioning the deployment in an inferior, expensive and problematic threading method) caused substantial damage to consumers. The definition of the group in whose name the class action will be conducted is anyone who purchased landline communication services in Israel, in the period between July 2015 and March 2018, whether or not he purchased these communication services from Bezeq. Damage is claimed due to the loss from the decrease in the rate for communications packages, which was prevented from the group members due to Bezeq's alleged acts or omissions. Regarding a request for the transfer of this motion and its cancellation due to the fact that it is a similar late motion that was submitted by the applicants in another motion for approval of a class action in March 2018 - see subsection C. On June 25, 2020, the Court ruled that the parties will petition for the provision of appropriate instructions in the proceedings upon termination of the stay of proceedings in the same motion for approval of a class action from March 2018.	
	(2) March 2020	Shareholders against Bezeq	Haifa District Court	Consolidated request for disclosure of documents prior to request for approval of a derivative claim	In January 2020, Bezeq received two demands for the exercise of rights before filing a derivative claim and motions for disclosure of documents relating to the exercise of Bezeq's rights against officers in connection with the Determination. The claims allege that the findings and violations included in the Determination give Bezeq cause of action against Bezeq's officers and that Bezeq is entitled to compensation from the officers for the damages caused and that will be caused to it. Bezeq replied to the two applicants that the inquiries were early and that it was not yet time to discuss them, among other things, since Bezeq is currently working to exercise its rights in appeal proceedings against the commissioner's decision. Subsequently, in March 2020, the two applicants submitted motions (separately, to the economic departments of the Haifa and Tel Aviv District Courts) for disclosure of documents pursuant to Article 198A of the Companies Law, 5759-1999, in order to examine the filing of a motion for approval of a derivative claim. On June 23, 2020, Bezeq submitted a request to delay the proceedings in the motions for disclosure, until the work of the Claims Committee established for the purpose and the submission of its recommendations to Bezeq's Board of Directors. On July 19, 2020, Bezeq submitted its response to the motions. The Attorney General submitted a notice of his appearance in the proceedings, and at the same time submitted his position, according to which a decision to appeal the decision that the petitioners claim constitutes the damage caused to Bezeq, may be a derivative proceeding as long as the above decision is not final. A decision has not yet been made on Bezeq's request to delay the proceedings.	
l.	October 2019	Customers against Bezeq and another respondent	In the Haifa District Court	Motion for approval of a class action	It is alleged that Bezeq violates the provisions of Article 13B of the Consumer Protection Law by not specifying in the invoice or in the payment notice sent to the consumer the components of the fixed payment in respect of a "telephone line" and their amount. Accordingly, it was argued that Bezeq was prevented from collecting the fixed payment and that it should return it to the customers who paid it. The definition of the group in whose name the class action is sought to be managed is all Bezeq customers who were charged by it with a fixed payment, without the invoice or the payment notice sent to them specifying the components of the fixed payment and their amount. The alleged personal pecuniary damage is NIS 490 (a fixed payment of NIS 35 per month multiplied by 14 months, starting from the date of amendment of the Consumer Protection Law set forth in the provision above). On April 28, 2020, the Court ordered the applicants to split the motion for approval into two different motions, one motion for approval in relation to each respondent in	63

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					accordance with the cause of action against each of them. Accordingly, on May 10, 2020, split motions were filed. Subsequently, in view of the Court's determination that the applicant was required to be replaced due to a doubt in its eligibility, on June 17, 2020 an amended motion for approval was submitted (by other applicants) in which the aggregate claim amount of all the alleged group members was estimated at NIS 63 million. On November 17, 2020, the lawsuit was approved as a class action. Pursuant to the decision, the group in whose name the class action will be conducted is all Bezeq consumers who were charged a fixed fee by it, as defined in Article 13B (b3) of the Consumer Protection Law, without specifying in the invoice or the payment notice sent to them after June 25, 2018, the components of the fixed payment and their amount, with the common questions for the group members being: Has Bezeq violated the obligation applicable to it in the above section of the Consumer Protection Law, to specify in the invoice or in the payment notice on its behalf the components of the fixed payment and their amount; the amount of the refund due to the group members for violation of this obligationl. The remedy claimed is the return of the fixed payment in which they were charged. On December 17, 2020, Bezeq filed a motion for leave to appeal the decision. The Court ruled that the motion for leave to appeal requires an answer (and later that it be determined for hearing before the panel) and also granted Bezeq's request for a stay of execution.	
m.	December 2019	Customer against Bezeq	Tel Aviv District Court	Motion for approval of a class action	It was alleged that Bezeq also signed the applicant, when ordering a regular telephone line by him, to another service (voicemail and caller ID) without his knowledge and without requesting it. Accordingly, the applicant includes in the definition of the group of plaintiffs in whose name it is requested to conduct the class action all those charged by Bezeq for ancillary service for telephone service without Bezeq receiving his request and / or express consent to order the ancillary service, in the seven years prior to approval. During a hearing held in February 2021, after a number of difficulties arose in relation to the applicant's identity as to his eligibility to be a class action plaintiff, the applicant's attorney announced that they intended to find an alternative applicant within a period of 60 days.	It is not possible to estimate at this stage and is over NIS 2.5 million
n.	May 2020	Customers against Bezeq	Tel Aviv District Court	Motion for approval of a class action	It was alleged that Bezeq misled customers who joined the B144 service for online businesses (online advertising for businesses through the B144 website) ("**The Service**") to think that the cost of the Service depends on the actual use up to a billing ceiling, when in fact it has charged its customers the amount of the ceiling even if in practice a lower amount of it has been used. Accordingly, it is requested to include in the definition of the group of plaintiffs, on whose behalf the class action will be conducted, all Bezeq customers and / or subscribers who registered and joined the service packages of all kinds from the date the service was marketed by Bezeq and charged by it in excess amounts. The motion or the statement of claim does not include an explanation or calculation in relation to this amount, except for the indication in the body of the application that "these are thousands or tens of thousands of consumers". In addition, non-pecuniary damage was generally claimed.	"NIS 27,537 per applicant and any future amount that will be determined for all members of the group" (next to which appears in handwriting NIS 908,721,000 ")

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
o.	October 2020	Shareholder of Bezeq against Bezeq and Bezeq International	The Jerusalem District Court	Motion for disclosure and review of documents prior to filing a derivative claim	A motion in the framework of which an order addressed to the respondents is requested for disclosure and review of various documents regarding collection from Bezeq International customers. According to the petition, the respondents made false representations that led to an inflation of Bezeq International by including in their reports "dormant subscribers" who do not use Bezeq International's services but continue to pay it a subscription fee. This means, according to the claim, that with the discovery of this activity, the value of Bezeq International was "cut by hundreds of millions of shekels". According to the claim, the source of this injury is the malicious or at least negligent behavior of officials who knew about the situation, but refrained from taking action to rectify the situation and alternatively neglected to find out the true situation of Bezeq International. For this matter, see also section4.4. Also, regarding motions for approval of class actions filed against Bezeq International in this matter, see section4.12.1.	
p.	November 2020	Shareholder of Bezeq against Bezeq and Bezeq International	The Jerusalem District Court	Motion for disclosure and review of documents prior to filing a derivative claim	Motion for disclosure and review of documents before filing a derivative claim in the framework of which an order is requested addressed to the respondents for disclosure and review of various documents regarding asset balances in Bezeq International's books (see section 1.9) Following the immediate report published by Bezeq on 9.11.2020.	
q.	November 2020	Bezeq shareholders Against Bezeq, the Company, Bezeq's CEO and members of Bezeq's board of directors	Tel Aviv District Court - Economic Department	Motion for approval of a class action	A motion concerning the approval of a class action for compensation of the applicant and members of the represented group for damages caused to them, according to the motion, due to Bezeq's failure to report and disclose material information from the investing public, in connection with public reporting "about the Ministry of Communications' moves to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, about the extensive and substantial scope of the phenomenon of dual subscribers in the subsidiary Bezeq International (hereinafter: "Bezeq International") and their significant negative impact on the subsidiary and Bezeq's business". The definition of the group according to the application is anyone who purchased the Bezeq shares from Aguust 17, 2020 until Octoebr 30, 2020 and held the above shares or some of them on Octoebr 30, 2020, except for the respondents and / or those on their behalf and / or entities related to them.	55-65
r.	January 2021	Bezeq shareholders v Bezeq et al.	Tel Aviv District Court - Economic Department	Motion for approval of a class action	A consolidated motion (filed *in lieu* of two similar motions in the same matter that was deleted) against Bezeq, the Company, and 90 other respondents, including past and present officers at Bezeq, BCOM and Bezeq International, as well as the auditor firm (the "**Respondents**"). The motion deals, as alleged in it, with damages caused to the applicants and members of the represented groups (as detailed below) as a result of acts and omissions of the respondents who violated the provisions of the law, including that Bezeq and BCOM included misleading details in their reports. In accordance with the provisions of the law, in connection with Bezeq and BCOM's report dated November 9, 2020, according to which Bezeq International's books contain discrepancies in the amounts of hundreds of millions of NIS. The definition of the groups according to the application is: (a) Everyone who purchased Bezeq shares as of March 9, 2003 (date of publication of the annual report for the year 2002) until November 9, 2020, and held them on November 9, 2020, except for the respondents or those on their behalf and (b) anyone who purchased the shares of BCOM on the Tel Aviv Stock Exchange from October 25, 2009 until November 9, 2020, and held them on November 9, 2020, except for the respondents or those on their behalf. In accordance with the economic opinion attached to the	"Over NIS 2.5 million (for the purposes of substantive authority)"

Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
				motion, it was alleged that following the publication of the immediate report dated November 9, 2020 published by Bezeq and BCOM, the Bezeq share price decreased in the range of 5.26%-5.40% (it should be noted that the motion also claims, in accordance with another opinion attached to it, that compared to Bezeq's benchmark indices, the damage to Bezeq's shareholders is higher than the decrease in the value of the shares, and is about 7%), and BCOM's share price decreased in the range of 9.07%-9.36%. Accordingly, it was argued that the damage caused to the applicants is in the amount obtained from doubling the amount of shares held by the members of the groups as aforesaid at the rate of the aforesaid decrease in Bezeq and BCOM shares..	

2.18.2. Legal proceedings completed during the reporting period or until the date of publication of the report

	Date of filing the claim	Sides	Court	Type of procedure	Details	The amount of the original claim (NIS millions)
a	September 2019	Customers against Bezeq and another service company	The Jerusalem District Court	Motion for approval of a class action	A motion regarding the entitlement of certain populations (such as the elderly and disabled) to discounts on payments for essential services which the defendants provide to them. It is argued that the defendants do nothing so that the rights of these people are exhausted, make it difficult for them and do not even credit them for excess payments made. On June 25, 2020, a judgment was rendered according to which the claim was struck out in view of the non-payment of a fee.	90

2.18.3. In view of the completion of the sale of Bezeq's holdings in Walla at the end of 2020 (see section 1.1.1) As of this report no legal proceedings are described against her.

2.19. Goals and business strategy

2.19.1. Forward-looking information

Bezeq's strategy review below includes forward-looking information within the meaning thereof in the Securities Law, and involves assessments of future developments in the economy in general regarding customer behavior and needs, the pace of adoption of new services, technological changes, regulatory policy, competitors' marketing strategy, and the effectiveness of strategic marketing. .

Bezeq's strategy and the business objectives derived from it are based on internal research and analysis, secondary sources of information, especially research company statements, publications regarding activities undertaken by similar communications operators in Israel and around the world, and consulting work by which Bezeq is assisted.

However there is no assurance that the main strategy and activities described below will be implemented in practice or in the manner described below. The circumstances that may lead to the non-implementation of the strategy or even to its failure are due to the general situation in the economy, frequent technological changes, regulatory constraints, formulation of a sustainable business model for new services that Bezeq intends to provide and adopting a superior marketing strategy from competitors. In addition, changes in the composition of Bezeq's Board of Directors or ownership of Bezeq, which will lead to a change in the composition of the Board of Directors, may lead to a change in its strategy and business objectives.

2.19.2. The essence of the strategy and intentions for the future

2.19.2.1 Vision and purpose

Bezeq has set itself the goal of being the leading communications company in Israel, providing a wide range of communications services and solutions, to private and business customers.

Bezeq works to maintain its competitive position and continue to be the customer's first choice in telephony, Internet and IT, and for this purpose it has set itself a number of goals:

a) Preservation of leadership in the aggravating competitive environment (service leadership and strengthening perceived values - product innovation, reliability, price perception);

b) Encouraging the recruitment of new customers and strengthening a sense of loyalty and closeness among existing customers;

c) Creating new sources of income through the launch of new and innovative services and products;

d) Ongoing adaptation of the organization to the competitive, technological and operational excellence environment.

2.19.2.2 Means

To implement the said strategy and objectives, Bezeq operates a wide range of advanced communication networks, which operate on a wide range of infrastructures nationwide, and enable the provision of the most advanced communication services in the world. Bezeq is working to upgrade and develop the communications networks it operates, and strives to constantly expand and improve the basket of products and services it offers. Bezeq operates the widest service network among communications companies in Israel, including technical and commercial centers, and a wide range of service and installation technicians.

2.19.3. Major projects in planning or execution

Regarding the deployment of a fiber optic network by Bezeq, see section 2.7.2.

2.19.4. As of the date of the report, the Company intends to continue to support Bezeq's strategy as detailed above and in particular to improve its underlying asset - control of Bezeq, and does not intend to enter other areas beyond its control of Bezeq as aforesaid.

2.20. Discussion of risk factors

The Israeli economy in which Bezeq operates is stable in nature, however, there are risk factors that arise from the macroeconomic environment, from the unique characteristics of the industry in which Bezeq operates, and risk factors that tare unique to Bezeq, which may have significant consequences for Bezeq and affect, among other things, Bezeq's status, its results, its credit rating and its ability to repay its debt, all as specified below:

2.20.1. Competition

Competition in the field of landline interior communications increasing in recent years by other telecommunications groups, both by other interior operators, including HOT (with a general license), and by cellular operators, has significantly increased with the application of the wholesale market, through which telecommunications groups and other telecommunications operators (with a special or unified license) compete with Bezeq in the sale of end-to-end service packages, based on Bezeq infrastructure at prices set by the regulator (see section1.7.3 and 2.16.4). A large number of customers receive wholesale Internet services, which are provided on the Bezeq network, when Bezeq does not have contact with those customers. There is also competition from infrastructure owners (see section2.62.6). Increased competition in the field of interior communications causes the abandonment of some of Bezeq's customers and leads to lower prices of some of Bezeq's services and an increase in the costs of recruiting new customers and retaining existing customers. The entities that compete with Bezeq at present, or may compete with it in the future, enjoy greater business flexibility than Bezeq, including the ability to cooperate with subsidiaries and affiliates and market shared service packages with them (see section1.7.2 and section 1.7.3). The ability of competitors to market service packages with rate flexibility, in the face of Bezeq's limitations to do so as of this date, impairs Bezeq's competitive ability.

2.20.2. Governmental supervision and regulation

Bezeq is subject to governmental supervision and regulation relating, *inter alia*, to licensing activities, determining permitted areas of activity, determining rates, operations, competition, payment of royalties, universal service obligation, the possibility of holding its shares, the relationship between Bezeq and its subsidiaries and prohibiting cessation or restriction of its services (which may oblige Bezeq to provide services even in non-economic circumstances) - for details, see section2.16. The aforesaid supervision and regulation sometimes causes government intervention, which in Bezeq's opinion burdens its business activities. In this context, Bezeq is exposed to the imposition of various sanctions by the Ministry of Communications, including the imposition of financial sanctions (for this matter, see section1.7.4.6).

In addition, the Minister of Communications may revoke Bezeq's license, restrict it or suspend it as appropriate, in accordance with the conditions set forth in the Communications Law, and is authorized to change the terms of Bezeq's license, interfere with existing rates and marketing proposals and issue instructions. Substantial changes in the rules of regulation that apply in the field of communications in general, and to Bezeq in particular, may oblige Bezeq to make changes to its strategic plans and impair its ability to carry out long-term planning of its business activities. For possible changes following the wholesale market reform, see section2.16.4. For possible restrictions under the Centralization Law on the renewal of licenses and the allocation of new licenses, see section1.7.4.7.

2.20.3. Rates supervision

Bezeq rates for a key part of its services (including rates for reciprocal linking and use of Bezeq infrastructure and its network) are subject to government supervision and intervention. The Minister of Communications has the authority to intervene in existing rates and marketing proposals and to give it instructions (see section2.16.1). On average, supervised Bezeq rates are eroding in real terms. Substantial changes in Bezeq's regulated rates, if implemented, could have a material adverse effect on its business and its results. Regarding the supervision of the supervised Bezeq rates and their updating, see sections2.16.1 (Including regarding a hearing on the determination of maximum rates for Bezeq's retail telephony services) and2.16.4. In addition, the restrictions that apply to Bezeq in marketing alternative payment baskets may create difficulties for Bezeq in providing an appropriate competitive response to changes in the market and are significantly reflected in Bezeq's competitors on the basis of its infrastructure in selling end-to-end service packages through Bezeq's wholesale service. This is also the case as long as a mechanism is established that will be determined by the Ministry of Communications for approval and inspection regarding the reduction of intervals in Bezeq packages and routes (see section2.16.4.2). As part of the application of a wholesale market, the Ministry of Communications updated the rates for wholesale services according to which Bezeq will sell its services to licensees. The update of the rates leads to lower prices in a way that could adversely affect Bezeq's level of revenue and its profitability (for the wholesale market, see section 2.16.4).

2.20.4. Streamlining procedures and labor relations

Bezeq's implementation of personnel and organization programs (including retirement plans and organizational changes) involves coordination with employees and significant costs, including early retirement compensation costs. Processes of implementing such plans may cause unrest in the employment relationship and harm Bezeq's day-to-day operations - see also sections2.9.3 and 2.17.2.

Also, as described in section1.8, according to the report, Bezeq, like the other companies in the Group, implements streamlining procedures, which include, among other things, moving to new offices, organizational changes and reducing the workforce, while managing significant infrastructure and other projects. Streamlining procedures, by nature, carry with them the risks of loss of knowledge, turnover of employees, shift of managerial focus, and so on.

2.20.5. Restrictions regarding the relationship between Bezeq and companies in the Bezeq Group

Structural separation - Bezeq's NIO license requires that its relations with the main companies in the Group held by it be without their preference over their competitors. A separation is required between the managements of Bezeq and the said companies, as well as a separation in the business systems, finances and marketing, assets and employees, which causes duplication, high overheads and also makes it difficult to manage strategy at the Group level. Also, at this stage, Bezeq's ability to offer shared service packages of Bezeq and the said companies is limited (see section 1.7.2).

In light of the increase in competition based on the provision of a basket of services to the customer and the ability of competitors, given wholesale services, to offer customers end-to-end services, the effect of this risk factor on Bezeq's operations and its results has increased. Regarding the possibility that in the future the Group will be granted a permit for the provision of non-detachable service packages and the elimination of structural separation and for further possible changes following the wholesale market, see sections 1.7.2 and 2.16.4.

2.20.6. Legal Proceedings

Bezeq is a party to legal proceedings, including class actions, which may result in charges in substantial amounts, most of which cannot be estimated, and therefore no provision was made for most of them in Bezeq's financial statements. In addition, Bezeq's insurance policies are limited to defined coverage limits and for certain reasons, and may not cover claims for certain types of damages. In recent years, the trend of increasing class action lawsuits against large commercial companies has intensified. By their very nature, class actions can reach large sums. In addition, since Bezeq provides communications infrastructure as well as billing and collection services to other licensees, those who sue the said licensees in other class actions may also try and involve Bezeq as a party in these proceedings. For a description of the legal proceedings, see section2.18.

2.20.7. Exposure to exchange rate fluctuations, inflation and interest rates

Bezeq measures exposure to changes in currency and inflation according to surplus or lack of assets versus liabilities, as well as according to cash flow forecasts, according to the type of linkage. Bezeq's exposure to changes in inflation is high and Bezeq's exposure to changes in the exchange rate against the shekel is low. Bezeq is hedging some of its exposure to inflation and foreign exchange. In addition, Bezeq has exposure to changes in interest rates in relation to the credit it receives. For this matter, see also Note 30 to the 2020 statements.

2.20.8. Electromagnetic radiation and licensing of transmission facilities

The issue of electromagnetic radiation emitted from transmission facilities is regulated mainly in the Non-Ionizing Radiation Law (see sections 2.15 and 2.16.10). Bezeq works for the existence of permits for the construction and operation of its various transmission facilities, but the difficulties encountered by Bezeq in this activity, including difficulties arising from changing the policy of the relevant parties and changes in legislation and regulations, may adversely affect the infrastructure of the said facilities, the regularity of the provision of the services through them, and consequently also the Bezeq revenues from these services. Bezeq's third party insurance policy does not currently cover warranty for electromagnetic radiation.

2.20.9. Frequent technological changes

The field of communications is characterized by frequent technological changes and the shortening of the economic life of new technologies - see section2.1.4. These trends mean the need to invest a lot of resources in upgrading Bezeq's existing technologies, lowering the barriers to entry for new competitors, increasing depreciation rates and in some cases there may be a redundancy of Bezeq-owned technologies and networks. The introduction of innovative technology that is not used by Bezeq or that Bezeq has refrained from using may harm Bezeq's competitive position.

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

The stability of the financial markets and the resilience of the economies of the countries of the world have been in recent years subject to high volatility. Bezeq estimates that as the local economy slides into a period of recession and deterioration in business activity due to external or internal events, including shocks in the global economy, political-security uncertainty, etc., then its business results may be harmed, among other things, as a result of Bezeq revenues (including investee revenues) or as a result of increased Group financing costs.

2.20.11. Failure of Bezeq systems and cyber risks

Bezeq provides its services through various infrastructure systems, including, among others, exchanges, data transmission and access transmission networks, cables, computer systems, physical infrastructure and more ("**the systems**"). The systems are of critical importance in the operation of Bezeq's business and they play a vital role in its ability to successfully carry out its activities. Hacking, disruption, damage or collapse of systems can adversely affect Bezeq's business. Some Bezeq systems have backup, but at the same time, in the event of damage to some or all of the above systems, either due to various technical faults (including in the event of termination of contact with a supplier who is dependent on system support), or due to natural disasters (earthquakes, disasters, fire), whether due to damage to physical infrastructure by communications providers using them or due to malicious damage (including through Cyber attacks as detailed below), there may be significant difficulties in providing Bezeq services, including in the event that Bezeq is unable to return the systems to capacity quickly.

Bezeq carries a risk of activity occurring that is intended to harm the use of a computer or computer material stored on it ("**cyber attack**"). Such attacks can disrupt business, theft of information / money, damage to reputation, and damage to systems. As a leading communications company that provides diverse communications services in various fields, it is a target for cyber attacks and experiences cyber attacks, which are handled by it.

Bezeq is a body guided by the State Authority for Information Security and is committed to meeting strict information security standards. In this context, Bezeq implements a defense policy that includes the most advanced security systems in the world operated in a configuration that combines effective security with Bezeq's operational needs and security circuits to protect Bezeq's infrastructure and systems designed to prevent and reduce the possibility of Bezeq data being exploited by an external or an internal party maliciously or accidentally, as well as the possibility of an outsider taking over and managing network components or abusing information about Bezeq's infrastructure and networks in any way.

Bezeq monitors the implementation of its defense policy, which includes an examination of Bezeq's level of effectiveness and readiness. In this context, Bezeq conducts tests and assault drills with different frequency for different scenarios (including through external companies that specialize in the field).

Despite Bezeq's investments in measures to reduce such risks, Bezeq is unable to guarantee that these measures will succeed in preventing damage and / or disruption to systems and related information.

2.20.12. Impairment of subsidiaries

In accordance with the accounting standards, Bezeq performs valuations for subsidiaries for the purpose of examining the periodic impairment of goodwill and of assets in respect of which signs of impairment have been identified. Considering the business situation of the subsidiaries and the difference between the book value of Bezeq and their recoverable amount as a cash-generating unit, a decrease in the value of the subsidiaries' activity may lead to impairment loss (write-off) in Bezeq books. Also, a significant change in circumstances that leads to a change in estimates can occur as a result of a high-intensity discrete event and / or as a result of a sequence of small changes occurring over time that have a significant cumulative effect in the long run and / or a change in estimates (even at low rates). Valuations are based on assumptions as of the date of the statements that may not materialize or materialize partially and different aspects have different intensities affecting the value of the unit measured when long-term assumptions may have a relatively large weight compared to short-term assumptions.For this matter, see also Note 11 to the 2020 statements and Section 3.1 of the Board of Directors' Report.

2.20.13. Pandemic

At the beginning of 2020, an outbreak of the COVID-19 virus began worldwide. Following this, Bezeq monitors developments in connection with this outbreak and pandemic incidents in general and examines potential implications for its business operations, with some of the implications already being reflected in Bezeq in practice. These consequences can be manifested, and some of them have already been manifested, among other things, in the damage to the supply chain and the customer service system. According to Bezeq's estimates, as of the date of the report, the COVID-19 pandemic caused an increase in demand and increased use of Bezeq's Internet and telephony services, without significant adverse effects in other areas of activity that can be attributed to the outbreak. At the same time, naturally, this is a variable event that is not under Bezeq's control, and therefore widespread spread of the virus or decisions of countries and authorities in Israel and around the world in this regard, may affect Bezeq. In this regard, see also section2.20.10.

It should be noted that a significant part of Bezeq's operations (in a consolidated manner) is carried out in its subsidiaries. The risk factors of these companies and the assessments of their managements in relation to the risk factors are described in sections 3.19, 4.14 and 5.19.

The following is a rating of the impact of the risk factors described above on Bezeq's operations, in Bezeq's Management's assessment. It should be noted that Bezeq's assessments below regarding the degree of influence of the risk factor reflect the degree of influence of the risk factor in assuming the materialization of the risk factor, and the aforesaid does not express an assessment or give weight to the chances of such materialization. The order in which the risk factors appear above and below is not necessarily according to the degree of risk:

Risk Factors Summary Table – Landline Interior Communications[45]

	The extent of the impact of the risk factor on Bezeq's operations		
	High effect	**Medium effect**	**Low effect**
Macro risks			
Exposure to exchange rate fluctuations, inflation and interest rates			X
Dependence on macro factors and levels of business activity in the economy		X	
Pandemic		X[46]	
Industry risks			
Growing competition	X		
Governmental supervision and regulation	X		
Rate supervision	X		
Electromagnetic radiation / licensing of transmission facilities		X	
Frequent technological changes		X	
Special risks for Bezeq			
Exposure to legal proceedings		X	
Labor relations		X	
Restrictions regarding the relationship between Bezeq and companies in the Bezeq Group	X		
Failure of Bezeq systems and cyber risks	X		
Impairment of subsidiaries		X	

The information contained in this section 2.20 and Bezeq's assessments regarding the impact of risk factors on Bezeq's activities and business are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the Ministry of Communications, Bezeq assessments of the market situation and the structure of competition in it and regarding possible developments in this market and in the Israeli economy. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

45 It will be clarified that in the assessments of the Group companies regarding the effect of the risk factors in the summary tables (in this section and in sections 3.19 , 4.14 and 5.19), the probability of the risk factor materialization was not estimated, but the effect of the risk factor on the relevant company if it materialized. It should be noted that some of the Group companies make estimates regarding the probability of the occurrence of some of the risk factors mentioned in these sections for their specific internal needs, but no orderly estimate was made at the Group level of all the risks listed in the summary tables in these sections. Also, in general, the degree of influence of a risk factor on the Company's operations depends in some cases also on the extent and duration of the materialization of the risk, so that it may differ from what is indicated.

46 The extent of the impact of this risk factor on Bezeq's activity was classified as moderate, assuming that the event would be limited in scope and time. Otherwise, the degree of impact may be great.

3. Pelephone - Mobile radio telephone (cellular telephony)

3.1. General information about the field of activity

3.1.1. Pelephone's field of activity

Pelephone provides cellular communication services and the sale and repair of end equipment. Pelephone services are detailed in the section3.2. Pelephone is a company wholly owned by Bezeq.

3.1.2. Principles of legislative and regulatory restrictions unique to the field of activity

3.1.2.1 Communications Law and mobile radio telephone license

Pelephone's activities are subject to regulation and supervision by virtue of the Communications Law and its regulations, by virtue of the Telegraph Order, and by virtue of mobile radio telephone license owned by it. The mobile radio telephone license sets conditions and rules that apply to Pelephone's operations (for details, see section3.14.2).

3.1.2.2 Rate supervision

Interconnectivity fees (rates for completing a call and completing short message messages (SMS) charged by Pelephone from other communication operators are fixed in interconnectivity regulations. The rest of the rates are under a certain supervisory regime as regulated under the mobile radio telephone license and the Communications Law (see sections 3.14.1 and 3.14.2).

3.1.2.3 Environmental law and planning and construction law

Establishment and operation of wireless communication infrastructure, including cellular communications, is subject to the provisions of the Non-Ionizing Radiation Law and the permits required thereunder by the Ministry of Environmental Protection, as well as the provisions of planning and construction law (see section 3.13.1).

3.1.3. Changes in the scope of activity in the field

For financial data on the scope of Pelephone's activity, see sections **Error! Reference source not found.** and 3.3.

Revenue from services

The cellular industry is characterized by fierce competition. Competition in the industry (see section3.6) led to a high transfer of subscriptions between the cellular operators while continuously eroding the prices of the base packages along with a further increase in the browsing volumes included in the packages, which caused another significant erosion of the average revenue per subscriber. The growth in the number of postpaid subscribers over the past five years has partially compensated for the erosion of prices. In 2020, there was a decrease in income from migration services, due to the effects of the COVID-19 virus crisis on travel and stay abroad (see section 3.19.1.2).

Revenue from the sale of end equipment and electronics

The end equipment market is also characterized by fierce competition among cellular operators and vis-à-vis many stores that sell end equipment in parallel imports. In 2020, the trend of launching device models at low price levels continued compared to previous years among manufacturers, which, along with a decrease in the volume of units sold to end customers, led to a further decrease in the average revenue per device. In order to reduce the damage to revenue, Pelephone is increasing the range of equipment sold by it and also sells electronic equipment that is not cellular devices. In 2020, there was a decrease in revenues from the sale of end equipment, due to the effects of the COVID-19 virus crisis on retail trade (see section 3.19.1.2).

Most peripheral and electronic equipment are sold in installments. The decline in end equipment sales over the years has led to a decrease in the balance of customers in parallel with a decrease in the volume of payments to end equipment suppliers.

3.1.4. Market developments and changes in customer characteristics

The cellular market is characterized by low growth rates due to saturation in the penetration rate[47]. The estimated penetration rate as of September 30, 2020 is approximately 121%.

3.1.5. Technological changes that have an impact on the field of activity

The cellular communications market is dynamic, and is characterized by frequent technological developments in all areas of activity in it (communications network technology, end equipment and value-added services).

Technological developments, as well as the desire to expand the range of services offered to the customer and their quality, require cellular operators to upgrade the technology of cellular networks from time to time. The cellular networks in Israel currently operate mainly in GSM technology, UMTS / and LTE technology, and during 2020 the use of NEW RADIO technology in the NONSTAND ALONE architecture (5G) began.

As of the date of the report, Pelephone's LTE network is deployed in parts of Israel, and Pelephone continues to expand its network to improve coverage through the use of 700 MHz frequencies and to improve performance through 2600 MHz frequencies, in addition to launching 5G technology using 3500 MHz frequencies, which will be carried out according to a regular deployment plan.

In addition, Pelephone has started activating additional network features that include CARRIER AGGREGATION and MIMO8x8 in 5G.

Pelephone offers technology-based services IMS[48]: Voice over WiFi as an improved response for coverage within buildings, as well as Voice over LTE that enables voice calls based on 4G. This capability improves the quality of voice calls and in addition enables the evacuation of 3G frequency resources for future use of LTE. In addition, Voice over LTE enables continuity of service with Voice over WiFi.

Pelephone is constantly examining the new technologies in the market and the need to upgrade the technology of existing networks, in accordance with the state of competition in the market and the economic viability of investing in such technologies.

Expanding the capacities and speeds of technologies from the LTE (4G) and NEW RADIO (5G) as well as the development of future cellular generations are conditional on frequency allocation. For details, see section3.8.2.

Following the winning of the frequency tender, Pelephone began operating frequencies in the field of 700 MHz and 2600 MHz in 4G technology, and in addition operates 5G technology at a frequency of 3500 MHz in some sites (see section 3.8.2.4).

3.1.6. Critical success factors

3.1.6.1 Nationwide deployment of a high-quality and advanced cellular network, ongoing maintenance of the network at a high level and significant investments on an ongoing basis in the cellular infrastructure, both for quality coverage throughout Israel and to provide customers with advanced services through advanced technological infrastructure (see also section 3.7.1).

3.1.6.2 Growth in the subscriber base.

3.1.6.3 Competitive price level.

3.1.6.4 Wide and varied distribution channels.

3.1.6.5 A variety of service channels, including digital channels, that provide efficient and quality support and service to a large variety of customers.

3.1.6.6 Adjusting the cost structure and implementing operational streamlining that make it possible to cope with increased competition.

3.1.6.7 A brand that represents a quality, reliable and advanced network.

3.1.6.8 High quality and skilled personnel.

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

48 IMS - IP Multimedia Sub System - a system in the core of the network that is used, among other things, to switch calls made in IP networks (for example: Voice over LTE, Voice over Wifi). These two services are provided in combination to provide a solution for coverage within homes and for lowering traffic from the 3G network. The infrastructure will be used for additional services, such as One Number, Rich Call Services and more.

3.1.7. The main barriers to entry and exit[49]

3.1.7.1 The main barriers to entry into the field of activity are:

a) Saturation in the penetration rate in the field (see section 3.1.4).

b) The need for a mobile radio telephone license, the allocation of frequencies involved in high costs resulting, among other things, from the fact that these resources are in short supply (see section 3.8.2.1) and the subordination of the activity to regulatory supervision (see section 3.14.2).

c) The need for significant financial means for heavy and continuous investments in infrastructure, which are affected by frequent technological changes (see also section3.7.1.3).

d) The difficulty in setting up radio sites due to regulatory restrictions and public opposition.

3.1.7.2 The main barriers to exit from the field are:

a) Large investments that require a long return on investment.

b) The commitment to provide service to customers derives from the terms of the radio telephone license license and the agreements in accordance with the terms set forth in the license.

3.1.8. The structure of competition in the field and changes that apply in it

3.1.8.1 General

The cellular communications market in Israel is characterized by fierce competition, which is reflected in high subscriber turnover among operators, tariff erosion and profitability erosion.

As of the date of this report, five operators with a radio telephone license license are operating in the cellular communications market in Israel. Cellcom, Partner, Hot Mobile and XFONE), and a number of MVNO operators with an radio telephone license in another network (virtual operators) including the recent addition of Golan Telecom to this status after its radio telephone license was converted following the acquisition of control of it by Cellcom. Regarding a contract for the sale of Golan Telecom shares to Cellcom, see section1.7.1.

3.1.8.2 Infrastructure sharing

Infrastructure sharing enables the consolidation of cellular operator sites in a way that will significantly reduce the cost of operating and maintaining radio sites for each operator. To the best of Pelephone's knowledge, as of the date of the report, infrastructure is shared in the market as described below:

a) Partner and Hot Mobile operate as part of an infrastructure sharing in the radio segment within a shared corporation.

b) Cellcom and XFONE operate as part of infrastructure sharing in the radio segment of the 4G network as part of a joint corporation and the acquisition of other interior roaming services.

3.1.8.3 Virtual operators MVNO

A number of MVNO licenses have been issued so far for vrtual operators. Only a few MVNO license holders are active in the market.

For more details on the structure of competition in the field, see section 3.6.

3.2. Services and products

3.2.1. Services

Below is a description of the services that Pelephone provides to the subscriber:

3.2.1.1 Package services that include:

49 Some of the above entry and exit barriers apply in a partial and limited manner to virtual operators.

a) **Basic telephone services (VOICE)** - basic call services, call completion services as well as ancillary services such as - waiting call, "follow me", voicemail, voice conference call, caller ID, and more.

b) **Browsing and data communication services -** Internet browsing services using end equipment that is compatible with the use of 3G, 4G and 5G technologies.

c) **SMS delivery and receipt service and multimedia messages MMS -**SMS receiving and sending service (text messaging - SMS) and multimedia messaging (video / voice / text).

3.2.1.2 **Value Added Services -** Pelephone offers its customers value-added services and related services, such as data storage backup services (Pelephone Coud), antivirus services, cyber protection services, and more.

3.2.1.3 **IoT Services** (Internet Of Things) - Pelephone offers its customers advanced solutions in the field of IoT, such as smart building networks with command and control systems, and more.

3.2.1.4 **Roaming services** - Pelephone Provides its customers with roaming coverage in about 190 countries around the world. In addition, Pelephone also provides inbound roaming services to the customers of foreign operators who stay in Israel.

3.2.1.5 **Services PTT** (Push to Talk) - Pelephone offers its business customers some of the most advanced PTT services in the world, enabling fast and secure corporate communication at the touch of a button.

3.2.1.6 **Maintenance and repair services** for end equipment - Pelephone offers repair service and extended warranty, for a monthly fee that entitles the customer to repair service and extended warranty for the cellular device, or for a one-time payment at the time of repair.

Pelephone provides some of these services also in the framework of hosting agreements, to holders of an mobile radio telephone license in another network that use the Pelephone network in order to provide service to their customers.

3.2.2. Products

End equipment devices - Pelephone offers different types of mobile phones, car devices, devices PTT, headsets and accessories that support its range of services. Pelephone also provides end equipment such as tablets, laptops, modems, speakers, smart watches, headphones and other related electronics.

3.3. Segmentation of revenues from products and services

The following is data regarding Pelephone's revenues from products and services (in NIS millions):

Products and services	2020	2019	2018
Revenue from services	1,591	1,709	1,755
Rate of Pelephon’s total revenue	72.8%	72.4%	71.8%
Revenue from products (end equipment)	595	653	688
Rate of Pelephon’s total revenue	27.2%	27.6%	28.2%
Total revenue	**2,186**	**2,362**	**2,443**

3.4. Customers

The following is data on the distribution of revenue from customers (in NIS millions):

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

(*) Revenue from customers in business tracks includes revenue from hosting agreements, which were received mainly from Rami Levy.

At the end of 2020, the number of Pelephone subscribers was approximately 2.4 million, including approximately 2 million postpaid subscribers and approximately 0.4 million prepaid subscribers. It should be noted that the volume of revenue from prepaid subscribers is not material in relation to Pelephone’s total revenue.

3.5. Marketing, distribution and service

Pelephone's distribution system includes about 300 points of sale where you can join Pelephone services. The set of points of sale is diverse and includes stores and stalls operated by Pelephone, retail chains that market Pelephone products and about 20 Service and sales centers located throughout Israel that handle service, customer sales, repair device and customer retention. In addition, Pelephone operates an internal and external network of telephone marketers. As a rule, the remuneration to the marketers is paid as commissions from the sales.

Pelephone's service system for subscribers includes diverse digital channels including the Pelephone website hone, self-service app and call centers.

3.6. Competition

3.6.1. General

In recent years, the Ministry of Communications has taken a number of regulatory moves in order to increase competition in the cellular communications market. The large number of cellular operators in the market led to a high level of competition, which continued in 2020. The continuation of the trend led to a large number of subscribers among operators and a reduction in cellular package prices, which led to erosion in rates and profitability in both private and business customers.

In order to compensate for the erosion of package prices, Pelephone employs a strategy for growth in the number of subscribers alongside streamlining and costs structure adjustment (see section3.17).

For details regarding the acquisition of Golan Telecom shares by Cellcom, see section1.7.1 above.

Below is data, to the best of Pelephone's assessment, about the number of subscribers of Pelephone and its competitors over the years 2019 and 2020 (thousands of subscribers, approximately):

		Pelephone	**Cellcom (including Golan Telecom) (3)**	**Partner(3)**	**Hot Mobile(2)**	**MVNO And other operators(1)**	**Total subscribers in the market**
As of December 31, 2019	Number of subscribers	2,327	3,671	2,657	1,630	684	10,969
	Market Share	21.2%	33.5%	24.2%	14.9%	6.2%	
As of September 30, 2020	Number of subscribers	2,396	3,641	2,762	1,636	782	11,217
	Market Share	21.4%	32.5%	24.6%	14.6%	7.0%	

(1) Most of the MVNOs and the other operators (which include, among others, XFONE) are private companies that do not publish data regarding the number of their subscribers, and the said data is based on an estimate of data on mobility between companies.
(2) Hot Mobile's Q3/2020 data is based on an estimate, according to data published in Altice's reports.
(3) The number of subscribers is correct as of September 30, 2020, based on Cellcom and Partner reports to the public.

3.6.2. Infrastructure sharing agreements and granting network use right

For details regarding the existing infrastructure sharing agreements in the market as of the date of the report, see section 3.1.8.2. As mentioned, infrastructure sharing enables the consolidation of cellular operator sites in a way that will significantly reduce the cost of operating and maintaining radio sites for each operator.

Pelephone is not a party to the radio network sharing agreement, so it does not enjoy the savings resulting from the shared use of the radio network, but on the other hand it exclusively controls its cellular network, the maintenance of its technological route and the volume of investments in it. In addition, the frequency inventory in the Pelephone network is smaller compared to the frequency inventory in the networks of participating competitors.

3.6.3. Positive and negative factors that affect Pelephone's competitive position

3.6.3.1 Positive factors:

a) A cellular network with a broad and high-quality deployment.

b) Its position as a fast and advanced cellular network.

c) A diverse and wide distribution system that operates through call centers and through a large number of fromtal points of sale and is operated by Pelephone, external marketers and through leading retail chains.

d) A wide range of services and a variety of customer service interfaces, including digital channels, which enable the provision of a high level of service to customers.

e) Ability to sell through sub-brands in dedicated sales channels alongside the Pelephone brand.

f) A solid capital structure and a positive cash flow.

3.6.3.2 Adverse factors:

a) As a subsidiary of Bezeq, Pelephone is subject to regulatory restrictions on entering additional areas of activity and expanding the basket of services to customers who do not apply to its competitors.

b) There are restrictions on joint activities with Bezeq, including the marketing of joint service packages (see section 1.7.2).

c) The costs of setting up, operating and maintaining cellular networks in Pelephone are expected to be higher compared to competitors operating through the sharing of radio segment infrastructure.

3.7. Fixed assets and facilities

Pelephone's fixed assets include infrastructure equipment of the network core, radio sites, electronic equipment, computers, vehicles, end equipment, office furniture and equipment, and leased improvements.

3.7.1. Infrastructure

3.7.1.1 Pelephone currently operates communication networks in three main technologies, as follows:

a) 5G - the NEW RADIO technology that uses a very broadband spectrum (100 MHz at Pelephone) and enables higher capacity and higher browsing rates for the user. In the future, the technology will enable IoT applications at significantly higher volumes than today and at a very high level of performance.

b) 4G - LTE technology from the GSM standards family. The advantages of the technology are high capacity for data communication and faster download and upload rates than those that exist in 3G. All end devices that support this technology also support 3G technology and there is a smooth transition between the technologies.

c) 3G - technology in the UMTS method based on GSM standard. This technology is very common in the world and enables subscriber identification and service through a subscriber identification card (SIM) that can be transferred from one end device to another. On December 10, 2020, the Ministry of Communications issued a hearing regarding the future closure of networks mobile radio telephone operating on old technologies, in Israel (2G and 3G networks) with state-of-the-art technologies (4G onwards), public notification, and disconnection of these devices from the network. The Ministry has not yet announced its decision at this hearing.

3.7.1.2 As of the date of the report, Pelephone's network infrastructure is mainly based on two switching farms connected to more than 2,400 sites.

3.7.1.3 Network investments

In recent years, Pelephone has invested in deploying a 4G network and upgrading it with innovative technologies (such as Beam Forming, MIMO4x4 and QAM 256 and Carrier Aggregation in the access network, and in IMS at the core of the network (see section3.1.5). Pelephone estimates that the financial volume of investments in the network in 2021, including the expansion of the 4G network (with the use of 700/2600 MHz frequencies) and the deployment of the 5G (with the use of 3500 MHz frequencies) will be similar to investments made in 2020, during which many investments were made. Winning frequencies in the framework of the 5G tender, except in the case of changing frequencies in accordance with state requirements (see section3.8.2.3).

In addition, as part of its current investments, in the next ten years, Pelephone will be required to continue to establish new transmission sites, among other things for the purpose of complying with the conditions of the mobile radio telephone license.

In addition, Pelephone has begun planning and evaluating the implementation of advanced data communication services in the 5G track. The layout is designed to integrate with existing infrastructure and systems. Activating such advanced services will be based on 5G technology that Pelephone will continue to deploy, and will later be based on a new network core dedicated to 5G (see section 3.8.2.4).

Pelephone's estimates as aforesaid regarding the costs of investing in the network and the date of their formation are forward-looking information within its meaning of the Securities Law, based on Pelephone's forecasts and estimates, *inter alia*, regarding the rate of network expansion and upgrade of the network. Accordingly, the information may not fully or partially materialize or may materialize in a different format than that which was assessed, insofar as the said forecasts and assessments are not fulfilled or will be fulfilled in a different way than expected.

3.7.2. Areas used by Pelephone

Pelephone does not own real estate and it leases from others, including Bezeq, the areas it uses for its activities. The following is a description of most of the areas used by Pelephone:

3.7.2.1 The areas used by Pelephone to place communication sites and network centers as stated in the section 3.7.1 are spread throughout Israel and leased for different periods (in many cases for 5 years plus the option to extend the agreement for another 5 years). For site licensing, see section**Error! Reference source not found.**.

3.7.2.2 Until December 31, 2019, a license agreement was in force between Pelephone and ILA for the use of ILA real estate for the construction and operation of communication sites, which regulated, among other things, the license fee for such use for the period until December 31, 2019. These days, a dialogue is taking place between Pelephone and the other cellular companies and ILA regarding the terms of the renewal of the license agreement.

3.7.2.3 Pelephone's headquarters are in Petah Tikva.

3.7.2.4 For service and sales activities, Pelephone rents about 50 service centers and sales points spread throughout Israel.

3.7.2.5 Pelephone has additional lease agreements for warehouses (including a central logistics center with a central laboratory for repairing customer devices), offices, call centers and 2 switching farms used by it for its operations.

3.8. Intangible assets

3.8.1. Licenses

For details regarding Pelephone's mobile radio telephone license and operating license in Judea and Samaria, see section 3.14.2.

3.8.2. Right to use frequencies

3.8.2.1 In Israel, there is a shortage of radio frequencies for public use (among other things, due to the allocation of many frequencies for security uses). As a result, the government limits the number of licenses that can be used in frequencies.

3.8.2.2 Pelephone’s frequency inventory

Pelephone has the right to use frequencies by virtue of the mobile radio telephone license and the Telegraph Order in the ranges of 850 MHz[50] and 2100 MHz for operating the network in UMTS / HSPA technology, and in the 1800 MHz, 700 MHz and 2600 MHz range for network operation in the LTE technology (see also section3.1.5) and in the range of 3500 MHz for the purpose of operating a network with 5G technology. During 2017, Pelephone returned to the National Frequency Database 2 frequency bands with a width of 1 Mega each in the range of 850 MHz, and towards the end of April 2017, it received a temporary allocation of a band in the range of 1800 MHz with a width of 5 Mega. This allocation is limited in use and is for a fixed period.

The Ministry of Communications has reassigned a temporary allocation of this band until the end of December 31, 2021 under conditions and restrictions, in order to allow Pelephone to prepare for the expected change in the replacement of frequencies in the first Giga range (see section 3.8.2.3).

3.8.2.3 Switching freqencies in the first Giga range

In July 2018, the Ministry of Communications informed Pelephone that it intends to adjust cellular frequencies in Israel to European standards and the area in which the State of Israel is located, so that Pelephone and another cellular operator will be required to replace the 850 MHz frequencies with other frequencies in the first GHz. In 2020, the Ministry of Communications announced to Pelephone that it intended to implement an outline for the replacement of 850 MHz frequencies in the use of Pelephone, against the background of electromagnetic interference caused to neighboring countries due to non-compliance of cellular frequencies in Israel with European standards and the stadards of the region. According to the outline, Pelephone will receive frequencies in the range of 800 MHz instead of 850 MHz, when in the first stage and for the purpose of treating such interruptions, the amount of 850 MHz frequencies used by Pelephone will be reduced to 5 MHz (instead of 10 MHz today) and this as of May 31, 2020. Pelephone forwarded to the Ministry of Communications, following his request, its reference to a number of issues and on March 17.

On June 1, 2020, Pelephone returned to the Ministry of Communications frequencies in the range of 850 MHz, with a width of 5 MHz, so that the amount of 850 MHz frequencies owned by Pelephone decreased from 10 MHz to 5 MHz. On November 26, 2020, the Ministry of Communications allowed Pelephone to reuse full 2X10 MHZs in the 850 range until March 31, 2021.

Reducing the amount of 850 MHz frequencies, as stated, may cause damage to the service provided by Pelephone. It should be noted that the frequency serves Bezeq's 3G services, but damage to these services may also affect 4G services in certain areas due to possible network congestion and traffic in 4G networks. The harm is expected to be moderate due to increased penetration of the use of VOLTE and thanks to the expansion of the 700 frequency deployment in LTE technology. Pelephone is preparing to minimize the expected damage.

Frequency replacement is a complex engineering project that requires replacing and upgrading active / passive infrastructure on Pelephone's radio sites, and may involve significant costs that may vary depending on the process and timing to be determined with the Ministry of Communications.

Pelephone's assessments as stated above are forward-looking information within its meaning of the Securities Law. These assessments may not materialize, partially materialize or materialize in a manner substantially different from what is stated, depending, among other things, on the actual implementation of the outline and the state of the Pelephone network.

3.8.2.4 Tender for advanced broadband services ("**the Tender**")

On August 12, 2020 Pelephone won the allocation of frequencies as a result of its participation in the tender for mobile radio telephone services in advanced 5G bandwidths.

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[50] Pelephone has the option of requesting a 5-mega allocation in the 800 MHz range following the 850 MHz frequency evacuation project.

The main points of the Tender in which it won, as stated, among other things, are as follows:

The Tender includes provisions regarding the coverage and quality requirements of the network that will be anchored as part of the amendment of the mobile radio telephone licenses of the existing operators (see amendment to Pelephone's license below).

The Tender including the possibility of receiveing the following incentives:

- Possibility of discounts in the frequency fees for the first four years, subject to the approval of the Ministry of Communications and the Ministry of Finance.
- Possibility of receiving a conditional grant for the deployment of 5G sites according to the conditions specified in the Tender (such as meeting the scope of deployment, schedules, deployment period and timing of deployment in relation to others and additional conditions set in the Tender).

For details, see also section 3.19.2.1. For details regarding exposure to interference in the frequency ranges of Pelephone, see section3.19.3.10.

The following are the conditions under which Pelephone won the allocation of such frequencies:

1. Winning at 10 Mega in the 700 MHz range (for a period of 15 years); at 20 Mega in the 2600 MHz range (for a period of 10 years); And at 100 Mega in the field of 3500 MHz (for a period of 10 years). The license period does not change as a result of the Tender and can be renewed in accordance with the license provisions (hereinafter: "**Frequency Allocation**"). It should be noted that the frequencies won by Pelephone are used exclusively by Pelephone network. This will give a competitive advantage to the Pelephone network, and it should also be noted that companies that do not own existing networks did not win the Tender.

2. Pelephone's win in the Frequency Allocation has a total cost of NIS 88,230,000, with the payment date set for September 2022. In this context, it should be noted that the Tender further stipulates that incentives may be obtained, as specified in above, including receiving a conditional grant for the deployment of 5G sites according to the conditions specified in the Tender, the amount of which, for all the winners, can reach a total amount of NIS 200 million. As part of the update of the regulations under which the frequency fees are paid, a reduction in the amounts of the fees for 2600 and 3500 MHz frequencies was determined, as well as a conditional annual discount, from the total amount of the frequency fees to be paid by Pelephone in the next four years, which will be examined by the Ministry of Communications every year).

On October 1, 2020, Pelephone's license was amended in accordance with the winning results (shortly before, Pelephone was allocated the frequencies at which it won as stated). With the amendment of the license, Pelephone began operating the frequencies which it won in the Tender at the broadcast sites upgraded by it.

Said Frequency Allocation will enable support for the increase in the volume of browsing in the 4G and in the future offer services in the 5G at much higher browsing rates than today, which will allow, among other things, expanding a variety of advanced cellular uses, such as smart cities, IoT services, critical mission services with low latency, private networks and more and all in order to provide a competitive solution in the market and will involve ongoing investments.

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

3.8.3. Trademarks

Pelephone has a number of registered trademarks. The main one is the "Pelephone" brand.

3.8.4. Computer software, systems and databases

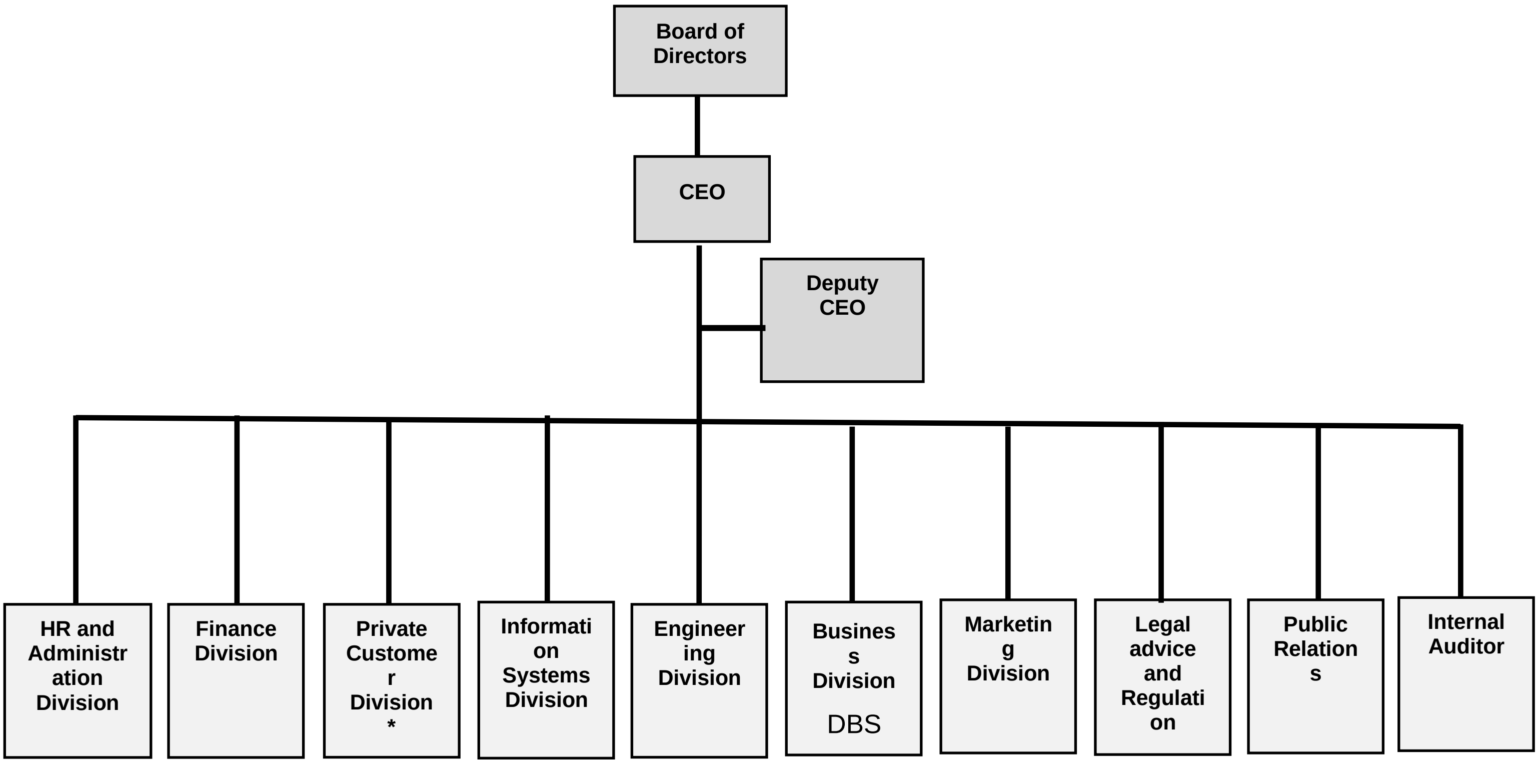
Pelephone uses software and computer systems, some based on licenses it has acquired and some developed by Pelephone's information systems division. Many of these licenses are limited in time and are renewed from time to time. The main systems used by Pelephone are an ERP system by Oracle Applications and a customer billing and management system by Amdocs.

Pelephone is also working to upgrade the CRM (customer management) to an advanced Salesforce cloud platform together with Bezeq International and DBS. Pelephone is dependent on the Salesforce system and services, due to their importance for the purpose of managing relationships with its customers. System failures or the cessation of services by this provider are likely to cause operational difficulty until the matter is rectified or the system / provider is replaced, which may take a long time

3.9. Human capital

3.9.1. Organizational structure

The following is a diagram of Pelephone's organizational structure, as of the date of the report:



(*) The Director of the Private Customers Division is the Deputy CEO.

As part of the implementation of the synergy processes with the Group's subsidiaries, Pelephone's CEO, Mr. Ran Guron also serves as CEO of DBS and Bezeq International. In addition, most of the VPs who serve on Pelephone also serve as VPs at DBS and Bezeq International.

3.9.2. Employee base and number of jobs

The following is a breakdown of the number of employees in Pelephone according to its organizational structure:

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

The number of employees included in the table above includes employees employed part-time. The total number of jobs[51] in Pelephone as of December 31, 2020, was 1,619 (as of December 31, 2019 - 1,956).

3.9.3. Terms of employment

Most Pelephone employees are employed under a monthly agreement or an hourly agreement, according to the professions and positions in which they are engaged. Most of the service and sales staff are part-time shift workers and are employed on an hourly basis. The other Pelephone employees are employed on a monthly basis.

3.9.4. Collective agreement

The labor relations at Pelephone are regulated in a collective agreement signed between Pelephone and the new Histadrut - the Cellular, Internet and High-Tech Workers' Union ("**the Histadrut**") and the Pelephone Employees' Committee. The agreement applies to all Pelephone employees, with the exception of senior executives and certain employees in pre-defined positions.

On November 13, 2019, a renewal of the existing collective agreement was signed between the parties, which includes streamlining and synergy procedures, for a period of up to June 30, 2022 ("the **Agreement**").

Under the Agreement, Pelephone will, among other things, terminate the employment of 210 permanent employees during the term of the Agreement, some of them as part of a voluntary retirement. Moreover, according to its plan, it will terminate the employment of 190 additional non-permanent employees, in addition to not recruiting employees instead of employees the employment oh whom will be terminated. The Agreement also includes providing a one-time bonus to employees who will not be included in the retirement plan. Expenses in respect of the Agreement amounted to approximately NIS 100 million and were recorded in 2019 and 2020.

3.9.5. Labor disputes

On January 31, 2018, Pelephone was notified by the Histadrut ("**the Histadrut Notice**") of the declaration of a labor dispute in accordance with the Labor Disputes Settlement Law, 5717-1957. According to the Histadrut Notice, the issues in the dispute are the employees' requirements for consultation and negotiations regarding the sale of Bezeq's controlling shares to the new owners and the regulation of their rights as a result.

Following the Histadrut Notice, on November 28, 2019, Pelephone's offices received a notice from the Chairman of the Histadrut and the Pelephone Employees' Committee, including a demand for collective bargaining with the employees' representatives against the background of the acquisition of control of Bezeq.

3.10. Suppliers

3.10.1. End equipment suppliers

Pelephone purchases some of the end equipment and accessories from different providers in Israel and in the world and some it imports independently. In addition, Pelephone purchases end equipment and accessories by way of purchase consignation with the right to return to the end equipment suppliers. Contracts with some suppliers are based on framework agreements that regulate, *inter alia*, the supplier's technical support for the end equipment provided thereby, the availability of spare parts and repairs and the supplier's warranty for the products. In most cases, these agreements do not include an obligation on Pelephone's part to make purchases, and they are executed on an ongoing basis through a purchase order according to Pelephone's needs.

In the event of a termination of contract with a particular end equipment supplier, Pelephone may increase the quantity purchased from other end equipment suppliers, or purchase end equipment from a new end equipment supplier.

Pelephone's essential suppliers are Apple and Samsung with which Pelephone does not have an agreement that requires the purchase of a minimum annual quantity and the purchases are made on the basis of orders made by Pelephone from time to time.

Pelephone purchases rate from each of the suppliers Apple and Samsung in 2020

[51] The calculation of the number of "jobs" in Pelephone is: the total monthly working hours divided by the monthly working hours quota.

accounted for over 10% of all Pelephone purchases from all Pelephone's suppliers[52], but less than 5% of total Group purchases (consolidated) from all its suppliers. The distribution of peripheral equipment purchases among suppliers is such that it does not create a material dependence on the supplier or model of equipment**.**

3.10.2. Infrastructure providers

Cellular infrastructure equipment in the UMTS, LTE and the 5G networks are provided by LM Ericcson Israel Ltd. ("**Ericcson**"). Ericcson is also a significant supplier of Pelephone in the field of microwave transmission. Pelephone has multi-year agreements for maintenance, support and software upgrades for the UMTS network, as well as an agreement for the purchase of 4G (LTE) and 5G equipment with Ericsson, and in its opinion it may be dependent on it in connection with network support and expansion. In addition, the cellular network uses transmission, and Bezeq is a significant supplier of Pelephone in this field.

Pelephone has a multi-year transmission agreement with Bezeq that includes use and maintenance.

3.11. Working capital

Credit policy

Credit in device sales transactions - Pelephone gives most of its customers who purchase mobile phones the option to spread the payments up to 36 equal payments. In order to reduce exposure that may arise as a result of providing credit to its customers, Pelephone operates in accordance with a credit policy that is reviewed from time to time. Pelephone also checks the financial strength of its customers (in accordance with the parameters set by it).

Monthly billing credit for cellular services - Pelephone customers are charged once a month with billing cycles, performed on different dates throughout the month, for the consumption of last month's cellular services.

Pelephone receives credit from most of its providers for a period ranging from 30 days to end of month + 92 days.

The following are data regarding average suppliers' and customers' credit in 2020:

	Credit volume in NIS millions	Average credit days
Customers for the sale of end equipment (*)	626	328
Customers for services (*)	180	35
Suppliers	234	32

(*) Net of loan-loss

3.12. Taxation

See Note 7 to the 2020 statements.

3.13. Environmental risks and ways of managing them

3.13.1. The provisions of the law concerning the environment and apply to the activities of Pelephone

The broadcast sites used by Pelephone are "radiation sources" in accordance with the Non-Ionizing Radiation Law. The establishment and operation of these sites, with the exception of sites listed in the appendix to the law, requires the receipt of a radiation permit.

The law establishes a two-stage licensing mechanism for obtaining a permit to operate a radiation source, according to which the applicant for a permit must first obtain a permit to establish the radiation source ("**Establishment Permit**"), valid for a period not exceeding three months, which can be extended by the Commissioner by up to 9 months, followed by a permit to operate a source of radiation ("**Operating Permit**"), which is valid for a period of five years or as otherwise determined by the Minister of Environmental Protection.

With regard to the Establishment Permit, the law stipulates the granting of the permit by performing an assessment of the maximum levels of exposure of people and the

[52] All suppliers - all Pelephone's suppliers, including suppliers who are not suppliers of end equipment and electronic devices.

environment to the radiation expected from the radiation source when it is activated, including in the event of a malfunction; And taking the necessary measures to limit the levels of exposure of humans and the environment to the radiation expected from the radiation source when it is activated, including the use of technological means in use ("**Limitation Means**").

With regard to the Operating Permit, the law stipulates the granting of the permit by the taking of measures to limit and make measurements of the levels of exposure of humans and the environment to the radiation generated during the activation of the radiation source. The law also conditions the granting of an Operating Permit by presenting a license in accordance with the Communications Law, and in some cases, also by presenting a permit under the Planning and Construction Law.

The law includes a penalty chapter which stipulates, *inter alia*, that the construction or operation of a radiation source in violation of the terms of the permit and the construction or operation of a radiation source without a permit after receiving written notice from the Commissioner, are a criminal offense.

It will be noted that regulating the maximum permissible levels of exposure of human beings to radiation from a radiation source and the safety ranges from transmission facilities to communications, including the restriction on placing a radiation source on roof terraces, is still in the process of legislation with the Knesset's Interior Committee on the Environment, as part of an amendment proposed to the regulations under the Non-Ionizing Radiation Law, which was accompanied with disagreements between government ministries.

In January 2009, the Commissioner for Radiation at the Ministry of Environmental Protection issued guidelines regarding safety ranges and maximum permitted levels of exposure regarding radiation from radio frequencies, including cellular antennas. Discussions are taking place around these ranges against the background of the announcement by the World Health Organization (IARC) according to which radio frequency electromagnetic fields associated with cell phone use have been classified as possible carcinogens in humans (Group 2B)[53].

It should also be noted that the Ministry of Environmental Protection operates a system of continuous supervision and monitoring of the broadcasting centers to check their compliance with the requirements of the law.

Cellular services are provided through a mobile phone that emits non-ionizing radiation (also known as electromagnetic radiation). The Consumer Protection Regulations (Information on Non-Ionizing Radiation from a Mobile Phone) 5762-2002 stipulate the maximum permissible level of radiation of a cellphone measured by units SAR (Specific Absorption Rate) and informing Pelephone's customers in this context. To the best of Pelephone's knowledge, all the cellular devices it markets meet the required SAR standards. See also section3.19.2.5.

3.13.2. Pelephone policy in environmental risk management

Pelephone conducts periodic radiation tests to ensure compliance with permitted operating standards and international standards. These tests are outsourced to companies licensed by the Ministry of Environmental Protection. Pelephone has an internal enforcement procedure for supervising the implementation of the provisions of the Non-Ionizing Radiation Law, according to which a senior administrative body has been appointed as responsible for its implementation. The purpose of the procedure is to implement the provisions of the law and to reduce the possibility of violating it.

3.13.3. Transparency to consumers

Pelephone is subject to relevant laws that stipulate advertising obligations and information about the sources of radiation that it activates and the mobile devices that it provides. Pelephone publishes information on its website regarding the level of SAR emitted from cell phones and the Ministry of Health's recommendations for precautionary measures in the use of cell phones.

3.14. Restrictions and supervision of Pelephone's operations

3.14.1. Legislative restrictions

53 It should be noted that from time to time various documents are published on the website of the Ministry of Environmental Protection, at www.sviva.gov.il, and on the World Health Organization website, at www.who.int

3.14.1.1 Communications Law

The provision of cellular services by Pelephone is subject to the provisions of the Communications Law and its regulations. For details regarding the mobile radio telephone license granted to Pelephone under the Communications Law, see section3.14.2.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions due to various violations of the provisions of the law and of orders and provisions issued under it, as well as due to violation of conditions in the license.

3.14.1.2 Wireless Telegraph Order

The Telegraph Order regulates the use of the electromagnetic spectrum, and applies, among other things, to the use of radio frequencies made by cell phones, as part of its infrastructure. Establishment of a system that uses and operates radio frequencies is subject, under the Telegraph Order, to licensing, and the use of radio frequencies is subject to the designation and allocation of an appropriate frequency. According to the Telegraph Order, license fees and fees are imposed for the designation of frequencies and their allocation. The Order authorizes the Ministry of Communications to impose financial sanctions due to various violations of its provisions.

For radio frequencies assigned to cell phones, see section 3.8.2.

3.14.1.3 The Non-Ionizing Radiation Law

With respect to facilities that emit electromagnetic radiation see section 3.13.

3.14.1.4 Consumer legislation and privacy protection and information security laws

As part of its activities, Pelephone is subject to the Consumer Protection Law, which regulates a dealer's obligations to consumers, as well as the laws of privacy protection and information security (see section 1.7.4.5).

3.14.1.5 Change in interconnectivity fee rates (Call Completion Fee)

Interconnectivity rates are set by the regulator. For details see section 1.7.4.1.

3.14.2. Pelephone's mobile radio telephone license

3.14.2.1 General

Pelephone's mobile radio telephone license as well as the general license to provide cellular services in the Judea and Samaria area are valid until September 2022[54].

The following are the main instructions from Pelephone's mobile radio telephone license:

- **a)** In certain circumstances, the Minister may change the terms of the license, restrict it or suspend it and, and in some cases even cancel it.
- **b)** The license is not transferable and includes restrictions on the purchase or transfer (including by way of lien) directly or indirectly of control or of 10% or more of any means of control in Pelephone, including the lien of such means of control, unless the Minister's prior consent is given.
- **c)** Pelephone must provide an interconnectivity service on equal terms to any other operator and must avoid any discrimination in interconnectivity.
- **d)** Pelephone must refrain from preference of providing infrastructure services to a licensee who is an affiliated company (as defined in the license) over another licensee.

[54] The wording of the Pelephone's mobile radio telephone license is published on the website of the Ministry of Communications at www.moc.gov.il. The provisions of the mobile radio telephone license applies on the license in the Judea and Samaria area (with certain changes)).

e) The license specifies the mobile radio telephone services that Pelephone may provide and states that it is not allowed to provide additional mobile radio telephone services that are not specified in the license.

f) Pelephone may not sell, rent, or mortgage property from the properties used to carry out the license without the consent of the Minister of Communications, except for certain exceptions set forth in the license.

g) In times of emergency, the person authorized by law has the authority to give Pelephone various instructions regarding the manner of its operation and / or the manner of providing the services (see section 3.19.2.9).

h) The license specifies the types of payments that Pelephone may charge its subscribers for cellular services, and the reports it must give to the Ministry of Communications. The license also stipulates the authority of the Minister to intervene in rates, in some cases.

i) The license requires Pelephone to a minimum standard of service.

j) In order to secure Pelephone's obligations and in order to compensate and compensate the State of Israel in the event that Pelephone's action causes it damage, Pelephone provided a bank guarantee to the Ministry of Communications, in the amount of NIS 71.6 million.

Pelephone submitted a request to the Ministry of Communications to renew the license for a period of 10 years.

3.14.2.2 Ministry of Communications guidelines regarding license changes

The Ministry periodically updates Bezeq’s license on various issues, as part of hearings held by it.

3.14.3. Site construction licensing

Pelephone's cellular services are provided, among other things, through cellular sites that are deployed throughout Israel in accordance with engineering needs. The constant need to upgrade and improve the quality of cellular services requires the establishment of cellular sites, configuration changes, and changes to existing antenna arrays.

Pelephone uses transmission sites of two main types and in two tracks: macro sites that require a building permit from the Planning and Construction Committees (see reference to National Outline Plan 36A below) and wireless access facilities ("**Access Facilities**"), which are exempt from a building permit under the Communications Law and the planning and Construction Law ("**Exemption Provision**") and for which regulations were published in 2018.

Pelephone's ability to maintain and preserve the quality of its cellular services, as well as its coverage, is based in part on its ability to establish cellular sites and install infrastructure equipment, including broadcasting sites. The difficulties encountered by Pelephone in obtaining the necessary permits and approvals can adversely affect the existing infrastructure, the network's performance as well as the establishment of additional cellular sites required by the network. Difficulties in deployment also exist in the Judea and Samaria area, for which a special legal system applies.

The inability to resolve these issues in a timely manner may even prevent the achievement of service quality goals set forth in the mobile radio telephone license.

Pelephone, like other cellular operators in Israel, has set up some of the cellular sites throughout Israel on properties managed by the Israel Land Authority. This, among other things, according to an umbrella contract from June 2013. It should be noted that this umbrella contract ended on December 31, 2019, and Pelephone, as well as the other cellular operators, and the Israel Land Authority are conducting a dialogue regarding the possibility of extending the contract for another period to be determined between the parties.

Building permits for the construction of a transmission facility for cellular communications by virtue of National Outline Plan 36A:

Licensing of the construction of cellular transmission sites subject to building permits, regulated by National Outline Plan 36A, which came into force in 2002.

The licensing procedure according to NPA 36A requires, *inter alia*, the receipt of approvals as follows: A. Approval of establishment and operation by the Ministry of Environmental

Protection, as specified in section 3.13.1; B. Approval of the Civil Aviation Administration, in some cases; C. IDF approval.

In addition, according to the law, a condition for granting a permit for the establishment of a transmission facility for cellular communications is the submission of a letter of indemnity to the local committee in respect of claims for compensation for impairment. As of the date of this report, Pelephone has deposited approximately 650 indemnity letters with various local committees.

Despite NPA 36A in its existing format, Pelephone (and to the best of its knowledge, also from its competitors) encounters difficulties in obtaining some of the necessary approvals, especially the approvals of the planning and construction authorities.

In view of the criticism leveled against National Outline Plan 36A by various parties, a proposal to amend National Outline Plan 36 (the "**New National Outline Plan 36/A Proposal**") was published about a decade ago, which is stricter and heavier in relation to the wording in force, and may make it difficult to license cellular sites in this route. The amendment to National Outline Plan 36A has not been implemented in recent years, but the need and desire to make amendments to National Outline Plan 36A remains in place.

It should also be noted that in two administrative petitions filed against cellular companies, including Pelephone, in the Haifa District Court, the legality of building permits issued pursuant to National Outline Plan 36A to cellular transmission facilities was chakkenged. The main arguments of the petitioners in the two petitions were that the frequencies used by the cellular companies do not correspond to the frequencies set forth in National Outline Plan 36A. On April 12, 2018, a ruling was given in one of the petitions in which the claims of the cellular companies were accepted by the Appeals Committee and in which it was determined, among other things, that despite the use of varying frequencies during the development of cellular infrastructure, the building permits were valid. On October 17, 2018, a ruling was given in the other petition in relation to the same issue, in which an opposite determination was made regarding the interpretation of the National Outline Plan and the alleged invalidity of the building permits. The two rulings were appealed to the High Court. On August 11, 2020 and November 2, 2020, the High Court ruled on the appeals. It was determined that the petitioners' interpretation must be rejected.The High Court also ordered the annulment of the judgment of October 17, 2018, in which a reverse determination was made in connection with the interpretation of the National Outline Plan.

As part of the "Pergola Reform" - Amendment 101 to the Planning and Construction Law, the Planning and Construction Regulations (works and buildings exempt from the permit) 5774-2014 entered into force on 1 August 2014. Regulation 34 of the regulations stipulates, among other things, that adding an antenna to an existing broadcasting facility is legally exempt from the permit subject to the existence of cumulative conditions and restrictions, including compliance with applicable spatial plans and guidelines, to be determined by the local committees. It should be noted that this exemption regulation is not practical due to one of its conditions, and has not been used.

Access Facilities exempt from building permits:

The second route in which Pelephone is deploying broadcast sites is the Access Facilities route. The Access Facilities are subject to the receipt of individual radiation permits but are exempt from obtaining a building permit provided that they are established under the conditions set forth in the exemption directive (Article 266C (a) of the Planning and Construction Law (installation of a wireless access facility for cellular method), 5778-2018 and the regulations.

Various local authorities have disputed the applicability of the exemption provision of Access Facilities operating on a cellular network and its use. In a number of judgments and decisions by local Courts, Pelephone's position was adopted regarding the applicability of the exemption and the approval of the use of these facilities and the equipment that supports them. Some of these decisions and judgments have been appealed to the High Court.

As of the date of the report, Pelephone operates about 450 wireless access sites**.**

It should be noted that in spot enforcement proceedings, which are taken from time to time, additional allegations arise regarding the manner in which the exemption is used, including compliance with regulations. To the extent that there are Pelephone facilities that do not meet the conditions set forth in the regulations, there is exposure in respect thereof if the dismantling or adjusting of those facilities becomes necessary.

On March 27, 2018, an exemption provision was added to the Planning and Construction

Regulations (exemption from the permit) for a "miniature transmission facility", as defined in the regulations. The regulations further stipulate, among other things, that the installation of a miniature transmission facility and its external components on an existing building or facility is exempt from a permit subject to the existence of cumulative conditions.

In conclusion:

A few sites that were established years ago still lack the approvals of the Civil Aviation Administration and the IDF, although the applications for approvals have already been submitted. Also, some planning and construction committees have administrative or other delays in issuing building permits to sites. Therefore, Pelephone operates a number of broadcasting sites that have not yet been issued building permits.

The establishment of a broadcasting site without obtaining a building permit is a violation of the law and in some cases this has led to the issuance of demolition orders or the filing of indictments or the filing of civil proceedings against Pelephone and some of its officers.

As of the date of the report, Pelephone has in most cases been able to avoid demolition or delay the execution of demolition orders within the framework of arrangements reached with the planning and construction authorities, in order to try to settle the missing license. These arrangements did not require a confession of guilt and / or a conviction on the part of Pelephone officials. However, there is no certainty that this situation will continue in the future, or that there will be no further cases in which demolition orders will be issued and indictments will be filed for building permits, including against officers.

Pelephone, like the other cellular operators in Israel, may be required to dismantle transmission sites for which the necessary approvals and permits have not yet been obtained in accordance with the deadlines set by law. Pelephone uses the access facilities to provide coverage and capacity in crowded areas. If a legal constraint is created for the simultaneous dismantling of the sites in a given geographical area, there may be a deterioration in the service in that area, until the establishment of alternative broadcasting sites.

3.14.4. Economic Competition Law

In the terms of the merger of Pelephone and Bezeq, various restrictions are anchored regarding cooperation between the companies (see section 2.16.8.42.16.8).

3.15. Substantial agreements

3.15.1. For agreements with Ericsson, see section 3.10.2.

3.15.2. In July 2016, an agreement was signed between Pelephone and the Accountant General of the Ministry of Finance, according to which Pelephone will provide cellular services to state employees in an estimated 100,000 subscribers over three years. Under the agreement, Pelephone provides devices to some Accountant General subscribers.

In May 2019, the state chose to exercise the extension option granted to it in the agreement, and the agreement was extended until August 2022.

3.15.3. Regarding an agreement with ILA (which expired and has not yet been renewed) see section 3.7.2.2.

3.15.4. Regarding a collective agreement between Pelephone and the Histadrut and Pelephone's Employees' Committee, see section 3.9.4.

3.16. Legal Proceedings[55]

During the day-to-day business, lawsuits were filed against Pelephone, including motions for approval of class actions.

3.16.1. Pending legal proceedings

The following is a list of the claims in which the amount claimed is material and claims that may have material consequences for Pelephone's operations:

[55] For material reporting and material thresholds, see section 2.18.

	Date	Sides	Court	Type of procedure	Details	Amount of the claim NIS million
a.	August 2010	Customer vs. Pelephone	District (Center)	A monetary claim together with a motion to recognize it as a class action	It was argued that Pelephone should refrain from charging VAT from customers who consume its services during their stay outside Israel. The motion also includes the remedy of an order instructing Pelephone to cease making VAT charges in respect of the services subject to the motion for approval consumed by them outside Israel, and an order directing to return the funds collected so far. In August 2014, the Court denied the motion for approval. In October 2014, an appeal was filed against the ruling. On July 3, 2017, a High Court ruling was given, according to which the applicants' appeal of the deinal decision was accepted, and the hearing will be returned to the District Court for a decision on whether VAT money was illegally collected for overseas cellular services. According to the ruling of the High Court, to the extent that the District Court decides in the positive in the question and Pelephone is required to return to customers the VAT money it has collected, it will have an indemnity claim against the tax authority for the amounts it will be required to return. It was also determined that in the context of service packages abroad for which payment is made in advance, the VAT rate is 0. According to a preliminary assessment by Pelephone, the ruling of the Hight Court means that the results of this proceeding have no further material impact on Pelephone. The petitioners and the State are negotiating between them and therefore the Court is delaying the decision on the petition.	The amount of the lawsuit is not specified, but in the motion it is estimated at tens of millions of NIS.
b.	May 2012	Customer vs. Pelephone	District (Tel Aviv)	Class action lawsuit	It is claimed that Pelephone does not inform customers who wish to join its services with a device that was not purchased from Pelephone, that as long as the device does not support the 850 MHz frequency, they will enjoy partial reception of one frequency and not two. In March 2014, the Court approved the lawsuit as a class action, following Pelephone's announcement regarding its consent (for reasons of efficiency) to the management of the lawsuit as a class action, while maintaining its claims. The procedure is split into two stages (the stage of clarifying liability and the stage of quantifying damages, as necessary in stage two). On January 20, 2019, a decision was given in the sale case under Pelephone's responsibility for the claim in the lawsuit, on the grounds of deception under the Consumer Protection Law and on the grounds of lack of good faith in negotiations, in relation to the period up to the date of the decision to approve the claim as a class action (March 2014). Depending on the decision and previous decision in the case the next step in the hearing of the case will be on the question of the alleged damage.	About 124
c.	November 2012	Customer vs. Pelephone	District (Jerusalem)	Monetary claim and a motion to recognize it as a class action	It is alleged that Pelephone allowed the illegal charging of as subscriber in respect of cellular content services that were not ordered at all from the non-interactive content services company. At that time, the parties are in mediation proceedings.	About 107
d.	November 2013	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to recognize it as a class action	It is alleged that Pelephone does not provide benefits in the same way to all its customers, thereby discriminating between customers whom Pelephone preferred, as the plaintiff claims, other customers, contrary to Pelephone's license and the law. In December 2019, a ruling was given rejecting the motion without an order for expenses. An appeal was subsequently filed with the High Court.	About 300

	Date	Sides	Court	Type of procedure	Details	Amount of the claim NIS million
e.	July 2014	Customer vs. Pelephone, three other cellular companies and additional respondents	District (Tel Aviv)	Monetary claim and a motion to recognize it as a class action	It was alleged that Pelephone, along with three other cellular companies, signed up subscribers to content services without their consent and illegally, thereby creating a "platform" that led the Accutech Group to charge tens of thousands of people for illegal content services.	About 100 in relation to the cellular companies and about 300 against all the defendants
f.	May 2015	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to recognize it as a class action	It is alleged that Pelephone does not offer the "Walla Mobile" routes to all its existing and joining customers who apply to switch to another route, in a manner that violates the license provisions that require equal treatment, thus misleading its customers. The proceedings in the case were merged with another case in view of the similarities between the proceedings. In December 2019, a judgment was rendered rejecting the motion without an order of expenses and an appeal was subsequently filed with the High Court.	The amount of the lawsuit is not specified, but in the application it is estimated at NIS million
g.	October 2016	Customer vs. Pelephone and Cellcom	District (Lod)	Monetary claim and a motion to be recognized as a class action	It is argued that the defendants do not allow their customers to take advantage of the full package abroad through discriminatory conditions acording to which the package can be redeemed for a very short period (between one week and one month only) when at the end of that period, the balance of the unused package expires and no refund is given for it. The parties are awaiting a Court ruling. On April 5, 2020 a judgment was rendered dismissing the motion**.** On June 29, 2020, an appeal was filed against the judgment by the petitioners for approval of the class action.	The amount of the lawsuit is not specified, but in the motion it is estimated at tens of millions of NIS
h.	April 2017	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to be recognized as a class action	It is alleged that the defendant unilaterally and without consent changed the terms of the agreement between itself and the applicant, and others like it, by allowing browsing to continue after exhausting the browsing volume included in the package instead of stopping it, contrary to Pelephone's notice on the issue	About 80
i.	October 2017	Customer vs. Pelephone and Partner	Central District	Monetary claim and a motion to be recognized as a class action	It is alleged that the defendants are illegally using the location data of their clients and thus violating the contract agreements with them, the operating licenses and various laws, including the Privacy Protection Law, 5741-1981.	About 850
j.	April 2018	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to be recognized as a class action	It is alleged that Pelephone markets and sells to its customers a repair service with a commitment for unreasonable periods of time, without there being an option in the agreement to cancel the transaction during the commitment period and / or transfer the service to another mobile device.	The amount of the claim is not specified

	Date	Sides	Court	Type of procedure	Details	Amount of the claim NIS million
k.	April 2019	Customer vs. Pelephone, Bezeq International and 6 other companies	Central District	Monetary claim and a motion to be recognized as a class action	It is claimed that the respondents do not inform their customers as required about the possible dangers of using the Internet and about the possibility of joining a free content filtering service, contrary to the provisions of the Communications Law. In addition, the respondents provide a website and offensive content filtering service that they claim is not effective enough. According to the petitioners, the aforesaid constitutes, *inter alia*, a violation of the provisions of the Consumer Protection Law, a violation of debts under the Torts Order, a breach of contract and unjust enrichment.	The amount of the lawsuit is not specified, but in the motion it is estimated at tens of millions of NIS
l.	November 2019	Customer vs. Pelephone Cellcom and Partner	District (Tel Aviv)	Monetary claim and a motion to be recognized as a class action	It is alleged that Pelephone charged its customers money in the past for third parties in respect of content services through the means of payment provided to Pelephone to pay for the cellular bill, in violation of the provisions of Pelephone's license and the provisions of the law.	About 400 (against each of the defendants)
m	January 2020	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to be recognized as a class action	It is alleged that Pelephone forces every customer who purchases from it, through the website or in the application on the mobile phone, a communication package abroad - which includes calls and / or Internet browsing, to give its consent to receive advertising messages from it.	The amount of the claim is not specified

3.16.2. Legal proceedings concluded during the reported period

	Date of filing the claim	Sides	Court	Type of procedure	Details	The original amount of the claim (NIS millions)
a.	February 2014	Customer against Pelephone	District (Tel Aviv)	Monetary claim together with a motion to recognize it as a class action	It is alleged that Pelephone acted in a manner that amounts to harassment of the general public by making repeated telephone inquiries aimed at recruiting customers. The causes of action are breach of statutory duty, negligence, invasion of privacy and lack of good faith in negotiations. In May 2019, a ruling was given rejecting the motion. In July 2019, an appeal against the ruling was filed in the High Court by the petitioner for approval of the class action. On June 24, 2020, a judgment was rendered by the High Court according to which, on the recommendation of the High Court, the appellant withdrew from the appeal and the appeal was dismissed.	The amount of the claim is not specified
b.	March 2018	Customer against Pelephone, Golan Telecom, Cellcom and Hamilton	Central District	Monetary claim together with a motion to recognize it as a class action	It was alleged that the defendants marketed and / or provided a mobile radio telephone service for cellular devices made by Xiaomi, from which it was not possible to call the emergency numbers in Israel. On July 26, 2020, a judgment was rendered approving a request for consented withdraw from the motion for approval of the class action and to dismiss the applicants' personal claim.	About 65 (The amount is against all the respondents and not just Pelephone, without division among the respondents)
c.	December 2016	Customer against Pelephone	District (Tel Aviv)	Monetary claim together with a motion to recognize it as a class action	It was alleged that due to a fire that broke out in one of the switching systems operated by Pelephone, the public was harmed on the grounds of breach of statutory duty, deception under the Consumer Protection Law, negligence and unjust enrichment and breach of good faith duties. On October 30, 2020, a ruling was issued confirming a settlement between the parties, in which Pelephone will offer a benefit in the form of 50,000 discount vouchers for the purchase of accessories for mobile phone use, for a total of NIS 30 each,	About 70

	Date of filing the claim	Sides	Court	Type of procedure	Details	The original amount of the claim (NIS millions)
					including VAT, with a cumulative value of up to NIS 1.5 million, and will also pay compensation to the representing plaintiffs and the plaintiffs' attorneys' fees in a total of approximately NIS 350.	
d.	November 2018	Customer against Pelephone	District (Tel Aviv)	Monetary claim together with a motion to recognize it as a class action	It is alleged that due to the disruptions that occurred in the Pelephone network, the defendant owes compensation to its customers due to breach of contract with its customers, as well as the license provisions and various laws, including the Communications Law. On February 3, 2021, a judgment was rendered confirming a settlement between it and the applicants in the two proceedings, which includes compensation to the relevant customers with benefits with a total value of NIS 1.4 million.	Approx. 200

3.17. Goals and business strategy

Pelephone's strategic goals are continued growth in its customer base while promoting a variety of packages and solutions to customers and promoting synergies with the Group's companies, continuing to develop innovation and network technologies and providing excellent service. Continued streamlining and improvement in the cost structure.

3.18. Expected development in the coming year

In 2021, a number of factors are expected to affect Pelephone's activity, the main ones being:

3.18.1. Continuing competition and increasing the value to the customer

Pelephone expects that in 2021 the transition of subscribers between the companies will continue, and that the competition will focus on increasing the value and volume of browsing to the customer in the packages offered to him.

3.18.2. Cellular network innovation and products

In 2021, Pelephone is expected to continue to promote a number of services and products that will enable increased revenue and image advantage over competitors: cyber and IoT services and continued focus on large device launches, at the same time as the implementation of the deployment plan of the 5G network.

3.18.3. Increasing service consumption by Pelephone subscribers

Pelephone expects that as a result of an increase in the volume of browsing included in the packages, the trend of increasing the consumption of data communication volume on the network will continue.

3.18.4. Digital transformation

In 2021, Pelephone is expected to continue to develop and expand its digital service and sales channels.

3.18.5. Synergies with the subsidiaries in the Group

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

3.18.6. 5G network

In 2021, Pelephone is expected to continue the deployment of the 5G network, and promote the marketing and sale of services based on this technology.

Pelephone's assessments regarding developments in the coming year presented in this section above are forward-looking information within its meaning in the Securities Law. These assessments are based, among other things, on the state of competition in the cellular field, the existing regulatory situation and the manner in which the new regulatory changes are implemented. These assessments may not materialize, or materialize in a materially different way than described above, depending, *inter alia*, on the structure of competition in the market, changes in the consumption habits of cellular customers, technological developments and regulation begun in the field.

3.19. Discussion of risk factors

The following are risk factors arising from the macroeconomic environment, the unique characteristics of the industry in which Pelephone operates, and risk factors unique to Pelephone.

3.19.1. Macroeconomic risk factors

3.19.1.1 Exposure to changes in exchange rates - Pelephone is exposed to risks due to changes in exchange rates as most purchases of end equipment, accessories, spare parts and infrastructure are made in US dollars, while Pelephone's income is in shekels. Erosion of the shekel against the dollar could hurt Pelephone's profitability if it is not possible to adjust selling prices in the short term.

3.19.1.2 Pandemic - at the beginning of 2020, an outbreak of the COVID-19 virus began worldwide, which is an incident with many consequences, including macroeconomic. Following the pandemic, many countries, including Israel, are taking significant steps in an attempt to prevent the spread of the virus, such as restrictions on civilian movement and gatherings, employment restrictions, transportation restrictions on passengers and goods, closing borders between countries and so on. As a result, the event and the actions taken as aforesaid have significant implications for many economies as well as for the capital markets in the world. During 2020, as a result of the COVID-19 crisis, there was a significant damage to revenue from migration services. Along with this decrease, Pelephone took extensive measures to reduce expenses, which partially offset the decrease in these revenues. As of the date of approval of these financial statements, Pelephone's working assumption regarding the continued spread of the COVID-19 pandemic is that measures to limit the spread of the virus will continue at varying intensities during 2021 along with a long and gradual recovery in aviation and international tourism. In accordance with and subject to the above assumptions, Pelephone anticipates that the impact of the COVID-19 pandemic on its operations will be primarily reflected in declining revenues from roaming services, as a result of the effects of the pandemic on aviation and international tourism, with no significant adverse effects in other areas of activity. At the same time, this is a variable incident that is not controlled by Pelephone, and therefore the continuation of the crisis or its exacerbation beyond Pelephone's assumptions as detailed above, as they occur, may have a material adverse effect on Pelephone's results. These effects may be reflected, *inter alia*, in the injury, in addition to the assessments as stated above, in income from roaming services. The prolongation or exacerbation of the crisis may also affect revenues from the sale of end equipment, employee availability, customer service and technician activity systems, supply chain and amounts and dates of the collection from customers.

3.19.2. Industry risk factors

3.19.2.1 Infrastructure investments and technological changes - the cellular market in Israel and around the world is characterized by significant capital investments in the deployment of infrastructure. Frequent technological changes in the field of infrastructure and end equipment, as well as the difficult struggle over various market segments, impose high costs on the companies operating in the market, which are forced to update their infrastructure technologies from time to time.

3.19.2.2 Competition - the cellular market in Israel is characterized by saturation in the penetration rate, fierce competition and a high number of operators, and is also exposed to effects as a result of technological and regulatory developments. The costs of setting up, maintaining and operating the cellular network in relation to the number of subscribers are expected to be higher in Pelephone in light of the fact that it does not operate in the network sharing model. The end equipment market is also characterized by fierce competition between cellular operators and in front of stores that sell end equipment in parallel imports.

3.19.2.3 Customer credit - sales of end equipment are mostly made by granting credit. The vast majority of this credit that is not covered by collateral is at risk. It should be noted, however, that the credit is spread among a large number of customers and Pelephone has efficient and experienced collection mechanisms.

3.19.2.4 Regulatory developments - in the field of Pelephone's activities, there is a trend of legislation and standards in connection with issues such as increasing competition, setting rates, the environment, product warranty and ways of repair thereof, regulating interconnectivity rates and more. The regulatory intervention in the field of activity may materially affect the structure of competition and the operating costs of Pelephone.

3.19.2.5 Electromagnetic radiation - Pelephone operates hundreds of transmission facilities and sells end equipment that emits electromagnetic radiation (see section 3.13). Pelephone works to ensure that the levels of radiation emitted from the transmission facilities and end equipment sold by it do not exceed the permissible radiation levels according to the guidelines of the Ministry of Environmental Protection (determined in accordance with international standards). Although Pelephone operates in accordance with the guidelines of the Ministry of Environmental Protection, if it turns out that there are health risks or if there are deviations from the radiation facilities at the transmission sites or end equipment, which has a health risk, this may have an adverse effect due to reduced use of Pelephone services, difficulty in renting sites, claims for compensation for bodily and property damages to a considerable extent and attempts to implement indemnity deeds deposited by planning institutions in connection with Article 197 of the Planning and Construction Law. Pelephone's third party insurance policies do not currently cover insurance for electromagnetic radiation.

3.19.2.6 Website licensing - construction and operation of cellular antennas, requires building permits from the various planning and construction committees, a procedure that requires, among other things, obtaining a number of approvals from government bodies and series bodies. For a list of the difficulties encountered by Pelephone in setting up and licensing websites, see section**Error! Reference source not found.**. These difficulties can impair the quality of the existing network and even more so the deployment of a new network.

3.19.2.7 Serious faults in the information systems and engineering systems - Pelephone provides its services through various infrastructure systems, including, among others, switches, data transmission and access transmission networks, cables, computer systems, physical infrastructure and more (“the systems"). Pelephone businesses have a high dependence on these systems. Some Pelephone systems have backup, but at the same time, in the event of damage to some or all of the above systems, either due to a large-scale technical malfunction, due to a natural disaster (such as an earthquake, fire, etc.), or due to damage to physical infrastructure and due to malicious damage (such as the introduction of viruses and cyber attacks as detailed below), there may be significant difficulties in providing services, including in the event that Pelephone is unable to return the systems to service quickly.

3.19.2.8 Information security, customer data protection and cyber risks - as a leading cellular company that provides service to hundreds of thousands of customers, Pelephone is a target for cyber attacks, which aim to harm the use of information systems or the information itself. This type of assault activity or intrusion event may cause business disruption, information / money theft, damage to reputation, damage to systems and information leakage.

Pelephone is experiencing cyber attacks handled by it. Pelephone operates information security systems to protect against the intrusion of an unauthorized person into the network and / or critical systems. Pelephone monitors the implementation of its protection policy, which includes an examination of its level of effectiveness and readiness. In this context, Pelephone performs tests and assault drills for various scenarios (including through external companies that specialize in the field).

Despite Pelephone's investments in measures to reduce such risks, it is unable to guarantee that these measures will succeed in preventing damage and / or disruption to the systems and information related to them.

3.19.2.9 State of emergency - in times of emergency, certain provisions of the legislation and provisions of the mobile radio telephone license allow persons authorized under the law to take steps required to ensure state security and / or public safety, including: charging Pelephone (as a mobile radio telephone license holder) to give service to the security forces, comandeering of engineering equipment and facilities of Pelephone, and even taking control of the system.

3.19.2.10 Lack of frequencies - for details on the lack of frequencies, see section 3.8.2.1. In many cases, frequency allocation is carried out through tender procedures, in a manner that may increase the costs of purchasing the frequencies and place the cellular companies that do not receive the allocation as part of the tender at risk of competitive inferiority.

3.19.3. Risk factors of Pelephone

3.19.3.1 Property risks and liabilities - Pelephone is exposed to various property risks and liabilities. Pelephone is assisted by an external insurance consultant who is an expert in the field. Pelephone has insurance policies that cover the risks that are acceptable to them, Pelephone is subject to the limitations of the terms of the policies, such as: various property insurance, various liability insurance, loss of profits, third-party liability insurance and officers' insurance. However, Pelephone's insurance policies do not cover certain types of risks, including certain malfunctions caused by negligence or human error, radiation risks, terrorism and more.

3.19.3.2 Serious faults in the cellular network - Pelephone's cellular network is spread throughout Israel through the network's core sites, antenna sites and other systems. Pelephone’s sytems are completely dependent on these systems, which are sometimes, temporarily, in a state of partial survival. Malicious damage or malfunction on a large scale can adversely affect Pelephone’s business and its results.

3.19.3.3 Damage caused by *force majeure*, war, disaster - damage to the switching farms and / or servers on which Pelephone concentrates its core activity, may adversely affect Pelephone's business and its results.

3.19.3.4 Epidemic malfunctions in devices - various exposures resulting from Pelephone's liability as an importer due to manufacturer malfunctions in devices that will not be supported by the manufacturers.

3.19.3.5 Legal proceedings - Pelephone is a party to legal proceedings, including class actions, which may result in a charge of substantial amounts, which cannot be estimated, and no provision has been made for some of them in Pelephone’s financial statements. These class actions can reach large sums, as a substantial portion of the state's residents are consumers of Pelephone, and a claim relating to a small damage to a single consumer may become a material claim to Pelephone if it is recognized as a class action applicable to all or a significant portion of consumers.

3.19.3.6 Significant suppliers and customers - for agreements with significant suppliers and customers, see sections 3.10 and 3.15. Some of Pelephone's agreements, including with its key customers, are timed. There is no certainty that these agreements will be renewed at the end of their term or that options granted to customers to extend them will be exercised. In addition, Pelephone may be dependent on certain suppliers as specified in the section3.10.2.

3.19.3.7 Labor relations - Pelephone has a collective agreement with the Histadrut and the Employees’ committee, which effects most of its workers. The collective agreement may reduce administrative flexibility and impose additional costs on Pelephone (see section 3.9.4). In addition, the implementation of personnel-related plans may cause unrest in labor relations and harm to Pelephone's ongoing operations.

3.19.3.8 Streamlining procedures - as described in section 1.8. Pelephone implements streamlining plans that involve, among other things, the management of management resources and organizational changes and the reduction of the workforce, in parallel with the management of significant infrastructure and other projects. Streamlining procedures, by nature, carry with them the risks of loss of knowledge, turnover of employees, shift of managerial focus, etc.

3.19.3.9 Impairment of Pelephone properties- in accordance with accounting standards, Pelephone conducts a periodic examination of the impairment of assets in respect of which indications of impairment have been identified. For details on the risk factor relating to the recognition of impairment losses, see section2.20.12.

3.19.3.10 Frequency ranges - the 700, range 850, range 1800, range 2100, range 2600 and 3500 MHz ranges. The frequencies are exposed to interruptions that may affect the quality of service of the networks operated by Pelephone. Among the other reasons that may cause interruptions, it should be noted that the 850 range is also used for terrestrial television broadcasts, so that television stations broadcasting in the Middle East in the same range of frequencies cause interference on Pelephon's UMTS / HSPAAt 850 MHz network. In addition, the Jordanian networks also use the same frequency range of 2100 MHz that Pelephone uses and in light of the limited cooperation between the operators in Jordan and Pelephone, this may have an effect. In addition, Pelephone must avoid interfering with satellite broadcasts made at several points in Israel at 3500 frequencies, which limits the operation of 5G services around these points.

For details on the implications of switching frequencies in the first giga field, see section 3.8.2.3.

3.19.3.11 Maintaining a sufficient cash flow - Pelephone must maintain a sufficient cash flow in order to meet its long-term business plan. The lack of sufficient cash flow may adversely affect Pelephone's business and its ability to make large-scale online investments, and may make it difficult for it to cope with competitive threats in the field.

Below is a ranking of the impact of the risk factors described above on Pelephone's activities as estimated by Pelephone's Management. It should be noted that Pelephone's assessments below regarding the degree of influence of the risk factor reflect the degree of influence of the risk factor in assuming the materialization of the risk factor, and the aforesaid does not express an assessment or give weight to such chances of materialization. The order in which the risk factors appear above and below is not necessarily according to the degree of risk.

Risk factors summary table - cellular telephony

	The extent of the impact of the risk factor on Pelephone's operations as a whole		
	High effect	**Medium effect**	**Small effect**
Macro risks			
Exposure to changes in exchange rates		X	
Pandemic	X		
Industry risks			
Infrastructure investments and technological changes	X		
Competition	X		
Customer credit		X	
Regulatory developments	X		
Electromagnetic radiation			X
Website licensing		X	
Serious malfunctions in information systems and engineering systems	X		
Information security, customer data protection and cyber risks	X		
Economic emergency	X		
Lack of frequencies		X	
Risk factors of Pelephone			
Property risks and liabilities			X
Serious malfunctions in the cellular network	X		
Damage due to *force majeure*, war, disaster	X		
Epidemic malfunctions in devices			X
Legal proceedings		X	

Substantial suppliers and customers		X	
Labor relations		X	
Streamlining procedures		X	
Impairment of Pelephone's assets			X
Frequency ranges	X		
Maintaining sufficient cash flow			X

The information contained in section 3.19 and Pelephone's assessments regarding the effect of the risk factors on Pelephone's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the Ministry of Communications, Pelephone's assessments of the market situation and the structure of competition in it and regarding possible developments in the Israeli market and economy. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

4. Bezeq International - Internet, international communications and network endpoint services

4.1. General

4.1.1. The structure of the field of activity and changes that apply to it

Bezeq International operates in a number of key areas: the provision of Internet access services (ISP); International telephony services; Interior telephony services; network endpoint services; as well as providing ICT solutions (information and communication systems), DATA (data communication) and PBX services (switchboards).

Bezeq International's international telephone services, similar to the services of other international operators, are provided based on Bezeq and Hot's interior networks, as well as on the cellular networks, for the purpose of connecting the subscriber to the international hub.

Regarding regulatory changes in the Internet services market, which are expected to materially affect Bezeq International's activity in this market, see section 4.11.5.4.

4.1.2. Legislative and regulatory restrictions that apply to Bezeq International

Most of Bezeq International's areas of activity are regulated mainly by the Communications Law and regulations thereunder, and the terms of the license granted to Bezeq International (see section 4.11).

Regarding major developments in the regulation applicable to Bezeq International, see section 4.11.5.

4.1.3. Changes in the scope of activity in the field and its profitability

For data on changes in the scope of Bezeq International's operations and its profitability, see sections1.5.4.3 and-4.3.

4.1.4. Developments in the market and in customer characteristics

The international call market in Israel has been characterized in recent years by a decrease in the number of call minutes (inbound and outbound), mainly due to the service packages offered by the cellular companies, which include international call minutes and a multiplicity of free applications that allow calls over the Internet. The erosion trend in the international call market continued.

In the Internet access market, there was an increase in demand for Internet services in 2020. This is probably due to the consequences of the COVID-19 virus crisis, which led to an increase in the volume of distance learning and work.

4.1.5. The main barriers to entry and exit

4.1.5.1 The main barriers to entry into the international call market are the need to obtain a license under the Communications Law and make investments in infrastructure (the volume of investments required in infrastructure is lower than the investments in NIO or cellular infrastructure), affected by frequent technological changes. In IPV technology in this area, the impact of these barriers is significantly reduced.

4.1.5.2 The main barrier to entry into the DATA and Internet services market is the need for infrastructure investments (international capacity, Internet access) and a wide range of services.

4.1.5.3 The main barriers to exit from these markets stem from long-term and binding agreements with infrastructure providers and from investments that require a long time to return. In addition, Bezeq International is committed to providing service to its customers during the contract period with them.

4.1.6. Substitutes for Bezeq International products and the structure of competition in the international call market and changes that apply to it

In the international call market - the use of VoIP technology, the transfer of international calls over the Internet to other users of this technology, as well as to the users of the TDM networks, through the use of software products (such as Skype, WhatsApp or Zoom) and in the services of telecommunications providers abroad, as well as the attractive rates of use of these services (including the absence of usage fees) lead to a continuous increase in the number of users, and as a result - to harm to Bezeq International's revenues. At the same time, there are currently more than ten international operators, licensed to provide international Bezeq services by the Ministry of Communications.

4.1.7. The structure of competition in the Internet market and the changes that apply to it

In the field of Internet access services (ISP), diverse licenses have been provided so far to provide access services to 80 companies, who may also provide, *inter alia*, International operator services.

For more details regarding competition in the field of activity, see section 4.6.

4.2. Products and services

The following is a list of Bezeq International's main products and services:

4.2.1. Internet services

In the field of Internet services, Bezeq International provides: **Internet access services** (ISP) for private and business customers, including the provision of required end equipment and support for it based on DSL infrastructure, transmissions or cables, and a service that includes Bezeq's Internet access infrastructure (within the wholesale market); **Hosting services** - web hosting services and servers in a dedicated facility, including value-added services (such as monitoring and control); **Information security services**, Internet connection and LAN network security services, using required end equipment or software, including monitoring; **Data services** that include IP-based international data communications solutions for business customers, globally deployed; **and Wi-Fi access services,** including in public complexes (Hotspot); Bezeq International also markets packages that include the Sting TV brand of the DBS company - a television services platform based on the Internet (along with Internet access services), and in addition, DBS markets the Internet access services of Bezeq International. The packages are subject to the “detachability” obligation (see section 1.7.2.2).

Bezeq International provides the above-mentioned Internet services mainly through a fully and exclusively owned underwater cable between Israel and Italy (JONAH) launched in December 2011. Among the ISP providers operating in Israel, Bezeq International is the only one that owns an underwater cable. The ownership of the underwater cable frees Bezeq International from its dependence on infrastructure providers, and also enables it to offer its customers better quality browsing performance.

4.2.2. VOICE services (telephony)

In the field of VOICE services, Bezeq International provides: Direct international dial-up services (IDD) to business and private customers; Free international dial-up service for business customers; international calls routing and termination services (Hubbing) - Transferring international calls between foreign communication providers (world-world); Calling card service, which allows dialing from Israel to abroad and from abroad to Israel, on prepaid and postpaid routes, and the 1809 service, which allows dialing from Israel to abroad. In addition, Bezeq International provides interior telephony services.

4.2.3. International data Services

Providing international data communication solutions for business customers, including global deployment, according to customer needs.

The services are provided through Bezeq International's underwater cable and the optical cables deployed from Israel to Europe, in which Bezeq International has long-term use rights, as well as through its business partnerships with telecommunications providers such as British Telecom, which provide its customers with global network services.

In addition to the above services, Bezeq International offers holders of licenses to provide international Bezeq services and Internet access licenses, international capacity (in the form of rent, or purchase of indefeasible use rights), based on Bezeq International's underwater cable and use rights in continental Europe and other international networks.

4.2.4. ICT solutions for business customers

Bezeq International provides ICT (information and communication systems) solutions to business customers. The ICT solutions for the customer includes extensive communication services that include server and website hosting services, maintenance and technical support services, networking and system services, security & risk management solutions, IP-based managed services, Cloud computing services, online backup services and equipment sales. Bezeq International adopts a broad customer service model, with one contact vis-à-vis the customer and it takes comprehensive responsibility for the entire service ("one supplier, one responsibility").

PBX Services (swithcboards)

Bezeq International markets and maintains communication systems that include exchanges, telephony networks and IP communications, mainly for its business customers. As part of the service contracts, Bezeq International provides maintenance services from a variety of PBX manufacturers. The services are provided to lobbies, exchanges and network terminals (endpoints), for extensions intended to be used on both outbound and inbound lines.

4.3. Revenue

The following are data regarding Bezeq International's revenues (in NIS million):

	2020	2019	2018
Internet services	596	632	659
Rate of total Bezeq International revenues	46.89%	47.23%	47.35%
VOICE and Business Communication services (PBX, ICT, DATA)	675	707	732
Rate of total Bezeq International revenues	53.11%	52.77%	52.65%
Total revenue	**1,271**	**1,339**	**1,391**

4.4. Customers

Bezeq International has no dependence on a single customer, and has no customer whose revenues constitute 10% or more of its total revenues.

Below are data about the distributioin of revenue from private and business customers (NIS millions)[56]:

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

Regarding Bezeq International customers and their characteristics, the diverse consumption characteristics for purchasing Internet packages among the public have led to a certain percentage of customers purchasing an ISP service from more than one ISP when in practice they use the services of only one ISP. On September 10, 2020, the Ministry of Communications wrote to the operators in a letter in which it raises concerns that some subscribers to Internet services or other services, such as an email box, do not use them and are not even aware of it. The Ministry recommends that operators act to inform and stop charging subscribers who do not use these services, and also requests periodic reports in the matter, during the next 6 months. It was also stated that the Ministry will consider in the future whether to establish binding provisions in the matter, in case proactive actions will not lead to a significant reduction in this matter. Therefore, on November 8, 2020 another letter was received from the Ministry of Communications, according to which at the

56 The data are after changing the classification of small customers (SOHO) from private customers to business customers carried out in 2019 (and also applied to 2018 and 2017 data).

next reporting point (set for December 17, 2020) the data reported to the Ministry by the media operators will reflect the reduction of the phenomenon most significantly, that reference should be made at this time to the question of how the licensee acts to prevent recurrence of the phenomenon, and, as noted in his previous letter, that as long as the phenomenon is not significantly reduced, the Ministry will take various actions, including the determination of binding provisions in this matter. Bezeq International is working to reduce the phenomenon while addressing its customers in accordance with what is stated in the letters.

As part of Bezeq International's preparations to operate in the outline of notifying and treating customers who pay it by virtue of an agreement and do not use the ISP services for an extended period and further to the Ministry of Communications' recommendation as stated above, an up-to-date valuation of Bezeq International was performed. Regarding the valuation, see Note 11.6 to the 2020 statements. Also, in this regard, see two Bezeq immediate reports from Octoebr 30, 2020 (including regarding a request for approval of a class action in this context) as well as another immediate report from Bezeq dated November 8, 2020. The above reports are included in this statement by way of reference. Regarding motions for approval of class actions in this matter that were filed against Bezeq International, see section 4.12.

4.5. Marketing, distribution and service

Bezeq International has sales channels for the private market, which include telephone recruitment and retention centers, nationally-deployed direct sales system, technical support systems and customer service, as well as a system of distribution channels, which includes external centers for resellers and dealers. The sales channels for the business market include customer recruitment centers and service centers and solutions for businesses and business customer managers. In addition, Bezeq International's services are also sold by Bezeq, as part of the marketing of basket of joint services - "Reverse Bundle" (see section1.7.2.2), and Bezeq International services are sold by DBS, as part of the marketing of "Triple" packages (see section4.2.1).

4.6. Competition

4.6.1. ISP Services

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

Bezeq International estimates its market share in the field of Internet services as of December 31, 2020 at about 34%[57].

4.6.1.2 Competition in 2020 is characterized by erosion in rates.

4.6.1.3 Developments in 2020:

a) Continued trend of selling service baskets, especially against the backgroundThe activity of a wholesale sales model (supplier + infrastructure) in 2020.

b) Competitors' focus on promoting browsing services at high browsing rates. Some of the competitors have launched browsing packages at a particularly high browsing rate, among other things through fiber-optic infrastructure deployed thereby.

c) There is growing competition between Internet access providers as part of reverse bundle packages.

d) Rise in the trend of selling "Triple" packages by competitors, which include, in addition to the television services, a provider and Internet infrastructure in a non-detachable basket of services.

e) Regarding the decision of the Minister of Communications dated July 20, 2020 to adopt (with changes) the recommendation of the inter-ministerial team regarding the deployment of ultra-broadband landline infrastructure in Israel (See sections2.7.2,2.16.12) - the deployment of fiber by Bezeq is expected to improve Bezeq International's competitiveness and to enable it to increase revenues from its customers.

4.6.2. International telephony services

57 Bezeq International's assessment of its market share in the field of Internet access services is based on an external telephone survey conducted for Bezeq, and is not based on significant data held by Bezeq to date.

4.6.2.1 As of the end of 2020, about ten companies are operating in the market (among them Bezeq International, Cellcom, Partner, Golan Telecom and Hot Mobile).

Bezeq International estimates that its market share in the field of outgoing calls from customers as of December 31, 2020 is approximately 22.3%[58].

4.6.2.2 General characteristics of the competition in 2020:

a) In 2020, the number of call minutes made through international telephony continued to decline, among other things, due to an increase in the use of various applications for making calls, as well as due to the service packages offered by cellular companies, which include international call minutes, including an increase in the use of services that enable online calls and meetings, while reducing the use of international telephony services.

b) Competition is focused on defined segments of the population who are more active in this field.

c) The product is a commodity (no brand importance).

4.6.3. Communication solutions for the business segment

4.6.3.1 In the field of ICT - Bezeq International faces competitors such as Bynet, Taldor, IBM and more. In 2020, Bezeq International continued to establish its position in the ICT market.

4.6.3.2 Network endpoint services - the traditional central area is characterized by a large number of competitors and fierce competition, which has led to the erosion of service prices.

4.6.4. Bezeq International promotes its business by emphasizing the distinction from its competitors, which stems from having its own international infrastructure (JONAH cable) that provides quality browsing performance, as well as its leading customer service.

4.6.5. The fact that Bezeq International does not own interior access infrastructures is a competitive disadvantage compared to competitors that control such infrastructures.

4.7. Fixed assets and facilities

Bezeq International's fixed assets include switching and Internet equipment, underwater cable, central equipment and routers for rent, office equipment, computers, software licensing, and leased improvements. Bezeq International has five server farms throughout Israel.

Bezeq International has SoftSwitch switches from the Dialogic company. These switches are used to route Bezeq International's VOICE movement. Value-added services, including calling cards, are based on a smart (IN) system. Bezeq International is working to upgrade the CRM (customer management) system to an advanced platform in the Salesforce cloud together with Pelephone and DBS. Bezeq International has dependence on the Salesforce system and services, due to their importance for managing relationships with its customers. System failures or the cessation of services by this provider are likely to cause operational difficulty until the matter is rectified or the system / provider are replaced which may take a long time.

Bezeq International's technological infrastructures that support the voice, data and the Internet is deployed on a number of sites, in Israel and abroad, among others, to ensure, when necessary, high survivability for the provision of services.

Bezeq International has long-term agreements for the rent of the two main buildings in which it is housed. For one of the buildings, the lease period is until March 2024, with a number of options for leaving for Bezeq International during the said period. The lease period in the other building is until December 2021 (with three equal options for extension until 2027). Bezeq International has additional lease agreements in connection with warehouses (including the logistics center), server farms, and buildings in which call centers are used for its operations.

4.8. Human capital

Below are details about the number of Bezeq employees International in years2019 and 2020:

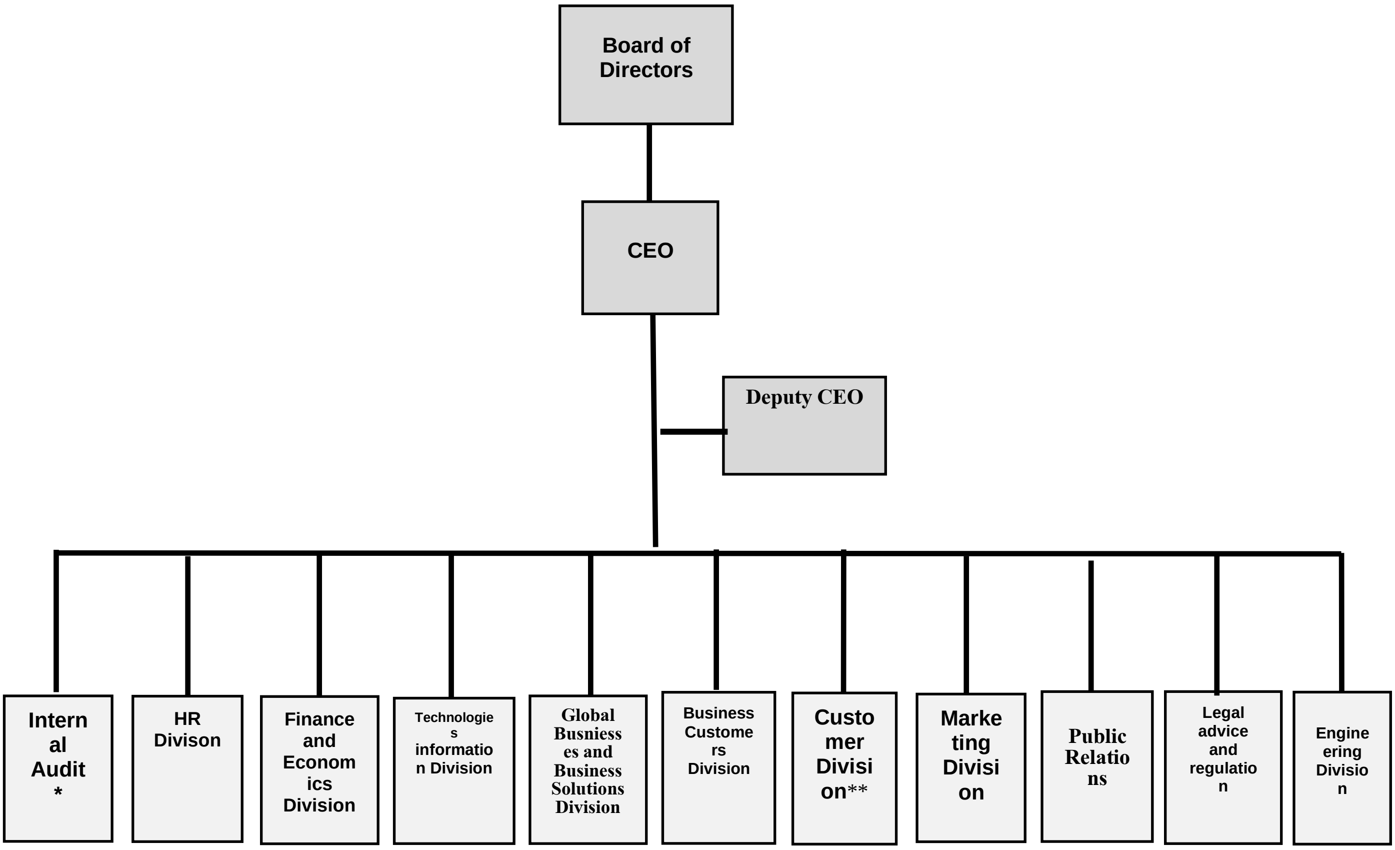
58 Based on publications from the Ministry of Communications regarding the number of minutes spent in the third quarter of 2020.

	31.12.2020	12/31/2019
Administrative employees	827	863
Service and sales representatives	484	556
Total	**1,311**	**1,419**

The number of employees included in the table includes employees employed part-time. Total jobs[59] Bezeq International as of December 31, 2020 was 1,228 compared to 1,329 as of December 31, 2019.

Organizational structure

The following is a diagram of Bezeq International's organizational structure as of the date of the report:



(*) The internal auditor is a Pelephone employee.

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

As part of the implementation of the synergy processes with the Group's subsidiaries, Bezeq International's CEO, Mr. Ran Guron, also serves as the CEO of Pelephone and DBS. In addition, most of the VPs who serve on Pelephone also serve as VPs at DBS and Bezeq International.

On July 11, 2019, Bezeq International signed a collective agreement between it and the Histadrut and the Employees' representation, which includes streamlining and synergy procedures for the period up to December 31, 2021. According to Bezeq International's plan and in accordance with the agreement, Bezeq International will, among other things, reduce the employment of up to 325 employees (of whom 150 are permanent, some as part of a voluntary retirement), in addition to the option of not recruiting employees instead of employees terminating their employment. The agreement also includes providing a one-time bonus to employees who will not be included in the retirement plan. The estimated cost of the agreement is about NIS 60 million, assuming the full realization of Bezeq International's rights to such stramlining and the existence of conditions for the provision of additional economic benefits to employees.

Regarding streamlining processes and internal organizational changes at Bezeq International, Pelephone and DBS, see section 1.8.

On November 28, 2019, Bezeq International received a notice from the chairman of the Histadrut and the Bezeq International Employees' Committee that included a demand for collective bargaining

59 Total monthly working hours divided by the monthly working hours quota.

with the workers' representatives against the backdrop of the transaction to acquire control of Bezeq.

On October 11, 2020, Bezeq International was notified by the New Histadrut - the Internet and High-Tech Cellular Workers' Union, of a declaration of a labor dispute in accordance with the Labor Disputes Settlement Law, 5717-1957 and a strike from October 26, 2020 onwards (“**the Notice**"). According to the Notice, the issues in the dispute are: Unilateral intention to make changes in the communications market and allow Bezeq to enter the field of ISP services and serve as an Internet provider, in a manner that could harm Bezeq International to the point of real closure and layoffs, changes in working conditions, rights, status, job security and organizational strength. The demands of the employees’ representatives are to refrain from unilateral steps and to present them to finished facts regarding those changes, as well as a demand for consultations and negotiations for the purpose of signing a special collective agreement regarding employees’ rights in light of said changes and their consequences, including a series of safety nets..

On December 28, 2020, Bezeq International was notified by the New Histadrut - the Internet and High-Tech Cellular Workers' Union, of a declaration of a labor dispute in accordance with the Labor Disputes Resolution Law, 5717-1957 and a strike from January 10, 2021 onwards ("**The Notice**"). According to the Notice, the issues in the dispute are: Bezeq International intends to close the dining room used by Bezeq International employees, for the purpose of using the area for the business activities of Bezeq International.

4.9. Suppliers

4.9.1. Foreign operators

Bezeq International has collaborations with about 200 foreign operators, as part of which Bezeq International forwards and receives international telephone calls from these operators (including calls leaving Israel, entering Israel, and calls between various destinations outside Israel) to about 240 destinations worldwide.

4.9.2. Capacity providers

Most of the interior capacity used by it for the purpose of providing its services is purchased by Bezeq International from Bezeq.

Most of the international capacity that Bezeq International uses is transmitted through the underwater cable it owns. As a backup, Bezeq International uses the capacity purchased from Med Nautilus and Cyprus Telecommunications Authority (CYTA).

As part of its contract with Med Nautilus, Bezeq International acquired the indefeasible right of use, in an indefinite and non-specific attribution, in the communication capacity transmitted through the underwater cable system operated by Med Nautilus between Israel and Europe. The use periods were extended until July 2030. For the said use rights, Bezeq International paid one-time payments, close to the date of commencement of the use of the capacity.

As part of her engagement with CYTA, Bezeq International has acquired the indefeasible right of use, in an indefinite and non-specific attribution, in the communication capacity transmitted through the submarine cable system operated by CYTA between Cyprus and Europe. The period of use is at least until May 2022, with the possibility of extending the period.

4.10. Taxation

See Note 7 to the 2020 statements.

4.11. Restrictions and supervision of Bezeq International's activities

4.11.1. Restrictions by virtue of laws

According to the Communications Law, performing Bezeq operations and providing Bezeq services, including international Bezeq services and Internet access services, require a license from the Minister of Communications. The Minister is authorized to change license terms, add to them or derogate from them, while considering, among other things, government policy in the field of Bezeq, considerations in the public interest, adjusting the licensee to provide services, the license contribution to competition in the field of Bezeq and its level of service.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions due to various violations of the provisions of the law and of orders and provisions issued under it, as well as due to violation of conditions in the license.

4.11.2. Licenses

Bezeq International has a unified general license for the provision of Bezeq services (the "Unified License"), which is valid until May 2, 2025.

The following are the main instructions from the unified license:

a) In certain circumstances, the Minister may change the terms of the license, add to them or detract from them, and in some cases even revoke it.

b) The license is not transferable and includes restrictions on the purchase or transfer (including by way of lien) directly or indirectly of control of 10% or more of any means of control in Bezeq International, including the lien of such means of control, unless prior consent of the Minister.

c) Bezeq International must provide an interconnectivity service on equal terms to any other operator and must avoid any discrimination in performing interconnectivity.

d) Bezeq International must refrain from preferring the provision of infrastructure services to a licensee who is an affiliated company (as defined in the license) over another licensee.

e) Bezeq International may not sell, rent, or mortgage property from the properties used to carry out the license without the consent of the Minister of Communications, except for certain exceptions set forth in the license.

f) In times of emergency, a person authorized to do so by law has the authority to give Bezeq International various instructions regarding the manner in which it operates and / or the manner in which the services are provided.

g) The license specifies the types of payments that Bezeq International may charge its subscribers for Bezeq services, and the reports it must provide to the Ministry of Communications. The license also stipulates the authority of the Minister to intervene in rates, in some cases.

h) The license requires Bezeq International to have a minimum level of service.

In accordance with the requirement of the Ministry of Communications, Bezeq International provides a bank guarantee, in the amount of NIS 2 million, to fulfill the conditions of the unified license.

4.11.3. On July 9, 2014, the Minister of Communications granted Bezeq International the powers related to real estate, which are listed in Chapter F of the Communications Law, including entering the land for the purpose of laying a network and maintaining it (see section 2.16.5).

4.11.4. Payments for interconnectivity

In the matter of interconnectivity fees paid to the NIO and the cellular operator, see section 1.7.4.1.

4.11.5. Major regulatory developments

4.11.5.1 For possible changes in the communications market that also affect Bezeq International following the Competition Expansion Policy document, see section 2.16.4.1.

4.11.5.2 For decisions made in connection with the "wholesale market" which also have implications for the field of activity, see section 2.16.4.

4.11.5.3 Regarding the decision of the Ministry of Communications regarding the elimination of the need to split the "reverse bundle", see section 1.7.2.2.

4.11.5.4 Also, regarding the publication of a hearing to examine the separation between a broadband infrastructure service and an Internet access service (ISP), see section1.7.2.2. Bezeq International is studying the details of the hearing and examining its possible effects on its business and its ways of operation.

4.12. Legal proceedings[60]

60 For material reporting and material thresholds, see section2.18.

During the day-to-day business, lawsuits were filed against Bezeq International, including motions for approval of class actions.

4.12.1. Pending and current legal proceedings

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
a.	January 2015	Client against Bezeq International	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is argued that the "Moreshet" content filtering service provided by Bezeq International to paid customers in the religious and traditional segments does not protect users from offensive content, and that as a result of their exposure to this content, they were harmed. In addition, it was argued that Bezeq International should compensate customers who purchased content filtering services and were not offered the basic filtering service, which is provided at no additional charge. In April 2018, the Court partially approved the lawsuit as a class action (the part concerning additional compensation in the amount of NIS 1,000, for each of the school students who use the website filtering software was struck out).	About 61, plus NIS 1,000 per group member (each student in the Israeli education system)
b.	March 2016	Client against Bezeq International and other communications companies	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International sells its customers Internet browsing speeds, even though the infrastructure at their place of residence does not allow them to reach this speed. In January 2021, the Court upheld the claim as a class action.	Unspecified
c.	April 2019	Client against Bezeq International and other communications companies	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged that Bezeq International does not inform its customers as required about the possible dangers of using the Internet and about the possibility of joining a free content filtering service, in violation of the provisions of the Communications Law. In addition, Bezeq International provides a website filtering service and offensive content that the applicants claim is not sufficiently effective.	Unspecified
d.	October 2020	Client against Bezeq International	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International charges its customers payments for services that it does not provide to them, ostensibly knowing that the customer has replaced the Internet provider and disconnected from Bezeq International. On November 5, 2020, Bezeq International received another motion for approval of a class action in the same matter.	Unspecified
e.	November 2020	Client against Bezeq International	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International charges fees for the provision of 'antivirus service' and 'backup service' without actually being provided, when according to the claim it does not disclose to customers when concluding the contract that they must initiate special operations including installation of special software at the time of the conclusion of the contract and not at the time of the actual provision of the service.	Unspecified

Regarding two motions for disclosure and review of documents before filing derivative claims under Article 198A of the Companies Law against Bezeq and against Bezeq International, from October 2020 regarding "dormant subscribers" and from November 2020 regarding asset balances in Bezeq International's books - see section 2.18.1.

Legal proceedings completed during the reportedperiod or until the date of publication of the report

Date	Sides	Court	Type of procedure	Details	Claim amount

						(NIS millions)
a.	June 2015	Client against Bezeq International (The Israeli Consumer Council replaced the applicant as a class action plaintiff)	District (Tel Aviv)	Monetary claim together with a motion to recognize it as a class action	It is claimed that excessive collection was made from Internet service customers. On July 25, 2019, the Court approved the lawsuit as a class action and ruled that the definition of the Group would be any customer of Bezeq International who entered into an agreement with it for a fixed period and which after the fixed period Bezeq International charged a higher price for the services provided under the agreement, this was done without receiving prior written notice in accordance with the Consumer Protection Law, and without giving Bezeq International consent to receive notifications and updates by e-mail, in the seven years prior to the submission of the application for approval and until today. The causes of action for which the motion was approved are a breach of statutory duty as well as unjust enrichment. On October 6, 2019, Bezeq filed a motion for leave to appeal the approval decision, the hearing of which is scheduled for July 13, 2020. On August 11, 2020, a hearing was held in the High Court on the motion for leave to appeal filed by Bezeq International regarding the approval of the claim as a class action. During the hearing, the High Court recommended that the plaintiff agree to accept the motion for leave to appeal and to reject the motion for approval of the class action. On August 25, 2020, a ruling was given according to which the motion for leave to appeal was granted and the motion for approval was denied, following the recommendation of the High Court and the consent of the plaintiff.	It was not estimated, but it was stated that it exceeds NIS 3 million

4.13. Goals, business strategy and development prospects

Bezeq International has set itself the goal of continuing to lead the Internet-based services market in Israel for private and business customers, while preserving revenues in the traditional markets:

4.13.1. Dealing with changes in the Internet market, deepening and focusing on wholesale market packages and fiber-based services, along with managing the decline in retail market subscribers.

4.13.2. Deepening and expanding the basket of cloud-based solutions.

4.13.3. Establishing Bezeq International's status as one of the leading ICT players in Israel, and entering large-scale projects in the security and public sectors.

4.13.4. Increasing customer satisfaction, by deepening and expanding service openings (automated services, social networks, etc.).

4.13.5. Straemlining and synergy with the subsidiaries in the Group.

4.13.6. Deepening synergy processes with the other subsidiaries in the Group. For details, see section1.8.

The objectives set out above may not materialize, or materialize in part, due to regulatory changes that may impair Bezeq International's ability to meet existing or changing market requirements, as well as due to all other risk factors listed below.

4.14. Discussion of risk factors

The following is a description of the risk factors arising from the macroeconomic environment, the unique characteristics of the industry in which Bezeq International operates, and risk factors unique to Bezeq International:

4.14.1. Competition

For the effect of competition on Bezeq International's business, see section 4.6.

4.14.2. Frequent technological changes and investments in infrastructure

Bezeq International's areas of activity are characterized by frequent technological changes. The development of technologies that constitute attractive alternatives to some of Bezeq International's products (such as Skype, WhatsApp or Zoom) may materially impair Bezeq International's operations. Also, technological developments require frequent investments in infrastructure. See sections 4.1.5.2 and 4.1.6.

4.14.3. Governmental supervision and regulation

Regarding the applicability of the provisions of the law and the licensing policy and their effect on Bezeq International, see section 4.11. Certain changes in the regulations applied to Bezeq International may have an adverse effect on its results and operations.

4.14.4. Internal enterprise information security

Bezeq International operates information security systems to protect against information leaks or intrusion by an unauthorized party into the network and / or critical systems. An intrusion event may impair the functioning or adversely affect Bezeq's business, disclose sensitive information, and even expose Bezeq to financial sanctions and legal proceedings against it.

4.14.5. Legal Proceedings

Bezeq International is a party to legal proceedings, including class actions, which may result in charges in substantial amounts, which cannot be estimated, and no provision was made for some of them in Bezeq International's financial statements. These class actions can reach large sums, since a substantial part of Israel’s residents are consumers of Bezeq International, and a claim relating to a small damage to an individual consumer may become a material claim for Bezeq International if it is recognized as a class action lawsuit against all consumers. For legal proceedings to which Bezeq International is a party, see section4.12.

4.14.6. Failure of Bezeq International systems and cyber attacks

For details on this risk factor, see section 2.20.11, Which is also relevant to the applicability of a risk factor in relation to Bezeq International.

4.14.7. Labor relations and streamlining procedures

Bezeq International has a collective agreement with the Histadrut and the Employees’ Committee in respect of most of its employees. The implementation of the collective agreement may affect Bezeq International's day-to-day operations. In addition, the implementation of manpower plans may cause unrest in labor relations and harm the day-to-day operations of Bezeq International. As described in section1.8, Pelephone, DBS and Bezeq International implement streamlining plans that involve, among other things, the sharing of management resources, organizational changes and the reduction of the workforce, in parallel with the management of significant infrastructure and other projects. Streamlining procedures, by their nature, involve the risks of loss of knowledge, turnover of employees, shifting of managerial focus, etc. Bezeq International has a number of open labor disputes.

4.14.8. Impairment of Bezeq International's assets

Bezeq International conducts a periodic impairment test of assets in respect of which identification signs of impairment have been identified in accordance with the accounting standards. For details regarding the risk factor relating to the recording of impairment losses, see section 2.20.12. Changes in regulations in the Internet services market (see section 1.7.2.2) may lead to damage to Bezeq International's results and / or a decrease in the value of its assets. Regarding the effect of the treatment of Bezeq International customers who do not use ISP services on the value of Bezeq International's assets, see section 4.4.

4.14.9. Pandemic

In early 2020, an outbreak of the COVID-19 virus has begun in the world. Following this, Bezeq International monitors developments in connection with this outbreak and pandemic incidents in general and examines potential implications for its business operations, with some of the implications already being reflected in Bezeq International. These consequences can be manifested, and some of them are already manifested, among other things, in damage to the supply chain and the customer service system. According to estimates by Bezeq International, as of the date of the report, no significant decrease in Bezeq International's revenues is expected, which can be attributed to the consequences of this outbreak. At the same time, naturally, this is a variable event that is not controlled by Bezeq International, and therefore the widespread spread of the virus, and / or decisions of countries and authorities in Israel and around the world in this regard, may affect Bezeq International accordingly.

4.14.10. Cash flow

Bezeq International must maintain sufficient cash flow for it to meet its long-term business plan. Cash flow may be affected in cases of planning gaps, as well as difficulties in collecting payments from customers or telecommunications operators. The lack of sufficient cash flow may adversely affect Bezeq International's business, and may make it difficult for it to deal with competitive threats in the field.

The following is a rating of the impact of the risk factors described above on Bezeq International's operations, in accordance with the assessment of Bezeq International's Management. It should be noted that Bezeq International's assessments below regarding the degree of influence of the risk factor reflect the degree of influence of the risk factor in assuming the materialization of the risk factor, and the aforesaid does not express an assessment or give weight to such chances of materialization. The order in which the risk factors appear above and below is not necessarily according to the degree of risk[61]:

Risk factors summary table - international communications, Internet services and network endpoint

	The extent of the impact of the risk factor on Bezeq International's operations		
	High effect	**Medium effect**	**Low effect**
Industry risks			
Growing competition		**X**	
Investments in infrastructure and technological changes		**X**	
Governmental supervision and regulation	**X**		
Pandemic		**X**[62]	
Special risks for Bezeq International			
Internal enterprise information security		**X**	
Exposure to legal proceedings		**X**	
System failure and cyber attacks	**X**		
Labor relations and streamlining procedures		**X**	
Impairment of Bezeq International's assets		**X**	
Cash flow	**X**		

The information contained in this section 4.14 and Bezeq International's assessments regarding the impact of risk factors on Bezeq International's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the Ministry of Communications, Bezeq International's assessments of the market situation and the structure of competition in it and regarding possible developments in the Israeli market and economy. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

[61] See footnote 45.

[62] The extent of the impact of this risk factor on Bezeq International's activities was classified as moderate, assuming that the incident would be limited in scope and time. Otherwise, the degree of impact may be high.

5. DBS - multi-channel TV

DBS, also known by the trade name "yes", is a subsidiary, wholly owned by Bezeq, which provides a service of multi-channel television broadcasts via satellite and on the Internet (OTT) as well as additional services for subscribers in Israel and in the Judea and Samaria area, and it also has broadcasting rights in content purchased from third parties and in productions in which it invests.

DBS is currently the only Bezeq holding (non-exclusive) licenses to broadcast multi-channel satellite television in Israel.

5.1. General information about the field of activity

5.1.1. The structure of the field of activity and the changes that took place in it

5.1.1.1 In the field of subscriber television broadcasts, there are a number of factors in a number of main categories:

a) Holders of a license to broadcast under the Communications Law, which provides multi-channel television services - DBS, as well as Hot, which provides cable television services, which has a monopoly declared under the Economic Competition Law in the field of multi-channel television ("the field of satellite and cable broadcasting"). For details regarding the regulation applicable to the owners of such broadcasting licenses, see section5.15. DBS and Hot provide both linear channel broadcasts (also referred to in this chapter as "channels") and VOD services (for the question of regulating the field of DBS's VOD services, see section5.15.2).

b) Internet content providers (in format OTT) - in Israel, there are a number of local and international providers of audio-visual content via the Internet, which can be viewed using various types of equipment / end devices. The main local providers operate in a format that includes linear channels and VOD content (including DTT array content transmitted via the array or via the Internet), and the main ones are DBS (through the yesGO, Yes+, Sting TV services, for details, see sections 5.2.2 ,5.2.1.1 and 5.2.3) Cellcom, Partner (Partner TV) and Hot (Next and Play service). The main international providers operating in Israel are Netflix, Apple and Amazon, which provide options for watching VOD content (as of the date of the report, most of this content is translated into Hebrew) without linear channels. To the best of DBS' knowledge, most subscribers of international providers in Israel also subscribe to the services of some of the local providers or holders of broadcasting licenses.

c) Entities offering content without the permission of the copyright holders (pirated)[63].

d) The DTT array

A digital distribution system for digital television (DTT), known as "Idan+", through which certain channels are distributed to the public, free of charge[64]. The system is operated as of the date of the report by the Second Authority, where the Minister of Communications and the Minister of Finance may appoint a private operator for its operation, for whom the council may also grant a general license for broadcasts funded by subscription fees or commercials.

The distribution of the channels is done in exchange for the payment of a distribution fee, where the Minister of Communications and the Minister of Finance may determine that the State will subsidize the distribution fee that will apply to thematic channel broadcasters and a dedicated channel.

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63 DBS is one of the shareholders of Zira Ltd., which works to prevent copyright infringement in video content on the Internet.

64 As of the date of this report, the television channels of the Broadcasting Corporation (Kan 11, Kan Educational and Channel 33), the commercial television channels ("Keshet" and "Reshet"), Channel 20, and the Knesset channel (Channel 99) and a number of radio stations. The DTT operator must also distribute thematic channels (most of whose broadcasting hours are devoted to the subject of the Broadcasting through Digital Broadcasting Stations Law, 5772-2012 (**"the Broadcasting Law"**), as well as the broadcasts of a minor licensee and a designated minor licensee (as defined by the Second Authority Law) - if requested.

As of the date of this report, the DTT constitutes a replacement product, in part, for multi-channel TV broadcasts.

5.1.1.2 According to the Broadcasting Law, a broadcaster, whose broadcasts are part of the "open broadcasts" (i.e., television channels distributed through the digital stations), will give each "registered content provider"[65] consent to broadcast his broadcasts on the Internet free of charge, but without prejudice to copyright and promotions by law and subject to certain conditions set out in the law, including obtaining a license from the copyright holders and performers (including through the broadcaster). In relation to the commercial channels[66], The commencement of the said arrangement was postponed for five years (until January 2022), during which special arrangements will apply, including granting a license to broadcast online broadcasts by the broadcaster to any content provider registered in the registry requesting it, at the best price and conditions given by the commercial channel to provide other content. For another broadcast that is valid at the time the license is granted, everything is as specified in the transitional provision set forth in the law.

5.1.1.3 Hot, Partner and Cellcom offer their services alongside other communication services provided by them, including as part of baskets that are “non-detachable" (such as a "triple" package that includes landline telephony, Internet and television services). For additional communication services provided by groups Communication See section 1.7.1. For the offer of baskets of detachable communication services by DBS, see section1.7.2.2.

In the year of the report, the upward trend in the level of competition in the field continued, mainly due to the establishment of local and international content providers via the Internet, as mentioned, operating at a relatively low price level. The activity of these factors via the Internet, without the need to establish a dedicated infrastructure system as of the date of this report, even without regulatory supervision, has a material adverse effect on the competitive position of DBS. For more details about the competition in the field and changes that took place in it in the year of the report, including the manner in which DBS operates - see section5.6**.** For the question of arranging broadcasts with new broadcast technologies, see section 5.15.2.

For changes in the number of DBS subscribers, see section 5.6.1.

In the opinion of DBS, the continuation of the intensification of the said competition may have significant adverse effect on its activity and results.

This assessment of DBS is forward-looking information, as defined in the Securities Law, based, among other things, on the expected conduct of the various parties. This assessment may not materialize, or materialize in a materially different way than forcasted, *inter alia*, depending on the manner in which the said TV services are developed and established, the entry of additional players, as well as the application of regulatory rules regarding the said TV services.

5.1.2. Restrictions, legislation and special constraints in the field of activity

Activities of broadcasting license holders are subject to extensive legislation in the field of communications, and in particular to the Communications Law, the licensing regime, as well as supervision and policy decisions on behalf of the Ministry of Communications. The said activity is also under the constant supervision of the council, which sets policy, establishes rules and supervises many areas of activity, including broadcast content, local production obligations, broadcast ethics, consumer protection and the approval of broadcast channels.

The provision of television services other than via satellite or cable within the meaning of the Communications Law is not subject to supervision as stated above.

In 2017, the Minister of Communications adopted most of the recommendations of an advisory committee regarding the regulation of satellite and cable broadcasts and the content and transferred some to designated teams. In addition, in recent years a number

65 **"Registered content provider"** is defined in the Broadcasting Law as a registered content provider; "Content Provider" is defined in the Broadcasting Law as having its main activity broadcasting a variety of content to the public in Israel (such as DBS), provided that the content is broadcast on its own initiative, through an interface under its control, whether all content can be viewed in real time, by the public, or the content can be viewed at a time and place of the viewer's choice.

66 To the best of DBS' knowledge, as of the date of the report, such commercial channels are channels 12 and 13.

of legislative initiatives have been published that have not yet been completed[67]:

A memorandum was published for the Communications (Bezeq and Services) Law (Regulation of Content Providers) (Amendment No. _), 5778-2018, the purpose of which was to change the format of the regulation in the multi-channel TV market and to adapt it to technological developments, while applying regulation to audio content providers who transmit content to the public in Israel, under certain conditions, encouraging competition and reducing the regulatory burden.

A government bill from 2018 which dealt, among other things, with the issues of regulating the obligation to sell sports content, including the granting of a license for the broadcasting of a sports channel or a significant sports enterprise by their producers.

In September 2020, the Minister of Communications appointed a committee to examine the superregulation in the field of broadcasting, chaired by former MK Roy Folkman ("**Folkman Committee**"), in order for it to formulate a recommendation regarding the regulatory principles relevant to broadcasting, taking into account the trends in Israel and around the world in this field, and propose amendments to the relevant legislation. According to the letter of appointment, the committee was to work to reduce regulation and focus on issues that need to be regulated at this time, while emphasizing the promotion of competition in the market, the committee is to formulate its recommendations taking into account the reports of previous committees examining the field, noting the said legislation memorándum. The committee applied for the public's positions on the main issues on its agenda, and in accordance, DBS submitted its comments to the committee. As of this date, the committee's recommendations have not yet been submitted.

As the committee's recommendations have not yet been submitted, which also require the approval of the Minister of Communications and probably also appropriate legislative amendments, and the legislative initiative mentioned has not yet matured into binding legislation, as of the date of the report, Bezeq or DBS cannot assess whether the recommendations or the legislative initiatives will indeed mature into legislation, in full or in part, and in what format, and it is also unable to assess the extent of the effect of the said legislative amendments on the DBS business, to the extent that they are adopted and in the wording and manner adopted.

These assessments of DBS are forward-looking information, as defined in the Securities Law, based, *inter alia*, on the conclusions of the Folkman Committee, previous decisions of the Ministry of Communications (see section 5.1.2) and the wording of the legislative initiatives. There is no certainty that this issue will be regulated in legislation and regulation in general, and in the manner proposed in particular. These assessments may not materialize, or materialize in a materially different way than was observed, depending on, *inter alia*, the practical implementation of the Folkman Committee's conclusions, the Council's decisions, the Minister's decisions and subsequent legislative amendments. For possible impacts on OTT services see section 5.15.2.

5.1.3. Changes in the scope of activity in the field and its profitability

For data on changes in the scope of DBS' activity and profitability, see section 1.5.4.4.

5.1.4. The critical success factors in the field of activity and the changes that apply to them

5.1.4.1 Quality, differentiation and originality in the content of the broadcasts, in their variety, branding and packaging.

5.1.4.2 Providing relevant value propositions.

5.1.4.3 Providing television services using advanced technologies (in relation to broadcast technologies, in relation to end devices and in relation to the user interface).

5.1.4.4 Providing TV services via the Internet.

5.1.4.5 Offering a "basket" of communication services that will include television services and other services, such as Internet browsing services (see section 5.15.2) and telephony services.

67 For further recommendations of the Broadcasting Committee that the Minister of Communications decided to adopt, see Bezeq's 2017 periodic report.

5.1.4.6 Accessibility and connection to international content applications.

5.1.4.7 High level of customer service tailored to the type of service.

5.1.4.8 The strength of the brand and its identification with quality, innovation and leadership, content and services for subscribers.

5.1.4.9 Attractiveness of the price.

5.1.5. The main barriers to entry and exit in relation to the field of activity

5.1.5.1 The main barriers to entry into the field of activity are (a) for cable and satellite broadcasts - the need to obtain licenses for cable and satellite broadcasts and to comply with the relevant regulatory requirements; (B) investments required from operators in the field, including the purchase and production of content, as well as for cable and satellite broadcasts - the establishment of a dedicated infrastructure; (C) The limited scope of the Israeli market and its characteristics. The scope and level of barriers to entry in relation to Internet TV services are very low, especially for the international providers for which Israel is another market for existing activity, and this is reflected in an increase in the quantity and variety of services offered in this format.

5.1.5.2 The main exit barriers are: (a) For broadcast license holders there is a regulatory barrier - termination of activity under the broadcast license entails the Minister of Communications' decision to cancel the license before the end of the license period, including conditions (including the licensee) to ensure broadcast continuity and services and to reduce the harm to subscribers; (B) Long-term engagements with material suppliers.

5.1.6. Substitutes for products in the field of activity and changes that apply to them

DBS sees the possibility of receiving many foreign channels using relatively cheap end equipment as a substitute for its services in relation to certain segments. For additional substitutes, see section5.1.1.

5.1.7. The structure of competition in the field of activity and changes that apply to it

Competition in the field of television is characterized by a relatively large number of players, most of whom operate at relatively low price levels (see section 5.1), and through advanced web client interfaces in a way that has led to the intensification of competition in the field. An increase in the number of subscribers in the current competitive situation can be achieved mainly through the recruitment of subscribers from competitors, which requires the investment of considerable resources in retaining existing subscribers and recruiting new subscribers.

In the reported year, Cellcom and Partner continued to establish themselves, as did Netflix in the field of television services.

The total market share of the owners of the broadcasting licenses, DBS and Hot, is in an eroding trend. DBS does not have data on the number of subscribers of the international companies operating in the field and on the number of viewers of the DTT system, and according to DBS, most of them are, in addition, subscribers of the local television providers operating in the field. According to DBS, the trend of increasing the total market share of all players (out of all households in Israel) is weakened due to the fact that the majority of the remaining households are not potential audiences.[68].

For more details on the competition in the field see section 5.6.

5.2. Products and services

DBS offers satellite TV services and servicesOTT, in a variety of value propositions that differ from each other in the scope of the content, the scope of the services included in them, the interface through which they are offered and the price. The offer of OTT services is part of a gradual trend of migration of DBS services from satellite TV services to OTT services. For the migration process see section5.18.3.

Satellite broadcasts and related services

Broadcasts Satellite DBS includes linear channel broadcasts (about 150 channels, of

68 This estimate is based, among other things, on the estimate in relation to the number of HOT subscribers (see footnote 69 below).

which about 35 Channels (HD (High Definition and two 4K channels), as well as interactive radio, music and services channels.

For the purpose of receiving DBS services via satellite, reception dishes are installed in the buildings and decoders of several types are installed in the subscribers' houses, some of which allow the reception of broadcasts only (whether SD or more advanced resolutions), and some allow advanced features such as recording content and watching VOD content.

In accordance with the DBS broadcasting license and the council's decisions, the broadcasting of the DBS via satellite includes a basic package that each subscriber is required to purchase (along with other basic packages that DBS may offer), as well as other channels that the subscriber can choose to purchase, either as packages or as discrete channels.

DBS provides satellite subscriber services to its subscribers ("**satellite subscribers**") VOD via the Internet (in the OTT format). The vast majority of satellite subscribers subscribe to a content package that includes VOD and the rest may purchase these services, when some of the content included in the VOD service is provided in exchange for a separate payment.

Connecting satellite subscribers to VOD services requires, among other things, the use of certain types of decoders. To the question of the regulation of the field of DBS's VOD services see section5.15.2.

Satellite TV services are offered in a wide package, which includes the vast majority of linear channels and VOD services, which is purchased by most satellite subscribers, and in packages with a smaller content scope (when subscribers can purchase additional channels that are not included in any of the packages they purchased).

5.2.1. OTT Services

DBS offers a number of OTT services:

5.2.1.1 Yes+ services

DBS offers the Yes+ service, which includes linear TV channels, as well as VOD content in a number of offered packages, the most common of which is similar to that offered in the broad package offered to the satellite subscriber. Advanced technological interface that includes advanced features that are not available in the satellite interface. The service is provided via streamer devices by Apple and from May 2020 is also available via compatible streamer devices. The service can be used on its own or in parallel with the satellite service.

5.2.2. Sting TV services

DBS operates the "Sting TV" service, which includes linear TV channels as well as VOD content, and is intended for customers who are not satellite subscribers. The service is offered in a number of viewing packages that do not include the full range of content offered as part of DBS' other services, and are characterized by relatively low price levels. The service is provided via compatible streamers and other end devices.

5.2.3. YesGo services

DBS operates the service called YesGo, which allows satellite subscribers and Yes+ subscribers to watch via smartphones and tablets in the channels included in this service, which the subscriber purchased as part of the TV broadcasts in his home, as well as in VOD content.

5.3. Revenue of products and services

The following are data regarding the distribution of DBS revenues (in NIS millions):

	2020	2019	2018
Revenue from multi-channel TV broadcasts and services for subscribers	1,254	1,316	1,431 th most common
Rate of total revenue	About 97% *	About 98% *	About 97% *

* The rest of the revenue derives, mainly, from payments from channels in respect of their transfer by DBS as well as from the sale of rights in the content.

5.4. Customers

The vast majority of DBS subscribers are private customers. In general, DBS enters into a subscription agreement with its subscribers, which regulates the subscribers' set of rights and obligations in their relationship with DBS. With respect to the subscription agreement with the satellite subscribers, the approval of the council is required, which was received. According to the broadcasting license, the approval of the Uniform Contracts Tribunal for the subscription agreement is also required (approval previously given and expired). DBS applied to the Council for amendments to the subscription agreement and to amend the license, in which case DBS requested, among other things, to revoke the license provision requiring the approval of the Uniform Contracts Tribunal, in view of an amendment to legislation made in this regard. As of the date of this report, the Council's position regarding DBS' requests has not yet been received.

5.5. Marketing and distribution

5.5.1. The marketing of DBS services is done through advertising in the various media. DBS' sales activity to existing and new customers is carried out through the following main distribution channels (some of which are operated by DBS employees and some by external marketers, which also include Bezeq International and Pelephone):

5.5.1.1 Call centers.

5.5.1.2 Digital channels.

5.5.1.3 Field sales people, working to recruit new subscribers.

5.6. Competition

5.6.1. Competitors in the field

The field is characterized as of the date of the report by a number of competing groups (see section 5.1).

DBS's main competitors are Hot, which is a declared monopoly in the field of supply Multi-channel TV broadcasting services and holds the largest market share, as well as Cellcom, Partner and Netflix.

Below is data on subscription numbers and market shares[69] of DBS, to the best of its knowledge, as of December 31, 2019 and 2020[70]:

The year 2019		Year 2020	
Subscriptions (thousands)	Market Share	Subscriptions (thousands)	Market Share
555	32%	557	32%

5.6.2. Competitive characteristics today

The competition in the field focuses on the variety and content of the broadcasts, the price of the services, the quality of the service, and the offer of advanced end equipment and advanced user interfaces, as well as the offer of additional services, including broadcasts. HD, 4K and VOD services.

The competition is also characterized by the offer of additional communication services alongside the offer of video content (for the offer of "service baskets" of the Hot, Cellcom and Partner groups, see also section 1.7.1, and for the offer of service baskets by DBS, see also section 1.7.2.2.) and by the increase in the number of competitors and their establishment (see section 5.1).

5.6.3. Positive and Negative Factors Affecting the Competitive Status of DBS

5.6.3.1 In the opinion of DBS's Management, the main competitive advantages of the DBS are:

a) The quality and variety of content that DBS broadcasts to its subscribers.

[69] The market shares were calculated from all DBS, Hot, Partner and Cellcom subscribers as detailed below (and not from all viewers and subscribers in the field in the absence of actual data about them). The assessment of DBS' market shares in 2019 and 2020 is based on the number of DBS subscribers, of Cellcom and Partner (according to their reports on the number of subscribers as of the end of the third quarter of 2020), as well as of Hot, when in relation to the years 2019 and 2020, Hot did not publish the number of subscribers, so the data in relation to Hot is according to DBS's estimate, taking into account past trends and the existing data in relation to the other players). However, there is no certainty that the data presented in relation to Hot are accurate, and therefore it is possible, respectively, that the actual market shares are different from those estimated.

[70] The number of subscribers is approximate, and the market share is in a circle. Subscriber - one household or a small business customer. In the case of a business customer who owns more than a certain number of decoders (such as a hotel, kibbutz or gym), the number of subscribers is adjusted. The number of non-small business customers is calculated as the total payment received from all non-small business customers divided by the average income from a small business customer, which is determined once per period.

b) Level, quality and availability of DBS' customer service system

c) Use of advanced technologies to provide advanced services.

d) Cultivating and promoting the "Yes" brand as a preferred, well-liked brand with a high level of loyalty.

e) Marketing several call formats, characterized by different price levels, different content offerings, different broadcast methods, different technological interfaces and different types of customer service format.

5.6.3.2 DBS's competitive activity in the field of broadcasting suffers from disadvantages or factors that adversely affect it, in a number of areas, the main ones being:

a) Infrastructure inferiority - DBS' satellite infrastructure does not allow two-way communication, does not allow the provision of VOD services and does not allow the transfer of telephony and Internet services, in contrast to the infrastructures used by HOT, Cellcom and Partner, which enable the provision of these services. For details about OTT services - see section5.2.1. In addition, the satellite infrastructure is limited in relation to the Internet infrastructure in the offer of advanced technological interfaces.

b) Regulatory restrictions -

For restrictions regarding the marketing of a shared basket of services, see section 5.15.2.

For restrictions by virtue of the terms of the Commissioner for a merger with Bezeq, see section 2.16.8.3. These restrictions also apply to DBS activities in the field of OTT.

For competitive inferiority resulting from the lack of regulatory oversight of players who do not have broadcasting licenses, see section 5.19.2.2. Establishment of the wholesale market arrangement, as stated in section1.7.3, which does not allow DBS to purchase Bezeq services according to it, may facilitate the entry of new competitors into the field and establish their status.

c) Space segments - the use of space segments involves heavy fixed expenses, depending on the receipt of the services by a third party (see section 5.16), and involves a limitation with respect to the ability to expand the supply of broadcasts (see section 5.7).

5.6.4. Main methods of dealing with competition

Here are the main methods of DBS to deal with the competition:

5.6.4.1 Content - DBS works to purchase, produce and broadcast quality, innovative and diverse content, while creating differentiation, emphasizing branding and achieving originality in relation to the content broadcast by it.

5.6.4.2 Pricing policy - offering a variety of services at different price levels.

5.6.4.3 Offering OTT services (see section5.2.1).

5.6.4.4 Service - DBS places emphasis on the customer service system.

5.6.4.5 Technology - DBS is investing in expanding its technological capabilities, with an emphasis on providing innovative and advanced services.

5.6.4.6 Branding - DBS cultivates, promotes and differentiates the brand "Yes".

5.7. Production capacity

The number of channels that DBS can transmit to satellite subscribers depends on the number of space segments it uses, the content compression capabilities and the bandwidth required to transmit each type of channel. As of the date of the report, DBS almost fully utilizes the space segments it uses, thus increasing the number of channels broadcast by DBS to satellite subscribers, and in particular increasing the number of HD and 4K channels, that consume more bandwidth, will require the use of additional space segments or an improvement in the compression systems used by DBS. The space segments are provided to DBS by Space (see section 5.16). These restrictions do not apply in relation to the OTT and VOD services whose transmission depends on web browsing volumes.

5.8. Fixed assets, real estate and facilities

The following are the main components of DBS' fixed assets:

5.8.1. Real estate

DBS leases a number of real estate properties for its operations. DBS' headquarters, as well as its main broadcasting center, are located in leased real estate in Kfar Saba, whose lease period ends in 2024 (with options granted to DBS for the extension of the lease, subject to the terms of the agreement, until 2034). The balance of the lease period of the other properties that DBS leases ranges from a few months to two and a half years (these periods are based on the exercise of lease extension options granted to DBS).

5.8.2. Satellite end equipment

DBS installs reception dishes and other end infrastructures in its subscription houses, including decoders that enable the reception of the broadcasts, as well as smart cards used to decode them. The decoders are rented to subscribers in exchange for fixed fees, paid during the period of receipt of the services, or lent to subscribers.

5.8.3. End equipment for OTT services

Yes+ and Sting TV services can be viewed via a variety of end devices, including streamers of various models. DBS purchases streamers from various providers and leases them to its subscribers. The streamers are usually off-the-shelf products that require relatively limited adjustment operations.

5.8.4. Broadcasting equipment and computer and communication systems

DBS has a main broadcasting center located in Kfar Saba, as well as a secondary broadcasting center located in the Ella Valley, through which its broadcasts are transmitted via satellite and OTT. The broadcast centers have reception and transmission equipment, as well as computer and communication systems. The secondary broadcasting center is partly operated on third-party premises, which provides DBS with the services of operating the secondary broadcasting center and maintaining it in accordance with the framework agreement valid until the end of 2023 (with the right to extend granted to DBS, which can be realized six months before the end of the agreement).

5.8.5. Operating and encryption systems

DBS purchases from Cinemedia ("**Cinemedia**") development, implementation, encryption, maintenance and warranty services related to the operating systems of the satellite broadcasting system and also purchases similar services from Cinemedia in relation to the OTT system, in accordance with the framework agreements between DBs. SS and Cinemedia from January 2020. These services are provided in relation to various DBS systems, end equipment, and viewing cards and other hardware components required to receive these services, and DBS has also been granted relevant licenses for the use of systems and end equipment.

The contract period with Cinmedia in relation to the satellite system is until February 2026 subject to the terms of the agreement, with the possibility of early termination by DBS in the event of the cessation of satellite broadcasts as part of the migration. See section 5.18.1.

For the services and products provided under this agreement, DBS pays monthly payments, where the agreement stipulates a minimum monthly consideration for the provision of services to the extent specified, and an additional consideration is possible, the amount of which depends on the types of services provided to DBS, and on development services that DBS may order under the agreement.

The engagement period in relation to OTT is until December 2024 (after which an automatic renewal mechanism applies for periods of two years unless one of the parties notifies otherwise in accordance with the dates set for this matter in the agreement). DBS is granted the right to exit the agreement in relation to the OTT system, from January 2023 onwards, subject to prior notice and payment of an "exit fee" (at a decreasing rate depending on the duration of the agreement period).

DBS depends on the continuous supply of these services, both in relation to the satellite system and in relation to OTT.

5.8.6. Computerized customer management system

DBS uses software and computer systems to manage the contracts with its subscribers, including its billing and collection system. In this context, DBS contracts for licenses, development services and technical support with NetCracker Technology Solutions Ltd and NetCracker Technology EMEA Limited (jointly: "**NetCracker**"), and DBS also uses Salesforce software together with Pelephone and Bezeq International,, according to Pelephone's contract with Salesforce (for details, see section 3.8.4).

DBS is dependent on the NetCracker system and services and-Salesforce, due to their importance for the management and monitoring of DBS 'acquisition of services and content by its subscriber as well as for the purpose of charging and collecting from a subscriber. System failures or discontinuation of services to DBS(Including depending on cell phone connection with Salesforce) Are expected to cause operational difficulty until the matter is repaired or the system / supplier replaced, which may take a long time. As of the date of this report, some of the components of the engagementWith NetCracker is renewed annually and some are valid until the end of 2023. The contracting with Salesforce is until the end of 2025.

5.9. Intangible assets

5.9.1. Licenses

DBS has the following main licenses:

5.9.1.1 Broadcasting license valid until January 2023 - this license is material to DBS' satellite activity and constitutes the main regulatory permit for this activity (for the terms of this license, see section 5.15).

5.9.1.2 License for satellite television broadcasts in the Judea and Samaria area valid until December 2022, the provisions of which are similar to DBS's broadcasting license specified in section 5.9.1.1.

5.9.1.3 License to perform uplink operations (transfer of broadcast-focused broadcasts to the broadcast satellite and to carry out ancillary set-up and operation operations), which are valid until January 2023 or until the expiration of DBS's broadcasting license, whichever is earlier. This license is essential for DBS's activity and constitutes the regulatory permit for the transmission of transmission messages from the transmission center to the transmission satellites and from them to the subscribers' homes.

5.9.2. Trademarks

DBS has registered trademarks, the main ones of which are intended to protect its trade name (Yes).

5.10. Broadcasting rights

5.10.1. DBS has broadcasting rights in video content of two types:

Content whose rights to broadcast are acquired from third parties, including discrete content and channels. DBS works to adapt as much as possible broadcasting rights acquired by it in a way that will allow broadcasting in the various media and formats in which it operates.

Content that DBS invests in its production (in full or in part), and in addition to the right to broadcast the content as part of its broadcasts, DBS usually has rights in the same content, at the rates specified in the agreements with the producers. In most cases, DBS is also entitled to grant rights to the use of rights and to participate in revenues arising from additional uses of the content beyond their transmission on DBS.

Broadcasting and distribution of content by DBS, in the various media, involves the payment of royalties to copyright holders and performers in musical works, sound records, scripts and content directing, as well as in respect of sub-broadcasting, including under the Copyright Law, 5768-2007 ("**Copyright Law**") and the Performers and Broadcasters' Rights Law, 5744-1984. Such royalties are paid to a number of organizations, which collect the royalties to which they are entitled through comprehensive licenses (blanket licenses) for the intellectual property rights holders. The payments under these licenses are sometimes based on a fixed payment and sometimes on different pricing methods, with some organizations being required to pay additional fees for the transfer of content in certain media or in certain formats, in amounts that DBS estimates are not expected to be substantial.

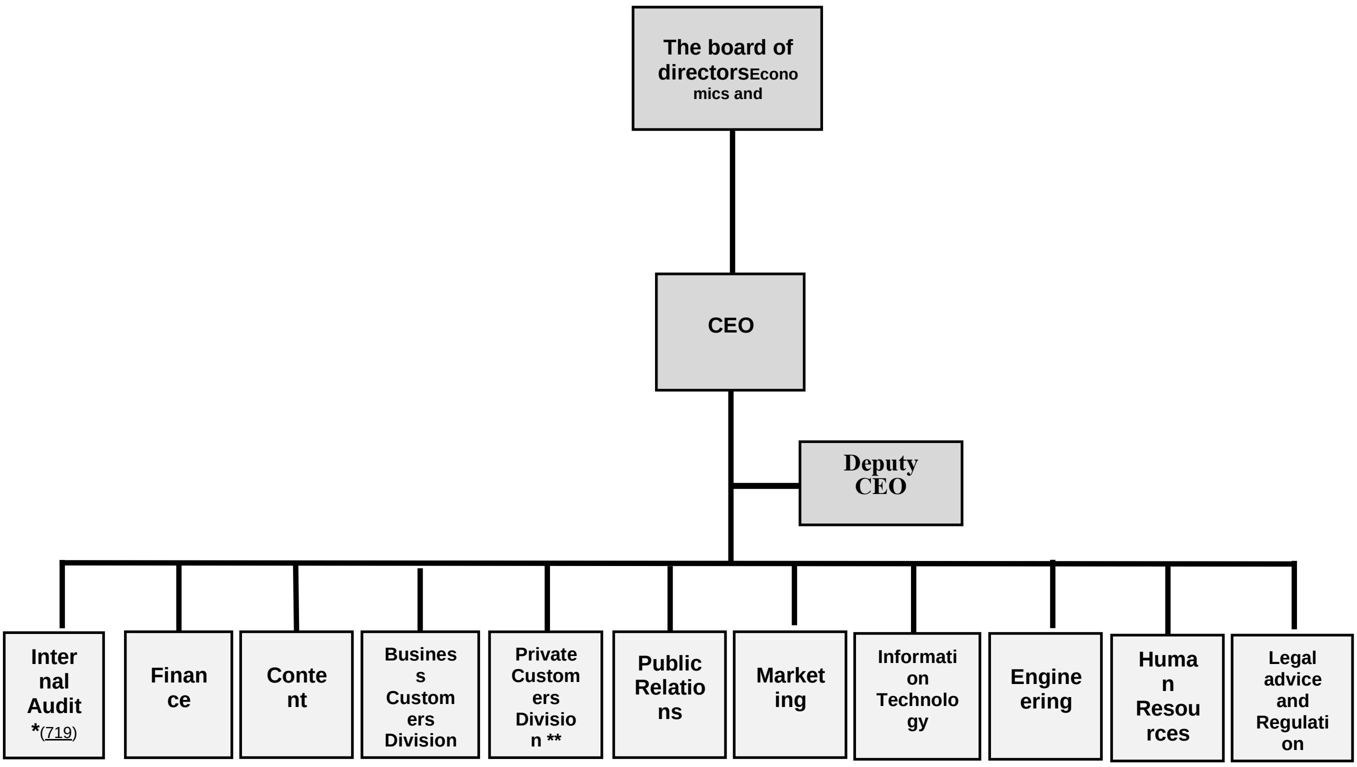
This assessment of DBS is a forward-looking assessment, based on, among other things, DBS estimates, including in relation to the extent of the use of the said content, and the positions of the various organizations, and in the event of changes in any of them, this assessment may materialize differently.

5.10.2. In view of the large number of content providers from whom DBS acquires broadcasting rights, DBS does not have a primary content provider and is not dependent on a single content provider. However, in the field of Israeli sports broadcasting, as of the date of this report, there is a dependence on the acquisition of the broadcasting rights of local sports channels from Sports Channel Ltd. and Charlton Ltd., with whom there is a contract for several years. This dependence stems from the fact that they are the exclusive providers of Israeli sports broadcasts and in light of the existence of a high demand for such services, from among a significant group of DBS customers. Remuneration under these agreements is based on a fixed monthly payment in accordance with the number of subscribers to DBS broadcasts (except for exceptions set forth in these agreements).

5.11. Human capital

5.11.1. Organizational structure

DBS's Management consists of divisions, with each division headed by a VP, who serves as a member of the DBS management.



(*) The internal auditor is a Pelephone employee.

(**) The director of the private customer division is the deputy CEO.
As part of the implementation of the synergy processes between subsidiaries in the Group, the CEO of DBS, Mr. Ran Guron, also serves as the CEO of Pelephone and Bezeq International. In addition, most of the VPs who serve at DBS also serve as VPs at Pelephone and Bezeq International.

5.11.2. DBS employee base by divisions:

	Number of employees	
	December 31, 2020	December 31, 2019
Administration	382	411

Customer Division	847	942
Total	**1,229**	**1,335**

The number of employees included in the table above includes employees employed part-time. The total number of jobs in DBS as of December 31, 2020 was 1,120.

5.11.3. Benefits and nature of employment agreements

The terms of employment in the DBS are regulated, among other things, in collective agreements and in a collective arrangement, that applies to the majority of the employee population (does not apply to some of the management levels and also employees in special positions of trust). The workers' organization of DBS employees is the Histadrut.

In addition, DBS employees are employed in accordance with personal employment agreements on a monthly or hourly wage basis, with some employees also being entitled to performance-based compensation. The employment agreements are usually for an indefinite period and each party may terminate the contract with prior notice in accordance with the personal agreement and the law, subject to the provisions of the collective agreement, as applicable.

A special collective agreement signed in 2016 and amended in 2019 sets out, among other things, the periods after which a DBS employee will be considered a permanent employee, mechanisms that involve the Employees' Committee in decision-making regarding employment and permanent termination of employment, as well as annual salary increases and additional financial benefits provided by DBS to employees, during the term of the agreement.

Also in 2018, a special collective agreement was signed, which regulated the actions of the parties in relation to the implementation of reforms and structural changes that were then on the table.

In 2019, DBS signed a collective agreement between it and the Histadrut and the Employees' Committee in connection with streamlining and synergy procedures. The arrangement stipulates, among other things, that DBS will be entitled to terminate the employment of up to 325 employees during the years of the arrangement and that a one-time bonus will be given to employees who will not be included in the retirement plan. As part of the arrangement, it was agreed to cancel all pending labor disputes. In addition, the arrangement stipulates that DBS may also become more efficient by not recruiting employees in place of employees who have terminated their employment.

DBS's estimates of the cost of the agreement are forward-looking information, as defined in the Securities Law, based, *inter alia*, on DBS' assumptions regarding the implementation of the streamlining plan and additional conditions set forth in the agreement. These assessments may not materialize, or materialize differently from what was observed, *inter alia*, depending on the actual implementation of the streamlining plan, taking into account the needs of DBS and its ability to implement its plans and additional conditions set forth in the agreement.

The collective agreements and the arrangement mentioned above are valid until December 31, 2021. The validity will be automatically extended for a period of 12 months each time, if one of the parties does not notify, at least 90 days before the end of the validity, of its desire to make changes.

In December 2019, DBS received a notification from the Histadrut announcing a labor dispute. According to the announcement, the issues in the dispute are: a. DBS intends to make organizational and structural changes in DBS, including the change of ownership in Bezeq, which, as far as they are carried out, have implications for employees' conditions, rights and employment security, harm the status and organizational power of employees, and constitute a fundamental violation of the collective agreement applicable on the parties; B. Lack of good faith manifested in non-compliance with the duties of consultation and negotiation within the framework of the collective discourse on issues that by law require consultation and negotiation in matters that by law require consultation and negotiation. Bezeq and / or DBS cannot assess at this stage the meanings derived from the above announcement.

5.11.4. Employee compensation plans

DBS usually provides its officers, as well as managers and some of its employees, with bonuses on an annual basis based on meeting goals and evaluating performance, for components of capital compensation from Bezeq in relation to some of DBS's managers, see section 2.9.5.

5.12. Suppliers

For engagement with Space, see section 5.16.

For engagement with Cinmedia, see section5.8.5.

For engagement with NetCracker and Salesforce, see Section5.8.6.

For the purchase of broadcasting rights of local sports channels, see section 5.10.2.

5.13. Financing

DBS's main sources of financing are owner loans or investments from Bezeq in accordance with DBS's needs, which, according to DBS, is expected to need financing from Bezeq in the foreseeable future.

The assessment of DBS as stated above is forward-looking information. There is no certainty that DBS will be required to finance Bezeq in the future or that Bezeq will provide funding for DBS's activities and in which periods and this depends, among other things, on DBS's situation, developments in its areas of activity and competition in these areas and on DBS's future financing needs.

In March 2021, Bezeq approved a credit facility or investment in DBS capital in the total amount of up to NIS 150 million, for a period of 15 months starting on January 1, 211. This approval is *in lieu* of a similar approval given in November 2020 (and not in addition to it).

5.14. Taxation

For more details, see Note 7 to the 2020 statements.

5.15. Restrictions and supervision of DBS

5.15.1. Arrangement of satellite broadcasts

DBS's activity as a holder of a regulated satellite broadcasting license in an extensive legal system has applied to the field of satellite and cable broadcasting, which includes primary legislation (and in particular the Communications Law and regulations enacted thereunder), secondary legislation (including communications rules) and board directives.

In addition, DBS's satellite activity is subject to the provisions of its licenses, primarily the broadcasting license.

The law authorizes the Director General of the Ministry of Communications as well as the Council to impose financial sanctions for various violations of the provisions of the law and of orders and provisions issued under it, as well as for violation of conditions in the broadcasting license.

5.15.1.1 Terms of service for a satellite broadcasting license holder, restrictions on cross-ownerships

Satellite broadcasting license regulations set various restrictions on the licensee, including, among other things, eligibility conditions in relation to the holdings of the licensee and stakeholders, directly and indirectly, in holders of cable broadcasting licenses, in holders of franchises under the Second Authority Law [71] and in newspapers with daily circulation, as well as "Israeliness" requirements regarding officers in the DBS and "Israeli" holding at a minimum rate of 26%, in accordance with the provisions set forth in the regulations.

5.15.1.2 Rates supervision

The broadcasting license sets forth provisions regarding the types of payments that the licensee may charge its subscribers for services provided by virtue of the license, and these are determined in the DBS price list. The vast majority of satellite subscribers subscribe to promotions, offering DBS services, including various composition of content packages, ancillary services as well as receiving and installing end equipment, at prices lower than the list price.

DBS has a duty to notify the chairman of the Council of any change in the price list approved by the Council immediately upon its publication and the chairman may in certain cases prohibit the change of the price list. The chairman of the Council may also interfere with promotions or discounts offered by DBS, if he

[71] As of the date of the report, the activities of these entities (both in the field of cable broadcasting and under the Second Authority Law) are regulated through licenses and not franchises.

finds that they have the effect of misleading the public or discriminating between subscribers.

By virtue of the Communications Law, the license can set maximum prices at which a subscription can be charged. As of the date of this report, no such prices have been set.

5.15.1.3 Obligation to invest in local productions

In accordance with the requirements of the broadcasting license and the decisions of the Council, in each of the years 2020 and 2021, DBS must invest an amount of not less than 8% of its revenues from the subscription fees of satellite subscribers[72] in local productions, when according to the rules of the media and the decisions of the council, DBS must invest different rates out of these investment amounts in different categories of local productions.

In December 2020, the Council decided to postpone for 2022 the entry into force of its previous decision, according to which the rate of investment obligation in local productions will exceed and stand at 9%. The Council also determined that during 2021 and in accordance with developments, the Council will hold another discussion to examine the current legislative situation and the economic situation of licensees, including a hedging formula set out in the council's previous decision and give instructions as it sees fit.

5.15.1.4 Duty to transfer channels

DBS is obligated to transmit the "mandatory channels" in satellite broadcasts and everything as determined by the Minister and in the broadcasting license.

In addition, DBS is required to allow channel producers provided by law to use its infrastructure to distribute broadcasts to its subscribers, for a fee ("transfer fee") to be determined in the agreement, and in the absence of consent - for a fee to be determined by the Minister, after consulting the Council. In addition, the Minister may require the transmission of small-license broadcasts under the Second Authority Law (which did not have dedicated licenses prior to the amendment to the law), taking into account the satellite capacity of DBS. According to an amendment to the Second Authority Law of 2018, holders of small and small designated licenses, who had a dedicated license under the Communications Law, are exempt from paying transfer fees to Hot to DBS, for a period of 5 years from the date of the amendment.

5.15.1.5 Contents of the broadcasts and obligations in relation to the subscriber

The broadcasting license sets forth provisions relating to the content of DBS broadcasts, including the obligation to obtain the approval of the Council in relation to channels broadcast by DBS. The Communications Law prohibits broadcast licensees from broadcasting commercials, subject to a number of exceptions.

In addition, the broadcasting license includes conditions regarding the terms of service for subscribers, including the prohibition of discrimination between them.

For a hearing published by the Ministry of Communications in January 2021 regarding the data demand on the consumption of communications services from communications operators, see section 1.7.4.11.

For a preliminary data demand Council in connection with inactive subscribers see section1.7.4.13.

5.15.1.6 Ownership of broadcast channels

According to the rules of communication, DBS, including entities affiliated with it (as defined in the rules of communication), may own up to 30% of the local channels broadcast as part of DBS broadcasts (compared to a limit of 20% applicable to HOT). DBS is also restricted according to the Communications Law, in owning a news broadcast producer.

5.15.1.7 General provisions regarding the broadcasting license

72 Based on its revenues in the past year from satellite subscribers, including DBS's revenues from end equipment and its installation. According to the position of the Council, according to which the actual investments are made, even though DBS disagrees with it, these revenues also include revenues from VOD service to satellite subscribers.

The Minister and the Council have parallel authority to amend the Broadcasting License. The Minister is authorized to revoke or suspend the Broadcasting License on the grounds set forth in the Communications Law and the Broadcasting License. The Communications and Broadcasting License Law sets limits on the transfer, foreclosure and encumbrance of the Broadcasting License and of assets from the license assets. The Broadcasting License requires the approval of the Minister in relation to certain changes in the maintenance of means of control in the DBS and imposes reporting obligations regarding the holders of the means of control; Infringement of competition is prohibited by way of an agreement, arrangement or understanding with a third party regarding the provision of broadcasts and services unless approved in advance and in writing by the Council; The obligation to submit reports to the Ministry of Communications, as well as conditions related to the supervision of the licensee's activities, were established; The obligation to provide bank guarantees to the Ministry of Communications to secure DBS's liabilities under the license has been determined, in the amount (principal) of NIS 30 million (a total as of the date of the report of approximately NIS 40 million).

5.15.2. Arrangement of OTT services

OTT services (such as those offered by Cellcom, Partner, Netflix and also by DBS) are not subject to the current standard in relation to multi-channel satellite television broadcasts or other arrangements under the Communications Law. DBS also believes that the VOD services it provides via the Internet to satellite subscribers (see section0) are not subject to such regulation. However, from various decisions of the Council (see also section 0), it seems that the Council considers itself authorized to arrange the VOD services for DBS satellite subscribers.

For the processes of examining the regulation of OTT services, see section 5.1.2.

To the extent that a regulation of content transfer via the Internet is implemented, it is expected to impose restrictions on the provision of the said services by DBS, but this regulation may reduce the existing gap in the regulation regimes between licensees and broadcasters between other entities active in the field.OTT.

These assessments of DBS are forward-looking information, as defined in the Securities Law, based, *inter alia*, on the conclusions of the Folkman Committee, previous decisions of the Ministry of Communications (see section 5.1.2) and the wording of the legislative initiatives. There is no certainty that this issue will be regulated in legislation and regulation in general, and in the manner proposed in particular. These assessments may not materialize, or materialize in a materially different way than would be expected, *inter alia*, depending on the actual implementation of the Folkman Committee's conclusions, the Council's decisions, the Minister's decisions and subsequent legislative amendments.

5.15.3. Offer of baskets of services

According to the broadcasting license, DBS may offer a shared basket of services, including Bezeq service and DBS service, subject to obtaining approval from the Ministry of Communications (in the absence of objection within the period specified in the license will be considered as possible) and subject to conditions, the main ones are the “detachability” obligation and the existence of a parallel basket marketed by a licensee who is not affiliated with Bezeq (see section 1.7.2.2). A shared basket of services marketed by DBS, which includes Bezeq's Internet infrastructure service only, does not require the approval of the Ministry of Communications and does not have detachability obligation..

Regarding conditions published by the Commissioner in connection with the merger of Bezeq and DBS and the amendment under consideration, see section 2.16.8.3.

In the opinion of DBS, in view of the development of competition between the communication groups and the growing importance of providing comprehensive communication services (see section 1.7.1), in particular in the competition between it and HOT, Cellcom and Partner, which are not subject to these restrictions, insofar as the restrictions remain in relation to Bezeq's collaborations with it (see section 1.7.2.2), may increase the adverse effect of these restrictions on DBS results.

5.16. Substantial agreements

The following is a concise description of the main points of the agreements that may be considered material agreements that are not in the ordinary course of business of DBS, which were signed or are valid during the reporting period:

Agreement for the lease of space segments[73]

According to an agreement with Space[74], since 2013, as amended, DBS has leased space segments in satellites from the "Amos" series ("**the Space Agreement**").

Comply with the provisions of the Space Agreement, DBS leases space segments on "Amos 3" satellite[75] (whose estimated end of useful life is at the beginning of 2026), as well as the "Amos 7" satellite, in which Space has the right to lease space segments under an agreement between it and the owner of the rights in this satellite, and which was leased to DBS until February 2022 (after exercise of an extension option).

Under the Space Agreement, Space undertook to make reasonable efforts to deploy a new satellite, "Amos 8", by February 2021, in which case DBS will lease space segments from that date on Amos 3 and Amos 8, beginning at the end of Amos 3's life – in Amos 8 only. To the extent that Amos 8 is not deployed by February 2022, DBS will lease space segments in Amos 3 until the end of its useful life, and it will have the right, if it so chooses, to lease space segments in Amos 8 to be deployed later as well. In the opinion of DBS, noting, among other things, that Space did not announce in the agreement a contract to build Amos 8 and according to the information provided by Space[76] the placement of Amos 8 is not expected to materialize until February 2022, if at all[77]. Thus, although the period of the original Space Agreement is until 2028, in accordance with the provisions of the Space Agreement, the Space Agreement will come to an early end at the end of Amos 3 satellite's useful life, which to the best of DBS's knowledge is expected to be in early 2026, without compensation and the terms subject to additional early termination options listed below).

The leased segments of space - According to the Space Agreement, during the engagement period (and subject to unavailability events) DBS will lease space segments from Space, in accordance with the division between the relevant satellites stipulated in the agreement in accordance with the various periods[78], starting with the end of the lease of the Amos 7 satellite, DBS is expected to lease ten space segments in Amos 3. The agreement also regulates the provision of backup segments for the leased space segments during the term of the agreement, under the terms and restrictions set forth therein.

Cost - the estimated total nominal cost for the engagement period (from 2017) is approximately USD 263 million, reflecting an average annual cost of approximately USD 21.9 million, subject to the discount and reimbursement mechanisms set forth in the Space Agreement.

Early termination of the agreement - the Space Agreement stipulates a right to early termination without cause, subject to 12 months' prior notice and payment of the consideration in accordance with the mechanism set forth therein.[79]For further details regarding the Space Agreement, see the corrective transaction report and the announcement regarding the convening of a special general meeting of Bezeq dated March 26, 2017 and an immediate report on the results of the general meeting of Bezeq dated April 3, 2017, which are presented here by reference.

The usage fee in 2020 amounted to about NIS 75 million.

DBS has a substantial dependence on Space, as the sole owner and sole supplier of the space

73 The assessments in this section regarding the dates of satellite delivery, their launch, their placement in space, the commencement of their activity and end of useful life, the amount of segments leased and those intended to be made available to DBS for various event controls (such as backup cases), and all implications are forward-looking information, as defined in the Securities Law, which is based, among other things, on the information provided by Space to DBS, and which in part is not even controlled by Space and depends on its engagements with third parties. Therefore, these assessments may not materialize, or materialize in a materially different manner than expected, *inter alia*, depending on the conditions associated with satellite launch, the start of satellites, the conditions required for their proper operation and availability, the end of the existing satellite's useful life, and external factors (including third parties and the rights in Amos Satellite 7) that affect their activity and the activity of Space as well as the business position of Space.

74 A company that at the time of entering into the Space Agreement was controlled by Eurocom Communications which was in (indirect) control of Bezeq at the same time.

75 According to what was reported by Space, Amos 3 satellite is suffering from a malfunction in its battery (as detailed in the amendment report to the transaction report, which is presented by way of reference in this section below). As of October 2019, the Amos 3 satellite suffered from a malfunction in the spare horizon meter, at a level that prevented it from being used in case as required. In December 2019, Space reported that the spare horizon meter was in good condition and could be used if required. For more details about the fault of the spare horizon meter, see immediate reports of Space from the October 1, 2019 and December 18, 2021 presented by way of reference.

76 According to Space'a reports, an agreement to build Amos 8 was canceled by Space in 2018.

77 For the cancellation of an agreement in which a Space contracted for the production of the Amos 8 satellite, for Space's announcement regarding the examination of the alternatives for the construction of Amos 8 in light of a notice received from a government source regarding the State's intention to act to set up a satellite, for the setting up an independent committee by Bezeq's Board of Directors, appointed to examine alternatives for the termination of the activity of the aforesaid committee and for DBS's announcement to Space regarding the protection of the rights not to lease space segments on Amos 8 satellite in case of delay in placing it as stated above, see section 5.16 of Chapter A of Bezeq's 2017 period report, updates in Chapter A of the periodic report attached to the report for the third quarter of 2018 of the Company as well as the immediate report of Bezeq dated December 17, 2018 presented by way of reference.

78 As of 2018, DBS leases another transponder in Amos 7, a space segment in Amos 3 has been replaced for a temporary period. It was agreed that the said replacement will not detract from the possibility of shutting down one of the "Amos 3" transponders during the Eclipse period (as specified in the facility report to the transaction report, presented by way of reference in this section below).

79 The space agreement also stipulated a right of DBS to terminate the agreement in early February 2021 due to a delay in the entry into force of the agreement for the construction of "Amos 8". DBS has informed Space that it will not exercise this right.

segments used by DBS, which is also responsible for the operation of the space segments. Regarding exposure to risks in the event of a failure in the activity of one of the satellites, the unavailability of the space segments used by DBS and the lack of redundancy for the Amos 3 satellite from the end of the Amos 7 lease, see section5.19.3.4. For Space dependence, see section5.19.3.5 .

5.17. Legal Proceedings[80]

5.17.1. Legal proceedings are pending

	Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
a.	June 2015	Clients against DBS	District (Central)	Financial claims together with motion to recognize them as class actions	Claim regarding discrimination against new DBS customers and returning customers who were previously DBS customers, this is allegedly contrary to the provisions of the license and the law. Applicants seek non-pecuniary compensation for members of the represented group as well as allow each subscriber to receive the terms received by repeat subscribers (the "**First Motion**"). In July 2015, another motion was submitted for approval of a class action lawsuit against DBS alleging price discrimination in which Bezeq discriminated between existing customers and existing customers, between new customers and new customers and between existing customers and new customers by offering them different rates for the same service. . This is contrary to the provisions of the license and the law. The additional applicant requests that DBS compensate the members of the represented group with the monetary difference between the price each of them actually paid to DBS for the services, and the cheapest price they could pay for those services. In addition, the additional petitioner asks the Court to order DBS to offer and provide its services to every claimant on the same terms and present them in its various publications. In September 2015, the Court ruled that the two lawsuits would be defined as related cases and in November 2015 ordered the consolidation of the hearing on the two motions for approval. With the consent of the parties, the Court decided to delay the hearing of the case in view of a parallel delay that occurred in parallel cases against other defendants when a requesy for transfer of the hearing of the motions to the other Court is pending. In its decision of March 2018 on the motions for approval of the hearing arrangements, the Court ruled that the proceedings against all media companies, including the television companies and the applications against DBS, will be heard jointly and set procedures for clarifying the motions for approval. In addition, after the parties to the proceeding submitted summaries on their behalf to the Court, in July 2018 a hearing was held on all motions for approval against all media companies, in which the Court advised the applicants to consider a rewarded departure from the motions for approval, and ruled that to the extent that the recommendation is not received by September 2018, a decision will be given by the Court in the motions for	Amount of the claim The subject of the motion was estimated by the applicants at NIS 13 million plus non-pecuniary damage as decided by the Court. The applicant in the additional motion does not specify the amount of the claim, but estimates the extent of the damage at tens of millions of NIS.

[80] For material reporting and material thresholds, see section 2.18.

	Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
					approval. In November 2018, as no further notice was filed in the matter, the Court ruled that the case would be transferred for a decision on the motions for approval. In December 2019, a ruling was received in the Tel Aviv-Yafo District Court rejecting all motions for approval. In January 2020, the applicants in the First Motion filed an appeal against the judgment to the High Court. In February 2021 as part of a hearing on the first appellant's appeal, and on the other appeals conducted jointly with this appeal, the High Court recommended to all the appellants, including the first appellant, to withdraw the appeal on their behalf, without an order for expenses. Following this, the first applicant announced the withdrawal of the appeal on its behalf. On February 16, 2021 the partial judgment of the High Court was given, ordering the striking out of the appeal of the first petitioner without an order for expenses.	
b.	December 2020		The Jerusalem District Court		For details regarding an indictment filed in December 2020 by the State Attorney's Office (following an open investigation opened in June 2017), *inter alia*, against the former CEO of DBS and its former CFO see section1.1.7.	
c.	June 2017	Bezeq shareholders vs. Bezeq, Chairman of the Board of Bezeq, members of the Board of Bezeq, as well as members of the Eurocom Group and vs. the (former) CEO of Bezeq and CEO (former) and CFO of DBS	In the District Court (Economic Department) in Tel Aviv	Motion for approval of class actions	For details regarding a motion for approval of a class action lawsuit filed against, among other things, the former CEO of DBS and its former CFO, in connection with a 2015 transaction in which Bezeq acquired the remaining shares of the DBS shares held thereby from Eurocom DBS, see section 2.18.1.	
d.	July - August 2017	Bezeq shareholders against Bezeq and DBS	Tel Aviv District Court	Motion for disclosure of documents before submitting a	For details regarding a motion for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law against Bezeq and DBS, for disclosures of certain documents in connection with a 2013 DBS and Space stakeholder transaction as	

	Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
				motion for approval of a derivative claim in accordance with Article 198A of the Companies Law	amended in 2017 (Space Agreement) See section 2.18.1 subsection h.	
e.	June 2018	Bezeq shareholders against Bezeq, DBS and the former controlling shareholders of Bezeq	Tel Aviv District Court (Economic Department)	Request for disclosure and review of documents under section 198A of the Companies Law	For details regarding a motion for disclosure of documents prior to filing a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law, which were filed by shareholders against Bezeq, DBS, the former controlling shareholder in Bezeq, Mr. Shaul Elovich, and his son, Mr. Or Elovich for the delivery of documents and information in connection with the breach of the fiduciary, fairness and trust obligations of Elovich in connection with the sale of Bezeq shares on February 2, 2016 by the Company, see section 2.18.1, subsection i.	

5.17.2. Legal proceedings completed during the reported period or until the date of publication of the report

Date of filing the claim	Sides	Court	Type of procedure	Details	The amount of the original claim (NIS million)
September 2014	Client against DBS	District (Tel Aviv)	Monetary claim together with a motion to recognize it as a class action	Allegation regarding the sending of electronic advertisements by DBS to its customers, which allegedly was done in violation of Article 30A of the Communications Law, violation of the rules of DBS's license and violation of the agreement between it and its customers. The plaintiffs sought redress from the Court for inconvenience, harassment, loss of time, etc., caused to DBS customers as well as relief, the amount of which will be determined at the discretion of the Court, for enrichment of DBS as a result of sending these messages. In June 2019, the Court approved the filing of the lawsuit as a class action. The motion was approved in respect of non-pecuniary damage only, when the applicants' claims regarding the existence of pecuniary damage were rejected. In June 2020, a ruling was given by the High Court, according to which, prior to the approval decision, the applicants	NIS 402 million (plus a remedy that the Court is asked to determine at its discretion).

Date of filing the claim	Sides	Court	Type of procedure	Details	The amount of the original claim (NIS million)
				will withdraw from the motion for approval and will be paid compensation in the amount of NIS 100,000.	

5.18. Goals and strategy

5.18.1. DBS's goals are to maintain market share, while maintaining DBS's business and competitive position in the field and Yes's brand status as a leading communications brand, and continuing to take streamlining and synergy measures with Pelephone and Bezeq International.

As of 2019, DBS has been implementing a migration plan from satellite broadcasts to the Internet (OTT) in a long-term gradual procedure that is expected to be spread over a period of up to about 7 years (early 2026), in accordance with the decision of the Boards of Directors of DBS and Bezeq. The said decisions were made in light of the trends in the television content market, which include lowering entry barriers, entry of new players and establishing OTT broadcast technologies, changing the value chain and changing consumption habits, along with the differences between old satellite broadcast technology and OTT broadcast technology, changing the value chain and changing consumption habits, along with the differences between the old satellite transmission technology and the OTT transmission technology on the benefits inherent in it (also paying attention to the aspects of equipment, obligations and content rights). In accordance with the decision, DBS will regularly monitor market conditions, competition and the technological environment, and will frequently examine the applicability of the outline and the need, if any, to make changes to it, the pace of implementation or the manner in which it is implemented, taking into account its customer needs as well as regulatory amd other obligations of DBS.

Since this is the implementation of an outline for the transition in a multi-year gradual procedure, with ongoing monitoring, there is no certainty, at this stage, regarding the actual duration of the process and / or that the move will be completed and such a transition will be made. As the transition is completed, it is expected to lead to savings in DBS expenses and a better adaptation to changing market conditions.

As of the date of approval of the statements, the rate of DBS subscribers using the Services Yes+ and StingTV transmitted via the Internet (as stated in the sections5.2.1.1 and 5.2.2 above) is about 25%[81] of all DBS subscribers.

5.18.2. In order to achieve the aforementioned goals, along with actions to reduce expenses, DBS invests considerable efforts in the areas of marketing and sales and in an appropriate marketing strategy designed to further recruit existing subscribers and retain existing subscribers; Continuous improvement in the subscriber service system; Upgrading customer value propositions, creating differentiation and originality in the content of its broadcasts; Offering a variety of products (both low cost and premium), increasing the volume of content purchased by each subscriber and expanding the added value services of DBS; As well as investment in the development and implementation of advanced technologies, advanced customer interfaces and new services; These efforts include the pursuit of DBS to implement the outline of the transition to OTT services while increasing the penetration rate of advanced services among subscribers in a way that will increase DBS revenue and subscriber loyalty to DBS services.

5.18.3. DBS's objectives as stated above, including with respect to the transition outline described above, are forward-looking information, as defined in the Securities Law, based, *inter alia*, on DBS's Management's assumptions, estimates and forecasts regarding the current trend in the broadcasting market, regarding competition, business developments, consumption habits, the technological environment, the regulatory environment and the manner of regulation (both on DBS and other parties) both in the satellite broadcasting market and in the Internet television broadcasting

[81] This rate also includes subscribers who also use satellite services.

market (OTT), also paying attention to the restrictions that apply and will apply to Bezeq, which affect DBS. However, the predictions of the DBS Management, its preparations, objectives and the above outline may not materialize, or materialize in a materially different manner, in view of changes in demand in the broadcasting market, in view of the intensification of competition in this field or in its alternative fields, in view of change in technologies and in consumption habits, in view of the pace of development of market browsing rates, in view of regulatory restrictions imposed or imposed on DBS, or its collaborations with Bezeq and other parties in the field, and in view of how the field will be regulated both in relation to licensees and in relation to those who do not have licenses.

5.19. Discussion of risk factors

The following are the threats, weaknesses and other risk factors of DBS (“**the Risks**") arising from its general environment, from the industry and from the unique characteristics of its activities.

5.19.1. Macro Risks

5.19.1.1 Financial Risks - a significant portion of DBS's expenses and investments are made in US dollars (mainly content, satellite segments, purchase of end equipment and other logistics equipment). Therefore, sharp exchange rate changes have an effect on DBS's business results.

5.19.1.2 Recession / economic slowdown - an economic slowdown in the economy, an 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 damage to its business results.

5.19.1.3 Security situation - an ongoing deteriorating security situation in large areas of Israel, which disrupts the daily lives of the residents, could lead to a deterioration in the business results of DBS.

5.19.1.4 Pandemic - at the beginning of 2020, an outbreak of the COVID-19 virus began in the world. Subsequently, DBS monitors developments in connection with the consequences of the COVID-19 pandemic and the legislative restrictions that followed, which have affected and are affecting its business activities. These consequences are manifested and may be manifested, *inter alia*, in damage to the supply chain (including streamers) and in the customer service and sales system. As of the date of the report, no material decrease in DBS revenues is expected which can be attributed to the consequences of this outbreak. At the same time, naturally, this is a variable incident that is not under the control of DBS, and therefore the continuation of the COVID-19 pandemic and its aggravation and / or decisions of countries and authorities in Israel and around the world in this regard, may affect DBS accordingly.

5.19.2. Industry risks

5.19.2.1 Dependence on licenses - DBS satellite TV broadcasts are provided in accordance with the broadcasting license and through additional licenses, and therefore depend on the existence of these licenses and their extension from time to time. Violation of the provisions of the licenses, as well as the provisions of the law by virtue of which the licenses were granted, may result, subject to the conditions set forth in the licenses, to revoke, change, suspend or not extend the licenses and consequently materially impair DBS's ability to continue operating in the field.

5.19.2.2 Regulation - the provision of satellite television broadcasts is subject to the obligations and limitations set forth in the legislation as well as to the licensing regime, supervision and approvals by various regulatory bodies, and may therefore be affected and limited in light of policy considerations dictated by these bodies and their decisions (see section 5.15). Regulatory changes may affect DBS activity and may materially impair its financial results. The OTT services including those of DBS are not monitored, as of the date of the report (for the possibility of arranging these services, see section 5.15.2). Continued activity of content providers (and the entry of additional providers) via the Internet as stated in the section5.1.1 without the application of regulatory rules to their activities and / or without appropriate amendment of the regulatory rules applicable to broadcast license holders, may materially impair the financial results of DBS. In addition, DBS's activity, as a company that provides services to the public, is subject, among other things, to legislation in the field of consumer protection as well as to the laws of protection of privacy and information security (see section1.7.4.5).

5.19.2.3 Fierce competition - the field is characterized by fierce competition with a variety of different competitors (see section 5.1.75.6), and changing consumer preferences in a way that requires DBS to constantly and continuously invest in recruiting and retaining customers and dealing with high transfer rates of subscribers between companies. For the characteristics of the competition, see section5.6.

5.19.2.4 Technological developments and improvements - technological improvements and the development of new technologies that will make existing technology inferior, may require DBS to make large financial investments in order to maintain its competitive position (see section5.1.1).

5.19.2.5 Alternative infrastructure for multi-channel broadcasts - the activity of the DTT system, and in particular its expansion, as well as the deepening of the intrusion of OTT operators, may harm the financial results of DBS (see section 5.1.1).

5.19.2.6 Unauthorized viewing - the field of broadcasts is exposed to the "pirated" connection of viewers to the reception of the broadcasts, without paying a subscription fee, and is also exposed to the public's access to content in which the broadcaster has rights.

5.19.2.7 Exposure to class actions - there is exposure to class actions in significant amounts.

5.19.3. Special risks for DBS

5.19.3.1 Limitations as a result of the ownership structure - DBS is limited in its cooperation with Bezeq in relation to the offer of a basket of communications services in a manner that materially affects DBS's business situation and its competitive capabilities (see section 5.15.2).

5.19.3.2 Restrictions as a result of the eligibility conditions - "cross" holdings of holders, directly or indirectly, in DBS, as well as a decrease in the holding rate of Israeli citizens or residents in DBS, may lead to non-compliance with the eligibility conditions of its broadcasting license (including in light of the Israeliness requirement (see section 5.15.1.1).

5.19.3.3 Maintaining a sufficient cash flow - DBS must maintain a sufficient cash flow for the purpose of meeting its business plan. The lack of sufficient cash flow, including through investment or financing from Bezeq, may adversely affect DBS's business and DBS's ability to increase the penetration rate of advanced services, as well as make it more difficult for it to deal with competitive threats in view of technological developments and changes in consumption habits in the field.

According to DBS, it is expected to continue to accumulate operating losses in the coming years and therefore without Bezeq's support it will not be able to meet its obligations and continue to operate as a going concern. According to DBS, the sources of financing available to it, which include, *inter alia*, the working capital deficit and the credit and Bezeq's investment framework in capital as stated in section**Error! Reference source not found.**, will meet the needs of DBS activity for the coming year.

5.19.3.4 Satellite failure, damage, unavailability or termination of service of the satellite - DBS transmissions are made using space segments of satellites located at the same point in space. Failure to operate one of the satellites, damage to one of them or unavailability of space segments in any of the satellites, including unavailability of a new satellite intended to replace a previous satellite that has ceased to transmit or provide services to DBS or termination of segment leasing in any of the satellites may significantly disrupt and reduce the volume of satellite broadcasts via satellite, unless an alternative is found to the segments of space that are not available as aforesaid and also in view of the lapse of time until the implementation of such an alternative. However, the duplication of satellites through which transmissions are made to subscribers as of the date of this report, also taking into account the partial backup mechanisms set forth in the Space Agreements (the quality and scope of which depend on the identity of the backed satellite), significantly reduces the risk of damage, failure or unavailability, and improve the survivability of the bulk of the broadcast. In the event of the availability of such satellite, it will be possible, through space segments available to DBS on the other satellite, to broadcast the main channels broadcast by DBS, but not all the channels broadcast (for the Space Agreement, including backup mechanisms determined under it, see section 5.16). However, according to DBS, the said duplication of satellites is expected to end in early 2022, and from that period onwards, DBS will operate with one satellite - see section 5.16[82]. DBS does not have insurance for loss of revenue caused by satellite failure. Termination of the receipt of the satellite services, for any reason (including due to the end of the agreement period), prior to the completion of the outline of the transition to transmission via the Internet in relation to a substantial part of DBS subscribers may result in damage to DBS revenues.

The progress of the process of switching to or accelerating transmission via the Internet may reduce the vulnerabilities mentioned above involving the failure, damage, unavailability or termination of satellite services.

The assessment of DBS as stated in this paragraph above is forward-looking information. This assessment is based on the provision of space segments and the implementation of space backup mechanisms and space assessments in relation to the useful life of satellites, the beginning of the activity of new satellites, the end of the activity of existing satellites and the exercise of contracts[83]. This assessment may not materialize or be partially or otherwise materialized if there is a change in the useful life of the satellites and the exercise of their lease option or if space does not provide the BBC with alternative segments in the event of unavailability or failure of the space segments or satellites.

5.19.3.5 Dependence on the owner of the rights in the space segments - DBS has a substantial dependence on Space, as the sole rights holder and the sole supplier of the space segments used by DBS, which is also responsible for the operation of the space segments. In relation to Amos 7, the supply of the segments of space also depends on the third party who owns the satellite and the body responsible for its operation, with whom Space has contracted (see section5.16 and on the realization of its engagement with Space in relation to this satellite until the end of the period determined in a manner that will allow the continued leasing of the segments of space on this satellite.

5.19.3.6 Dependence on software suppliers, equipment, content, infrastructure and services - DBS has dependence on software vendors and equipment, as well as on certain content vendors (see section 5.8.2) and receipt of certain services, including broadcast encryption services (see section 5.8.5). Failure to receive the products and services provided by them may impair the functioning of DBS and its results. In addition, inability to purchase streamers or receiving support services from current providers, is expected to involve a period of preparation that will be required to make the alternative engagement and change their supply and support system.

5.19.3.7 Impairment of the activity of the broadcasting centers and the logistics center - Impairment of the activity of the broadcasting center may cause a significant limitation in the continuation of the broadcasts, but decentralization of broadcasts to two broadcasting centers (in Kfar Saba and the Ella Valley) partially reduces the risk of damaging one of them. In the event of damage to one of the broadcasting centers, DBS will be able to continue to broadcast from the other broadcasting center only part of its channels as part of the satellite broadcasts, with this limitation being more significant in the event of damage to the Kfar Saba site. In the current format of satellite broadcasts. In the event of a cessation of activity on the Kfar Saba site, no services will be allowedOTT, and in the event of the termination of the activity of the secondary site, the main activity of the OTT services will be made possible through the Kfar Saba site. Each transmission center has the same encryption system, and therefore there is also a backup for the encryption system in the event of a damage to one of the transmission

[82] See footnote 72.

[83] And see also footnote 72.

centers. Damage to the DBS logistics center may also disrupt its operations, in particular the installation and maintenance of end equipment.

The assessment of DBS as stated in this paragraph is forward-looking information. This assessment is based on the provision of the provider services that operate the secondary broadcasting site in the event of an injury to the broadcasting center in Kfar Saba. This assessment may not materialize or partially or otherwise materialize if DBS is not allowed to receive the services of the said provider in full and properly.

5.19.3.8 Failure of DBS's computer systems - significant failure of DBS's major computer systems could significantly impair DBS's operational capacity. DBS has a remote backup site designed mainly for storing information and providing a limited internal computing service in case of failure, but major and significant operational capabilities of DBS will not be able to be realized without the proper operation of the computer systems at the site in Kfar Saba.

5.19.3.9 DBS's assessment in relation to the backup capability as stated in this paragraph is forward-looking information. This estimate is based on the functionality of the remote backup site. This assessment may not materialize or partially or otherwise materialize if such functionality is not possible.

5.19.3.10 Cyber risks - DBS is exposed to the risk of the occurrence of an activity intended to harm the use of a computer or computer material stored on it ("**cyber attack**"). Such attacks can disrupt business, cause theft of information / money, damage databases and subscriber privacy, damage to reputation, damage to systems and leak information. As a leading company in the field of subscriber television broadcasting, DBS is a target for cyber attacks and experiences cyber attacks, which are handled by it.

DBS implements protection policies that include layers of protection ranging from a layer of procedures and policies to a physical layer of security systems operated in a configuration that combines effective security with the operating needs of DBS in order to protect its infrastructure and systems and reduce the illegal use of its resources.

Despite DBS's investments in measures to reduce such risks, DBS is unable to guarantee that these measures will succeed in preventing damage and / or disruption to the systems and information related to them.

5.19.3.11 Technical limitation that prevents the offering of integrated services - DBS infrastructure suffers from technical limitations compared to Hot infrastructure. The technical limitation prevents DBS from providing telephony, Internet and various interactive services, including VOD, on its satellite infrastructure, and therefore their supply depends on third parties.

5.19.3.12 Defects in the encryption system or its bypass – DBS's broadcasts via satellite and via the Internet, are based on the encryption of the broadcasts transmitted by it, including the encoding of its satellite broadcasts using the "smart cards" installed in the decoders in the subscriber houses. Defects in its encryption system or hacking or bypassing it may allow free viewing of DBS broadcasts, thereby leading to a decrease in revenue, as well as a breach of agreements between DBS and its content providers.

5.19.3.13 Lack of exclusivity in the field of frequencies - the field of frequencies used by DBS to transfer satellite transmission from the transmission satellites to the reception dishes installed in the subscribers' homes, and which has been allocated under a license by the Ministry of Communications, is defined as a frequency range that an Israeli entity that may make authorized use of in the field of frequencies. If the holder of the main allotment uses the above-mentioned frequencies, disruptions in the quality of the DBS broadcasts and / or the availability of the broadcasts to the subscriber may result in damage to the financial results of DBS. As of the date of this report, to the best of DBS's knowledge, no holder of the main allotment used the said frequencies in a manner that caused actual and / or persistent interruptions in DBS broadcasts.

5.19.3.14 Interference for transmissions - since DBS transmissions via satellite are transmitted wirelessly from the transmission centers to the transmission satellites and from there to the reception dishes in the subscribers' houses, transmission of wireless signals, in the same frequency range, whether originating in Israel and abroad, and extreme weather conditions of heavy rain, hail or snow may cause disruptions in the quality and / or availability of the broadcasts via the satellite provided by DBS to the subscriber and material damage to its financial results. In relation to broadcasts via the Internet, there may be disruptions in the quality and / or availability of the broadcasts as a result of disruptions or unavailability of the Internet infrastructure.

5.19.3.15 Labor relations - DBS is a party to a collective agreement with the Histadrut and the Employees' Committee, which may reduce its administrative flexibility (see section 5.11.3). In addition, the implementation of manpower plans may cause unrest in labor relations and impair the day-to-day operations of DBS.

5.19.3.16 Streamlining procedures - DBS implements streamlining plans that involve, among other things, the sharing of management resources, organizational changes and the reduction of the workforce, in parallel with the management of significant infrastructure and other projects. Streamlining procedures, by their nature, carry with them the risks of loss of knowledge, turnover of employees, shift of managerial focus, and so on.

5.19.3.17 Delay in improving internet browsing speeds - as Bezeq's outline for the transition to OTT broadcasting (see section0) is also based on an improvement in Internet browsing speeds, nationwide, failure to improve browsing speeds through the deployment of fiber optics or through the implementation of another technological solution, by Bezeq or other communications operators, can delay the implementation of the layout or impair its implementation.

DBS assessments as to the browsing speeds required to enable OTT broadcasts as designed in an outline in a way that enables the operation of several converters in a customer's home is forward-looking information. These estimates are based on the expected development in browsing speeds, taking into account, among other things, the expected needs of customers' homes and the expected mix of broadcasts. These assessments may not materialize or materialize differently if there is a delay in improving Internet browsing rates or a change in customer needs or DBS.

Below is a presentation of the risk factors according to their influence in the opinion of the DBS's Management. It should be noted that the following DBS assessments regarding the extent of the risk factor's impact on DBS reflect the extent of the risk factors' impact in assuming the materialization of the risk factor, and the aforesaid does not express any assessment or give any weight to such prospects. In addition, the order in which the risk factors appear above and below is not necessarily according to the risk inherent in each risk factor or the probability of its occurrence.[84]:

Risk Factors Summary Table - Multi-Channel TV

	The degree of influence		
	High	**Medium**	**Small**
Macro risk			
Financial risks		X	
Recession / economic slowdown			X
Security situation			X
Pandemic		X[85]	
Industry risk			
Dependence on licenses	X		
Changes in regulation	X		
Fierce competition	X		
Technological developments and changes		X	
Alternative infrastructures		X	
Unauthorized viewing		X	
Exposure to class actions		X	

[84] See footnote 45.
[85] The extent of the effect of this risk factor on DBS activity was classified as moderate, assuming that the event would be limited in scope and time. Otherwise, the degree of impact may be large.

	The degree of influence		
	High	Medium	Small
Unique risk			
Limitations as a result of the ownership structure		X	
Restrictions due to eligibility conditions	X		
The need to maintain a sufficient cash flow	X		
Satellite failure and damage	X		
Dependence on the supplier of space segments	X		
Dependence on software, content, equipment and infrastructure vendors	X		
Impairment of the activity of the broadcast centers	X		
Failure of computer systems	X		
Cyber failures	X		
Technical limitation that prevents the offer of integrated services		X	
Encryption system failure	X		
Lack of exclusivity in frequencies		X	
Interference with transmissions	X		
Work relations			X
Efficiency procedures		X	
Delay in improving internet browsing rates	X		

The information contained in this section 5.19 and DBS's assessments regarding the impact of risk factors on DBS's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the regulatory bodies, on DBS's assessments of the market situation and its competitive structure, on possible developments in the Israeli market and economy, and on the factors specified in this section above. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

6. The Company

6.1. Funding

6.1.1. The Company's bonds

For details about the bonds issued by the Company See Note 14 to the 2020 statemtns and Section 4 of the Board of Directors' Report.

6.1.2. Credit rating

As of August 13, 2020, the Company's bonds are not rated in any rating. On the eve of the termination of the rating, the rating of the Company's bonds (Series C) by Midroog was Caa2.il, with a stable rating horizon.

6.2. Legal proceedings

6.2.1. On June 2, 2020, the Company and former directors of the Company signed a settlement agreement as part of the Horev claim, according to which the directors will pay an amount of NIS 2.5 million (hereinafter "**the directors settlement amount**") to the Company. On July 2020, the district Court approved the settlement agreement, and the directors' insurance paid the company the full directors' settlement amount. As part of the settlement, the Company paid the derivative plaintiff and his attorney a total of NIS 720,000. The net amount received by the Company is charged directly to the Company's shareholders' equity under the loss balance item.

6.2.2. On August 10, 2020, the Court in New York (the New York Southern District District) the settlement in the class action lawsuit filed against the Company, according to which, among other things, the insurance company that insured the Company paid a total of USD 1.2 million. See the Company's immediate report dated August 12, 2020 (Reference No. 2020-02-087540).

6.2.3. On September 14, 2020, a settlement agreement was completed in a derivative lawsuit against the Company in connection with claims regarding the distribution of a dividend of NIS 113 million by the Company, of which approximately NIS 73 million was paid to Internet Gold - Gold Lines Ltd. ("**Internet Gold**"). In 2016. As part of the settlement agreement, the Company received bonds (Series C) of the Company worth approximately NIS 22 million (principal and accrued interest) which were held by Internet Gold, in exchange for waiving the claim against Internet Gold. The Company also paid the derivative plaintiff a total of approximately NIS 4.23 million for expenses, attorneys' fees and remuneration.

6.2.4. In November 2020, a claim was filed with the Tel Aviv District Court (Economic Department) accompanied by a motion for approval as a class action by a private person who claims to be a shareholder of Bezeq ("**the Applicant**") against the Company, Bezeq and members of Bezeq's Board of Directors ("**the Respondents**"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, according to the motion, "due to Bezeq's failure to report and disclose to the Tel Aviv Stock Exchange (hereinafter: "**TASE**") and the concealment of material information from investors, in connection with a public report on "the Ministry of Communications' moves to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, on the extensive and substantial scope of the phenomenon of dual subscribers in the Bezeq International subsidiary (hereinafter: "Bezeq International") and their material negative impact on the business of the subsidiary and Bezeq". The definition of the group according to the motion is anyone who purchased the Bezeq shares from August 17, 2020 until October 30, 2020 and held the above shares or some of them on October 30, 2020, except for the respondents and / or those on their behalf and / or entities related to them. In the application, the damage caused to the group members as a result of the incidents that are the subject of the lawsuit amounts to approximately NIS 55 million to NIS 65 million, based on an expert opinion attached to the motion.

6.2.5. In November 2020, a lawsuit was filed in the Tel Aviv District Court (Economic Department) with motion for approval as a class action by a private individual ("**the Applicant**") who claims is a shareholder of the Company who claims to hold the Company's shares and Bezeq shares, against the Company, Bezeq and 72 other respondents, which include past and present officers in the two companies ("**the Respondents**"). The matter of the application is the approval of a class action for compensation of the Applicant and the members of the represented groups for damages caused to them, as alleged in the motion, as a result of the Respondents' actions and omissions when they refrained from disclosing to the investing public seemingly material information that they had to disclose in accordance with the provisions of the law, in connection with the two companies' report dated November 9, 2020 according to which Bezeq International books have unexplained net asset balances (deductible) of tens of millions of NIS, whin a significant portion of them otiginate, apparently, in past periods of more than 15 years. The definition of the groups according to the motion is: (a) Anyone who purchased Bezeq shares from November 8, 2005 to November 9, 2020, except the Respondents or those on their behalf and (b) Everyone who purchased the Company's shares on the Tel Aviv Stock Exchange from November 8, 2007 to November 9, 2020, except the Respondents or those on their behalf. The amount of the class action specified in the statement of claim is "over NIS 2.5 million (for matters of substantive authority)" when in accordance with the economic opinion that was attached to the motion, "the estimate for the drop in the price of the security" in respect of the information included in the immediate report dated November 9, 2020 is 5.26%-5.40% in relation to Bezeq and 9.07% - 9.36% in relation to the Company.

______________________	March 24, 2021
B Communications Ltd.	Date

The names of the signatories and their functions:
Darren Glatt, Chairman of the Board
Tomer Raved, CEO and Director

7. Appendix A - Glossary

A. Names are abbreviated according to the legislation that appear in the report

Consumer Protection Law	-	Consumer Protection Law, 5741-1981
Economic Competition Law	-	Economic Competition Law, 5748-1988
Companies Law	-	Companies Act, 5769-1999
Non-Ionizing Radiation Law	-	The Non-Ionizing Radiation Law, 5776-2006
Centralization Law	-	Law for the Promotion of Competition and the Reduction of Centralization, 5774-2013
Second Authority Law	-	Second Television and Radio Authority Law, 5755-1990
Planning and Construction Law	-	Planning and Construction Law, 5725-1965
Communications Law	-	The Communications (Bezeq and Broadcasting) Law, 5742-1982
Securities Law	-	Securities Law, 5728-1968
Rules of communication		Rules of Communication (Holder of a Broadcasting License), 5747-1987
Telegraph Order		Wireless Telegraph Order [New Version], 5732-1972
Usage regulations		Communications (Bezeq and Broadcasting) Regulations (Use of the Mapa Public Network), 5775-2014
The media order		Communications Order (Bezeq and Broadcasting) (determination of an essential service provided by Bezeq, The Israel Telecommunications Company Ltd.), 5777-1997
The Planning and Construction Regulations (Exemption from the Permit)	-	Planning and Construction (works and buildings exempt from the permit), 5774-2014
Prospectus Details Regulations	-	Securities Regulations (Prospectus Details, Draft Prospectus Structure and Form), 5729-1969
Reciprocal linking regulations	-	Communications Regulations (Bezeq and Broadcasting) (Payments for Reciprocal Linking), 5764-2000
Satellite Broadcasting License Regulations	-	Communications Regulations (Bezeq and Broadcasting) (Procedures and Conditions for Licensing Satellite Broadcasting), 5758-1998

B. Technological terms and other key terms appearing in the report[86]

Internet Gold	-	Internet Gold Gold Lines
Bezeq Online	-	Bezeq online Ltd.
Bezeq International	-	Bezeq International Ltd

86 It should be noted that the definitions of the terms are provided for the convenience of the reader, and are not necessarily identical to the definitions in the Communications Law or its regulations.

BAP	-	BAP Communications Solutions (Limited Partnership) which is controlled by Bezeq International
Golan telecom	-	Golan Telecom Ltd.
2020 statements	-	The Company's consolidated financial statements for the year ended December 31, 2020
Interconnectivity fee	-	The interconnectivity fee (also called the call completion fee) is a payment that one operator pays to another operator for a reciprocal link (see definition below)
DBS	-	DBS Satellite Services (1998) Ltd.
Hot	-	Hot Communications Systems Ltd., and corporations under its control that operate in the field of broadcasting (multi-channel television)
Hot Telecom	-	Hot Telecom Limited Partnership
Hot Mobile	-	Hot Mobile Ltd. (formerly MIRS Communications Ltd.) and corporations under its control
Hot-Net	-	Hot-Net Internet Services Ltd.
The Stock Exchange	-	The Tel Aviv Stock Exchange Ltd.
The Histadrut	-	The New General Workers' Union
Council	-	Cable and Satellite Broadcasting Council
The Second Authority	-	The Second Television and Radio Authority
Walla	-	Walla! Communications Ltd. and corporations under its control
space	-	Space Communications Ltd.
Eurocom DBS	-	Eurocom DBS Ltd.
Eurocom Communications	-	Eurocom Communications Ltd.
Switching	-	In the context of a communications network - a telephony system that supports the connection of devices for transferring calls between different end units
Mbps	-	Megabits per second; Measurement unit for data transfer speed
NIO	-	National interior operator; A body that provides landline interior telephony services under a general or unique NIO license
Roaming	-	Roaming services allow a customer of one communication network to receive services from another communication network other than his "home network" (the network with the license he subscribes to), based on roaming agreements between the home network and the host network
Network endpoint	-	Network endpoint - an interface to which one is connected, on the one hand a public Bezeq network and on the other hand end equipment or a private network. Network endpoint services include the supply and maintenance of equipment and services in the customer's premises
Cellcom	-	Cellcom Israel Ltd. and corporations under its control
Pelephone	-	Pelephone Communications Ltd.
Partner	-	Partner Communications Ltd. and corporations under its control

Interconnectivity	-	Interconnectivity enables the transmission of instant messages between subscribers of different licensees, or the provision of services by one licensee to the subscribers of another licensee; Interconnectivity is possible through a connection between a public Bezeq network of one licensee (for example - Bezeq) and a public network of another licensee (for example - a cellular operator); See also " Interconnectivity Fee" Definition
Mobile phone radio	-	Mobile radio telephone phone; Cellular telephony
Unified general license / unified license	-	A general license that is one of the following or a license that unites several thereof: (1) a unique general license; (2) a general mobile radio telephone license in another network; (3) a general license for the provision of international flash services; (4) a special license for the provision of network endpoint services; (5) Special license for the provision of Internet services.
NIO license	-	Unique general or general license for the provision of landline interior Bezeq services
Mobile Radio license		General license for the provision of mobile radio telephone services - in the cellular method
Broadcasting license	-	License for satellite television broadcasts
ILA	-	Israel Lands Authority
Rami Levi	-	Rami Levy Cellular Communications Ltd.
Bezeq services	-	Performing Bezeq operations (transmission, transfer or reception of signs, signals, writing, visual forms, sounds or information, using wire, wireless, optical system or other electromagnetic systems) for others
Transmission services	-	Electromagnetic signal transmission or bit sequence
Data communication services	-	Network services for data transfer from point to point, data transfer between computers and various communication networks and remote business access services
Report period	-	The twelve months ended December 31, 2020
Bitstream Access (BSA)	-	Managed broadband access that allows provider services to connect to the infrastructure owner network and offer broadband services to subscribers
xDSL	-	Digital Subscriber Line - technology that uses the copper wires of telephone lines to transmit data at high rates by using frequencies higher than the audible frequency and therefore allows simultaneous use of call and data transmission
DTT	-	Digital Terrestrial Television- Wireless digital broadcasting of TV channels via terrestrial relay stations
GSM	-	Global System for Mobile Communications - International Standard for Cellular Communication Networks ("2G")
HD	-	High Definition TV - High definition (broadcast) TV broadcasts
4k / UHD	-	Ultra Hi Definition - Internationally defined transmission technology, compared to pixel image size. In this transmission method the amount of pixels is 4 times larger (2160 × 3840) compared to HD transmission (1080 × 1920)

HSPA	-	High Speed Packet Access - Cellular technology that is a continuation of the UMTS standard that enables data transfer at high speeds ("3.5G")
IBC	-	ABC Israel Broadband Company (2013) Ltd.
IP	-	Internet Protocol. The use of this protocol enables convergence between voice (data) and contractual (video) services over the same network
IPVPN	-	A virtual private network (Virtual Private Network) based on an Internet Protocol (IP) which is established on the public network, and through which it is possible to: (a) allow end users to connect to the corporate network and perform remote access; And - (b) make a connection between the branches of the organization (intranet)
ISP	-	Internet Service Provider - has a special license to provide Internet access services (Internet Service Provider). The Internet access provider is the body that allows the end user to connect to the IP / TCP protocol that connects it to the global Internet network
LTE		Long Term Evolution - Fast WIFI mobile standard devices such as cell phones
MVNO	-	Mobile Virtual Network Operator - a virtual cellular operator, which uses the existing communication infrastructure of the cellular operators without the need for its own infrastructure
NGN	-	Next Generation Network - Bezeq's communications network based on IP architecture
UMTS	-	Universal Mobile Telecommunications System - an international standard for cellular communications that is a development of the GSM standard ("3G")
VoB	-	Voice Over Broadband - Telephony services and related services in IP technology using landline broadband access services
VoC	-	Voice over Cellular Broadband - Telephony services over a cellular data communication channel ("Mobile VoB Services")
VOD	-	Video on Demand - TV services on demand by the subscriber
VoIP	-	Voice over Internet Protocol - technology that enables the transmission of voice messages (telephony service delivery) via IP protocol
Wi-Fi	-	Wireless Fidelity - Wireless access to the Internet in the local area

8. Appendix B - Financial Indices and Operational Performance Indices (Key Performance Indicators)

General

The indices below, which are specified in the chapters of the Company's periodic report, are financial indices that are not defined or detailed in generally accepted accounting principles included in the financial statements. The definition of the indices and / or how they are calculated may change from time to time, they do not constitute a substitute for indices based on accepted accounting rules and they may not even be calculated in the same way as parallel indices in other companies.

Details will be provided below in relation to the aforesaid indices, including in accordance with the update of the decision of the Securities Authority 99-6 regarding the use of financial indices that are not based on generally accepted accounting rules.

Financial Indices

EBITDA

(Earnings Before Interest, Taxes, Depreciation and Amortization) EBITDA is defined as profit before interest, taxes, depreciation and amortization. The EBITDA index is an accepted index in the field of the Company's activity which neutralizes aspects due to differences in the capital structure, various aspects of taxation and the manner and period of the reduction of fixed and intangible assets. The Company's EBITDA is calculated as operating profit before depreciation, amortization and impairment (ongoing losses from impairment of fixed assets and intangible assets). As of January 1, 2019, and for the purpose of adequately presenting economic activity, the Company presents ongoing losses from impairment of fixed assets and intangible assets in the DB and Walla under depreciation and amortization, as well as ongoing losses from impairment of broadcasting rights under operating expenses and general expenses (in the statement of income).

Free flow (Free Cash Flow - FCF)

The Company's free cash flow is calculated as cash arising from current activities less cash for the purchase / sale of fixed assets and intangible assets (net) and as of 2018, with the application of a IFRS16 standard, payments for leases are also deducted. The free cash flow index is an accepted index in the field of the company's activity in general and it represents the cash that the Company is able to produce after the investment needed to maintain or expand its asset base.

Operational performance indices (Key Performance Indicators)

ARPU (Average Revenue Per User)

The ARPU reflects the average monthly income per line / subscriber / parent house and is calculated as the monthly average distribution of the total relevant income for the period in the average number of active lines / subscribers / households in that period, as applicable. It will be clarified that the Group has four main areas of activity that correspond to the corporate division between the Group companies and the definition of a different active subscription between the areas of activity.

Churn rate

The churn rate reflects the Company's ability to retain its customer base and is calculated as the distribution of the number of lines / subscribers / households that disconnected from the Company's services during the period in the average number of active lines / subscribers / households in that period, as applicable. It will be clarified that the Group has four main areas of activity that correspond to the corporate division between the Group companies and the definition of a different active subscription between the areas of activity.

Chapter B'

Report of the Board of Directors on the state of affairs of the corporation for the year ended December 31, 2020

Report of the Board of Directors on the state of affairs of the corporation for the year ended December 31, 2020

We are hereby honored to submit the Board of Directors' report on the state of affairs of "B Communications Ltd." (hereinafter: “the Company") and the Group companies in a consolidated manner (the Company and its subsidiaries will be collectively referred to hereinafter as: “the Group"), for the year ended December 31, 2020.

For the investigation by the Securities Authority and the Police, see Note 1.3 to the financial statements.

The auditors referred to this in their opinion on the financial statements.

For restatement, see Note 1.5 to the financial statements.

Regarding the effects of COVID-19 crisis, see Chapter 1.6 below.

The Group reports on four main operating segments in its financial statements as follows:

1. **Landline interior communication**
2. **Cellular communication**
3. **Internet services, international communications and network endpoint**
4. **Multi-channel TV**

It should be noted that the Company's consolidated financial statements also includes the "other" segment which mainly includes call center services for customers (through "Bezeq Online") and up to December 2020, also included content services in the field of the Internet (via "Walla").

On December 27, 2020, Bezeq completed a transaction for the sale of all its holdings in Walla, see Note 13.4 to the financial statements. The "other" segment activity is not material at the Group level.

Report of the Board of Directors on the state of affairs of the corporation for the year ended December 31, 2020

The following are consolidated results of the Group:

	2020	2019	Increase (decrease)	
	NIS millions	NIS millions	NIS millions	%
Net profit (loss)	**900**	(1,460)	2,360	-
EBITDA*	**3,566**	2,530	1,036	40.9
Adjusted EBITDA*	**3,647**	3,671	(24)	(0.7)

The increase in consolidated net profit in 2020 relative to 2019 also resulted mainly from the registration of impairment in the cellular communications segment and the cancellation of the tax asset due to losses in DBS. In 2019, these losses were partially offset by the record of capital gains from the sale of a real estate property in the "Sakia" complex in 2019, for more information see Section 1.2.1 below.

The increase in consolidated EBITDA in 2020 was due to the record of impairment in the cellular communications segment in 2019, which was partially offset by the recording of a capital gain from the sale of a real estate property in the Sakia complex in 2019.

*** Financial indices that are not based on generally accepted accounting principles**

As of the date of the report, the Group's Management is assisted by financial performance indices that are not based on the generally accepted accounting rules for examining and presenting the Group's financial performance. These indices do not constitute a substitute for the information contained in the Company's financial statements.

The following is a breakdown of the indices:

Index	Details of the method of calculation and the purposes of the index
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as profit before interest, taxes, depreciation and amortization. The EBITDA index is an accepted index in the Group's field of activity which neutralizes aspects due to differences in the capital structure, various aspects of taxation and the manner and period of the amortization of fixed and intangible assets. The Group's EBITDA is calculated as operating profit before depreciation, amortization and impairment (including ongoing losses from impairment of fixed assets and intangible assets as described in Note 3.10.2 and 11.5 to the financial statements).
Adjusted EBITDA	Calculated as an EBITDA index net of other operating expenses / revenue, net and one-off losses / profits from impairment / increase in value and expenses in respect of options for employees. The index allows comparisons of operational performance between different periods while neutralizing one-off effects of exceptional expenses / revenue. It should be noted that the correlated EBITDA index should not be compared to indices with a similar name reported by other companies due to a possible difference in the way the index is calculated.

Report of the Board of Directors on the state of affairs of the corporation for the year ended December 31, 2020

Method of Adjusted EBITDA calculation	**2020**	**2019**
	NIS millions	**NIS millions**
Operating Profit	**1,708**	466
Depreciation, amortization and impairment	**1,858**	2,064
EBITDA	**3,566**	2,530
Impairment loss	**8**	1,329*
Other operating expenses (income), net	**73**	(188)
Adjusted EBITDA	**3,647**	3,671

* reclassified

1. Explanations by the Board of Directors on the state of the corporation's business, the results of its operations, shareholders' equity, cash flows and other matters

1.1 The financial position

	December 31, 2020	December 31, 2019	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Cash and current investments	**1,775**	2,055	(280)	(13.62)	For more information, see chapter 4.1 below.
Limited cash	**-**	39	39	-	
Current and non-current customers and trade receivable	**2,315**	2,496	(181)	(7.2)	The decrease was mainly due to the landline interior communications segment due to a decrease in balances receivable as a result of the sale of real estate offset by an increase in customer balances and also from the cellular communications segment due to a decrease in customer balances offset by a frequency grant (see Note 11.1 to the financial statements).
Inventory	**73**	96	(23)	(23.9)	
Assets held for sale	**10**	43	(33)	(76.7)	
Broadcasting rights	**67**	59	8	13.6	
Right-of-use assets	**1,804**	1,217	587	48.23	The increase was due to the landline interior communications segment and the cellular communications segment as a result of new lease agreements due to the move to new offices, see Note 9.5 to the financial statements.
Fixed assets	**6,131**	5,968*	163	2.73	The increase was due to the landline interior communications segment, offset by a decrease in the Internet, international communications and network endpoint services segments due to recognition of losses from impairment of assets, see Note 11.6 to the financial statements.
Intangible assets	**3,268**	3,167*	101	3.18	The increase was mainly due to the registration of the cost of 5G frequencies in the cellular communications segment, see Note 11.1 to the financial statements. The increase was offset by recognition of losses from impairment of assets in the Internet, international communications and network endpoint services segments, see Note 11.6 to the financial statements.
Deferred expenses and non-current investments	**402**	343*	59	17.2	The increase in BCOM was due to cash deposited in a long-term deposit. On the other hand, there is a decrease in Bezeq, which resulted from the recognition of losses from impairment of long-term advance expenses for capacities and additional advance expenses in the Internet, international communications and network endpoint services segments in the amount of NIS 112 million (see Note 11.6 to the financial statements).

Deferred tax assets	**108**	81	27	33.3	The increase was mainly due to the initial recognition of a deferred tax asset in respect of an expected loss for tax purposes from the sale of Walla (see Note 7 to the financial statements).
Total assets	**15,953**	15,564	389	2.49	

*** Reclassified**

1.1. Financial position (continued)

	December 31, 2020	December 31, 2019	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Debt to financial institutions and bondholders	**10,270**	11,419	(1,149)	(10.06)	The decrease in debt was mainly due to repayment (including early repayment) of loans and repayment of bonds, offsetting the issuance and expansion of Series 11 and 12 bonds in the landline interior communications segment (for more information, see Note 14 to the financial statements).
Liabilities in respect of leases	**1,907**	1,385	522	37.7	The increase was due to the landline interior communications segment and the cellular communications segment due to new leases agreements as a result of relocation to new offices, see Note 9.5 to the financial statements.
Suppliers and trade payables	**1,766**	1,627	139	8.54	The increase was mainly due to the landline interior communications segment, due in part to an increase in the tax liability balance.
Employee benefits	**817**	1,010	(193)	(19.1)	The decrease was due to payments for retirement of employees and streamlining plans in the Group, offset by expenses due to the termination of an employee-employer relationship in early retirement in Bezeq in the amount of NIS 65 million, see Note 17.5.1 to the financial statements.
Other liabilities	**766**	561	205	36.54	The increase was mainly due to a long-term liability in the cellular communications segment for winning a frequency tender, see Note 1.11. to the financial statements.
Total liabilities	**15, 526**	16,002	(476)	(2.97)	
Total capital deficit attributed to the Company's shareholders	**(107)**	(241)	134	(55.6)	The capital deficit is approx. 0.06% of the total balance sheet, compared with a capital deficit that was approx.1.54 of the total balance sheet as of December 31, 2019.

1.2. The results of operations

1.2.1. Results summary

	2020	2019	Increase (decrease)		Explanation
	NIS millions			%	
Revenue	**8,723**	8,929	(206)	(2.3)	The decrease was mainly due to the cellular communications segment, mainly due to the impact of the COVID-19 crisis which led to a decline in revenues from roaming services as well as the Internet services, telecommunications services and multi-channel television segments, offset by an increase in landline interior communications segment revenues.
Operating and general expenses	**3,182**	3,321	(139)	(4.2)	The decrease was due to a decrease in expenses in all of the Group's main segments, except for the landline interior communications segment, as well as a decrease in the loss from the impairment of broadcasting rights in DBS compared with the corresponding year, see Note 11.5 to the financial statements.
Payroll	**1,894**	1,937	(43)	(2.2)	The decrease was mainly due to the cellular communications segment as well as the multi-channel television segment and the Internet, international communications and network endpoint services segments, mainly due to a decrease in the number of jobs. The decrease was partially offset mainly due to an increase in payroll expenses in the "others" segment - at Bezeq Online.
Depreciation, amortization and impairment	**1,858**	2,064	(206)	(10)	The decrease was due to the Internet, international communications and network endpoint services segments, the cellular communications segment and a decrease in the loss from the impairment of intangible assets and fixed assets in DBS, see Note 11.5 to the financial statements, offset by an increase in the landline interior communications segment.
Impairment loss, net	**8**	1,329	(1,321)	(99.3)	In the current year, a loss was recognized from the impairment of assets in the Internet and international communications services cash-generating unit in the amount of NIS 279 million (see Note 11.6 to the financial statements) compared to NIS 157 million in the corresponding year. Also, following an agreement to sell all Bezeq's holdings in Walla, Profit from the cancellation of the impairment recognized in the past in the amount of NIS 14 million was recognized in the year 2020 (see Note 13.4 and 11.2 to the financial statements). Also, loss from impairment of goodwill attributable to the cellular

					communications cash-generating unit in the amount of NIS 951 million was recognized in 2019, compared with the cancellation of an impairment loss from 2020 in the amount of NIS 258 million.
Other operating expenses (revenue), net	**73**	(188)	261	-	The change was due to the fixed landline interior communications segment, mainly due to a capital gain from the sale of a real estate property in the Sakia complex, which was recognized in the corresponding year in the amount of NIS 403 million. The aforesaid change was partially offset mainly due to expenses recognized in the corresponding year due to the termination of the employer-employee relationship in early retirement and a streamlining agreement in the other segments of the Group, see Note 25 to the financial statements.
Operating Profit	**1,708**	466	1,242	266.5	
Financing expenses, net	**474**	472	2	0.4	In 2020, there was a decrease in net financing expenses in the landline interior communications segment, which was offset by non-registration of financing revenue as a result of the change in the Company's debt terms recorded in 2019, see Note 26 to the financial statements.
Share in losses of investee companies	**-**	(2)	2	(100)	
Income taxes	**334**	1,452	(1,118)	(76.99)	The decrease in income taxes was mainly due to the recognition of tax expenses in the corresponding year in the amount of NIS 1,259 million from the write-off of the tax asset in respect of losses of DBS. In the current year, a tax asset was written off in the Internet, international communications and network endpoint services segment in the amount of NIS 31 million, see Note 7 to the financial statements.
Profit (loss) in the year	**900**	(1,460)	2,360	-	

*** Reclassified**

1.2.2. Operating segments

a. The following are data regarding revenues and operating profit in accordance with the Group's operating segments:

	2020		2019	
	NIS millions	% of total revenue	NIS millions	% of total revenue
Revenue by operating segments				
Landline interior communication	**4,159**	**47.68**	4,073	45.6
Cellular communication	**2,186**	**25.06**	2,362	26.5
Internet services, international communications and network endpoint	**1,271**	**14.57**	1,339	15.0
Multi-channel TV	**1,287**	**14.75**	1,345	15.1
Others and adjustments	**(180)**	**(2.06)**	(190)	(2.2)
Total	**8,723**	**100.00**	8,929	100

	Year 2020		Year 2019	
	NIS million	% Of revenue The sector	NIS million	% Of revenue The sector
Operating profit (loss) by operating segment				
Landline interior communication	**1,705**	**41.0**	2,142	52.59
Cellular communication	**(84)**	**(3.8)**	(99)	(4.2)
Internet services, international communications and network endpoint	**(241)**	**(19.0)**	(196)	(14.63)
Multi-channel TV *****	**(42)**	**(3.3)**	(135)	(10)
Others and adjustments	**370**	**-**	****** (1,246)	-
Consolidated operating profit / percentage of Group income	**1,708**	**19.58**	466	5.2

*** The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 regarding a summary of selected data from the financial statements of DBS.**

**** Impairment loss (cancellation of impairment loss) attributable to the cellular communications cash-generating unit is presented under "Others and adjustments".**

1.2.2. Activity segments

b. **Landline interior communications segment**

	2020	**2019**	**Increase (decrease)**		**Explanation**
	NIS millions			**%**	
Internet infrastructure	**1,622**	1,578	44	2.8	The increase was mainly due to an increase in the average revenue per retail subscription and an update in the rates of wholesale Internet services. In addition, there is an increase in the number of retail internet subscribers mainly due to the impact of the COVID-19 crisis. The increase was mitigated by a decrease in the number of wholesale Internet subscribers.
Landline telephony	**1,008**	1,039	(31)	(3.0)	The decrease was due to a decrease in the number of subscribers and was mitigated by an increase in the average revenue per telephone subscriber due to an increase in revenue from calls due to the COVID-19 crisis.
Transmission, communication Data and others	**1,241**	1,182	59	5.0	The increase was due, among other things, to an increase in revenues from transmission services to Internet providers and to businesses and the sale of cellular end equipment.
Cloud and digital services	**288**	274	14	5.1	The increase was due, among other things, to virtual exchange services.
Total	**4,159**	4,073	86	2.1	
Operating and general expenses	**590**	565	25	4.4	The increase was mainly in connectivity to telecommunications operators due to an increase in consumption, expenses for subcontractor services, provision for loan-loss, advertising and end equipment costs, offsetting a decrease in building maintenance expenses, mainly due to property tax credit deductions due to the COVID-19 crisis
Payroll	**919**	911	8	0.9	The increase in payroll was mainly due to wage increases and actuarial provisions, offsetting the retirement of employees and an increase in the attribution of payroll for investment.
Depreciation and amortization	**877**	861	16	1.9	
Other operating expenses (revenue), net	**68**	(406)	474	-	The change was due to a decrease in capital gains from the sale of real estate, mainly due to a capital gain from the sale of a real estate property in the "Sakia" complex that was recognized in the corresponding year in the amount of NIS 403 million. On the other hand, there was a decrease in expenses recognized in respect of the termination of the employee-employer relationship in early retirement and in addition, a capital gain of NIS 22 million was recognized from the sale of Walla, see Notes 13.4, 17.5 and 25 to the financial statements.

Operating profit	**1,705**	2,142	(437)	(20.4)	
Financing expenses, net	**403**	569	(166)	(29.2)	The decrease was mainly due to a decrease in financing expenses for employee benefits, a decrease in interest expenses due to repayment (including early repayment) of loans, a decrease in linkage differences due to bonds due to a decrease in the consumer price index and lower repayment costs of loans and bonds recognized in the corresponding year, see Notes 14.2 and 26 to the financial statements.
Income taxes	**262**	381	(119)	(31.2)	In the reported year, a deferred tax asset was recognized in respect of a loss for tax purposes from the sale of Walla in the amount of NIS 37 million (see Note 7 to the financial statements).
Segment profit	**1,040**	1,192	(152)	(12.8)	

1.2.2. Activity segments

c. **Cellular communications segment**

	2020	2019	Growth (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Services	**1,591**	1,709	(118)	(6.9)	The decrease was mainly due to the impact of the COVID-19 crisis which led to a decrease in revenue from roaming services which was partially offset due to an increase in revenue from incoming airtime. In addition, there is a continuation of the transition of existing customers to cheaper packages that include a wide browsing volume and which are compatible with current market prices. This decline was partially offset by growth in the post-pay subscriber base.
Sale of end equipment to the customer	**595**	653	(58)	(8.9)	The decline was mainly due to a decrease in retail sales due to the closure of points of sale as a result of the closures following the COVID-19 crisis. The decline was partially offset by an increase in wholesale sales.
Total revenue	**2,186**	2,362	(176)	(7.5)	
Operating and general expenses	**1,329**	1,373	(44)	(3.2)	The decrease was mainly due to a decrease in the cost of sales and roaming services expenses due to the COVID-19 crisis as well as a continued reduction and streamlining of operating expenses, which were offset by an increase in call completion fees due to an increase in subscribers and increases in uses due to the COVID-19 crisis.
Payroll	**324**	373	(49)	(13.1)	The decrease was mainly due to the continued decrease in the number of jobs as part of a streamlining plan and employees going on unpaid leave against the background of the COVID-19 crisis.
Depreciation and amortization	**599**	633	(34)	(5.4)	
Other operating expenses, net	**18**	82	(64)	(78.0)	The decrease was mainly due to the recording of expenses in 2019 due to the renewal of the collective agreement, which includes streamlining and synergy procedures.
Operating loss	**(84)**	(99)	15	(15.2)	
Financing income, net	**(48)**	(39)	(9)	23.1	
Revenue from taxes on income	**(11)**	(13)	2	(15.4)	
Sector loss	**(25)**	(47)	22	(46.8)	

For information regarding impairment in the cellular communications segment, see Note 11.3 to the financial statements.

1.2.2. Activity segments

d. **Internet, international communications and network endpoint services**

	2020	2019	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenue	**1,271**	1,339	(68)	(5.1)	The decrease was mainly due to a decrease in Internet revenues, sales of equipment and licensing for businesses and revenues from international calls. The decrease was slightly offset due to an increase in revenues from business services.
Operating and general expenses	**802**	827*	(25)	(3.0)	The decrease was due to a decrease in expenses from equipment and licensing for businesses, expenses for international calls and other operating expenses. The decrease was partially offset by an increase in expenses for communications and computing services for businesses and local capacity.
Payroll	**248**	261*	(13)	(5.0)	The decrease was due to a continued decrease in the number of Company employees as part of the streamlining plan.
Depreciation and amortization	**149**	190	(41)	(21.6)	The decrease was due to impairments of assets recognized as of December 31, 2019 and September 30, 2020.
Other operating expenses	**313**	257	56	-	In the current year, an impairment loss was recognized in the amount of NIS 307 million, compared with NIS 196 million in the corresponding year, see Note 11 to the financial statements. Also, in the corresponding year, costs were recognized in respect of a collective agreement and an update of a provision for legal claims.
Operating loss	**(241)**	(196)	(45)	23.0	
Financing expenses, net	**2**	6	(4)	(66.7)	
Income Tax expenses (revenue)	**32**	(45)	77	-	In the current year, deferred tax assets have been written off as a result of a low probability of generating future profits for tax purposes.
Sector loss	**(275)**	(157)	(118)	75.2	

1.2.2. Activity segments

e. **Multi-channel TV ***

	2020 NIS millions	2019 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Revenue	**1,287**	1,345	(58)	(4.3)	The decrease was mainly due to a decrease in the average revenue per subscriber, as a result of a change in the mix of subscribers from premium to discount, offsetting revenue from the sale of content to external entities.
Operating and general expenses	**838**	895	(57)	(6.4)	The decrease was mainly due to a decrease in content and marketing expenses as well as streamlining of operating expenses
Payroll	**195**	209	(14)	(6.7)	The decrease was mainly due to a continued decrease in the number of jobs as part of the streamlining plan as well as employees going on unpaid leave due to the COVID-19 crisis.
Depreciation and amortization	**310**	334	(24)	(7.2)	The decrease was mainly due to a decrease in fixed asset investments.
Other operating expenses (revenue)	**(14)**	42	(56)	-	The change was mainly due to the recording of expenses in respect of an arrangement for the retirement of employees in the corresponding year.
Operating (loss)	**(42)**	(135)	93	(68.9)	
Financing expenses, net	**13**	12	1	8.3	
Income taxes	**2**	2	-	-	
Segment loss	**(57)**	(149)	92	(61.7)	

*** The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. For further information, see Note 11.5 to the financial statements. In addition, see Note 31.3 regarding the summary of selected data from the financial statements of DBS.**

1.3. Main data from the consolidated quarterly income statements (NIS millions)

	Q1-2020	Q2-2020	Q3-2020	Q4-2020	2020	Explanation
Revenue	2,187	2,155	2,178	2,203	8,723	
Operating expenses	1,718	1,650	1,973	1,674	**7,015**	The third quarter includes loss from impairment of assets in the Internet, international communications and network endpoint services segment in the amount of NIS 254 million and the fourth quarter includes an additional loss of NIS 25 million, see Note 11.6 to the financial statements. The fourth quarter includes the cancellation of a loss from impairment of assets in the cellular communications segment in the amount of NIS 266 million. The fourth quarter includes expenses in respect of the termination of the employee-employer relationship in early retirement in the amount of NIS 65 million as well as expenses for a one-time bonus for employees in the amount of NIS 40 million in the landline interior communications segment, see Note 17.5 to the financial statements.
Operating profit	469	505	205	529	**1,708**	
Financing expenses, net	60	186	106	122	**474**	In the second quarter, Bezeq recognized financing expenses in respect of the payment of an early repayment fee in the amount of approximately NIS 51 million due to early repayment of a loan.
Profit after financing expenses, net	409	319	99	407	**1,234**	
Income taxes	102	82	93	57	**334**	
Profit for the period	307	237	6	350	**900**	

<u>* Fourth quarter 2020 VS fourth quarter 2019</u>

The profit for the fourth quarter of 2020 amounted to approx. NIS 350 million, compared with a profit of NIS 182 million in the corresponding quarter last year. The change was mainly due to the fact that the corresponding quarter included a net loss from impairment of assets in the Internet, international communications and network endpoint services segment in the amount of NIS 285 million (compared with NIS 25 million in the current quarter), and included other operating expenses higher by approx. NIS 77 million in the fourth quarter of 2019, on the other hand, financing revenue was recorded in the Company as a result of a change in the Company's debt terms in the amount of NIS 175 million in the fourth quarter of 2019.

1.4. Cash Flow

	2020	2019	Change		Explanation
	NIS millions	NIS millions	NIS millions	%	
Net cash flow from operating activities	3.209	2,905	304	10.46	The increase in net cash flow from operating activities was mainly due to the landline interior communications segment, mainly as a result of an increase in profit and a decrease in the income tax paid.
Net cash flow used for Investing activity	**(1,067)**	(577)	(490)	84.92	In 2019 there were higher repayments of deposits and sales of investments compared to 2020. Also, in the previous year net proceeds from the sale Sakia complex was recorded.
Net cash flow used for financing activities	**(2,062)**	(2,618)	556	(21.23)	The decrease in the net cash flow used for financing activities was mainly due to a decrease in loan and bond repayments and interest paid, mainly due to early repayment of loans and bonds in the corresponding year in the Company and in the landline interior communications segment, offsetting a decrease in the receipt of loans and the issuance of bonds. There is also a decrease in costs due to early repayment. For further information, see Note 14 to the financial statements.
Net increase (decrease)	**80**	(290)	370	-	

Average volume in the reported year

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 10,845 million.

Credit providers: approx. NIS 955 million. Short-term customer credit: approx. NIS 1,678 million. Long-term customer credit: approx. NIS 283 million

Working capital

The Group's consolidated working capital as of December 31, 2020 amounted to approximately NIS 94 million, compared with working capital of approximately NIS 423 million as of December 31, 2019.
The Company (according to the "Solo" financial statements) has working capital as of December 31, 2020 in the amount of NIS 228 million, compared with working capital in the amount of NIS 485 million as of December 31, 2019.
The decrease in the working capital of the Group and the Company was due to a decrease in current assets, mainly in accounts receivable in respect of the sale of buildings and current investments in Bezeq, as well as a classification of long-term deposits, at the same time as raising debt with a longer duration (see Note 14 to the financial statements) and also due to retirement payments to Bezeq employees.

For a **forecast cash flow**, see Chapter 1.5 below.

1.5. Disclosure regarding the Company's projected cash flow

Pursuant to Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 5737-1970 and upon the occurrence of warning indications - Equity Deficit in - in the Company's statement (Solo) as well as in the consolidated statement and ongoing negative cash flow from current operations in the Company's statement (Solo), the following is a cash flow forecast for the Company, detailing the sources and financial uses for the period between January 1, 2021 and December 31, 2022.

Projected cash flows	**January 1, 2021 to December 31, 2021**	**January 1, 2022 to December 31, 2022**
Company - solo	**NIS millions**	**NIS million s**
Bank deposits and marketable securities for the beginning of the period	317	270
Cash and cash equivalents for the beginning of the period	55	18
Total liquidity for the beginning of the period	**372**	**288**
Sources - Company		
Cash from investing activities		
Investment in marketable securities	(33)	-
Proceeds from repayment of bank deposits	80	80
Profits from marketable securities and interest on bank deposits	4	4
Total net cash from investing activities	**51**	**84**
Uses - Company		
Cash for current operations		
Operating expenses	(10)	(10)
Total cash for current operations	**(10)**	**(10)**
Cash for financing activities		
Payment of interest on bonds	(78)	(78)
Total cash for financing activity	**(78)**	**(78)**
Bank deposits and marketable securities for the beginning of the period	270	190
Cash and cash equivalents for the end of the period	18	14
Total liquidity at the end of the period	**288**	**204**

1.5 Disclosure regarding the Company's projected cash flow (continued)

The following is a comparison table between the forecast given as part of the PR report for 2019 and the actual cash flow period between January 1, 2020 and December 31, 2020:

Comparison - cash flows, solo	Performance 1-12.2020	Forecast 1-12.2020	Gap	Explanation of the gap
	NIS millions	NIS millions	NIS millions	
Bank deposits and marketable securities for the beginning of the period	46	46	-	
Cash and cash equivalents for the beginning of the period	452	452	-	
Total liquidity for the beginning of the period	**498**	**498**	**-**	
Sources - Company				
Cash from investing activities				
Proceeds from marketable securities and interest on deposits Banking	6	4	2	
Total net cash from investing activities	**6**	**4**	**2**	
Uses - Company				
Cash for current operations				
Operating expenses	(11)	(10)	(1)	
Total cash for current operations	**(11)**	**(10)**	**(1)**	
Cash for investing				
Investment in Bezeq shares	(40)	-	**(40)**	An additional investment in Bezeq shares was decided upon during the year
Investment in bank deposits and securities, net	(265)	(339)	**74**	Part of the change was due to the purchase of Bezeq shares and part of a ZK deposit that was classified as cash
Total cash for investing	(305)	(339)	34	
Cash for financing				
Net compensation in respect of the Horev claim	(3)	-	(3)	
Payment of interest on bonds	(78)	(78)	-	
Total cash for financing	**(81)**	**(78)**	**(3)**	

Bank deposits and marketable securities for the end of the period	317	385	(68)
Cash and cash equivalents for the end of a period	55	29	26
Total liquidity for the end of the period	**372**	**414**	**(42)**

1.5 Disclosure regarding the Company's projected cash flow (continued)

1. **<u>The following are the assumptions underlying the cash flow forecast:</u>**

   a. The Company's cash flow forecast for years 2021 and 2022 is based on current estimates for the years in question.

   b. The Company expects an average annual return of Between 1% to 2% on its investments in marketable securities and bank deposits.

   c. The annual interest payments in respect of the Company's traded bonds amount to NIS 78 million in accordance with the repayment schedule of the bonds.

   d. The Company has sufficient resources to repay its liabilities through cash balances and investments in deposits and marketable securities that can be exercised in the short term and through raising debt from non-banking sources.

2. The Board of Directors has examined and approved the sources included in the disclosure regarding the projected cash flow after being found reasonable regarding the financial scope of each source and the expected timing of its receipt. In addition, the Board of Directors examined the existence of restrictions on raising new debt and assumed that such raising was possible. There is no material effect of the pandemic on the Company's liquidity balances.

The aforesaid in the context of the disclosure of the projected cash flow is forward-looking information. The Company's assumptions and estimates regarding the projected cash flow, regarding the sources of repayment of the Company's existing and expected liabilities, and regarding the assumptions underlying the cash flow forecast are based on the Company's data as of the reporting date, and assuming continued operations during normal business. There is no certainty that these assumptions and estimates will materialize in full or in part, since they also depend on external factors which the Company has no ability to influence or its ability to influence them is limited, and in view of the current uncertainty in the communications market. Actual data may differ materially from the above estimate if there is a change in one of the factors taken into account in these estimates.

2. Aspects of corporate governance

2.1. Involvement of the Group companies in the community and donations

The Company supports Bezeq's corporate responsibility policy and will continue to uphold this policy in all Group companies, and in addition, each year, the Company discusses the Company's contribution policy, with a focus on health and education issues. In the reported year, due to the COVID-19 crisis, the Company donated a lot of protective equipment to the Ichilov Hospital and the Reut Rehabilitation Hospital, in amounts that are not material to the Company.

In accordance with the community contribution policy approved by the Bezeq Board of Directors, Bezeq contributes to the community out of its deep commitment to the issue of social responsibility, through financial donations, contribution of communication services and infrastructure and encouraging employee volunteering in a variety of community activities. Most of Bezeq's financial contributions are focused on programs on education and reducing the digital disparity in Israel.

in the year 2020 Bezeq Group contributed a total of approx. NIS 3.7 million.

In addition, Bezeq assisted non-profit organizations in the amount of about 2 NIS million for communication services.

2.2. Disclosure regarding the auditor's fee

The following are fee expenses for the accountants of the main subsidiaries in the group In respect of audit services and audit-related services:

Company name	Auditor	Details	2020		2019	
			Fees (NIS thousands)	Hours	Fees (NIS thousands)	Hours
B. Communications Ltd.	Somekh Chaikin	Audit and accompanying review	515	2,542	634	2,816
		Other services[1]	166	416	174	387
Bezeq - the Israel Telecommunications Corporation Ltd.	Somekh Chaikin	Audit and accompanying review	1,700	15,250	1,700	15,500
		Other services	951	3,485	596	1,898
Pelephone Communications Ltd.	Somekh Chaikin	Audit and accompanying review	670	6,350	670	6,500
		Other services[1]	520	1,259	327	778
Bezeq International Ltd	Somekh Chaikin	Audit and accompanying review	1,166	8,250	417	4,630
		Other services[1]	122	435	133	423

1 "Other services" provided to the Group's main companies in the years 2020 and 2019 including, among other things, consulting services on tax and accounting matters and special approvals.

DBS Satellite Services (1998) Ltd.	Somekh Chaikin	Audit and accompanying review	680	5,200	580	5,400
		Other services[1]	52	162	26	66

The accountants' fees are discussed in the Board's Committee for Examining the Financial Statements and are approved by the Company's Board of Directors and the Board of Directors of each of the Group's companies.

2.3. Directors with accounting and financial skills and independent directors

Details regarding directors with accounting and financial expertise and independent directors are included in sections 2 and 9 of the corporate governance questionnaire and in section 14 in Chapter D of the periodic report.

2.4. Additional corporate governance issues

In the year of the report, the Company established a gatekeepers' forum, with the participation of the Internal Auditor, the auditors and external legal advisers and led by the Company's CFO. This forum convenes as needed, and at least once a year to discuss general control and compliance issues in the Company. In the year of the report, one meeting of the forum was held.

2.5. Disclosure regarding an internal auditor in a reporting corporation

Concentration of details	
Name of internal auditor	Ilan Chaikin
Term of office	2008
Compliance with legal provisions	The internal auditor meets the conditions set forth in Article 3 (a) and 8 of the Internal Audit Law, and the provisions of Article 146 (b) of the Companies Law.
Employment format	Hourly fee, according to the number of hours determined at the beginning of each year by the Audit Committee.
Method of appointment	**Method of appointment and summary of reasons for approving the appointment:** The appointment was approved by the Board of Directors in 2008, following the recommendation of the Audit Committee. **Duties, powers and roles imposed on the auditor:** The authority and responsibility of the Company's internal auditor are set forth in the Company's internal audit procedure approved by the Audit Committee. According to the procedure, the auditor's duties and powers are: Checking the correctness of the Company's operations and the actions of its officers and functionaries, checking the reliability and integrity of the financial and operational information, examining the management of funds and liabilities and examining the Company's computerized information systems and the Company's information security system. The internal auditor is also responsible for examining employee complaints in accordance with the arrangements established by the Audit Committee in accordance with Article 117(6) of the Companies Law, 5769-1999. He is empowered to obtain any information, explanation and document necessary for the performance of its duties, to have access to any standard or computerized database of the Company, to any database and to any automatic or non-automatic data processing work plan of the Company and its units and to obtain access to any Company property. The internal auditor is also entitled to be invited to all the meetings of Management, the Board of Directors and its committees.
The Organizational Commissioner of The internal auditor	The organizational manager of the internal auditor is the Company's CEO
Work plan	The work plan in 2020 was derived from the Company's multi-year work plan determined for the years 2017-2022. **The considerations in determining the work plan of the internal audit**

	The guiding principle in building the work plan of the internal audit is the risk inherent in the processes and activities of the Company. To assess these risks, the internal audit referred to the risk survey conducted thereby, as well as other sources that influenced the risk assessment in these processes, such as discussions with Management, previous audit findings and other relevant activities. The main considerations taken into account in constructing the work plan are: Reasonable coverage of most of the Company's areas of activity in accordance with exposure to material risks, taking into account existing controls in the Company's areas of activity and the findings of previous audits. **Factors involved in determining the work plan** The internal auditor, Management, and the Audit Committee of the Board of Directors.

2.5 Disclosure regarding an internal auditor in a reporting corporation (continued)

Concentration of details	
Work plan	**The body who receives the work plan and approves it** The Audit Committee of the Board of Directors, after the matter has been discussed with the Company CEO. **The auditor's discretion to deviate from the work plan** The Company CEO or the Chairman of the Audit Committee may propose issues in matters where the need arises to conduct an urgent examination as well as recommend the reduction or cessation of examination on a subject approved in the work plan. The internal auditor has the discretion to deviate from the work plan. **Examination of material transactions** The internal auditor is present at the Board discussions in which material transactions are approved and reviews the relevant material sent as part of these discussions.
The audit's treatment of material investee corporations	The work plan of the Company's Internal Auditor does not include an audit of material investee corporations. The internal auditor conducts meetings with the internal auditor and other control entities of material subsidiaries for the purpose of receiving periodic updates.
Performing the audit	In accordance with the Internal Auditor's notice, the audit work is conducted in accordance with the internal audit standards accepted in Israel and around the world and in accordance with professional guidelines in the field of internal audit, including international internal audit standards and in accordance with the Internal Audit Law and the Companies Law.
Access to information	The internal auditor was provided with documents and information as stated in section 9 of the Internal Audit Law and was given constant and direct access to the corporation's information systems, including financial data.

Auditor's report	The Internal Auditor submits the written audit reports on an ongoing basis during the reported year to the Chairman of the Board, the CEO, the Chairman of the Audit Committee and the members of the Committee. The reports are submitted prior to the date of the committee discussion (usually about three days prior to that date). The Company's Audit Committee convened to discuss internal audit reports regarding the reporting of the implementation of the Supervision Procedure by the Internal Auditor for the second quarter of 2020 on August 16, 2020. In addition, the report on the implementation of the supervision procedure by the Internal Auditor for the fourth quarter of 2020 was completed, as well as an audit on the implementation of the supervision procedure by the Company, which were presented on March 22, 2021.
The Bard's assessment of the internal auditor's activities	The Board of Directors is of the opinion that the scope of the audit, the nature of the internal auditor's activity and its continuity as well as the work plan are reasonable in the circumstances of the case and are there to achieve the objectives of the audit.
Remuneration	Remuneration to the Internal Auditor is determined each year according to the volume of the audit hours, according to the hourly fee. In 2020, the volume of the hours invested in the audit by the Internal Auditor was approximately 200 hours, noting that the said hours volume is sufficient for the Internal Auditor to complete the audit work properly. In 2020, the Internal Auditor was paid compensation in the amount of NIS 56,160, including VAT. In the opinion of the Board of Directors, the extent of the internal auditor's remuneration had no effect on his professional judgment.

3. Disclosure in connection with the corporation's financial reporting

3.1. Disclosure regarding valuations

The following are details regarding highly material valuations and a material valuation in accordance with Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The highly material valuations of Pelephone and DBS as of December 31, 2020 are included in these financial statements by reference to Bezeq's financial statements as of December 31, 2020, which were published on March 25, 2021.

Bezeq International's valuation as of September 30, 2020 is included in these financial statements by reference to the Company's financial statements as of September 30, 2020, which were published on November 30, 2020.

A highly material valuation of Bezeq Fixed Lines as of December 31, 2020 is not attached to the report since the Company was of the opinion that there are no indications of impairment of the cash-generating unit.

	Pelephone - **Highly material valuation as of December 31, 2020** **(attached to Bezeq's financial statements as of December 31, 2020)** **See Section 3.1.4 below**	**Bezeq Fixed Lines -** **Highly material valuation as of December 31, 2020**	**DBS -** **Highly material valuation as of December 31, 2020** **(Attached to Bezeq's financial statements as of December 31, 2020).** **See sections 3.1.2 and 3.1.4 below.**	**Bezeq International -** **Highly material valuation as of September 30, 2020** **(Attached to the financial statements as of September 30, 2020).** **See section 3.1.1 below**
Identification of subject of valuation	Value in use of Pelephone for the purpose of examining the impairment of goodwill recognized in the Company's financial statements in accordance with International Accounting Standard 36.	Value in use of Bezeq Fixed Lines for the purpose of examining the impairment of goodwill recognized in the Company's financial statements in accordance with International Accounting Standard 36.	Value in use of DBS Satellite Services (1988) Ltd. for the purpose of examining the impairment of the Company's assets in accordance with International Accounting Standard 36 and the net exercise value of DBS' assets for the purpose of examining the impairment of non-current assets.	Value in use of Bezeq International for examination of impairment.

	Pelephone - **Highly material valuation as of December 31, 2020** **(attached to Bezeq's financial statements as of December 31, 2020)** **See Section 3.1.4 below**	**Bezeq Fixed Lines -** **Highly material valuation as of December 31, 2020**	**DBS -** **Highly material valuation as of December 31, 2020 (Attached to Bezeq's financial statements as of December 31, 2020).** **See sections 3.1.2 and 3.1.4 below.**	**Bezeq International -** **Highly material valuation as of September 30, 2020 (Attached to the financial statements as of September 30, 2020).** **See section 3.1.1 below**
Timing of the valuation	December 31, 2020 The valuation was signed on March 24, 2021	December 31, 2020 The valuation was signed on March 24, 2021	December 31, 2020 The valuation was signed on March 24, 2021	September 30, 2020 The valuation was signed on November 30, 2020
Value of the subject of the valuation close to the date of the valuation	NIS 290 million book value of the net operating assets of Pelephone **(*)** (including cost surplus balance net of goodwill at the Company level).	Approx. NIS 10 billion book value of the net operating assets of Bezeq Fixed Lines (including cost surplus balance net of goodwill at the Company level).	A negative total of approx. NIS. (27) million	NIS 393 million book value of the net operating assets of Bezeq International.
Value of the subject of the valuation determined in accordance with the valuation	Approx. NIS 2,332 million The Company has concluded that an impairment loss recorded in the Company's books in previous periods in the amount of NIS 266 million (NIS 205 million net of tax) must be canceled.	Approx. NIS 14,615 million. The Company has concluded that there is no impairment that requires a reduction in the amount of goodwill recorded in the Company's books.	The total value of the Company's operations is negative in the amount of NIS (145) million. In light of the negative value of operations, the value of the Company's non-current assets was determined to be their fair value and zero, whichever is higher. As a result of the fair value of the balance sheet items that have been revaluated in accordance with IAS36 and IFRS15 requirements, it is negative in the amount of approximately NIS (134) million.	Approx. NIS 123 million. The Company recognized a loss from impairment of assets in the amount of NIS 270 million.

	Pelephone - Highly material valuation as of December 31, 2020 (attached to Bezeq's financial statements as of December 31, 2020) See Section 3.1.4 below	**Bezeq Fixed Lines - Highly material valuation as of December 31, 2020**	**DBS - Highly material valuation as of December 31, 2020 (Attached to Bezeq's financial statements as of December 31, 2020). See sections 3.1.2 and 3.1.4 below.**	**Bezeq International - Highly material valuation as of September 30, 2020 (Attached to the financial statements as of September 30, 2020). See section 3.1.1 below**
Identification characterization of the valuator	Prometheus Economic Consulting Ltd. The work was carried out for Bezeq by a team headed by CPA Gideon Peltz, a graduate of the Department of Accounting and Economics at Tel Aviv University. CPA Peltz has extensive experience in performing valuations, analyzing financial statements, preparing expert opinions and performing various types of economic consulting work for companies and businesses. The valuator has no dependence on Bezeq. Bezeq undertook to indemnify the valuator for damages in excess of three times his fee, unless he acted maliciously or with gross negligence.			
Valuation model	Discounted Cash Flow method (DCF).	Discounted Cash Flow method (DCF).	In the first stage - the Discounted Cash Flow method (DCF). In the second stage - the fair value of the non-current assets of DBS was determined.	Discounted Cash Flow method (DCF).
Assumptions under which the valuator made the valuation	Capitalization rate - 10.3% (after tax). Permanent growth rate - 2.5%. The percentage of scrap value from the total value determined in the valuation is approximately 84%.	Discount rate - 7.5% (after tax). Permanent growth rate - 0%. The percentage of scrap value from the total value determined in the valuation is approximately 72%.	Discount rate - 8.5% (after tax). Permanent growth rate - 0%. The percentage of scrap value from the total value determined in the valuation - not relevant	Discount rate - 9.7% (after tax). Permanent growth rate - 0.8%. The percentage of scrap value from the total value determined in the valuation is 76%.

(*) Pelephone's net operating assets do not include customer debt balances in respect of the sale of end equipment in payments presented at current value

3.1. Disclosure regarding valuations (continued)

3.1.1. The period that has elapsed since the effective date of the valuation of Bezeq International as of September 30, 2020 until the date of approval of this report exceeds 90 days. As of December 31, 2020, an additional valuation of Bezeq International's operations was performed in accordance with the provisions of International Accounting Standard 36, which does not constitute a material valuation in accordance with the provisions of the Securities Authority's position No. 105-23. For further information, see Note 11.6 in the financial statements.

3.1.2. Despite the negative value of DBS' operations, Bezeq supports DBS by approving credit facilities or investing in DBS' capital (see Note 13.2.2 to the financial statements). Bezeq's support as stated in DBS stems, among other things, from the current and expected contribution of the multi-channel television activity to all Bezeq Group's operations.

3.1.3. In the Company's consolidated financial statements as of December 31, 2020, the value of the operating segments of Bezeq Israel Telecommunications Company Ltd., Pelephone Communications Ltd., DBS Satellite Services (1998) Ltd. and Bezeq International Ltd. amounted to 25% of its total assets. Accordingly, Prometheus Economic Consulting Ltd. is considered a highly material valuator according to position 105-30 of the legal staff of the Securities Authority (the "Staff Position"). For details regarding the appraiser as required by the Staff Position, see the valuations attached to Bezeq's financial statements.

3.1.4. Information under Regulation 10(b)(8) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

a. Regarding the valuation of Pelephone for June 30, 2019, which was attached to Bezeq’s report for the second quarter of 2019, the Group examined the actual data in 2020 regarding Pelephone's free cash flows compared to the 2020 forecast included in the aforesaid valuation and found that Pelephone's free cash flows[2], according to its financials reports for 2020, are significantly higher than the forecast in the said valuation. Most of the discrepancy is due to timing differences in investments to purchase frequencies. For further information, see Appendix C in Pelephone's valuation as of December 31, 2020, which is attached to Bezeq's financial statements as of December 31, 2020.

b. Regarding the valuation of DBS as of December 31, 2019, which was attached to Bezeq’s financial statements of 2019, the Group examined the actual data in 2020 regarding the free cash flows compared to the 2020 forecast included in the said valuation and found that the free cash flows of DBS, according to its financial statements for 2020, are significantly higher than the forecast in the said valuation. Most of the discrepancy is due to low operating expenses relative to the forecast (some due to the effects of the COVID-19 crisis) and timing differences in engineering and technology investments, offsetting changes in working capital. For further information, see Appendix F in the valuation of DBS as of December 31, 2020, attached to Bezeq's financial statements as of December 31, 2020.

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

[2] The free cash flows for this purpose are the cash flows from operating activities minus capital investments and minus changes in interest-bearing customer debt in respect of the sale of end equipment in installments (financial instrument).

3.2. Due to the materiality of the claims filed against the Group and which at this stage either cannot be assessed on the exposure in respect thereof cannot be calculated, accountants have drawn attention to this in their opinion on the financial statements.

3.3. Material incidents after the date of the financial statements

Regarding material incidents after the date of the financial statements - see Note 32 to the financial statements.

4. Details related to a series of liability certificates

The following is data about the Company's bonds in circulation, as of December 31, 2020:

		Series C bonds	Series D bonds	Series E bonds
A	Issue date (no extensions)	September 15, 2016	February 12, 2019	February 12, 2019
B	Total value denominated at the date of issue (par value)	NIS 1,882,265,000	NIS 58,000,000	NIS 100,000,000
C	Nominal value (par value)	NIS 1,856,535,487	NIS 58,000,000	NIS 100,000,000
D	The amount of interest accrued as of the date of the report	NIS 6,070,617	189,652 NIS	NIS 326,986
E	Fair value as included in the financial statements	NIS 1,722,895,467	NIS 54,109,440	NIS 100,326,986
F	Stock market value	NIS 1,772,991,390	NIS 55,569,800	NIS 105,020,000
G	Type of interest	Fixed rate 3.85%	Fixed rate 33.85%	Fixed rate 33.85%
H	Principal payment dates	November 30, 2024	November 30, 2024	November 30, 2024
I	Interest payment dates	On May 31 and November 30 of each year, from May 31, 2020 until November 30, 2024.	On May 31 and November 30 of each year, from May 31, 2020 until November 30, 2024.	On May 31 and November 30 of each year, from May 31, 2020 until November 30, 2024.
J	Linkage	Not linked	Not linked	Not linked
K	Total liability in relation to total company liabilities	Material	Immaterial	Immaterial
L	Trustee details	Trust company - Reznik Paz Nevo Trust Ltd. Name of the person in charge of the trust company - CPA Michal Avtalion E-mail michal@rpn.co.il, tel. 03-6389200, fax 03-6389222 Address - 14 Yad Harutzim St., Tel Aviv.		
M	Rating	The bonds are not rated		
N	Compliance with the terms of the trust deeds	The Company issued to the trustees of Series C, D and E bonds certificates regarding its compliance with the terms of the trust deeds for 2020.		
O	Liens	Unlimited amount second-degree lien (p*ari-passu* Series C and D) on 14,204,153 ordinary Bezeq shares of NIS 1 par value each held directly by the Company and on 714,169,560 ordinary Bezeq shares of NIS 1 par value each held by B Communications and the rights attached to these shares. Series E has a first-degree lien on those shares. The lien for series C and D will be replaced by a first-degree lien after the repayment of the entire debt in respect of the bonds (Series E).		
P	Financial conditions / restrictions that apply to the Company for the purpose of ensuring the value of the collateral and the rights of the holders to	The Company has committed that during two consecutive quarters the LTV will not exceed (1) a rate of 80% by November 30, 2023 and (2) 75% from December 2023 until the final maturity date of the bonds. This commitment will take effect only at the end of a period of 24 months from December 2, 2019.		

	act to exercise the lien granted in their favor	
Q	A restriction that applies to the Company in connection with the creation of additional liens on its assets or in connection with its authority to issue additional bonds	For details regarding the restrictions that apply to the Company in connection with the expansion of the series, see section 3.2.2 of the Company's trust deeds (Series C, D and E). For details regarding the restrictions that apply to the Company in connection with the creation of additional liens, see section 6.1.3 (c) of the Company's trust deed (Series C).

4.1 Amendment of the terms of the Company's bonds

On September 17, 2020, the meetings of the holders of bonds (Series C and E) of the Company approved the amendment of the trust deeds of the said series, in a manner that will enable the Company to raise additional debt that will be secured by a lien on Bezeq shares pledged in favor of Series C, *pari-passu* with Series C, under the following restrictions:

1. The additional debt raised by the Company (less the issue expenses) will first repay the bonds (Series D) and the bonds (Series E) in full, so that after its raising and after completing the conditions required for release in exchange for issuing the additional series and amending existing liens in favor of Series C, a lien will be recorded. The first tier on Bezeq shares pledged (as defined in the trust deed) for the benefit of holders of the bonds (Series C), instead of the second-degree lien registered in their favor (as long as the bonds (Series E) are in circulation).
2. After the full repayment of the debt in respect of the bonds (Series D) and the bonds (Series E), the balance of the proceeds for the net issue of the additional debt will be used for the purpose of repayment of the bonds (Series C), by early redemption (full or partial), according to the terms of the existing trust deed.
3. The maturity of the new series issued by the Company will be longer than that of bonds (Series C) and the payment of the first principal in respect of the bonds from the new series as aforesaid will be only after full repayment of bonds (Series C).

The early repayment amount to be paid to the bondholders in the event of early repayment of the bonds by the Company was also amended as follows:
With respect to the bonds (Series C) - in the case of a partial early repayment of the bonds (Series C), the price of the partial early repayment will be par value of the bonds (Series C) or their market value according to the 30 trading days preceding the early repayment, whichever is higher.
In relation to bondholders (Series E) - the full early repayment price will be: (1) The market value of the bonds according to the price of the bonds on the stock exchange in the 30 trading days preceding the early repayment in the early repayment price, but not more than 103.5%, or (2) the par value of the bonds (Series E), whichever is higher.

4.2 Credit Rating

On August 13, 2020, Midroog announced the termination of rating of the bond (Series C) issued by the Company in light of the Company's request. On the eve of its termination, the Company's rating (Series C) was rated Caa2.il with a stable rating horizon.

4.3 Financial terms

In accordance with the Company's obligation in bonds Series C, D and E to meet the condition of LTV (the first examination date is according to the financial statements as of December 31, 2021). The LTV ratio as of December 31, 2020 was 59.8%[3].

5. Miscellaneous

For information regarding the statement of liabilities of the reporting corporation and the subsidiaries in its financial statements as of December 31, 2020, see the report form that will be reported by the Company on March 25, 2021.

Darren Glatt	Tomer Raved
Chairman of the Board	CEO

Date of signing: March 24, 2021

[3] The LTV ratio shown is net of approximately 22 million nominal Series C bonds held by a partnership held by the Company. Without this neutralization, the LTV ratio is approximately 60.6%.

Chapter C
Consolidated Financial Statements
for the Year Ended December 31, 2020

Consolidated Financial Statements as of December 31, 2020

Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
8000 684 03

Auditors' report to the shareholders of B Communications Ltd. the Israel Telecommunications Corporation Ltd.

We audited the consolidated financial statements of B Communications Ltd. (hereinafter – "the Company") as of December 31, 2020 and 2019 and the consolidated statements of income, comprehensive profit, changes in equity and cash flows for each of the three years in the period ended On December 31, 2020. These financial statements are the responsibility of the Company's Board of Directors and Management. It is our responsibility to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of consolidated companies whose assets included in the consolidation constitute approximately 1% of the total consolidated assets as of December 31, 2019, and their revenues included in the consolidation constitute approximately 1% of total consolidated revenues for the years ended December 31, 2019 and 2018. The financial statements of those companies have been audited by other auditors whose reports have been presented to us and our opinion, insofar as it relates to the amounts included in respect of those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards set forth in the Auditors Regulations (Mode of Performance), 5733-1973. According to these standards, we are required to plan and perform the audit with the aim to obtain a reasonable degree of assurance that the separate financial information does not constitute a material misstatement. Our audit includes a sample examination of evidence supporting the amounts and details contained in the separate financial information. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's Board of Directors and Management, as well as evaluating the overall adequacy of the presentation of the financial statements. We believe that our audit and the reports of the other auditors provide an adequate basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the aforesaid consolidated financial statements adequately reflect, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2020 and 2019 and the results of their operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2020 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

We also audited, in accordance with Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components of Financial Reporting", Internal Control Components of Financial Reporting of the Company as of December 31, 2020, and our report of March 24, 2021 included a negative opinion on said components due to the existence of material vulnerabilities.

Without limiting our above conclusion, we draw attention to what is stated in Note 1.3, which refers to what is stated in Note 1.3 to the annual consolidated financial statements, regarding the Securities Authority's investigation into suspicions of committing offenses under the Securities Law and the Penal Code concerning, *inter alia*, transactions related to the former controlling shareholder and the transfer of the case to the State Attorney's Office, as well as what is stated in said note regarding the filing of an indictment against the former controlling shareholder in the Company, for various offenses, including offenses of bribery and intentional misstatement in an immediate report. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the financial statements and estimates used in the preparation of these reports, if any.

In addition, without limiting our above opinion, we draw attention to what is stated in Note 19 regarding claims filed against the Company and the exposure in respect of which cannot be assessed or calculated at this stage.

Somekh Chaikin
Certified Public Accountants

March 24, 2021

Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
8000 684 03

Auditors' report to the shareholders of "B Communications Ltd." on the audit of components of internal control over financial reporting in accordance with Article 9B (c) of the Securities Regulations (Periodic and Immediate Reports), 5733-1970

We audited components of internal control over financial reporting of "B Communications Ltd." (hereinafter – "the Company") as of December 31, 2020. These control components were determined as explained in the next paragraph. The Company's Board of Directors and Management are responsible for effective internal control over financial reporting and for their evaluation of the effectiveness of the components of internal control over financial reporting attached to the periodic report for the above date. It is our responsibility to provide an opinion on the components of internal control over the Company's financial reporting based on our audit.

Components of internal control over financial reporting that have been audited have been determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Auditing of Internal Control Components of Financial Reporting" (hereinafter - "Auditing Standard (Israel) 911"). These components are:
(1) Organizational level controls, including controls on the process of preparing and closing financial reporting;

(2) Controls over cash flow and debt management;

We conducted our audit in accordance with Audit Standard (Israel) 911. This Standard requires us to plan and perform the audit with an aim to identify the audited control components and achieve a reasonable degree of confidence that these control components have been effectively complied with in all material respects. Our audit included gaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk of a material vulnerability in the audited control components, and examining and evaluating the design and operational effectiveness of those control components based on the assessed risk. Our audit regarding those control components also included performing other procedures that we deemed necessary depending on the circumstances. Our audit referred only to the audited control components, as opposed to an internal audit of all material processes in connection with the financial reporting, and therefore our opinion relates only to the audited control components. Also, our review did not address the interactions between the audited and unaudited control components and therefore, our opinion does not take into account such possible effects. We believe that our audit provides a proper basis for our opinion in the context described above.

Due to understandable limitations, internal control over financial reporting in general, and components thereof in particular, may not prevent or detect misstatement. Also, drawing conclusions about the future based on any current effectiveness assessment is prone to the risk that controls will become inadequate due to changes in circumstances or that the degree of compliance with the policies or procedures will change adversely.

A material vulnerability is a defect, or combination of defects, in the internal control over financial reporting, to the extent of a reasonable possibility that a material misstatement in the Company's annual or quarterly financial statements will not be avoided or detected in a timely manner.

The following significant vulnerabilities in the audited control components were identified and included in the assessment of the Board of Directors and Management:

Significant vulnerabilities in the internal control over financial reporting in the controls at the organization level and in the controls on the process of preparing and closing financial reporting as described in the assessment of the Company's Board of Directors and Management.

These material vulnerabilities have been taken into account in determining the nature, timing and scope of the audit procedures applied in our audit of the Company's financial information as of December 31, 2020 and the year ended on that date, and this report does not affect our report of the said financial statements.

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

As described in the report regarding the effectiveness of the internal control over the financial reporting and disclosure as of December 31, 2020 of B Communications Ltd. (hereinafter - "the Corporation"), regarding the investigations by the Israel Securities Authority and the Israel Police, as specified in Note 1.3 to this report, the Corporation does not have complete information regarding these investigations, their content, and the relevant materials and evidence in the possession of the law authorities. Accordingly, the Corporation is unable to assess the effects of the investigations, their findings and results on the Company as well as the financial statements and estimates used in the preparation of these reports, if any.

We also audited, in accordance with auditing standards generally accepted in Israel, the Company's consolidated financial statements as of December 31, 2020 and 2019 and for each of the three years ended December 31, 2020 and our report, dated March 24, 2021, included an unconditional opinion on those financial statements. Based on our audit and the reports of the other auditors, as well as references to the contents of Note 1.3 regarding the Securities Authority's investigation into suspicions of committing offenses under the Securities Law and the Penal Code concerning Filing an indictment against the former controlling shareholder in the Company, for various offenses, including offenses of bribery and intentional misstatement in an immediate report. As stated in the above note, at this stage the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the financial statements and estimates used in the preparation of these reports, if any. In addition, without limiting our above opinion, we draw attention to what is stated in Note 18 regarding claims filed against the Company and the exposure in respect of which cannot be assessed or calculated at this stage.

Somekh Chaikin
Certified Public Accountants

March 24, 2021

Consolidated financial statements as of December 31, 2020

Consolidated statements of financial position as of December 31

		2020	2019
Assets	**Note**	**NIS millions**	**NIS millions**
Cash and cash equivalents	4.3.3	**894**	814
Restricted cash		**-**	39
Investments	5,3.3	**881**	1,241
Trade receivables	3.3, 6	**1,621**	1,677
Other receivables	3.3, 6	**180**	342
Inventory	3.10	**73**	96
Assets held for sale		**10**	43
Total current assets		**3,659**	4,252
Other long-term trade receivables	3.3, 6	**514**	477
Broadcasting rights, net of rights exercised	3.4, 8	**67**	59
Right-of-use assets	3.7, 9	**1,804**	1,217
Property, plant and equipment	3.5, 10	**6,131**	*5,968
Intangible assets	3.6, 11	**3,268**	*3,167
Deferred expenses and non-current investments	12	**402**	*343
Deferred tax assets	3.16, 7	**108**	81
Total non-current assets		**12,294**	11,312
Total assets		**15,953**	15,564

* Reclassified

Consolidated statements of financial position as of December 31 (cont.)

		2020	2019
	Note	NIS millions	NIS millions
Bank loans and debentures	3.3, 14	**785**	1,007
Current maturities of liabilities in respect of leases	3.7, 9	**415**	416
Trade and other payables	15	**1,766**	1,627
Employee benefits	3.12, 17	**482**	654
Provisions	3.13, 16	**117**	125
Total current liabilities		**3,565**	3,829
Loans and bonds	3.3, 14	**9,485**	10,412
Liabilities in respect of leases	3.7, 9	**1,492**	969
Employee benefits	3.12, 17	**335**	356
Derivatives and other liabilities		**307**	139
Deferred tax liabilities	3.16, 7	**290**	*248
Provisions	3.13, 16	**52**	49
Total non-current liabilities		**11,961**	12,173
Total liabilities		**15,526**	16,002
Capital (capital deficit):	21		
Attributed to the shareholders of the Company		**(107)**	(241)
Attributed to non-controlling interests		**534**	(197)
Total capital (capital deficit)		**427**	(438)
Total liabilities and capital (capital deficit)		**15,953**	15,564

* reclassified

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
Chief Financial Officer

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

The notes attached to the consolidated financial information form an integral part thereof.

Consolidated statements of income for the year ended December 31

		2020	2019	2018
	Note	NIS millions	NIS millions	NIS millions
Revenue	3.14, 22	**8,723**	8,929	9,321
Operating expenses				
Operating and general expenses	23	**3,182**	3,321	3,428
Salaries	24	**1,894**	1,937	1,995
Depreciation, amortization and impairment	9,10,11,12	**1,858**	2,064	2,388
Impairment loss	11	**8**	*1,329	2,324
Other operating expenses (income), net	25	**73**	(188)	635
Total operating expenses		**7,015**	8,463	10,770
Operating profit (loss)		**1,708**	466	(1,449)
Financing expenses (revenue)	3.15, 26			
Financing expenses		**525**	738	620
Financing revenue		**(51)**	(266)	(89)
Financing expenses, net		**474**	472	531
Profit (loss) after financing expenses, net		**1,234**	(6)	(1,980)
Share of loss of equity accounted investees		**-**	2	3
Profit (loss) before income taxes		**1,234**	(8)	(1,983)
Income taxes	3.16, 7	**334**	*1,452	(67)
Net profit (loss) for the year		**900**	(1,460)	(1,916)
Profit (loss) attributed to the shareholders of the Company		**157**	(853)	(1,066)
Profit (loss) attributed to non-controlling interests		**743**	(607)	(850)
Net profit (loss) for the year		**900**	(1,460)	(1,916)
Profit (loss) per share (NIS)	27			
Basic diluted profit (loss) per share		**1.38**	(19.7)	(36.5)

Consolidated statements of comprehensive profit for the year ended December 31

* reclassified

	2020	2019	2018
	NIS millions	**NIS millions**	**NIS millions**
Profit (loss) for the year	**900**	(1,460)	(1,916)
Reassessment of a defined benefit plan, net of tax	**(9)**	(33)	16
Other comprehensive profit (loss) items (net of tax)	**(5)**	1	26
Total comprehensive profit (loss) for the period	**886**	(1,492)	(1,874)
Attributable to:			
Shareholders of the Company	**154**	(862)	(1,055)
Non-controlling interests	**732**	(630)	(819)
Total comprehensive profit (loss) for the period	**886**	(1,492)	(1,874)

The notes attached to the consolidated financial information form an integral part thereof.

Consolidated statements of changes in equity for the year ended December 31

	Share capital	Share Premium	Treasury shares	Other reserves	Retained earnings (Deficit)	Total	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2018	3	1,057	(*)	(45)	214	1,229	1,757	2,986
Dividend distributed to non-controlling interests (Note 21)	-	-	-	-	-	-	(505)	(505)
Loss for the year 2018	-	-	-	-	(1,066)	(1,066)	(850)	(1,916)
Other comprehensive income for the year, net of tax	-	-	-	7	4	11	31	42
Total comprehensive loss for the year 2018	-	-	(*)	7	(1,062)	(1,055)	(819)	(1,874)
Balance as of December 31, 2018	3	1,057	(*)	(38)	(848)	174	433	607
Issuance of shares	9	438	-	-	-	447	-	447
Loss for the year 2019	-	-	-	-	(853)	(853)	(607)	(1,460)
Other comprehensive income for the year, net of tax	-	-	-	-	(9)	(9)	(23)	(32)
Total comprehensive loss for the year 2019	-	-	(*)	-	(862)	(862)	(630)	(1,492)
Balance as of December 31, 2019	12	1,495	(*)	(38)	(1,710)	(241)	(197)	(438)
Acquisition of non-controlling interests	-	-	-	-	**(39)**	**(39)**	**(1)**	**(40)**
Net compensation for the Horev Claim (See Note 18)	-	-	-	-	**19**	**19**	-	**19**
Profit for the year 2020	-	-	-	-	**157**	**157**	**743**	**900**
Other comprehensive (profit) loss for the year, net of tax	-	-	-	**(1)**	**(2)**	**(3)**	**(11)**	**(14)**
Total comprehensive profit for the year 2020	-	-	-	**(1)**	**155**	**154**	**732**	**886**
Balance as of December 31, 2020	**12**	**1,495**	**(*)**	**(39)**	**(1,575)**	**(107)**	**534**	**427**

(*) Represents an amount less than NIS 1 million.

The notes attached to the consolidated financial information form an integral part thereof.

Consolidated statements of cash flows for the year ended December 31

		2020	2019	2018
	Note	**NIS millions**	**NIS millions**	**NIS millions**
Cash flows from operating activities				
Profit (loss) for the year		**900**	(1,460)	(1,916)
Adjustments:				
Depreciation and amortization	9,10,11,12	**1,858**	2,064	2,388
Impairment loss	11	**266**	*1,329	2,324
Cancellation of impairment loss	11	**(258)**		
Capital gain, net	26	**(40)**	(475)	(13)
Share of loss of equity accounted investees		**-**	2	3
Financing expenses, net	27	**507**	416	541
Income tax expenses	7	**334**	*1,452	(67)
Change in other trade receivables	6	**56**	105	266
Change in inventory		**13**	(19)	(5)
Change in trade and other payables	16	**17**	(77)	(138)
Change in provisions	17	**(8)**	(49)	81
Change in employee benefits	18	**(192)**	(50)	489
Change in other liabilities		**(1)**	(8)	-
Income tax paid, net		**(243)**	(325)	(467)
Net cash derived from operating activities		**3,209**	2,905	3,486
Cash flows from investing activities				
Purchase of property, plant and equipment	10	**(1,133)**	(1,095)	(1,216)
Investment in intangible assets and deferred expenses	11.12	**(366)**	(382)	(390)
Investment activity, net		**222**	569	(1,168)
Revenue from the sale of property, plant and equipment		**148**	404	315
Deposit to restricted cash	13	**-**	(39)	-
Tax payments regarding the sale of the "Sakia" property	13	**-**	(69)	(201)
Receipt from the sale of Walla, net		**44**	-	-
Miscellaneous		**18**	35	42
Net cash used for investing activities		**(1,067)**	(577)	(2,618)
Cash flows from financing activities				
Issuance of bonds and receipt of loans	15	**718**	2,275	1,139
Acquisition of non-controlling interests		**(40)**	-	-
Repayment of debentures and loans	15	**(1,828)**	(4,287)	(1,793)
Principal and interest payments in respect of leases	9	**(391)**	(414)	(422)
Net compensation in respect of the Horev Claim	18	**(3)**	-	-
Receipt from issue of shares, net		**-**	447	-
Dividend paid to non-controlling interests	22	**-**	-	(505)
Interest paid	15	**(392)**	(496)	(523)
Costs in respect of early repayment of loans and bonds	15.2	**(65)**	(93)	-
Payment for expired hedging transactions		**(57)**	(46)	(36)
Miscellaneous		**(4)**	(4)	(10)
Net cash used for financing activity		**(2,062)**	(2,618)	(2,150)
Net increase (decrease) in cash and cash equivalents		**80**	(290)	(1,282)
Cash and cash equivalents as of January 1		**814**	1,104	2,386
Cash and cash equivalents at the end of the year		**894**	814	1,104

* reclassified

The notes attached to the consolidated financial information form an integral part thereof.

1. General

1.1. The reporting entity

B Communications Ltd. (hereinafter "**the Company**") is a company registered in Israel, headquartered at 144 Menachem Begin Street, Tel Aviv, and whose shares are traded on the Tel Aviv Stock Exchange (regarding the delisting of the Company's shares from trading on NASDAQ, see Note 21.1.4). The Group's consolidated financial statements as of December 31, 2020, include those of the Company and its subsidiaries (hereinafter "**the Group**"), as well as the rights of the Group in affiliated companies.

On April 14, 2010, the company acquired 30.44% of the shares of Bezeq, the largest communications group in Israel, and became the controlling owner of the company. Bezeq's ordinary shares are listed for trading on the Tel Aviv Stock Exchange.

As of December 31, 2020, the Company holds approximately 26.72% of the issued share capital of Bezeq.

1.2. Control of the Company

As of December 2, 2019, Searchlight Capital Partners, through its subsidiary Searchlight II BZQ (hereinafter "Searchlight") and the Forer family that controls TNR Investments Ltd. (hereinafter "the Forer Family") have completed the acquisition of control of the Company in such manner that Searchlight holds 60.18% and the Forer Family holds 11.39% of the Company's ordinary and issued shares.

1.3. Investigation by the Securities Authority and the Police

1.3.1 During 2017 and 2018, the Israel Securities Authority and the Israel Police conducted investigations into suspicions of committing offenses under the Securities Law and the Penal Code, 5737-1977 (the "Penal Code"), regarding transactions related to Bezeq's former controlling shareholder and the former Chairman of Bezeq's Board of Directors, Mr. Shaul Elovitch ("Elovitch") regarding the purchase of DBS shares and the provision of satellite communication services to DBS, the Ministry of Communications' dealings with Bezeq ("the DBS Case") and suspicions of the exercise of powers by Prime Minister Binyamin Netanyahu, to promote issues related to Elovitch's business and his and Bezeq Group's economic interests. ("Case 4000 Case"). Following the investigations, indictments were filed and notices were received as follows:

1.3.1.1. On January 28, 2020, an indictment was filed with the Jerusalem District Court against Elovitch for various offenses, including offenses of bribery and intentional misstatement in an immediate report in connection with suspicions of abuse of power by Prime Minister Binyamin Netanyahu, promoting issues related to Elovitch's business and his and Bezeq Group's economic interests.

1.3.1.2. On December 23, 2020, Bezeq received a notice from the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its invitation to a hearing in Case 4000 (“the Notice"), according to which:

a. After examining the evidence before him, the Attorney General is considering filing an indictment against Bezeq on suspicion of bribery (an offense under Article 291 of the Penal Code and Article 23 of the Penal Code), and a reporting offense with the aim of misleading a reasonable investor (offense under Article 53(a)(4) of the Securities Law and Article 23 of the Penal Code).

b. According to the Notice, according to the suspicion, Bezeq's criminal responsibility for the offense of bribery stems from the actions and criminal thoughts of Elovitch, who was its organ in the period relevant to the suspicions.

c. Also, according to the Notice, according to the suspicion, Bezeq's criminal responsibility for the reporting offense stems from the actions and criminal thought of Elovitch who was its organ in the period relevant to the suspicions, and the actions and criminal thought of Stella Handler (former Bezeq CEO), who was Bezeq's organ at the relevant time (see Note 1.3.1.3b). According to the allegation in this context, Bezeq reported on a letter from the Director General of the Ministry of Communications that allegedly included a misleading presentation (of which Elovitch and Stella Handler were aware), and only after the intervention of senior legal advisers was the letter corrected and reported by Bezeq to the public.

d. According to the announcement, before the Attorney General makes a final decision regarding the criminal prosecution of Bezeq, and insofar as Bezeq wishes to argue against the possibility of criminal prosecution, it must coordinate a 30-day hearing within 90 days of the Notice, and submit written arguments two weeks before the date determined for the hearing.

e. It should be noted that Walla (Bezeq's former subsidiary) received a similar notice according to which, after examining the evidence before him, the Attorney General is also considering filing an indictment against Walla on suspicion of bribery (an offense under Article 291 of the Penal Code and Article 23 of the Penal Code), while according to the suspicion, Walla's criminal responsibility for the bribery offense stems from Elovitch’s criminal actions and thought which was its organ in the period relevant to the suspicions.

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

1.3.1.3. On December 23, 2020, to the best of Bezeq's knowledge, a notice was issued by the State Attorney's Office, according to which, among other things, the State Attorney's Office (Taxation and Economics) filed with the Tel-Aviv Court's Economic Department, on the same day, an indictment against Elovitch, as well as former senior executives in the Bezeq Group and DBS, Or Elovitch, Amikam Shorer, Linor Yochelman, Ron Eilon and Miki Neiman as part of the DBS case. According to the publication:

a. The indictment attributes to the defendants the offenses of aggravated obtainment by fraud, fraud and breach of trust in a corporation, and reporting offenses under the Securities Law, in relation to two cases: Fraud in relation to the payment of the consideration for the purchase of DBS shares by Bezeq, and fraud in relation to the conduct of the independent committees established by Bezeq for the purpose of examining Bezeq transactions in which Elovitch had a personal interest.

b. The State Attorney's Office (Taxation and Economics) entered into a conditional settlement agreement under the Securities Law with Stella Handler, in which Stella Handler admitted the facts according to which she was involved in intentional misstatement in Bezeq's reports. In accordance with what is stated in the arrangement, the DBS case was closed in the case of Stella Handler.

c. The investigation files in respect of other suspects investigated in the cases mentioned above were closed, including against the former VP of regulation at Bezeq, as well as against Or Elovitch and Amikam Shorer (in relation to both - except with regard to the DBS Case as indicated in the preamble of this section).

1.3.1.4. Regarding DBS, which on November 20, 2017, received a "letter of suspect notification" according to which the investigation file in which it was questioned as a suspect was transferred to the State Attorney's Office for review - in accordance with the State Attorney's Office's notice received by DBS, after the Securities Authority's case in which it was questioned as a suspect was reviewed by the State Attorney's Office, it was decided on January 11, 2021 to shelf the case against it, without filing an indictment.

1.3.2 It should be noted that following the opening of such investigations, a number of civil legal proceedings were initiated against Bezeq and DBS, Bezeq's officers in the relevant period, as well as companies of Bezeq's former controlling group, including motions for approval of class actions and motions for disclosure of documents prior to filing a derivative claim. For details regarding these procedures, see Note 18.

1.3.3 Bezeq does not yet have complete information regarding the investigations, plans, materials and evidence in the possession of the law authorities in the matter (although in January 2021, Bezeq received the core of the investigation material in connection with Case 4000, following Bezeq's summons to a hearing on this matter as detailed in the above section 1.3.1.2). In accordance, Bezeq is not yet able to assess the effects of the investigations, their findings and their results on Bezeq, as well as the financial statements and estimates used in the preparation of these reports, if any. Upon the lifting of the restriction on conducting tests and inspections related to issues that arose in the course of the investigations, the tests shall be completed as necessary with respect to matters that arose in the framework of said investigations.

1.4 Pandemic - Outbreak of COVID-19

The beginning of 2020 saw a worldwide outbreak of the Coronavirus (COVID-19) which is an event with many implications, including macroeconomic. Following the epidemic, many countries, including Israel, are taking significant steps in an attempt to prevent the spread of the virus, such as restrictions on the movement of citizens, gatherings, transport restrictions on passengers and goods, closing borders between countries, and so on. As a result, the incident and the actions taken as aforesaid have significant implications for many economies as well as for the capital markets in the world.

During 2020, as a result of the COVID-19 epidemic crisis, there was an injury mainly to revenues from Pelephone’s roaming services, as well as a certain injury to revenues from the business segment in all Bezeq Group companies, when the total impact of the pandemic on the financial situation and business position of the Group companies was mixed, while the increase in Bezeq’s activity along with actions taken by the Group's companies in light of the consequences of the incident offset most of the damage to revenue from roaming services.

It should be noted that tests carried out by the Group companies indicate that at this point, the COVID-19 crisis had no material impact on the Group companies’ ability to meet the repayment of liabilities and on the indices of assets and liabilities, impairment of assets and recognition of expected credit losses. In addition, there was no material impact on critical estimates and considerations.

As of the date of approval of these financial statements, Bezeq Group's working assumption regarding the continued spread of the COVID-19 pandemic is that measures to limit the spread of the virus will continue at varying intensities during 2021 along with a long and gradual recovery in aviation and international tourism. Accordingly, and subject to the above assumptions, Bezeq Group expects that the effects of the COVID-19 pandemic on its activities will be mainly reflected in the damage to Pelephone's revenues from roaming services, as a result of the effects of the spread of the pandemic on the aviation and international tourism segments, without significant adverse effects in other areas of activity.

At the same time, it is a variable incident which is not in the Group’s control, and therefore the continuation or exacerbation of the crisis beyond the Group's assumptions as set forth above, if any, may materially adversely affect the Group's results. These effects may be reflected, *inter alia*, in injury, beyond the estimates as stated above, to income from roaming services, as well as to the Group companies' revenues from the business segment, revenues from the sale of cellular end equipment, employee availability, customer service and technician activity systems, the supply chain, and the amounts and dates of collection from the Group's customers.

The Group’s preparation as stated above may vary depending on various developments regarding the COVID-19 pandemic and its effects, in particular the duration and extent of the incident, the nature and extent of the economic and other restrictions that accompany it, as well as the intensity and duration of the economic recession that will develop as a result.

1.5 Restatement

As part of the preparation of the quarterly report for September 30, 2020, Bezeq International found that there are discrepancies between the assets and liabilities listed in its books and the actual assets and liabilities, resulting, among other things, from non-imputation of costs from previous years due to advance payments to suppliers.

In light of the above findings, on December 21, 2020 the Company restated Its financial statements for 2019 (including comparative data for 2018 and 2017), in order to retroactively reflect the effect the correction of the discrepancies as stated.

Comparative data that are included in these financial statements are data after the restatement.

1.6 Definitions

In these financial statements:

The Company	B Communications Ltd.
The Group	The Company and its subsidiaries
Bezeq	Bezeq Israel Telecommunications Corporation Ltd. and its subsidiaries whose reports are fully consolidated, directly or indirectly, with the Company's reports as detailed in Note 13.
DBS	DBS Satellite Services (1998) Ltd.
Subsidiaries	Companies whose financial statements are consolidated in full, directly or indirectly, in the financial statements of the Company
Affiliated companies	Companies that the Group's investment in which is included, directly or indirectly, in the financial statements based on the equity method
Investee companies	Subsidiaries or affiliates
Related party	As defined in International Accounting Standard 24 regarding related parties
Stakeholders	Within the meaning thereof in Paragraph (1) of the definition of "stakeholder" in a corporation in Article 1 of the Securities Law,

	5728-1968
CPI	The Consumer Price Index published by the Central Bureau of Statistics

2. Basis of preparation of the financial statements

2.1. Declaration of compliance with international financial reporting standards

The consolidated financial statements have been prepared by the Group in accordance with International Financial Reporting Standards (hereinafter: "IFRS") and in accordance with the Securities Regulations (Annual Financial Statements), 5770-2010.
The consolidated financial statements were approved by the Board of Directors on March 24, 2021.

2.2. The currency of the activity and the currency of the statements

The consolidated financial statements are presented in new shekels, which is the currency of the Group's activity and is rounded to the nearest million. The shekel is the currency that represents the main economic environment in which the Group operates.

2.3. The basis for measurement

The consolidated financial statements have been prepared on the basis of historical cost, with the exception of the following items:

- Derivative financial instruments, measured at fair value through income
- Inventory measured as cost or net exercisable value, whichever is lower
- Deferred tax assets and liabilities
- Provisions
- Assets and liabilities in respect of employee benefits

For more information regarding the measurement of these assets and liabilities, see Note 3 regarding the main principles of accounting policy.

2.4. Operating cycle period

The Group's operating cycle does not exceed one year. therefore, Current assets and current liabilities include items that are intended and expected to materialize within one year from the date of the financial statements.

2.5. Format of expense analysis recognized in the statement of income

Costs and expenses in the statement of income are presented and analyzed according to a classification method based on the nature of the expenses. The said classification is appropriate for understanding the business of the Group, which deals with a wide range of services provided through a common infrastructure. All costs and expenses are used To provide the services.

2.6. Use of estimates and discretion

In preparing the financial statements in accordance with IFRS, the Group's Management is required to use discretion, assessments, estimates and assumptions that affect the implementation of accounting policies and amounts of assets and liabilities, income and expenses. It is hereby clarified that the actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were updated and in any future period affected.

The following is information regarding significant estimates and discretion, a change in estimates and assumptions in respect of which has the potential to have a material effect on the financial statements:

Topic	Main discounts	Possible consequences	Reference
Measuring the recoverable amounts of cash-generating units	Assuming the expected cash flows from the cash-generating units	Recognition of impairment loss or cancellation of impairment loss	Note 11
Deferred taxes	Discount on the expected exercise of the tax benefit in the future, including the assumption that it is more likely than not that transferred losses accrued in DBS for tax purposes will not be used	Recognition of deferred tax asset	Note 7
Determining the lease period	For the purpose of determining the lease period, the Group takes into account the period during which the lease cannot be canceled, including extension options that are likely to be exercised and / or options for cancellation that are likely to be exercised	Increase or decrease in the measurement of right-of-use asset and liability in respect of lease and in depreciation and financing expenses in subsequent periods	9
Duration and expected operation of property, plant and equipment, intangible assets and other long-term assets	Assumptions regarding the life duration of fixed asset groups, intangible assets and other assets	Change in the value of property, plant and equipment and intangible assets and other assets and in depreciation and amortization expenses	Notes 10,11,12
Uncertain tax positions	The degree of uncertainty regarding the accepting of the Group's tax positions (uncertain tax positions) and the risk that tax and interest expenses will be higher or lower than the expenses included in the reports. This is based on an analysis of a number of factors, including interpretations of the tax laws and the Group's past experience	Recognition or cancellation of income tax expenses	Note 7
Provisions and contingent liabilities, including levies	Assessing the likelihood of claims against the Group companies and measuring the potential liabilities relating to the claims	Cancellation or creation of a provision in respect of a claim, recognition of revenue / expenses and recognition of income in respect of such a change, respectively	Note 16 and Note 18

	The Company's assumption of the estimated payment to the authorities regarding levies on real estate in the "Sakia" property	Change in capital gain from the sale of a real estate asset in the "Sakia" property	Note 13
Employee benefits	Actuarial assumptions such as discount rate, future wage increase rate and departure rate	An increase or decrease in employee benefits liabilities and early retirement liabilities	Note 17
Inevitable costs of a contract	Assuming that the economic benefits will outweigh the unavoidable costs of the contract	Recognition of the provision in respect of an onerous contract	Note 3.13.3
Existence of effective control over Bezeq	The possibility of appointing most of Bezeq's members of the Board of Directors, as a result of the Company's control permit in Bezeq, the control of the composition and distribution of the other Bezeq shareholders and the restrictions that apply to these shareholders under the Communications Law	Consolidation of Bezeq's financial statements or treatment of an investment in Bezeq using the equity method	Note 13.5

2.7. Determining fair value

For the purpose of preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities. Further information regarding the assumptions used in the fair value determination is provided in Note 30.7 regarding fair value.

3. Accounting policy principles

The accounting policies outlined below have been applied consistently to all periods presented in these consolidated financial statements by the Group entities.

In this note, where the Group has chosen accounting alternatives, which are permitted by accounting standards and / or accounting policies on a subject on which there is no explicit provision in accounting standards, the said disclosure is presented ***in bold***. The said emphasis does not attach more importance in comparison to the other accounting policies that were not emphasized.

3.1. Consolidation of 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 of acquisition of control until the date of loss of control.

Control exists when the Group is exposed to, or has rights in, returns that vary from its involvement in the acquired entity and has the ability to influence those returns through its power of influence in the acquired entity. In terms of control, real rights held by the Group and by others are taken into account.

3.1.2. Non-controlling interests

Non-controlling interests are the capital in a subsidiary that cannot be attributed, directly or indirectly, to the parent company and include additional components, such as a share-based payment that will be disposed of in the equity instruments of subsidiaries.

3.1.3. Allocation of income or other comprehensive profit among the shareholders

Income and any other component of other comprehensive profit are attributed to the owner of the Company and to non-controlling interests. The total income and the other comprehensive profit is attributed to the owner of the Company and to non-controlling interests even if as a result the balance of the non-controlling interests will be negative.

3.1.4. Transactions with non-controlling interests, while maintaining control

Transactions with non-controlling interests while maintaining control are treated as capital transactions. Any difference between the consideration paid or received and the change in non-controlling interests is imputed to the Company owner's share in the capital directly to surplus. The amount by which the non-controlling interests are adjusted is calculated as follows: an increase in the holding rate, according to the proportionate share of the balance of the non-controlling interests in the consolidated financial statements on the eve of the transaction. Also, in the event of changes in the holding rate in a subsidiary, while retaining control, the Company reallocates the cumulative amounts recognized in other comprehensive profit between the owner of the Company and the non-controlling interests.

3.1.5. Transactions canceled in the consolidation

Mutual balances in the Group and revenue and expenses, arising from transactions between companies, were eliminated in the consolidated financial statements.

3.1.6. Contingent consideration for the merging of businesses

After the acquisition date, the Group recognizes changes in the fair value of a contingent consideration recognized in the merging of businesses, which is classified as a financial liability, **in the income statement under the financing expenses item.**

3.2. Foreign currency transactions

Foreign currency transactions are translated into the Group's operating currency according to the exchange rate in effect on the transaction dates. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the activity currency at the exchange rate in effect on that date.

3.3. Financial Instruments

3.3.1. **Non-derivative financial assets**

Non-derivative financial assets mainly include investments in deposits, other trade receivables and cash and cash equivalents.

The Group initially recognizes financial assets at the date on which the Group becomes a party to the contractual provisions of the instrument, meaning the date on which the Group undertook to buy or sell the asset.

A financial asset is initially measured at fair value plus transaction costs that can be directly attributed to the acquisition or issuance of the financial asset. Customers who do not include a significant financing component are initially measured by the transaction price.

Financial assets are deducted when the Group's contractual rights to the cash flows arising from the financial asset expire, or when the Group transfers the rights to receive the cash flows arising from the financial asset in a transaction in which all risks and rewards of ownership of the financial asset are transferred in practice.

Classification of financial assets into groups and accounting treatment for each group

At the time of initial recognition, financial assets are classified into one of the following measurement categories: reduced cost; Or fair value through income.

A financial asset is measured at reduced cost if it meets the two cumulative conditions below and is not intended to be measured at fair value through income:

a. Held as part of a business model that aims to hold assets to back up the contractual cash flows; and

b. The contractual terms of the financial asset provide entitlement at specified dates to cash flows that are only payments of principal and interest in respect of the principal amount that has not yet been repaid.

All financial assets in the Group that are not classified for measurement at amortized cost are measured at fair value through income.

The Group classifies financial assets as follows:

Cash and cash equivalents

Cash includes immediately available cash balances and on-demand deposits. Cash value includes short-term investments (when the time from the original deposit date to the redemption date is up to 3 months), at a high level of liquidity that can be easily converted into known amounts of cash and which are exposed to insignificant risk of changes in value.

Customers, trade receivables and deposits

The Group has customer balances, other trade receivables and deposits held as part of a business model aimed at collecting contractual cash flows. Contractual cash flows in respect of these financial assets, include only principal and interest payments which reflect a consideration for the time value of the money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and income

Reduced financial assets are measured using the effective interest method net of impairment losses. Interest income, profit or loss from exchange rate differences and impairment are recognized in income. Any profit or loss arising from a deduction is also recognized in income.

Fair value financial assets through income are measured in subsequent periods at fair value. Net profit and loss, including income from interest or dividends, are recognized in income.

3.3.2. **Non-derivative financial liabilities**

Non-derivative financial liabilities include: debentures issued by the Group, loans and credit from banking corporations and other credit providers, suppliers and other trade payables.

The Group initially recognizes debt instruments issued at the time of their formation. The rest of the financial liabilities are recognized at the time of the transaction. Financial liabilities are initially recognized at fair value net of all attributable transaction costs. Once initially recognized, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are deducted when the Group's liability, as specified in the agreement, expires or when it is eliminated or canceled.

Change in terms of debt instruments

Exchanging debt instruments, with substantially different terms, between an existing borrower and an existing lender is treated as the settlement of the original financial liability and the recognition of a new financial liability at fair value. The difference between the reduced cost of the original financial liability and the fair value of the new financial liability is recognized in income in the financing revenue or expenses item.

The terms differ materially if the discounted present value of the cash flows under the new terms, including any commissions paid, net of any commissions received and discounted using the original effective interest rate, is at least ten percent different from the discounted present value of the remaining cash flow of the financial liability.

In addition to the aforementioned quantitative test, the Group examines, among other things, whether there have also been changes in various economic parameters inherent in the replaced debt instruments.

In the event of a change in the terms (or replacement) of a non-material fixed-rate debt instrument, the new cash flows are discounted at the original effective interest rate, with the difference between the present value of the new financial liability and the present value of the original financial liability recognized in income ***under the item "Financing expenses (revenue)".***

The Group has chosen an accounting policy according to which when a portfolio of financial liabilities with the same characteristics is repaid / replaced, the calculation of income or loss / replacement will be performed using the FIFO method.

3.3.3. Index-linked assets and liabilities that are not measured at fair value

The value of CPI-linked assets and liabilities, which are not measured at fair value, is estimated in each period in accordance with the actual rate of increase / decrease of the index.

3.3.4. Offsetting financial instruments

A financial asset and a financial liability are offset and the amounts are presented net in the statement of financial position when the group has immediate existence (currently) an enforceable legal right to offset the amounts recognized as well as an intention to liquidate the asset and liability on a net basis or to realize the asset and eliminate the liability at the same time.

3.3.5. A. Hedge accounting

The Group holds derivative financial instruments for the purpose of hedging cash flow in respect of risks of future changes in the consumer price index in connection with the bonds issued by the Group.

At the time the hedge relationship is created, the Group documents the purpose of risk management and its hedging strategy. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

Derivatives are initially recognized at fair value. Attributable transaction costs are recognized in income as incurred. After initial recognition, the derivatives are measured at fair value, with the effective portion of the changes in the fair value of the derivative being charged to a hedge fund under other comprehensive profit. The effective portion of the changes in the fair value of a derivative, which is recognized in other comprehensive profit, is limited to the cumulative change in the fair value of the hedged item (at present value), from the date of creation of the hedge. The part that is ineffective, the change in fair value is immediately recognized in income.

B. Economic hedging

In addition, the Group holds derivative financial instruments for the purpose of hedging cash flow in respect of foreign exchange risks. Hedge accounting is not applied to these instruments. Such derivative instruments are recognized at fair value; The changes in fair value are immediately recognized in the statement of income, **as financing revenue or expenses.**

3.4. Broadcasting rights

The broadcasting rights are presented according to cost, net of rights exercised and impairment losses.

Costs of acquired broadcasting rights for broadcasting content includes the amounts paid to the rights providers plus direct costs incurred for the purpose of adjusting the broadcasting rights.

An examination of the impairment of broadcasting rights is made as part of the cash-generating unit with which the broadcasting rights are associated (see also Note 11).

The net change in broadcasting rights is presented as adjustments to profit as part of current operations in the statement of cash flows.

3.5. Property, plant and equipment

3.5.1. Recognition and measurement

The Group chose to measure the property, plant and equipment items by cost net of accumulated depreciation and impairment losses.

Cost includes costs that can be directly attributed to the purchase of the asset. The cost of self-constructed assets includes the cost of materials, direct salaries and financing costs, any additional costs that can be directly attributed to bringing the asset to the location and condition necessary for it to operate as Management intended, as well as an estimate of the costs of dismantling and removing the items and restoring the site where the item is located in cases where the Group is obligated to vacate and restore the site. The cost of purchased software, which is an integral part of the operation of the related equipment, is recognized as part of the cost of this equipment.

Spare parts, auxiliary equipment and backup equipment are classified as property, plant and equipment when they meet the definition of property, plant and equipment in accordance with IAS 16, otherwise they are classified as inventory.

When significant pieces of property, plant and equipment have different lifespans, they are treated as separate items (significant components) of property, plant and equipment.

Profit or loss from the deduction of a property, plant and equipment item is determined by comparing the consideration from the deduction of the asset to its book value. **Profit or loss from the sale of property, plant and equipment is included in the Other income or expenses item, as the case may be, in the statement of income.**

3.5.2. <u>Subsequent costs</u>

The cost of replacing part of a fixed asset item is recognized as part of the book value in the of that item if it is expected that the future economic benefit inherent in the new part will flow to the Group and if its cost can be measured reliably. Ongoing maintenance costs of property, plant and equipment are recognized in income as they arise.

3.5.3. <u>Depreciation</u>

Depreciation is charged to the statement of income using the straight-line method over the estimated useful life of each of the items of property, plant and equipment, since this method best reflects the projected consumption pattern of the future economic benefits inherent in the asset.

An asset depreciates when it is available for use, that is, when it has reached the necessary position and condition in order for it to be able to act in the manner intended by Management.

Improvements in leased buildings generally depreciate over the lease term, which includes the period of extension options held by the Group that it intends to exercise and the useful life of the lease improvements, whichever is shorter.

The estimate of the useful life for the current period is as follows:

	Years
Landline and international network equipment (switching, transmission and power)	4-12
Landline network	12-33
Multi-channel TV equipment and infrastructure	1-17
Subscription 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 on cellular network sites	Until December 31, 2037
Structures	25
Underwater cable	4-25 (mostly 25)

Estimates of the depreciation method, useful life and residual value are reviewed at least once every reporting year and adjusted as necessary.

3.6. Intangible assets

3.6.1. Goodwill

Goodwill created as a result of the acquisition of subsidiaries is included in the intangible assets item. After initial recognition, goodwill is measured at cost net of accumulated impairment losses. Reputation is reviewed at least once a year for impairment examination. See also Note 11.

3.6.2. Software development costs

Software development costs are recognized as an intangible asset only if: the development costs can be reliably measured; The software is technically and commercially applicable; A future economic benefit is expected from the development, and the Group has sufficient intention and resources to complete the development and use the software. The costs recognized as an intangible asset include the cost of materials, direct salaries and overhead expenses that can be directly attributed to the preparation of the asset for its intended use. Other development costs are recognized in the statement of income as incurred.

Discounted development costs are measured at cost net of amortization and impairment losses.

3.6.3. Software

Software that is an integral part of the hardware, which cannot operate without the software installed on it, is classified as property, plant and equipment. In contrast, software licenses that stand on their own and add additional functionality to the hardware are classified as intangible assets.

3.6.4. Rights to frequencies

3.6.5. Frequency rights refer to the frequencies allocated to Pelephone for cellular activity, following its winning special tenders conducted by the Ministry of Communications. Depreciation in respect of the asset is recognized in the statement of income according to the "straight line" method depreciates over the frequency allocation period, which begins on the date of their use. 4G frequencies (LTE) and 3G frequencies (UMTS / HSEA) depreciate until August 22, 2028. 5G frequencies will depreciate until September 2032.

Depreciation of rights in frequencies is attributed to the depreciation and amortization item in the statement of income.

3.6.6. Other intangible assets

Other intangible assets acquired by the Group, with a defined useful life, are measured at cost net of amortization and impairment losses.

3.6.7. Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit inherent in the asset in respect of which they were incurred. Other costs, including those related to goodwill or self-developed brands, are recognized in the statement of income as incurred.

3.6.8. Amortization

Amortization of intangible assets is charged to the statement of income according to the straight-line method (except as stated below regarding the amortization of customer relationships), over the estimate of the useful life of the intangible assets from the date on which the assets are available for use. Goodwill is not systematically amortized, but is exmained at least once a year for impairment.
The estimated useful life for the current period is:

Property type	Reduction period
Frequency use rights	Over the license period until 2032
Computer software and software use licenses	3-7 years depending on the license period or beyond the estimated duration of use of the software

Estimates of the depreciation method and useful life are reviewed at least once every reporting year and adjusted as necessary.

3.7. Leased assets

3.7.1. Determining whether an arrangement contains a lease

At the time of entering into the lease, the Group determines whether the arrangement is a lease or contains a lease, examining whether the arrangement transfers a right to control the use of an identified asset for a period of time in exchange for payment. In assessing whether the arrangement transfers the right to control the use of an identified asset, the Group assesses throughout the lease term whether it has the following two rights:

a) The right to obtain virtually all economic benefits from the use of the identified asset; also
b) The right to direct the use of the identified asset

For leases that include non-lease components, such as services or maintenance, related to a lease component, ***the Group has chosen to treat the contract as a single lease component without separating the components.***

3.7.2. Leased assets and liabilities in respect of lease

Contracts that give the Group control over the use of an identifiable asset over a period of time for consideration are treated as leases. At the 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 do not depend on the CPI or, change in any interest rate or change in exchange rate), and at the same time the Group recognizes the right-of-use asset in the amount of the liability, adjusted for lease payments that have been paid in advance or accumulated, plus the direct costs incurred in the lease.

Because the interest rate inherent in the lease cannot be easily determined, the Group's additional interest rate was used (the interest rate the Group was required to pay in order to borrow for a similar period and with similar collateral the amounts needed to obtain an asset with a similar right of use in a similar economic environment).

After initial recognition, the asset is treated according to the cost model, and is amortized over the lease term or the useful life of the asset (whichever is earlier).

3.7.3. **Lease period**

The lease period is determined as a period in which the lease is non-cancellable, and includes the periods for which there is an option to extend or cancel the lease if it is reasonably certain that the Group will exercise the options for extending the lease and will not exercise the option to cancel the lease.

3.7.4. **Variable lease payments**

Lease payments that are linked to the consumer price index are initially measured by using the existing index at the beginning of the lease and are included in the measurement of the lease liability. When there is a change in the cash flow of future lease payments resulting from the change in the index, the balance of the liability is updated against the right-of-use asset.

3.7.5. **Amortization of right-of-use asset**

After the date of commencement of the lease, the right of use property is measured using the cost method, net of cumulative depreciation And after deducting cumulative losses from impairments and adjusted for re-measurements of the liability in respect of the lease. ***Calculation is calculated On a straight-line basis*** Over the useful life or the contractual lease period, whichever is earlier as follows:

Asset type	Weighted average of the agreement period as of December 31, 2020 (years)
Cellular communication sites	6.4
Structures	14.8
Vehicles	2.3

3.7.6. **Subleases**

In leases in which the Company leases the underlying asset in a sublease, the Company examines the classification of the sublease as a finance or operating lease in relation to the right-of-use obtained in the main lease. The Company examined existing leases at the date of initial application in accordance with the balance of their contractual terms as of that date.

3.8. Capacity use rights

Transactions for the purchase of Indefeasible Right of Use (IRU) in underwater cable capacities were treated as service acceptance transactions. The amount of the prepaid expense is reduced in a straight line in accordance with the period specified in the agreement and no more than the estimated useful life of those capacities.

Capacities which identifiable and used exclusively by the Group are presented in the property, plant and equipment item. The asset is reduced in a straight line in accordance with the period specified in the agreement and for no longer than the estimate or the expected useful life of those capacities. Capacity use rights are presented net of accumulated impairment losses.

3.9. Inventory

The cost of inventory includes the costs of purchasing the inventory and bringing it to its existing place and condition.

Inventory is measured as the cost and net exercisable value, whichever is lower. ***The Group chose to determine the cost of inventory according to the weighted moving average method.***

Stock includes end equipment and accessories intended for sale and service, as well as spare parts used for repairs as part of the repair service provided to customers.

Inventory of end equipment, accessories and spare parts whose consumption is slow are presented net of provisions for impairment.

3.10. Impairment

3.10.1. Non-derivative financial assets

The Group has chosen to measure the provision for projected credit losses in respect of trade receivables in an amount equal to the contractual credit losses throughout the life of the instrument.

Projected credit losses throughout the life of the instrument are projected credit losses resulting from all possible failure events throughout the life of the financial instrument.

Projected credit losses constitute a weighted estimate — probabilities of credit losses. Credit losses are measured at the present value of the difference between the cash flows to which the Group is entitled under the contract and the cash flows that the Group expects to receive and are discounted according to the effective interest rate of the financial asset.

Examination of projected credit losses for customer and trade receivable balances in substantial amounts is done on the basis of each asset separately. For the rest of the financial assets, projected credit losses are examined collectively, according to groups with similar credit risk characteristics, taking into account past experience.

Provision for projected credit losses is presented as a deduction from the gross book value of customers.

Regarding deposits in banks, for which the credit risk has not increased significantly from the date of initial recognition, the Group measures the provision for projected credit losses in an amount equal to the projected credit losses due to a failure incident in a period of 12 months.

When assessing whether the credit risk of a financial asset has increased significantly from the date of initial recognition and assessment of projected credit losses, the Group takes into account reasonable information that can be established, which is relevant and achievable without excessive cost or effort. Such information includes quantitative and qualitative information, as well as analysis, based on the Group's past experience and includes forward-looking information.

3.10.2. Non-financial assets

Timing of impairment examination

The book value of the Group's non-financial assets, that are not inventory and deferred tax assets, is reviewed at each reporting date to determine whether there are any indications of impairment. If there are indications, as stated, an estimate of the recoverable amount of the asset is calculated.

The Group performs once a year on a fixed date, an assessment of the recoverable amount of the cash generating unit to which goodwill is attributed, or more frequently, if there are indications of impairment.

Measurement of recoverable amount

The recoverable amount of an asset or a cash-generating unit is the value in use and the fair value, whichever is higher, net of costs of sale. In determining the value in use, the Group discounts the projected future cash flows according to the discount rate, which reflects the market estimates of the time value of the money and the specific risks relating to the asset or cash-generating unit (for which future cash flows have not been adjusted).

Determining cash-generating units

For the purpose of examination of impairment, the assets are grouped together into the smallest group of assets which generates cash flows from continuous use, which are mainly independent of assets and other groups ("cash-generating unit"). See Note 11.

Assignment of goodwill to cash-generating units

For the purpose of examining the impairment of goodwill, cash-generating units to which goodwill has been allocated are grouped so that the level at which the impairment is examined reflects the lowest level at which the goodwill is monitored for internal reporting purposes, but in any case is not larger than an activity segment. Goodwill acquired as part of merging businesses is assigned for the purpose of examining impairment to cash-generating units that are expected to generate benefits from the synergy of the merger.

Recognition of impairment loss

Loss from impairment of a cash-generating unit is recognized when the book value of the cash-generating unit, including goodwill, as applicable, exceeds its recoverable amount and is recognized in the statement of income. An impairment loss recognized in respect of a cash-generating unit is initially allocated to an impairment loss in the book value of goodwill attributable to the unit, and subsequently to an impairment loss in the book value of other assets in the cash-generating unit. For the purpose of allocating the impairment loss, the value of the assets is not reduced below the fair value net of exercise costs, their value in use (if determinable) or zero, whichever is higher.

Impairment loss resulting from a one-off update of forecasts for the coming years is classified in the statement of income under the Impairment loss item. On the other hand, an impairment loss resulting from a continuing adjustment of non-current assets of the Group companies to fair value net of exercise costs (resulting from the expectation of continued negative cash flow and negative operating value of those companies), is classified in the statement of income under the same items in which the current expenses in respect of these assets were classified. The said classification is more compatible with the presentation method based on

the nature of the expense and is also more suitable for understanding the Group's business.

Accordingly, the statement of income shows the continuing impairment of broadcasting rights in DBS and Walla as part of "Operating and general expenses" while the continuing impairment of property, plant and equipment and intangible assets is presented as part of "Depreciation, amortization and impairment" expenses. See also Note 11.

Cancellation of impairment loss

Loss of goodwill impairment is not cancelled. As for other assets, in respect of which impairment losses have been recognized in previous periods, at each reporting date it is examined whether there are indications that these losses have decreased or that they no longer exist. Impairment loss is cancelled if there is a change in the estimates used to determine the recoverable amount, only to the extent that the book value of the asset, after the loss is deducted, does not exceed the book value less depreciation or amortization, which would have been determined if no impairment loss had been recognized.

3.11. Employee benefits

3.11.1. Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually funded by deposits with insurance companies and are classified as defined deposit plans as well as defined benefit plans.

a. Defined deposit plans

A defined deposit plan is a post-employment plan whereby the Group pays regular payments to a separate entity without having any legal or implied liability to pay additional payments.

The Group's liabilities to deposit to the defined deposit plan are recognized as a loss in the statement of income for the periods during which the employees provided the services.

b. Defined benefit plans

The Group's net liability, which relates to a defined benefit plan for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit that the employee will receive in return for his services in the current period and in past periods. This benefit is presented at present value less the fair value of the plan's assets. The calculations are conducted annually by a qualified actuary. The discount rate is determined according to the return on the reporting date for high-quality corporate bonds, whose currency is the same as the currency in which the benefit is paid or to which it is linked, and whose maturity date is similar to the Group's commitment terms.

Net interest costs in respect of a defined benefit plan are calculated by multiplying the net liability by the discount rate used to measure the liability in respect of a defined benefit, as determined at the beginning of the annual reporting period.

The Group chose to present the interest costs imputed to income, as part of the financing expenses item.

Recalculation of the net liability in respect of a defined benefit includes actuarial income and the return on plan assets (excluding interest). Re-measurements are imputed immediately, through other comprehensive profit directly to ***surplus***.

When there is an improvement or reduction in the benefits that the Group provides to its employees, some of the increased or reduced benefits relating to employees' past services are immediately recognized as profit or loss when the plan is amended or reduced.

3.11.2. Other long-term employee benefits

The Group's liability for long-term employee benefits (such as liability for accrued vacation and sick days), which do not relate to post-employment benefit plans, is in respect of the amount of future benefit to employees for services rendered in the current and past periods. The amount of these benefits is shown at its current value. The discount rate is determined in accordance with the return of high-quality indexed corporate bonds on the reporting date whose currency is the shekel, and their maturity date is similar to the Group's commitment terms. Actuarial changes are recognized in the statement of income in the period in which they were created. **The actuarial changes resulting from a change in the discount rate are recognized under the financing expenses / revenue item, while the remaining differences are imputed to payroll expenses.**

3.11.3. Early retirement and dismissal benefits

Dismissal benefits are recognized as an expense when the Group has expressly committed, with no real possibility of cancellation, to the dismissal of employees, before they reach the usual retirement date according to a detailed formal plan. Benefits provided to employees in voluntary retirement are recognized as an expense when the Group has offered employees a plan that encourages voluntary retirement, and the employees accepted the offer or when the Company can no longer withdraw its offer.

Expenses in respect of early retirement and dismissal that have been imputed to income are presented in the item Other operating expenses (revenue). The actuarial changes resulting from a change in the discount rate of long-term benefits in respect of early retirement and dismissal are imputed to the item of financing expenses, while the other actuarial changes are imputed to other operating expenses (revenue).

3.11.4. Short-term benefits

Liabilities for short-term employee benefits are measured on a non-discounted basis, and the expense is recognized when the relevant service is provided. Liabilities in respect of short-term employee benefits regarding a cash bonus is recognized at the amount expected to be paid when the Group has a current legal or implied liability to pay the said amount for a service provided by the employee in the past and the liability can be reliably estimated.

The classification of benefits for employees as short-term benefits or as other long-term benefits for measurement purposes is determined in accordance with the forecast of the date of full disposal of the benefits.

The classification of benefits for employees as current benefits or as non-current benefits for the purpose of presenting them in the statement of financial position is made in accordance with the date on which the liability is due for payment.

3.12.Provisions

A provision is recognized when the Group has a current, legal or implied obligation as a result of a past incident that can be reliably estimated, and when it is expected that a flow of economic benefits will be required to discharge the liabiltiy.

3.12.1. Legal claims

The handling of pending lawsuits is in accordance with IAS37 and its accompanying provisions. According to the provisions, the claims are classified according to groups with similar characteristics, in accordance with the areas of probability for the realization of the risk exposures as detailed below:

a. Expected - probability above 50%.
b. Possible - probability is more than weak and smaller or equal to 50%.
c. Weak - probability less than or equal to 10%.

Regarding claims in respect of which the Group has a legal or implied liability as a result of an event that has occurred in the past that is likely to materialize, the financial statements include provisions which, in the opinion of the Group's Management, based, *inter alia*, on its legal counsel who handle such claims, are appropriate in the circumstances of each case, even though the above claims are denied by the Group companies. In addition, there is a limited number of legal proceedings, most of which have recently been accepted, the chances of which cannot be assessed at this stage, and for the aforesaid reason no provision has been made in respect thereof.

Note 18 provided details regarding the amount of the additional exposure due to pending claims that are likely to materialize.

3.12.2. Costs of dismantling and removing sites

The provision for a commitment to dismantle and remove sites is recognized in respect of such lease agreements in which Pelephone has an obligation to return the leased property to its former state at the end of the lease period, after dismantling and transferring the site and restoring the site when necessary. The provision is measured by discounting future cash flows at a risk-free discount rate that reflects the period of time until the expected end of the contract under which Pelephone was required to dismantle the site. The book value of the provision is adjusted in each period to reflect the lapse of time recognized in financing expenses.

3.12.3. Onerous contracts

When the Group expects that the unavoidable costs in respect of a contract will exceed the economic benefits expected to be received from the contract, a provision for an onerous contract is recognized. The provision is measured according to the present value of the projected cost for cancellation of the contract or the present value of the unavoidable costs (net of income) for the performance of the contract, whichever is lower. ***Inevitable costs are costs that the Group cannot avoid because it is subject to a contract (i.e., supplemental costs).***

3.13. Revenue

3.13.1. The Group recognizes revenue when the customer gains control of the promised goods or service. Revenue is measured by the amount of consideration that the Group expects to be entitled to in exchange for the transfer of goods or services promised to the customer, other than amounts collected for the benefit of third parties.

The model for recognition of revenue from contracts with customers includes five steps for analyzing transactions in order to determine the timing of revenue recognition and its amount:

a. Identifying the contract with the customer
b. Identifying separate performance obligations in the contract
c. Determining the transaction price
d. Assigning the transaction price to separate performance obligations
e. Recognition of revenue upon fulfillment of performance obligations

3.13.2. Contract identification

The Group handles a contract with a customer only when all of the following conditions are met:

1. The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are obligated to fulfill the obligations attributed to them
2. The Group can identify the rights of each party regarding the products or services to be exchanged
3. The Group can identify the terms of payment for the goods or services to be exchanged
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); and
5. The Group is expected to collect the consideration to which it is entitled for the goods or services that will be delivered to the customer

3.13.3. Identification of performance commitment

At the time of entering into the contract, the Group evaluates the goods or services promised under a contract with a customer and identifies as a performance obligation any promise to deliver to the customer one of the following two:

(1) Goods or services (or a package of goods or services) that are separate; or
(2) A series of separate goods or services to the customer that are in fact identical and have the same transfer pattern.

3.13.4. Determining the transaction price

The transaction price is the amount of consideration that the Group expects to be entitled to in exchange for the transfer of goods or services promised to the customer, in addition to amounts collected for the benefit of third parties. When determining the transaction price, the Group takes into account the effects of all of the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration to be paid to the customer.

3.13.5. Existence of a significant financing component

For the purpose of measuring the transaction price, the Group adjusts the amount of consideration promised for effects of the time value of the money if the timing of payments agreed between the parties provides the customer or Group with a significant financing benefit. In these cases the contract contains a significant financing component. In assessing whether a contract contains a significant financing component, the Group examines, *inter alia*, the expected length of time between the date on which the Group transfers the promised goods or services to the customer and the date on which the customer pays for these goods or services, and the difference, if any, between the amount of the promised consideration and the cash sale price of the promised goods or services.

When there is a significant financing component in the contract, ***the Group recognizes the amount of the consideration using the discount rate that will be reflected in a separate financing transaction between itself and the customer at the time of engagement***. The financing component is recognized as income or interest expenses during the period calculated in accordance with the effective interest method.

In cases where the difference between the date of receipt of payment and the date of transfer of the goods or service to the customer is one year or less, ***the Group applies the practical relief provided by the standard and does not separate a significant financing component***.

3.13.6. <u>Existence of performance obligation</u>

Revenue is recognized when the Group maintains a performance obligation by transferring control of a customer or service promised to the customer.

3.13.7. <u>Contract costs</u>

Supplemental costs of obtaining a contract with a customer such as sales commissions paid to resellers and Group salespeople for sales and upgrades are recognized as an asset when the Group is expected to recoup those costs. Costs for obtaining a contract that would have arisen regardless of whether the contract was obtained are recognized as an expense at the time they were incurred, unless the customer can be charged for these costs.

Costs discounted as an asset are recognized in the statement of income on a systematic basis, depending on the expected duration of the subscribers and depending on their expected average churn rate according to the type of subscription and the service received (mainly for a period of between 2.6 to 4 years).

In each reporting period, the Group examines whether the book value of the recognized asset exceeds the balance of the consideration the entity expects to receive in return for the goods or services to which the asset relates, net of the costs directly attributable to the supply of those goods or services that were not recognized as expenses, and if necessary, recognized an impairment loss in the statement of income.

3.13.8. <u>Major supplier or agent</u>

When another party is involved in the supply of goods or services to the customer, the Group examines whether the essence of its promise is a commitment to provide the defined goods or services by itself, i.e., if the Group is a major supplier and therefore recognizes revenue in gross consideration amount, or act for another party to provide these goods or services, i.e. the Group is an agent and therefore recognizes income in the net commission amount.

The Group is a major supplier when it controls the goods or service promised prior to delivery to the customer. Indicators that the Group controls the goods or service prior to their transfer to the customer include, *inter alia,* the following: the Group is primarily responsible for keeping the promises in the contract; The Group has an inventory risk before the goods or service are delivered to the customer; And also if the Group has discretion in setting the prices for the goods or service.

3.14. Government grants

Government grants are initially recognized at fair value when there is reasonable assurance that they will be accepted and that the Group will meet the conditions that qualify for their receipt. Government grants received for the purpose of purchasing an asset are presented as deferred income in the statement of financial position and are unfrozen in the statement of income throughout the useful life of the asset.

3.15. Income and financing expenses

Financing revenue mainly includes interest revenue accrued using the effective interest method in respect of the sale of end equipment in installments, interest revenue from deposits and changes in the fair value of financial assets presented at fair value through the statement of income.
Total financing expenses mainly include interest expense and linkage on loans received and bonds issued, expenses in respect of early repayment of the debt as well as financing expenses in respect of benefits to employees.

In statements of cash flows, ***interest received is shown as part of cash flows from investing activities. The Group chose to present the interest rates and linkage differences paid in respect of loans and debentures as part of cash flows used for financing activity.***

3.16. Income tax expenses

Income tax expenses include current and deferred taxes. Income tax expenses are recognized in the statement of income or other comprehensive profit if they arise from items that are recognized in other comprehensive profit.

<u>Current taxes</u>

The current tax is the amount of tax that is expected to be paid on the taxable income for the year, when it is calculated according to the tax rates that apply according to the laws that were enacted or enacted in fact at the date of the report. Current taxes also include changes in tax payments relating to previous years.

<u>Uncertain tax positions</u>
Provision for uncertain tax positions, including additional tax expenses and interest, is recognized when it is more likely than not that the Group will be required to use its financial resources to eliminate the liability.

<u>Deferred taxes</u>

Recognition of deferred taxes is with respect to temporary differences between the book value of assets and liabilities for financial reporting purposes and their value for tax purposes. The Group does not recognize deferred taxes in respect of the following temporary differences:

1. Initial recognition of goodwill
2. Differences arising from investment in subsidiaries and affiliates, if it is not expected that they will be reversed in the foreseeable future and if the Group controls the date of reversal of the difference.

Deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date they are implemented, based on the laws enacted or the enactment of which was completed in fact as of the reporting date.

Deferred tax asset is recognized in the books in respect of carried forward losses, tax benefits and deductible temporary differences, when it is expected that in the future there will be taxable income, against which it will be possible to exercise them. Deferred tax assets are reviewed at each reporting date, and if the related tax benefits are not expected to materialize, they are amortized (see also Note 7).

Offsetting assets and deferred tax liabilities

The Group offsets assets and the tax liability is deferred if there is an enforceable legal right to offset deferred assets and liabilities, and they are attributed to the same taxable income taxed by the same tax authority in the same taxable company, which intends to eliminate deferred tax assets and liabilities on a net basis or if the deferred tax assets and liabilities are settled simultaneously.

Presentation of tax expenses as part of the statement of cash flows

Cash flows arising from income taxes are classified in the statement of cash flows as cash flows from operating activities, unless they can be specifically identified with investing activities and financing activities.

3.17. Dividend

An obligation relating to a dividend offered or declared after the date of the financial statements is recognized only in the period in which the announcement was made (approval of the general meeting). In statements of cash flows, ***dividend paid is presented as part of financing activity.***

3.18. New standards not yet adopted:

3.18.1. Correction to IAS1 Standard "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current"

The amendment replaces a certain classification requirement of liabilities as current or non-current. The amendment will enter into force in respect of reporting periods as of January 1, 2023. Early application is possible. The amendment will be applied retrospectively, including an amendment to comparative figures. The Group is examining the implications of applying the amendment to the financial statements.

3.18.2. Amendment to Standard IAS37 "Provisions, contingent liabilities and contingent assets" in respect of onerous contracts

The amendment stipulates that in examining the costs of maintaining a contract, it is necessary to also consider indirect costs in addition to supplemental costs (see Note 3.12.3).

The date of initial application of the amendment is set for January 1, 2022, and it will be carried out by adjusting the surplus balance in respect of the cumulative effect to this date. The amendment may have effects on the identification and measurement of onerous contracts in the Group, which may even be reflected in the creation of material provisions which the Group is unable to assess at this stage. The Group is studying the amendment and is preparing to implement it on time.

4. Cash and cash equivalents

Cash balance and cash value as of December 31, 2020 mainly includes deposits in banks for a period of up to 90 days as well as balances in checking accounts.

5. Investments

	December 31, 2020	**December 31, 2019**
	NIS millions	**NIS millions**
Banking deposits in shekels and foreign currency (1)	**804**	883
Investment in monetary funds and marketable securities measured at fair value through statement of income and others	**77**	358
Deposit used for security in respect of hedging transactions		
	881	1,241

(1) Bank deposits in shekels and USD, due for repayment by December 2021.

6. Other trade receivables

6.1. Composition of other trade receivables:

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Trade receivables *		
Open debts and checks for collection	**656**	729
Credit cards	**405**	415
Revenue receivable	**224**	146
Long-term customer maturities	**332**	382
Related parties and stakeholders	**4**	5
	1,621	1,677
Other trade receivables and current tax assets *		
Current tax assets	**42**	56
Other trade receivables and authorities (mainly in respect of real estate sales)	**105**	24 7
Advance expenses	**33**	39
	180	342
Other long-term trade receivables*		
Clients - open debts	**256**	304
Long-term trade receivables and authorities (in respect of real estate sales) **	**185**	173
Frequency grant receivable (see Note 11.1)	**73**	-
	514	477
	2,315	2,496

* Customer balances and trade receivables are presented net of provision for loan-loss.

** See Note 6.6

6.2. Discount rates of long-term customers are in line with the customers' credit risk estimates. The interest rates used by the Group for discount in 2020 are 3.26% -8.5% (in 2019: 3.5%-5.6%).

6.3. Expected exercise dates for long-term trade receivables:

Expected repayment dates	December 31, 2020
	NIS millions
2021	**266**
2022	**114**
2023 onwards	**134**
	514

6.4. Aging of customer debts as of the reporting date:

	December 31, 2020		December 31, 2019	
	Gross customer balance	Provision for loan-loss	Gross customer balance	Provision for loan-loss
	NIS millions	NIS millions	NIS millions	NIS millions
Not in arrears	**1,732**	**(5)**	1,800	(5)
Arrears of up to one year	**165**	**(37)**	185	(32)
Arrears of between one and two years	**30**	**(15)**	34	(14)
Arrears of over two years	**30**	**(23)**	42	(29)
	1,957	**(80)**	2,061	(80)

6.5. The activity in the provision for doubtful debts during the year is as follows:

	2020	2019
	NIS millions	NIS millions
Balance as of January 1	**80**	87
Impairment loss recognized	**26**	13
Loan-loss	**(22)**	(20)
No longer consolidated	**(4)**	-
Balance as of December 31	**80**	80

6.6 The balance of long-term trade receivables and authorities includes the balance of trade receivables in the amount of NIS 106 million in respect of sums paid by Bezeq to the Israel Land Authority and the Or Yehuda Local Authority for the sale of the Sakia property in 2019:

On January 21, 2018, Bezeq entered into an agreement for the sale of a real estate asset in Sakia (property near Mesubim Junction in which the Company had a discounted lease right) and the transaction was completed on May 5, 2019, when the total consideration received by Bezeq for the asset (including linkage differences and interest in accordance with the provisions of the agreement) amounted to NIS 511 million, plus VAT.

On May 21, 2018, Bezeq received a demand from ILA ("Israel Land Authority") for the payment of a permit fee in the amount of NIS 148 million plus VAT, in respect of a property improvement plan approved prior to the signing of the agreement (“the Demand"). Bezeq filed for a legal contention on the Demand. On January 20, 2019, ILA rejected all Bezeq claims in the legal contention, however, the parties conducted negotiations within the framework of the dispute resolution mechanism set forth in the settlement agreement (the 2003 agreement between Bezeq and the Israel Lands Administration [currently the Israel Land Authority] and the State regarding most of the real estate assets, including the real estate in the "Sakia" property, which were transferred to the Company as part of the transfer of assets prior to the commencement of Bezeq's business operations). At the same time, Bezeq submitted an appraiser's contention in respect of the Demand.

On August 5, 2018, Bezeq received a demand from the Or Yehuda Local Planning and Construction Committee for the payment of an improvement levy in the amount of NIS 143.5 million due to the exercise of the asset by way of sale ("the Improvement Levy Demand"). On September 17, 2018, Bezeq filed an appeal against the Improvement Levy Demand, and sent to ILA a demand for the payment of the full improvement levy in accordance with the authority's obligation in the settlement agreement. On January 20, 2019, ILA rejected Bezeq's demand for payment of the said improvement levy. Upon completion of the sale transaction as stated above and receipt of the full consideration, Bezeq paid half of the improvement levy in the amount of NIS 75 million and provided a bank guarantee for the other half of the levy, without detracting from or impairing the proceedings it has taken or will take in order to cause the cancellation or reduction of this levy.

It should be noted that the amount of the permit fee to be determined at the end of the proceedings can also affect the amount of the improvement levy that Bezeq will have to pay to the Planning Committee. In Bezeq's estimation, the amount of the permit fee and the improvement levy that it will be required to pay is expected to be low and may even be significantly lower than the total amount of the demands.

In March 2021, Bezeq received a notice from the Accountant General and the Israel Land Authority that given the significant differences of position between the parties that could not be bridged, they accepted Bezeq’s request to end the dispute resolution procedure and allow the dispute to be transferred to the courts. In these circumstances, the Company intends to file a lawsuit as soon as possible against the Israel Land Authority for the full refund of the money it paid as a permit fee and improvements levy.

Bezeq recognized in its financial statements for 2019 a capital gain before tax in the amount of NIS 403 million. The 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 to the extent that Bezeq's Management estimates are not realized, the final capital gain before tax will range between about NIS 250 million to about NIS 450 million.

7. Income taxes

7.1. Corporate tax rate

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

7.2. Final tax assessments

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

7.2.2. Bezeq has final tax assessments up to and including 2018.

On September 15, 2016, at the same time as signing an assessment agreement that ended the dispute between Bezeq and the Assessing Officer regarding financing income in respect of the owner's loans to DBS, the Tax Authority granted approval for tax purposes to merge DBS with and into Bezeq, in accordance with Article 103B of the Income Tax Ordinance. According to the approval, DBS’s losses as of the date of the merger are allowed to be offset against the profits of the absorbing company, provided that in each tax year, no more than 12.5% (spread over 8 years) of the total losses of the transferring company and the absorbing company or 50% of the taxable income of the absorbing company in the same tax year before offsetting the loss from previous years, whichever is lower. Following this, the validity of the taxation decision was extended, at this stage, until December 31, 2021.

On October 2, 2019, Bezeq received a letter from the Tax Authority (“the Certificate") extending, at Bezeq's request, the validity of the taxation decision until December 31, 2020. In said Certificate, the Tax Authority clarified, among other things, that the Tax Authority has full authority to revoke the certificate in the event that it becomes clear that there was a material change in Bezeq and DBS's business from the date of signing the certificate until December 31, 2019, that the extension of the validity of the tax decision refers only to the taxation decision of September 15, 2016 and only in the outline specified in the taxation decision, that it does not detract from the authority of the Tax Authority not to extend for another year the validity of the taxation decision beyond December 31, 2020, and that it does not attest to the companies' compliance with the taxation decision. On November 8, 2020, Bezeq received a letter from the Tax Authority extending the validity of the taxation decision for another year (i.e. until December 31, 2121).

The balance of DBS losses for tax purposes, as of December 31, 2020, amounts to approximately NIS 5.2 billion. See Note 7.6 below regarding deferred taxes that were not recognized as carried forward losses.

7.2.3. Pelephone has final tax assessments up to and including 2018.

7.2.4. Bezeq International has final tax assessments up to and including 2015.

7.2.5. DBS has final tax assessments up to and including 2014.

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

7.3. Income tax expenses components

	For the year ended December 31		
	2020	2019	2018
	NIS millions	NIS millions	NIS millions
Current tax expenses			
Expenses for the current year	**273**	391	303
Adjustments for previous years according to the assessment agreement	**53**	-	-
Adjustments for previous years	**(3)**	(11)	(24)
Total current tax expenses	**323**	380	279
Deferred tax expenses			
Write-off of a deferred tax asset in respect of transferred losses in DBS (see Note 7.6)	**-**	1,259	(93)

Creation and reversal of other temporary differences	**83**	(187) *	(139)
Write-off of a tax reserve due to impairment	**-**	-	(114)
Adjustments in respect of previous years according to the assessment agreement	**(53)**	-	-
Reversal of temporary differences under an assessment agreement	**18**	-	-
Creation of deferred taxes in respect of losses for tax purposes from the sale of a subsidiary	**(37)**	-	-
Total deferred tax expenses (revenue)	**11**	1,072	(346)
Income tax expenses	**334**	1,452	(67)

* reclassified

7.4. Correlation between the theoretical tax on profit before income taxes and tax expenses

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Profit (loss) before income taxes	**1,234**	(8)	(1,983)
Statutory tax rate	**23%**	23%	23%
Income taxes according to the statutory tax rate	**284**	(2)	(456)
Write-off of a deferred tax asset in respect of carried forward losses in DBS (see Note 7.6)	-	1,259	(93)
Impairment of goodwill in the cellular communications segment in respect of which no deferred taxes were created (see Note 11.2)	-	160	149
Impairment of assets in respect of which no deferred tax assets were created	**47**	(31) *	253
Expenses that are not recognized for tax and other purposes as well as losses in respect of which deferred tax assets were created, net	**16**	69	80
Creation of deferred taxes in respect of losses for tax purposes from the sale of a subsidiary	**(37)**	-	-
Write-off of provision for tax in respect of previous years	**(7)**	-	-
Deletion of tax asset due to non-anticipation of future profits	**31**	-	-
Temporary differences due to impairment of assets in respect of which deferred tax assets were not created (see Note 11.4)	-	(3)	-
Income tax expenses	**334**	1,452	(67)

* Reclassified

7.5. Deferred tax assets and liabilities recognized and changes in them

	Deferred tax asset due to losses in DBS	**Deferred tax assets in respect of employee benefit plans**	**Deferred tax liabilities in respect of property, plant and equipment and intangible assets**	**Tax asset in respect of loss for tax purposes from the sale of a subsidiary**	**Other deferred taxes**	**Total**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Balance as of January 1, 2019	1,259	268	(640)	-	16	903
Changes imputed to income:						
Creation and reversal of temporary differences	-	28	133 *	-	26*	187
Write-off of a tax reserve due to impairment (see Note 7.6)	(1,259)	-	-	-	-	(1,259)
Changes that were imputed to capital	-	2	-	-	-	2

Balance as of December 31, 2019	-	298	(507)	-	42	(167)
Changes imputed to income:						
Creation and reversal of temporary differences	-	**(36)**	**(31)**	**37**	**19**	**(11)**
Changes that were imputed to capital	-	**(1)**	-	-	**(3)**	**(4)**
Balance as of December 31, 2020	**-**	**261**	**(538)**	**37**	**58**	**(182)**

Book value	**As of December 31**	
	2020	**2019**
	NIS millions	**NIS millions**
Deferred tax assets	**108**	81
Deferred tax liabilities	**(290)**	(248) *
Balance as of December 31	**(182)**	(167)

* Reclassified

7.6. Unrecognized deferred tax assets and liabilities

Following the acquisition of control by Bezeq of DBS in 2015 (as described in Note 13.2.1 below), the Group recognized a deferred tax asset in respect of transferred losses for tax purposes in DBS, the balance of which as of December 31, 2018 amounted to NIS 1,259 million. Bezeq's approval by the Tax Authority to utilize transferred losses for tax purposes is conditional on obtaining approval from the Ministry of Communications to eliminate the structural separation between the two companies, and requires the extension of the Tax Authority's approval each year from 2020 until the actual merger, as described in Note 7.2.1. above.

In 2019, the Group wrote off the tax asset by changing its estimate and recognizing tax expenses in the amount of NIS 1,259 million as part of the statement of income after Bezeq's assessment of the probability of utilizing the tax asset did not meet the threshold of more likely than not.

As of the date of the financial statements, no deferred taxes were recognized in respect of carried forward losses for the purpose of tax in DBS in the amount of NIS 5.2 billion and no deferred taxes are taken into account in respect of loss from impairment of assets in DBS (see Note 11.4). Is not expected in accordance with the Company's estimate for the date of the financial statements.

In addition, in calculating the deferred taxes, the taxes that would have applied in the event of the exercise of the investment in subsidiaries and affiliates are not taken into account, since it is the intention and within the ability of the Group to hold these investments. Deferred taxes for the distribution of profits in subsidiaries and affiliates are not taken into account because the dividends are not taxable. Also, the Company does not create deferred taxes in respect of its carried forward losses.

8. Broadcasting rights

	December 31, 2020	**December 31, 2019**

	NIS millions	NIS millions
Cost	**1,441**	1,242
Deducting rights exercised	**(599)**	(578)
Impairment loss (Note 11.5)	**(775)**	(605)
	67	59

See also Note 19 "Engagements" regarding the Group's engagements for the acquisition of the broadcasting rights.

9. Leases

Under the lease agreements, the Group leases mainly cellular communication sites, buildings (including offices, warehouses, communication rooms and points of sale) and vehicles.

9.1. Right-of-use assets

	Communication sites	Structures	Vehicles	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Cost				
Balance as of January 1, 2019	966	625	286	1,877
Additions *	146	34	28	208
Deductions in respect of agreements terminated or cancelled	(71)	(13)	(27)	(111)
Balance as of December 31, 2019	1,041	646	287	1,974
Additions *	**200**	**609**	**118**	**927**
Deductions in respect of agreements terminated or cancelled	**(51)**	**(146)**	**(80)**	**(277)**
No longer consolidated	**-**	**(14)**	**-**	**(14)**
Balance as of December 31, 2020	**1,190**	**1,095**	**325**	**2,610**
Depreciation and impairment losses				
Balance as of January 1, 2019	169	115	89	373
Amortization for the year	185	120	110	415
Deductions in respect of agreements terminated or cancelled	(65)	(5)	(25)	(95)
Changes in agreements and others	(4)	(2)	(21)	(27)
Impairment loss	82	9	-	91
Balance as of December 31, 2019	367	237	153	757
Reduction for the year	**179**	**116**	**102**	**397**
Deductions in respect of agreements terminated or cancelled	**(45)**	**(121)**	**(83)**	**(249)**
Changes in agreements and others	**(4)**	**(2)**	**(2)**	**(8)**
No longer consolidated	**-**	**(3)**	**-**	**(3)**
Impairment loss (loss write-off)	**(82)**	**(9)**	**3**	**(88)**
Balance as of December 31, 2020	**415**	**218**	**173**	**806**
Book value				
As of January 1, 2019	797	510	197	1,504
As of December 31, 2019	674	409	134	1,217

* Additions in respect of new agreements and changes in existing agreements

As of December 31, 2020	**775**	**877**	**152**	**1,804**

9.2. Liabilities in respect of leases

	Communication sites	Structures	Vehicles	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2019	810	519	222	1,551
Additions *	150	32	53	235
Deductions	(6)	(8)	(2)	(16)
Financing expenses in respect of lease liabilities	16	9	4	29
Lease payments	(180)	(124)	(110)	(414)
Balance as of December 31, 2019	790	428	167	1,385
Additions *	**203**	**607**	**117**	**927**
Deductions	**(9)**	**(23)**	**(2)**	**(34)**
Financing expenses in respect of lease liabilities	**18**	**10**	**2**	**30**
Lease payments	**(169)**	**(117)**	**(105)**	**(391)**
No longer consolidated	**-**	**(10)**	**-**	**(10)**
Balance as of December 31, 2020	**833**	**895**	**179**	**1,907**
Book value as of December 31, 2019				
Current tax liability maturities	197	One. Two. Three	96	416
Long-term lease liabilities	593	305	71	969
Total balance as of December 31, 2019	790	428	167	1,385
Book value as of December 31, 2020				
Current tax liability maturities	**230**	**97**	**88**	**415**
Long-term lease liabilities	**603**	**798**	**91**	**1,492**
Total balance as of December 31, 2020	**833**	**895**	**179**	**1,907**

* Additions in respect of new agreements and changes in existing agreements

9.3. Analysis of repayment dates of liabilities in respect of the Group's lease (Including principal and interest to be paid)

Expected repayment dates	December 31, 2020
	NIS millions
Up to one year	**433**
Between one and five years	**897**
Over five years	**803**
Total	**2,133**

9.4. Options for termination or extension of lease

In most of its leases the Group has assumed that it was reasonably certain that the extension option existing in the agreements will be exercised and therefore there are no material liabilities in respect of leases not presented in the financial statements.
Most lease agreements include an option to cancel the agreement while giving prior notice and / or payment of a penalty in accordance with what is stipulated in the agreements. The Group assumed that it was reasonably certain that the cancellation options would not be exercised.

9.5. Information regarding material lease agreements that have not yet been included in the lease liability measurement

a. In October 2020 Bezeq vacated the Company's headquarters in Azrieli Towers in Tel Aviv and moved to its new headquarters in Holon.
b. In November 2020 Pelephone’s headquarters moved to its new headquarters in Petah Tikva.

10. Property, plant and equipment

	Land and buildings	Landline and international network equipment (switching, transmission, power)	Cables and landline and international network communications infrastructure	Cellular network	Equipment and infrastructure for multi-channel television	Subscriber equipment	Office equipment, computers and vehicles	Total
					NIS millions			
Cost								
Balance as of January 1, 2019	1,002	*3,124	5,967	3,351	1,446	2,034	1,153	18,077
Additions	63	186	202	173	147	322	63	1,156
Subtractions	(147)	(169)	(159)	(6)	(42)	(113)	(51)	(687)
Transfer to assets held for sale	(113)	-	-		-	-	-	(113)
Balance as of December 31, 2019	805	3,141	6,010	3,518	1,551	2,243	1,165	18,433
Additions	**35**	**233**	**222**	**181**	**120**	**360**	**97**	**1,248**
Subtractions *	**(59)**	**(181)**	**(119)**				**(67)**	**(40)**
No longer consolidated	**(20)**	-	-		-	-	**(53)**	**(73)**
Transfer from assets held for sale	**47**	-	-		-	-	-	**47**
Balance as of December 31, 2020	**808**	**3,193**	**6,113**	**3,697**	**1,610**	**2,536**	**1,169**	**19,126**
Depreciation and impairment losses								
Balance as of January 1, 2019	550	1,794	3,150	2,640	1,331	1,355	944	11,764
Depreciation for the year	57	231	201	202	26	249	65	1,031
Subtractions	(59)	(169)	(159)	(3)	(39)	(105)	(50)	(584)

Transfer to held assets for sale	(70)	-	-	-	-	-	-	(70)
Impairment loss *	36	82	59 *	74	106	22	19	324
Balance as of December 31, 2019	584	1,864	3,251	2,913	1,424	1,521	978	12,535
Depreciation for the year	**28**	**230**	**180**	**167**	**36**	**258**	**69**	**698**
Subtractions	**(32)**	**(175)**	**(119)**	**(1)**	**(54)**			
No longer consolidated	**(15)**	-	-		-	-	**(51)**	**(66)**
Transfer to assets held for sale	**13**	-	-		-	-	-	**13**
Impairment loss (loss cancellation) (see Note 11)	**(4)**	**8**	**1**	**(63)**	**101**	**26**	**15**	**84**
Balance as of December 31, 2020	**504**	**1,928**	**3,313**	**3,016**	**1,507**	**1,754**	**973**	**12,995**
Book value								
As of January 1, 2019	452	1,330	2,817	711	115	679	209	6,313
As of December 31, 2019	291	1,277	1,759	605	127	722	187	5,968
As of December 31, 2020	**304**	**1,265**	**2,800**	**681**	**103**	**782**	**196**	**6,131**

* Reclassified

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

10.2. The Group companies examined the lifespan of the property, plant and equipment within the framework of depreciation committees, in order to determine the estimated lifespan of their equipment. Such a change did not have a material effect on the Group's depreciation expenses. Following the findings of the depreciation committees, insignificant changes were made in the estimate of the useful life of certain assets.

10.3. Most of the real estate assets used by Bezeq are in a discounted lease from the Israel Lands Administration from 1993 for a period of 49 years with an option to extend for another 49 years. The lease rights are amortized over the term of the lease.

10.4. Since 2013, Bezeq has been establishing a fiber optic network that will reach the customer's premises, as a basis for the future supply of advanced communication services and larger bandwidths than those provided to its customers today. During 2017, the scope of the fiber deployment reached the level necessary for them to operate when it was decided on the technology that would be used, and Bezeq began amortizing the network.

On September 14, 2020, Bezeq's Board of Directors approved the launch of Bezeq's fiber network deployment plan. Following the decision of the Board of Directors, Bezeq began deploying fiber to buildings, including deploying vertical equipment in buildings and on March 14, 2021, announced the launch of services to its customers on the fiber network. It should be noted that the customer connection will be carried out gradually.

10.5. Pursuant to the Communications Order (Telecom and Broadcasting) (Determination of Essential Service Provided by Bezeq, the Israel Telecommunications Corporation Ltd.), 5757-1997, the approvals of the Prime Minister and the Minister of Communications were required to grant rights to certain Bezeq assets (including switches, cable network, transmission network and databases and information).

10.6. For liens in connection with loans and credit, see Note 14. For additional liens, see Note 20.

10.7. For engagements for the purchase of property, plant and equipment, see Note 19.

11. Intangible assets

	Goodwill	Computer software and licenses	Right to use cellular communication frequencies	Customer relations and brand	Other	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost						
Balance as of January 1, 2019	3,079	2,214	480	7,479	221	13,473
Self-developed acquisitions or additions	-	234	-	-	-	234
Subtractions	-	(39)	-	-	(21)	(60)
Balance as of December 31, 2019	3,079	2,409	480	7,479	200	13,647
Self-developed acquisitions or additions	**-**	**220**	**86**	**-**	**-**	**306**
Subtractions	**-**	**(36)**		**-**	**-**	**(36)**
No longer consolidated	**(10)**	**(11)**	**-**	**-**	**(119)**	**(140)**
Balance as of December 31, 2020	**3,069**	**2,582**	**566**	**7,479**	**81**	**13,777**
Depreciation and impairment losses						
Balance as of January 1, 2019	818	1,786	291	6,151	217	9,263
Amortization for the year	-	175	19	113	2	309
Subtractions	-	(39)	-	-	(21)	(60)
Impairment loss	702	107 *	20	139	-	968
Balance as of December 31, 2019	1,520	2,029	330	6,403	198	10,480
Amortization for the year	**-**	**153**	**21**	**-**	**2**	**176**
Subtractions	-	**(36)**	-	-	-	**(36)**
No longer consolidated	**(10)**	**(6)**	**-**	**-**	**(119)**	**(135)**
Impairment loss (loss cancellation) (see 11.2, 11.4 and 11.5 below)	**-**	**89**	**(20)**	**(45)**	**-**	**24**
Balance as of December 31, 2020	**1,510**	**2,229**	**331**	**6,358**	**81**	**10,509**
The value in the books						
As of January 1, 2019	2,261	428	189	1,328	4	4,210
As of December 31, 2019	1,559	380	150	1,076	2	3,167
As of December 31, 2020	**1,559**	**353**	**235**	**1,121**	**2**	**3,268**

* reclassified

11.1. Right to use cellular communication frequencies

In August 2020, Pelephone won a collection of frequencies following its participation in a tender for advanced bandwidth cellular services.

Pelephone's win in the frequency allocation has a total cost of NIS 88.2 million (as of the balance sheet date, discounted amount of NIS 86 million), with the payment date set for September 2022.

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

The grants will be distributed among the eligible winners according to the following distribution:

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

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

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

11.2. Cash-generating units impairment examination

11.2.1. For the purpose of impairment testing, goodwill was attributed to the Group's operating segments as follows:

	December 31, 2020	**December 31, 2019**
	NIS millions	**NIS millions**
Landline interior communications (Bezeq) (11.3)	**1,559**	1,559
	1,559	1,559

11.2.2. The following is the composition of the impairment loss recognized by the Group during the years 2018 - 2020:

	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Impairment loss in the Internet and international communications services segment (see Note 11.6 below)	**279**	354	171
Impairment loss (loss cancellation) in respect of Walla (see note 13.4)	**(14)**	-	37
Impairment loss (loss cancellation) in the cellular communication segment (see Note 11.3), net	**(257)**	975	478
Impairment loss in the multi-channel TV segment	-	-	1,638
	8	1,329	2,324

11.3. Cellular communications goodwill impairment examination (Pelephone)

11.3.1. Valuation as of June 30, 2020

In light of the update of Pelephone's forecasts due to the spread of the COVID-19 pandemic (as described in Note 1.2) and in light of the low gap between the value of Pelephone's activity as measured on December 31, 2019 and the book value of its net operating assets in the Company's books as of June 30, 2020, the Company identified possible impairment and updated its forecasts for the coming years. Due to the aforesaid, the Company estimated the recoverable amount of the cellular communication cash-generating unit as of June 30, 2020.

The value of use of a cellular communication cash-generating unit, calculated using the method of discounting future cash flows (DCF), based on the forecast of cash flows from operations for a period of five years from the end of the current period plus scrap value. The cash flow forecast is based, among other things, on Pelephone's performance in recent years and estimates of the expected trends in the cellular market in the coming years.

The valuation was conducted by an external valuator. Based on the valuation as detailed above, the value of Pelephone's activity amounted to approximately NIS 1,388 million, compared with the value in the Company's books of NIS 1,394 million. Therefore, the Company recognized a loss from impairment of assets attributed to the cellular communication cash-generating unit in the amount of NIS 8 million. On the other hand, the balance of the deferred tax liability in respect of the impairment in the amount of NIS 2 million was reduced. After recognizing the impairment, the recoverable amount of the unit is the same as its value in the books.

11.3.2. Valuation as of December 31, 2020

Due to the existence of an asset with an indefinite useful life (brand), the Company examined the recoverable amount of the cellular communication cash-generating unit as of December 31, 2020.

The value of use of the Cellular communication cash-generating unit as of December 31, 2020 is calculated using the method of discounting future cash flows (DCF) based on the forecast of cash flows from operations for a period of five years from the end of the current period plus scrap value. The cash flow forecast is based, among other things, on Pelephone's performance in recent years and estimates of the expected trends in the cellular market in the coming years (level of competition, price level, regulation and technological developments). A key assumption underlying the forecast is that competition in the market will continue at high intensity in the short term and that a stabilization and a certain increase in the price level will occur in the medium-long term. The revenue forecast is based on assumptions regarding Pelephone’s subscriber base, the average revenue per subscriber and the volume of sales of end equipment. The forecast of expenses and investments is based, among other things, on assumptions regarding Pelephone’s employee base and the salary expenses derived from them, while the rest of the operating expenses and the level of investments were adjusted to Pelephone's predicted scope of activity.

It will also be explained that the forecast includes estimates regarding the effect of the COVID-19 pandemic on Pelephone's performance for years to come, according to which the pandemic will have a material adverse effect on the Company's revenues from roaming services in 2021. The forecast also assumes some damage to roaming revenue in later years in light of the expected long and gradual recovery of the aviation and international tourism industries.

The nominal capital price used in the valuation is 10.3% (after tax) (identical to 2019). In addition, a permanent growth rate of 2.5% was assumed (identical to 2019).

The valuation is sensitive to changes in the rate of permanent growth and the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to the estimated ARPU level (average revenue per subscriber) and the number of subscribers at the end of the forecast range in particular (a change of NIS 1 in ARPU throughout the forecast years leads to a change in the value of the activity in the amount of approx. NIS 387 million, a change of 50k subscribers throughout the forecast years leads to a change in the value of the activity in the amount of approx. NIS 445 million).

The valuation was conducted by an external valuator. Based on the valuation as explained above, Pelephone’s recoverable amount amounted to NIS 2.33 billion, compared with a book value in the Company's books of NIS 1.432 billion. Accordingly, the Company recognized the cancellation of a loss from impairment attributable to the cellular communications segment in the amount of approximately NIS 265 million in the fourth quarter of 2020. The cancellation of the loss was carried out up to the amount of impairment attributed to the segment's assets.

In addition, the Company recognized deferred tax expenses in the amount of NIS 61 million in respect of changes in deferred tax balances relating to these assets.

Below is a breakdown of the allocation of the cancellation of the loss from the impairment of Pelephone's assets as of December 31, 2020:

	NIS millions
Property, plant and equipment	**65**
Intangible assets	**121**
Right-of-use assets	**79**
Total recognized impairment canceled	**265**

11.4. Interior landline communications goodwill impairment examination (Bezeq)

The balance of goodwill attributable to the landline interior communications cash-generating unit is NIS 1,559 million. Therefore, the Company examined the recoverable amount of the landline interior communications cash-generating unit as of December 31, 2020.

Bezeq Group’s value in use of the landline interior communications cash-generating unit is calculated using the method of discounting future cash flows (DCF) based on the forecast of cash flows from operations for a period of five years from the end of the current period plus scrap value.

The cash flow forecast is based, among other things, on the Company's performance in recent years and estimates of the expected trends in the landline market in the coming years (level of competition, price levels in retail and wholesale, regulatory aspects and technological developments).

The main assumptions at the base of the forecast are: Decrease in revenues from telephony (decrease in the number of subscribers, erosion in consumption of call minutes per subscriber and a reduction in rates following the hearing regarding the determination of maximum rates for the Company's retail telephony services), erosion of Internet revenue in the very short term and return to the growth outline in the medium and long terms (supported by market growth, establishment of Internet services on the fiber network and expected the elimination of the split between broadband infrastructure service and Internet access service), stability in revenue from data communications and transmission and moderate growth in Cloud and digital revenue. Operating, sales, marketing and investing expenses were adjusted to the scope of the segment's activity, including forecasts of discounts regarding the gradual decline in the Company's employee base, retirement and payroll expenses derived therefrom and discounts regarding the timing of fiber-based services and the rate of fiber infrastructure deployment.

The nominal capital price used in the valuation is 7.5% (after tax) (identical to 2019). In addition, a permanent growth rate of 0% (identical to 2019) was assumed.

The valuation was conducted by an external valuator. Based on the valuation as explained above, the Group was not required to amortize in respect of impairment of the interior landline communication cash-generating unit.

11.5. Multi-channel TV goodwill impairment examination (DBS)

Bezeq Group’s value in use of the multi-channel television cash-generating unit as of December 31, 2020 was calculated using the method of discounting future cash flows (DCF) Based on the forecast of DBS's cash flows up to and including 2026, plus scrap value. The forecast period has been chosen so that the representative year is the year after the estimated date for the completion of the planned outline of the migration to television broadcasting via the Internet instead of satellite, as stated below. The nominal capital price used in the valuation is 8.5% (after tax) (identical to 2019). In addition, a permanent growth rate of 0% was assumed (identical to 2019).

The cash flow forecast was based, among other things, on DBS’s performance in recent years and estimates of expected trends in the television market for years to come including technology development, consumer preferences, competitors and level of competition, price level and regulatory obligations.

A key assumption underlying the forecast is that the relevant future technology will be interactive and two-way and that the satellite product will be gradually replaced by the IP product (TV broadcasts via the Internet) due to the growing gap in customer experience. As a result, the multi-year forecast reflects a planned outline of a gradual migration process (from satellite transmission to distribution of transmissions based on the Internet network) and accordingly, a gradual replacement of satellite converters with IP converters, upgrading the broadcasting infrastructure, building a support system for customer service and adjusting the content contracts to OTT (Over The Top) broadcasts. As stated above, the forecast period reflects the period of transition from satellite transmission to distribution of broadcasts over the Internet network up to complete exit from satellite. These circumstances, along with the expectation of a continued high level of competition throughout the forecast period and a relatively rigid expenditure structure, led to significant operating losses and negative cash flows in the coming years and low positive cash flow, expected at the end of the forecast period upon the completion

	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS**
Broadcast rights – net of rights exercised (the expense was presented as operating and general expenses)	**170**	202	403
Property, plant and equipment (expense was presented as depreciation and impairment expenses)	**112**	117	559
Intangible assets (expense was presented as depreciation and impairment expenses)	**29**	44	106
Deferred expenses (expense was presented as operating and general expenses)	**13**	-	-
Customer relations and brand	-	-	505
reputation	**-**	-	33
Purchasing subscriptions	-	-	29
Rights to use leased assets (reduction of expenditure presented as depreciation, amortization and impairment)	**-**	(1)	3
Total recognized impairment	**324**	362	1,638

of the change in the technological and business model of DBS. It should be noted that the actual implementation of the outline is carried out and will be carried out while continuously examining market conditions, competition and the technological environment and making the adjustments that will be required as a result.

The valuation was conducted by an external valuator. Based on the valuation as explained above, DBS's total operating value as of December 31, 2020 is negative in the amount of approx. NIS 145 million (as of December 31, 2019, total negative activity value of 581 NIS million). In light of the negative value of the activity, as of December 31, 2020, the value of DBS's non-current assets was determined to be their fair or zero, whichever is higher, similar to the end of 2019 and the end of 2018.

in accordance, in 2020 Bezeq Group recognized loss due to impairment in the amount of approx. NIS 324 million. The impairment loss was attributed to DBS's assets as detailed below, and is included in the depreciation, amortization and impairment expenses item, as well as in the operating and general expenses item in the statement of income as stated in Note 3.10.2 above.

The following is a breakdown of the allocation of loss from the impairment of the Group's assets:

The following is information regarding the manner in which the Group determined the fair value (at level 3) of DBS assets in which the impairment occurred as detailed above:
Rights Broadcast - the fair value of the broadcasting rights is calculated taking into account legal restrictions on their sale and based on the stage of production, the probability of sale and the expected rate of return on investment therein.

Property, plant and equipment - the fair value of property, plant and equipment available for sale to a market participant (mainly converters) was based on an estimate of the amount that can be sold on the day of the assessment net of costs that will be required to make the sale.

Intangible assets – no material fair value was attributed to intangible assets of DBS because most of the software and licenses of DBS are uniquely adapted to DBS and therefore have no material value in a transaction between a voluntary buyer and a voluntary seller.

Use rights of leased assets - the fair value of the right-of-use assets is affected by the ability to lease the asset that is the subject of the lease to a third party, the lease fee of the asset on the market and the exit penalties in the lease contract.

11.6. Bezeq International Ltd. Impairment examination (Bezeq International)

11.6.1. Valuation of September 30, 2020

As of the date of the financial statements for the third quarter of 2020, Bezeq International has identified indications of a possible impairment in view of the absence of a gap between the value of its operations and the book value of its net operating assets as measured on December 31.2019, and following its preparation, also following the recommendation of the Ministry of Communications in its appeal from September 10, 2020 and November 8, 2020 to market operators to act in a known outline and treating customers who pay Bezeq International by virtue of an agreement and do not use ISP services for an extended period (as described in Note 13.3). Due to the aforesaid, Bezeq Group estimated the recoverable amount of the Internet services, international communications and network endpoint cash-generating unit as of September 30, 2020. The calculation of the value in use is made using the method of discounting future cash flows (DCF) based on the forecast of cash flows from operations for a period of four years from the end of 2020 plus scrap value.

The valuation was conducted by an external valuator. Based on the valuation as explained above, Bezeq International's recoverable amount amounted to approximately NIS 123 million, compared with the book value in the Company’s books of NIS 392 million. Thus, the Company recognized in the financial statements as of September 30, 2020 loss from impairment attributable to the Internet services, international communications and network endpoint segment in the amount of approximately NIS 254 million. Since Bezeq International does not expect future profits, no tax asset has been recognized. In addition, the Group wrote off the deferred tax balance which existed in its books in the amount of 43 NIS million.

11.6.2. Valuation as of December 31, 2020

At the end of 2020, Bezeq International has updated its forecasts for the coming years, taking into account trends and changes in its operating environment. Due to the aforesaid, and in view of the absence of a gap between the value of the activity and the book value of Bezeq International's net operating assets as measured on December 31, 2019 and September 30, 2020, and following preparations for the hearing published by the Ministry of Communications on October 4, 2020 and the secondary hearing published on February 24, 2021 on examining the split between infrastructure service and access service (as described Note 13.3). The Group estimated the recoverable amount of the Internet services, international communications and network endpoint cash-generating unit as of December 31, 2020.

The value in use of the Internet services, international communications and network endpoint cash-generating unit is calculated using the method of discounting future cash flows (DCF) based on the forecast of cash flows from operations for a period of five years from the end Year 2020 plus scrap value.

The cash flow forecast was based, among other things, on Bezeq international's performance in recent years and estimates of the expected trends in the markets in which it operates for years to come (level of competition, price level, regulation and technological developments).

The revenue forecast is based on discounts regarding the status of Bezeq International's Internet subscribers and the average revenue per subscriber (including discounts regarding notification and termination of charges for subscribers who do not use ISP services) and regarding the effects of the hearing on examining the split between infrastructure service and access service, assumptions regarding Bezeq International's activity in the international communications market and assessments regarding its development in the field of business communications services. Operating, sales, marketing and investing expenses were adjusted to the scope of the segment's activity, including forecasts regarding the extent of the decline in Bezeq International's employee base, the payroll expenses derived from them and assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet broadcasting in general and the expected migration of DBS from satellite TV broadcasts to Internet TV broadcasts in particular).

These assumptions, and especially the expected profound changes in Bezeq International's Internet operations, have predicted negative operating losses and negative cash flows in the coming years. The nominal capital price used in the valuation is 9.7% (after tax) (identical to 2019). In addition, in the absence of expected increase in losses and negative flows, a permanent growth rate of 0% was assumed (in September 2020 - 0.8% and in 2019 - 0.7%).

The valuation is sensitive to the net cash flow in the represented year in general, and the intensity of the changes In the field of Internet activity in particular (subscribers, ARPU and traffic costs). The sensitivity of the valuation to changes in the rate of permanent growth and the discount rate is low in light of the expectation of (negative) low-volume cash flows.

The valuation was conducted by an external valuator. Based on the valuation as explained above, the value of Bezeq International's activity amounted to a negative amount of approximately NIS 145 million. In light of the negative value of the activity, the value of Bezeq International's non-current assets was determined as of

December 31, 2020, as their fair value net of exercise costs or zero, whichever is higher.

In accordance, the fair of value of Bezeq International net of exercise costs as of December 31, 2020 Is about NIS 28 million, and in the fourth quarter the Group recognized an additional impairment loss of approximately NIS 25 million. Since Bezeq International does not expect future profits in the coming years, no tax asset has been recognized.

11.6.3. **The following is a breakdown of the allocation of loss from the impairment of the Bezeq International's assets in 2019 and 2020:**

	2020	2019
	NIS millions	NIS millions
Property, plant and equipment and intangible assets	148	242 *
Long-term advance expenses for capacities and additional advance expenses	128	111 *
Use rights of leased assets	3	1
Total recognized impairment	**279**	**354**

* reclassification.

The Group allocated the impairment loss to its assets on the basis of book value ratios and limited the allocation to the fair value of each of its assets, as determined in the valuation conducted on the basis of the net asset value method, as stated above.

The following is information regarding the manner in which the Group determined the fair value (at level 3) of the assets net of exercise costs:

Property, plant and equipment - the fair value of property, plant and equipment that can be sold to a market participant was based on the cost approach which takes into account the cost of replacing new equipment net of physical wear and tear costs and technological obsolescence net of costs required to make the sale.

Intangible assets - no material fair value has been attributed to intangible assets since most of the software and licenses have been uniquely adapted to Bezeq International and therefore have no material value in the transaction between a voluntary buyer and a voluntary seller.

International capacity - in light of the nature of the agreements signed, which do not allow these rights to be transferred except to the Company or sister company of Bezeq International, which is not considered a market participant (third party) for the purpose of calculating fair value according to International Accounting Standard IFRS13, these rights have no fair value.

Short-term and long-term expenses - no material fair value was attributed to advance expenses for the maintenance of its systems since most of the maintenance agreements were uniquely adjusted to Bezeq International and therefore have no material value in the transaction between a voluntary buyer and a voluntary seller.

Rights of use of leased assets - the fair value of the right-of-use assets is affected by the ability to lease the asset subject to the lease to a third party, the lease fee of the asset in the market and the exit penalties in the lease.

12. Deferred expenses and non-current investments

	December 31, 2020	December 31, 2019
	NIS millions	**NIS millions**
Subscriber acquisition assets, net (see Note 12.3 below)	**165**	160
Long-term investment in bank deposits	**160**	-
Deferred expenses (see Note 12.1 below)	**37**	30
Bank deposit used to provide loans to the Company's employees (see Note 12.2 below)	**36**	45
Rights of use of capacities (see Note 12.4 below)	**-**	102 *
Investments in equity accounted investees	**4**	6
	402	343

*reclassified

12.1. The following is a list of subscriber acquisition assets:

	Subscriber acquisition assets
	NIS millions
Cost	
Balance as of January 1, 2019	333
Additions	130
Subtractions	(25)
Balance as of December 31, 2019	438
Additions	**137**
Subtractions	**(98)**
Balance as of December 31, 2020	**477**
Depreciation and impairment losses	
Balance as of January 1, 2019	191
Depreciation	112
Subtractions	(25)
Balance as of December 31, 2019	278
Depreciation	**132**
Subtractions	**(98)**
Balance as of December 31, 2020	**312**
Book value	
As of January 1, 2019	142
As of December 31, 2019	160
As of December 31, 2020	**165**

12.2 The balance of deferred expenses as of December 31, 2020 is presented net of impairment of assets in the amount of NIS 14 million (see Note 11.6 regarding impairment of Bezeq International).

12.3 Bank deposit for the provision of loans to Bezeq's employees without a repayment date.

12.4 Transactions for the purchase of indefeasible right of use ("IRU") in underwater cable capacities by Bezeq International are treated as service receipt transactions. According to the contract, Bezeq International has right to use the capacities until 2022 with the option to extend until 2027, which Bezeq International expects to exercise. The value of the service provided is amortized by a straight line until 2027. The balance of Bezeq International's liability in respect of the agreement as of December 31, 2020 is USD 8.4 million. In February 2021, Bezeq International signed an agreement to extend the periods of use of the capacities until July 2030. In respect of the said rights of use, Bezeq International pays a payment spread over annual payments throughout the period of the use of the capacity.

Balance of use rights of capacities as of December 31, 2020 and as of December 31, 2019, is presented net of impairment of assets in the amount of NIS 213 million and NIS 111 million, respectively (see Note 11.6 regarding impairment in Bezeq International).

13. Investee companies

13.1. Subsidiaries

13.1.1. The place of incorporation of the companies directly held by the Company is Israel. The following is a list of the companies and subsidiaries held by the Company and the Company's rights in the share capital of the subsidiaries as of December 31, 2020:

Bezeq the Israel Telecommunications Corporation Ltd.	26.72%
B Communications SP1 Ltd.	100%
B Communications SP2 Ltd.	100%
B Communications 2 Limited Partnership	100%
Companies held by Bezeq:	
Pelephone Communications Ltd.	100%
Bezeq International Ltd. (see Note 13.3 below)	100%
DBS Satellite Services (1998) Ltd. (see Note 13.2 below)	100%
Bezeq Online Ltd.	100%

* On December 10, 2020, the Company acquired additional shares of Bezeq and rose to a holding rate of 26.72%, see Note 13.6 below.

** Until December 27, 2020, Bezeq held 100% of the share capital of Walla! Communications Ltd. For more details, see Note 13.4 regarding the sale of Walla.

13.1.2. Examination of a plan for structural change in Bezeq's subsidiaries

On March 24, 2021, Bezeq's Board of Directors adopted the decisions of its subsidiaries' boards of directors to examine the deepening of the synergies and operational streamlining of the subsidiaries, based on outline principles that will include a full and statutory merger of Bezeq International with and into DBS (subject to required regulatory approvals), following the splitting of Bezeq International's integration activity into a new separate corporation in the Group, while examining the deepening of the synergy between the subsidiaries by providing certain headquarters services to the subsidiaries by Pelephone. The findings of the examination and an implementation plan for the examined change will be brought to Bezeq’s Board of Directors for discussion and approval (as required).

13.2. DBS Satellite Services (1998) Ltd.

13.2.1. Until March 25, 2015, Bezeq held approximately 49.78% of the shares of DBS and also owned options which gave it a right to approximately 8.6% of the shares of DBS and which Bezeq refrained from exercising until that date. The balance of DBS shares was held by Eurocom DBS Ltd. (Bezeq, which was (indirectly) controlled by the controlling shareholders in the Company at the time). On March 25, 2015, Bezeq exercised the options granted to it, free of charge, and on June 24, 2015, Bezeq completed a transaction in which it acquired the entire holdings of Eurocom DBS in DBS, as well as all the owner loans that Eurocom provided to DBS (the "Purchase Transaction").

Upon completion, Bezeq transferred to Eurocom DBS the cash consideration for the Purchase Transaction in the amount of NIS 680 million.

In accordance with the terms of the Purchase Transaction, in addition to the cash consideration of NIS 680 million, the consideration also included two additional contingent items of consideration as follows: one additional item of consideration of up to NIS 200 million to be paid in accordance with the tax synergy according to the terms defined in the purchase agreement ("First Contingent Consideration"); And an additional item consideration in the amount of up to NIS 170 million, to be paid according to DBS's business results in the years 2015-2017 ("Second Contingent Consideration ").

Upon completion of the said Purchase Transaction, DBS became a wholly owned (100%) subsidiary of Bezeq. Bezeq consolidates the financial statements of DBS as of March 23, 2015.

Most of the First Contingent Consideration was paid after Bezeq entered into an assessment agreement and a taxation decision with the Tax Authority regarding financing income, owner loans, DBS losses and a merger (see also note 7).

In respect of the Second Contingent Consideration, Bezeq paid advances in the amount of approximately NIS 119 million. In return, Bezeq joined the Company as a creditor in the liquidation process of Eurocom Communications. In addition, following Bezeq's demand from Eurocom DBS to pay the Company the amount of the advance in respect of the Second Contingent Consideration, plus interest as stipulated in the agreement, after the objectives entitling Eurocom DBS to this consideration were not achieved, on April 22, 2018, the Tel Aviv District Court granted, at Bezeq's request, an order to dissolve Eurocom DBS, and Bezeq's counsel was appointed as the liquidator of Eurocom DBS according to Bezeq's estimate for December 31, 2020, given the solvency of Eurocom DBS, no repayment of the advances is expected.

13.2.2. As of December 31, 2020 DBS has an equity deficit of approximately NIS 81 million and a working capital deficit in the amount of approximately NIS 260 million. In accordance with DBS's forecasts, it expects to continue to accumulate operating losses in the coming years and therefore will not be able to meet its obligations and continue to operate as a going concern without Bezeq's support.

During 2020, Bezeq's Board of Directors approved, once a quarter, the granting of a non-recurring commitment by Bezeq to DBS to provide a credit facility or an investment in capital, when the last approval was given in November 2020 in the amount of up to NIS 150 million for a period of 15 months until December 31, 2021. It should be noted that during 2020 Did not make any use of this framework by DBS.

In March 2021 Bezeq's Board of Directors approved the issuance of an irrevocable commitment by Bezeq to DBS to provide a credit facility or an investment in capital in the amount of up to NIS 150 million, for a period of 15 months, starting on January 1, 20021 And until March 31, 2022, instead of the commitment from November 2020.

13.2.3. According to the assessment of DBS's management, the sources of financing available to it, which include, *inter alia*, the working capital deficit and the credit facility and capital investment framework from Bezeq as stated in section 13.2.2 above, will meet the needs of DBS's activity for the coming year.

13.3. Bezeq international Ltd.

13.3.1. **The Ministry of Communications' recommendation to reduce the phenomenon of inactive subscribers**

On September 10, 2020, the Ministry of Communications contacted Bezeq International (and other telecommunications operators) in a letter in which it raised concerns that some subscribers to Internet services or other services, such as email box, do not use them and are not even aware of this. In its request, the Ministry recommends to take action to inform and stop charging subscribers who do not use these services, and also requests periodic reports on the matter, during the next 6 months. On November 8, 2020, another letter was received from the Ministry of Communications, according to which the Ministry expects that in the next reporting point (set for December 17, 2020), the data reported to the Ministry by the communication operators will significantly reduce the phenomenon and that reference should be made to the manner in which the licensee acts to prevent the recurrence of the phenomenon. It was also stated that the Ministry will consider in the future whether to set binding provisions in the matter, in case proactive actions will not lead to a significant reduction in this matter. See in this context Note 11.6 regarding impairment in Bezeq International.

13.3.2. **Hearing on examining the split between infrastructure service and access service (ISP)**

On October 4, 2020, a hearing was published on examining the split between a broadband infrastructure service and Internet access service (ISP) ("the First Hearing"), according to which the Ministry of Communications intends to take policy measures that include, *inter alia*, amending the licenses of infrastructure owners Bezeq and "Hot Telecom" so that starting from January 1, 2022 they will be allowed to provide customers with a unified Internet service that includes the components currently known as "broadband access service to ISP providers" and "ISP service", under the conditions set forth in the hearing.

On February 24, 2021, a secondary hearing on the same matter was published on the website of the Ministry of Communications (the "Secondary Hearing"), which includes substantive amendments to the outline proposed in the First Hearing. In line with the Ministry's position, it is adamant that the consolidation of the retail Internet service into a unified product should continue to be promoted, along with the existence of a competitive market. See in this context Note 11 regarding impairment in Bezeq International.

13.4. Walla! Communications Ltd.

On December 27, 2020, Bezeq completed a transaction with the Jerusalem Post Ltd. ("the Buyer") for the sale of all Bezeq holdings in Walla, in exchange for a total of NIS 65 million, of which NIS 55 million in cash, and the balance through Bezeq's entitlement to receive from the Buyer and Walla (and entities related thereto) advertising space for a period of up to 7 years from the date of completion of the transaction, after receiving the regulatory approvals for the sale. Accordingly, as of the said date, Bezeq stopped consolidating the financial statements of Walla In the Bezeq Group's reports. It should be noted that the sale agreement included Bezeq's obligation to indemnify the Buyer in certain circumstances.

Upon completion of the sale transaction, Bezeq recognized a capital gain before tax of approximately NIS 22 million.

13.5 The Company's control of Bezeq

The Company Holds the control permit in Bezeq and controls Bezeq on the basis of two facts: 1) The Company holds significantly more voting rights than any other shareholder, while the other holdings in Bezeq are highly dispersed. 2) Israeli law and regulation require the receipt of government approval for the entire body that wants to increase its holding of over 5% in Bezeq or that wishes take measures together with another shareholder in favor of appointing a director in Bezeq or to influence ongoing operational decisions in Bezeq. Through these restrictions and through the Company's representatives on Bezeq's Board of Directors, the regulatory regime ensures that no individual or entity will interfere in control of Bezeq except the holder of the control permit.

13.6 Acquisition of additional Bezeq shares by the Company

On December 10, 2020, the Company acquired 10,580,000 ordinary shares of the subsidiary Bezeq. The Company acquired such shares in exchange for the payment of a total amount of approximately NIS 40 million and at an average price of NIS 3.78 per share. Following the said acquisition, the Company holds 26.72% of the issued share capital and voting rights in the subsidiary

13.7 Non-controlling interests

The table below presents data regarding the investees in the Group, including adjustments to fair value made on the day of acquisition, except for goodwill, the non-controlling interests in which are material to the group:

	As of December 31						
	Rate of ownership held by the non-controlling interests	**Current assets**	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Net assets**	**Book value of non-controlling interests**
	%	**NIS millions**					
2020	**73.28**	**3,446**	**10,835**	**3,559**	**10,091**	**631**	**534**
2019	73.66	3.754	10.014 *	3,817	10,312 *	(361)	(197)
2018	73.66	4,450	12,345	4,599	11,702	494	433

* reclassified

Year ended December 31

	Revenue	Net profit (loss)	Other comprehensive profit	Comprehensive profit (loss)	Profit (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributable to non-controlling interests
			NIS millions			
2020	**8,723**	**1,008**	**(12)**	**996**	**743**	**732**
2019	8,929	(822)	(32)	(854)	(607)	(630)
2018	9,321	(1,154)	42	(1,112)	(850)	(819)

	Year ended December 31				
	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities (without dividend to non-controlling interests)	Dividend	Total increase (decrease) in cash and cash equivalents
			NIS millions		
2020	**3,252**	**(871)**	**(1,941)**	**-**	**440**
2019	2,924	(883)	(2,531)	-	(490)
2018	3,512	(2,552)	(1,746)	(505)	(1,291)

14. Bank loans and debentures

14.1. Composition:

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Current liabilities		
Current bond maturities	**583**	590
Current loan maturities	**202**	417
	785	1,007
Non-current liabilities		
Bonds	**7,578**	7,443
Loans	**1,907**	2,969
	9,485	10,412
Bank loans and debentures	**10,270**	11,419

Changes in Bezeq's debt composition in 2020:

14.1.1. Debt Raising

On April 7, 2020, Bezeq published a prospectus of registration for trading and unblocking and a shelf prospectus by Bezeq dated April 8, 2020. Following the publication of the prospectus, on April 26, 2020, Series 11 and 12 bonds were delisted from trading on the "Institutional Sequence" list and began trading on the Stock Exchange's main list on that date. The interest rate to be paid in respect of the balance of the bond principal as of the date of their listing for trading on the main list on the Stock Exchange has been reduced by 0.4%, in accordance with the terms of the debentures.

In May 2020, Bezeq completed an offering according to a shelf offer report dated May 26, 2020, which was published according to the prospectus (as stated above), of Bezeq's bonds (Series 11 and 12) by expanding the series listed for trading on the Stock Exchange's main list. The total (gross) consideration received in respect of the issue amounted to NIS 724.4 million.

14.1.2. Early repayments

During the year 2020 Bezeq repaid in early repayment a private loan from an institutional entity in the amount of NIS 500 million and a loan from a banking corporation in the amount of NIS 360 million.

As a result of the early repayments, Bezeq recognized financing costs in the amount of approximately NIS 65 million.

14.2 Terms of bonds and loans

	December 31, 2020		December 31, 2019		
	Book balance	Par value	Book balance	Par value	Interest rate range
	NIS millions	NIS millions	NIS millions	NIS millions	
Loans from banking corporations in Bezeq:					
Non-linked loans, bearing fixed interest rates	**1,118**	**1,113**	1,836	1,823	6.85% - 3.2%
Total loans from banking corporations in Bezeq	**1,118**	**1,113**	1,836	1,823	
Loans from financial institutions in Bezeq:					
Non-linked loans, bearing fixed interest rates	**974**	**975**	1,517 th most common	1,520	4% -3.22%
Non-linked loans, bearing fixed interest rates	**17**	**17**	33	33	5.25%
Total loans from financial institutions in Bezeq	**991**	**992**	1,550	1,553	
Total loans in Bezeq	**2,109**	**2,105**	3,386	3,376	
Bonds issued to the public by the Company:					
Series C - Non-linked, bearing fixed interest rates	**1,716**	**1,856**	1,708	1,878	3.85%
Series D - Non-linked, bearing fixed interest rates	**54**	**58**	53	58	3.85%
Series E - Non-linked, bearing fixed interest rates	**100**	**100**	100	100	3.85%
Total bonds issued to the public in the Company	**1,870**	**2,014**	1,861	2,036	
Bonds issued to the public by Bezeq:					
Series 6 - linked to the consumer price index, bearing fixed interest rates	**1,055**	**1,000**	1,600	1,500	3.7%
Series 7 - Non-linked, bearing fixed interest rates	**71**	**71**	107	107	Short-term loan for the year + 1.4%
Series 9 - Non-linked, bearing fixed interest rates	**2,186**	**2,145**	2,197	2,145	3.65%
Series 10 - linked to the consumer price index, bearing fixed interest rates	**894**	**882**	902	882	2.2%
Series 11 - Non-linked, bearing fixed interest rates*	**841**	**835**	605	603	3.2%
Series 12 - linked to the consumer price index, bearing fixed interest rates *	**1,244**	**1,269**	761	799	1.7%
Total bonds issued to the public in Bezeq	**6,291**	**6,202**	6,172	6,036	
Total bonds	**8,161**	**8,216**	8,033	8,072	
Total loans and bonds	**10,270**	**10,321**	11,419	11,448	

* Following the publication of Bezeq's prospectus, on April 26, 2020, Bezeq's Series 11 and 12 bonds were delisted from trading in the "Institutional Sequence" list and began trading on the Stock Exchange's main list at that time. The interest rate to be paid in respect of the balance of the bonds principal as of the

date of their listing for trading on the main list on the Stock Exchange has been reduced by 0.4%, in accordance with the terms of the bonds.

14.3. Bonds issued by the Company

14.3.1 **Series C Bonds, D and E**

On September 18, 2016, the Company issued Series C bonds with a par value of approximately NIS 1.9 billion to the public. In accordance with the original principal terms which were valid until the date of the Searchlight-Forer transaction, the bond principal was due in five installments as follows: four equal annual installments at the rate of 7.5% of the bond principal to be paid on November 30 of each of the years 2020 to 2023. The last payment at the rate of 70% of the bond principal to be paid on November 30, 2024. Also, the bonds bore interest at the rate of 3.6% which To be paid twice a year on May 31 and November 30 of each of the years 2017 to 2024. The bonds are not indexed.

On January 16, 2017, and January 23, 2018, the Company completed private offerings to institutional investors in the amount of NIS 118 million par value Series C bonds for approximately NIS 118 million, and NIS 240 million par value Series C bonds for approximately NIS 249 million, by way of series expansion. The expansions were made under the same conditions as set forth in the original offering held in September 2016.

On December 2, 2019 (hereinafter – the Arrangement Date) as part of the Searchlight Forer transaction, the Company performed the following actions in connection with its bonds:

1. An early repayment of NIS 614 million par value for Series C bonds, including the accrued interest up to that date.
2. A private offering of NIS 310 million par value of Series C bonds for Internet Gold.
3. Conversion of NIS 58 million par value from Series C to Series D (new series).
4. Raising the coupon interest rate on Series G bonds 3.85%.
5. Replacement of all previous financial criteria related to credit rating, equity, etc. to current LTV financial criteria as described below.
6. Granting a second-degree lien on series C and D bonds on 26.34% of Bezeq's share capital.
7. Completion of a private placement of NIS 100 million par value Series E bonds (new series).
8. On December 2, 2019, and as part of the arrangement with its bondholders, the Company issued NIS 58 million in Series D in exchange for NIS 58 million in Series C.
9. In addition, at the same time, the Company issued NIS 100 million par value Series E for NIS 100 million.

The series of bonds B, D, and E will be paid in one installment on November 30, 2024. The annual coupon interest on the bond series is NIS 3.85%. The bonds are not linked to the consumer price index. The interest will be paid once every six months, on May 31 and November 30 each year from 2020 to 2024.

In accordance with the terms of Series C, D and E Series, the Company undertook to deposit semiannual interest in respect of the various series of bonds in a trust account for the benefit of the bondholders. As of December 31, 2020, NIS 39 million are deposited in a trust account for the benefit of the bondholders.

As of December 31, 2020, the total par value of the C, D, and E bond series that is not held by the Company is NIS 2,014 million.

The following are the financial criteria that the Company has committed to in connection with the bond series:

14.3.3 Debt to asset ratio (LTV):

The debt-to-asset ratio will be initially calculated 24 months after the date of the Searchlight-Forer transaction (December 2, 2019) and will not exceed the following thresholds for two consecutive quarters:

The ratio will not exceed the 80% threshold by November 30, 2023; and

The ratio will not exceed the 75% threshold from December 1, 2023 until the last payment of the bond fund.

As of December 31, 2020, the Company complies with the debt-to-asset ratio.

14.3.4 Restrictions on the distribution of a dividend:

The Company undertook to refrain from distributing a dividend to its shareholders and / or to repurchase its shares and / or other distribution as defined in the Israeli Companies Law 5769-1999, unless all the conditions listed below are met:

1. The Company is not in breach of any of the financial criteria.

2. There is no ground for immediate repayment when the decision is made to make the distribution, and there is no such ground as a result of this distribution:

3. The debt to asset ratio after the distribution shall not exceed 65%.

14.3.5 Lien on Bezeq shares:

Series E has an initial lien on 26.34% of the Company's holdings in Bezeq, while Series C and D have a second-degree lien on the same holdings as stated above.

The Ministry of Communications approved the above lien and granted a lien to the bond series trustee.

14.3.6 Control of Bezeq:

The Company undertook to directly and / or indirectly hold at least 25% of Bezeq's issued and paid-up share capital, unless a regulatory approval is obtained in the form of a permit / approval that allows the aforementioned holding rate to be reduced.

14.3.7 Company control

Searchlight and the Forer family undertook to refrain from transferring control of the Company (directly or indirectly) to another entity that had not received in advance the full regulatory approvals required, should such approvals be required, at the relevant time.

14.3.8 Profit from change in the terms of the bonds

The Company examined the materiality of the change in the terms of its debt series following the arrangement with the debtors and came to the conclusion that the change in the terms is material. As a result, the Company deducted from the books the bonds from the original C series, and recognized new bond series C and D which were measured as of the Arrangement Date according to the market price quoted as of that date. As a result, profit in the amount of NIS 177 million was created for the Company, which is presented as part of the financing income item in the statement of income for 2019.

14.3.9 Change in the terms of the Company's bond series

On September 17, 2020, the meetings of the bondholders (Series C and E) approved the amendment of the trust deeds of the said series, in a manner that will allow the Company to raise additional debt that will be secured by a lien on Bezeq shares pledged in favor of Series C, *pari-passu* with Series C, under the following limitations:

a. The additional debt raised by the Company (net of the issue expenses) will first repay bonds (Series D) and bonds (Series E) in full, so that after its raising and after completing the conditions required for the release of the proceeds from issuing the additional series and amending existing liens in favor of Series C, a first-degree lien will be recorded on the pledged Bezeq shares (as defined in the trust deed) for the benefit of the bondholders (Series C) instead of the second-degree lien currently registered in their favor (as long as the bonds (Series E) are in circulation).
b. After the full repayment of the debt in respect of the bonds (Series D) and the bonds (Series E), the balance of net proceeds from the issue of the additional debt will be used for the purpose of repayment of the bonds (Series C), by early redemption (full or partial), according to the terms of the existing trust deed.

   The duration of the new series issued by the Company will be longer than that of the bonds (Series C) and the payment of the first principal in respect of the bonds from the new series as aforesaid will be only after full repayment of the bonds (Series C).

In addition, the amount of early repayment to be paid to the bondholders in the event of early repayment of the bonds by the Company has been amended as follows:

In relation to the bonds (Series C) - in the case of a partial early repayment of the bonds (Series C), the price of the partial early repayment will be the par value of the bonds (Series C) or their market value according to the 30 trading days preceding the early redemption, whichever is higher.

In relation to bondholders (Series E) - the full early repayment price will be: (1) The market value of the bonds according to the price of the bonds on the stock exchange in the 30 trading days preceding the early redemption, the early repayment price, but not more than 103.5% of the par value, or (2) the par value of the bonds (Series E), whichever is higher.

14.4. Loans and bonds issued by Bezeq

The following is a list of the terms that Bezeq undertook in relation to the loans received and the bonds issued:

14.4.1. In relation to the total Bezeq debt, common reasons for immediate repayment of the bonds and loans were included, including default incidents, insolvency proceedings, liquidation or receivership proceedings, etc. In addition, a right has been established for immediate repayment in the event that a third-party lender has made payments of Bezeq's debts immediately repayable in an amount exceeding the determined amount.

In addition, Bezeq undertook not to create additional liens on its assets unless the consent of the bondholders will be obtained in advance, in a special decision, which allows the Company to create the lien in favor of the third party, or if Bezeq simultaneously creates liens for the benefit of all lenders (negative liens). The lien includes exceptions, *inter alia*, in the matter of the lien on assets that will be acquired or expanded by Bezeq, if the obligations for which the lien was secured were created for the purpose of purchasing or expanding the said assets and in the matter of a token lien.

14.4.2. In relation to Bezeq's public bonds, for loans from banking corporations the balance of which as of December 31, 2020 is approximately NIS 1.1 billion, and in relation to loans from financial institutions the balance of which as of December 31, 2020, is approximately NIS 1 billion, Bezeq undertook that in case it commits to any party in an undertaking in connection with compliance with financial criteria, Bezeq will also commit towards the said lenders with the same undertaking (subject to certain exceptions).

14.4.3. In relation to Bezeq's public bonds, as well as in respect of loans from financial institutions in the amount of NIS 1 billion, a ground for immediate repayment was included in the event that the communications sector ceases to be the Group's main area of activity.

14.4.4. With respect to Bezeq's public bonds, and with respect to loans from financial institutions in the amount of NIS 1 billion, Bezeq undertook to the lenders to ensure that, as far as it is under its control, such bonds will be monitored in terms of rating by at least one rating agency, as long as there are bonds from that series in circulation or loan balance, respectively.

14.4.5. In relation to bonds from series 9-12, as well as in relation to loans from financial institutions in the amount of NIS 1 billion, a reason for immediate repayment was included in the event of a change in control as a result of which Bezeq's controlling shareholders (as defined in the said agreements) will cease to have control over it and transfer the control to a third party ("the Transferee "), except: (1) transfer of control to a Transferee who has received approval to control Bezeq in accordance with the provisions of the Communications Law and / or the Communications Order or (2) transfer of control in which the Transferee has control of Bezeq together with the controlling shareholders and provided that the shareholding of the controlling shareholders in the Company in Bezeq shares is not less than 50.01% of the total Bezeq shares held by the controlling shareholders jointly holding or (3) a change of control approved by the meeting of the bondholders / lenders.

14.4.6. In addition, in relation to Series 9-12 bonds, and in relation to loans from financial institutions in the amount of NIS 1 billion, grounds for immediate repayment of the bonds were included in the event of a "going concern" note in Bezeq's financial statements for a period of two consecutive quarters, in case of a material deterioration in Bezeq's business compared to its position at the time of the issue, and there is a real concern that Bezeq will not be able to repay the bonds / loans on time (as stated in Article 35H1(a)(1) of the Securities Law).

As of December 31, 2020 and at the time of the approval of the financial statements, Bezeq met all its obligations as aforesaid, there were no grounds for granting credit for immediate repayment and no financial criteria were set as detailed above.

14.5. Reportable credit

The following are details regarding the Group's reportable credit, in accordance with legal position No. 104-15: Reportable credit incident, published by the Securities Authority on October 30, 2011 and as amended on March 19, 2017 (in accordance with the Group's data, series of bonds and loans in excess of 800 million). The bonds were issued by the Group without a specific purpose. Repayment of the bond principal in equal periodic payments numbered as specified in the table, and payment of interest on the outstanding principal balance.

The following is a reportable credit in the Group:

	Bezeq bonds					**Company bonds**
	Series 6 bonds	**Series 9 bonds**	**Series 10 bonds**	**Series 11 bonds**	**Series 12 bonds**	**Series C bonds**
Date of issuance of bonds	7/3/2011	10/15/2015	10/15/2015	10/07/2019	10/07/2019	19/09/2016
Final repayment date	12/1/2022	12/1/2025	12/1/2025	1.6.2030	1.6.2030	30.11.2024
Type of loan	Shekel index-linked with a fixed interest rate	Shekel not linked with a fixed interest rate	Shekel index-linked at a fixed interest rate	Shekel not linked with a fixed interest rate	Shekel index-linked with a fixed interest rate	Shekel with a fixed interest rate

Original loan amount or par value (NIS millions)	3,000	2,145	882	835	1,269	1,878
Estimated principal balance (plus interest payable) as of December 31, 2020 (NIS millions)	1,040	2,151	885	837	1,271	1,884
Number of principal payments in the year	1	1	1	1	1	1
Payment of principal starting from	2018	2022	2022	2026	2026	2024
Number of interest payments for the year	2	2	2	2	2	2
Interest rate as of December 31, 2020	3.70%	3.65%	2.20%	3.20%	1.70%	3.85%
Fair value of the liability as of December 31, 2020 (NIS millions)	1,089	2,342	956	910	1,350	1,723
Effective interest grossing at fair value as of December 31, 2020	0.31%	1.19%	0.04%	1.93%	0.83%	5.29%
Effective interest grossing at fair value as of December 31, 2019	(0.2%)	1.75%	0.52%	2.69%	1.24%	6.78%
Special conditions	See Note 14.4	See Note 14.4	See Note 14.4	See Note 14.4	See Note 14.4	See Note 15.3.2
Existence of early repayment right	No	No	Yes	Yes	Yes	Yes

14.6 Activity in liabilities arising from financing activities

	Bonds (including accrued interest)	Loans (including accrued interest)	Total
	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2019	8,942	4,738	13,680
Changes as a result of cash flows from financing activities			
Proceeds from the issuance of bonds and the receipt of loans, net of transaction costs	1,475	800	2,275
Repayment of bonds and loans	(2,156)	(2,131)	(4,287)
Interest paid	(324)	(172)	(496)
Total net cash arising from financing activities	(1,005)	(1,503)	(2,508)
Financing expenses imputed to statement of income	117	166	283
Balance as of December 31, 2019	8,054	3,401	11,455
Changes as a result of cash flows from financing activities			
Proceeds from the issuance of bonds and the receipt of loans, net of transaction costs	**718**	**-**	**718**
Repayment of bonds and loans	**(577)**	**(1,273)**	**(1,850)**
Interest paid	**(278)**	**(114)**	**(392)**
Total net cash arising from financing activities	**(137)**	**(1,387)**	**(1,524)**
Financing expenses imputed to the income statement	**268**	**103**	**371**

Balance as of December 31, 2020	**8,185**	**2,117**	**10,302**

15. Trade and other payables

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Suppliers		
Standing debts and expenses payable *	**940**	925
Banknotes repayable	**-**	2
Total suppliers	**940**	927
Current payables including derivatives		
Liabilities to employees and other liabilities due to payroll and wages	**397**	356
Deferred income	**168**	136
Current tax liabilities	**80**	5
Institutes	**66**	73
Derivative instruments	**51**	55
Accrued interest	**31**	37
Other	**33**	38
Total current trade payables including derivatives	**826**	700
Total current trade and other payables	**1,766**	1,627
Non-current trade payables		
Frequency payment liabilities	**86**	-
Deferred income in respect of government grants**	**72**	-
Deferred income	**75**	69
Derivative instruments	**66**	66
Other	**8**	4
Total non-current payables	**307**	139
Total current and non-current trade and other payables	**2,073**	1,766

* Of which the balance of suppliers who are related parties and stakeholders as of December 31, 2020 is NIS 2 million (as of December 31, 2019 - NIS 2 million).

** See Notes 11.1 and 3.14 regarding frequency tender and government grant

16. Provisions

	Customer Claims	Additional claims	Dismantling and disposal of mobile sites and liability	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2020	111	9	54	174
Provisions formed	**6**	**-**	**3**	**9**
Provisions exercised	**(4)**	**(8)**	**-**	**(12)**
Provisions canceled	**(1)**	**-**	**(1)**	**(2)**
Balance as of December 31, 2020	**112**	**1**	**56**	**169**
Presented in the statement of financial position as follows:				
Current provisions	**112**	**1**	**4**	**117**

Non-current provisions	**-**	**-**	**52**	**52**
	112	**1**	**56**	**169**

For details regarding legal claims, see Note 18.

17. Employee benefits

Employee benefits include severance pay, post-employment benefits, other long-term benefits, and short-term benefits.

17.1. Composition of liabilities in respect of employee benefits

	Note	2020 NIS millions	2019 NIS millions
Current liabilities in respect of:			
Vacation		**122**	120
Sick leave	17.4	**161**	152
Provision for an early retirement plan at Bezeq	17.5.1	**87**	139
Provision for early retirement for employees transferred from government employment in Bezeq	17.5.2	**62**	170
Provision for streamlining plan in Pelephone, Bezeq International and DBS	17.5.3	**43**	66
Current maturity of benefits to pensioners	17.3.3	**7**	7
Total current liabilities in respect of benefits to employees		**482**	654
Non-current liabilities in respect of:			
Liability for benefits to pensioners	17.3.3	**140**	137
Provision for early retirement for employees transferred from government employment	17.5.2	**108**	94
Severance pay, net (see composition below)	17.3.1	**58**	65
Early notice and pension	17.3.2	**29**	29
Provision for streamlining plan in Pelephone, Bezeq International and DBS		**-**	31
Total non-current liabilities in respect of employee benefits		**335**	356
Total liabilities in respect of employee benefits		**817**	1,010 th most

The following is the composition of the liability in respect of severance:			
Liability in respect of severance pay		**214**	230
Fair value of plan assets		**(156)**	(165)
		58	65

17.2. Defined deposit plans

17.2.1. The liability in respect of benefits for employees reaching retirement age in respect of their period of service in the Company and in the subsidiaries and in respect of the employees to whom Article 14 of the Severance Pay Law, 5733-1963 ("**Severance Pay Law**") applies, are fully covered by current payments to pension funds and insurance companies.

	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Deposits recognized as an expense in respect of a defined deposit plan	**221**	223	232

17.2.2. In respect of some of the employees, the Group has a liability to complete severance pay in excess of the amount accumulated in the compensation fund of the employees (see Article 17.3.1 below).

17.3. Defined benefits plan

Liabilities in respect of defined benefit plans in the Group include the following liabilities:

17.3.1. Liability for severance pay in respect of the balance of the liability that is not covered by deposits and / or insurance policies in accordance with existing employment agreements and the Severance Pay Law. In respect of this part of the liability, there is a designated allocation that is deposited in the name of the Group companies in pension funds and insurance companies. Allocations in pension funds and insurance companies include accrued linkage differences and interest. Withdrawal of allocation funds is conditional on compliance with the provisions set forth in the Severance Pay Law.

17.3.2. Liability under the personal employment agreements of senior employees in the Group, to pay a benefit in respect of an advance notice upon termination of the employee-employer relationship. In addition, the Company has a commitment to a number of senior employees, who are entitled to early retirement conditions (pension and retirement grants) that are not dependent on the existing retirement agreements for all employees.

17.3.3. Bezeq pensioners receive, in addition to pension payments, benefits that are mainly holiday gifts (linked to the dollar exchange rate), financing the maintenance of pensioners' clubs and social activities. Bezeq's liability for these costs accrues during the work period. Bezeq includes the liability for the expected costs in the period after the employment period in its financial statements.

17.4. Provision for sick leave

The statements include a provision for redemption and exercise of sick days. The right to accrue sick days was taken into account for all employees of the Group and the right to redemption of sick days only for eligible employees in accordance with the conditions set out in the employment agreements. The provision was calculated on the basis of an actuarial calculation that includes assuming a positive accumulation of days for most employees and exercising days using the "last-in-first-out" method (LIFO).

17.5.Early retirement and dismissal benefits

17.5.1. According to the collective bargaining agreement between Bezeq and the employees organization and the New Histadrut from December 2006 and in accordance with amendment Number 5 to the agreement dated August 2015, Bezeq was entitled, at its discretion, to terminate the employment of up to 163 permanent and veteran employees in each of the years 2021 - 2015 (Bezeq's right accumulated over the years).

On December 16, 2020, Amendment No. 6 to the agreement was signed, extending the retirement arrangement in the agreement until December 31, 2020. Subject to amendment, Bezeq will be entitled to, at its discretion, terminate the work of up to 50 permanent employees each year (in addition to the retirement quota of about 300 permanent employees remaining from the previous agreement, the employment of which Bezeq will be able to terminate at the end of the agreement period).

Bezeq recognizes an expense in respect of early retirement since Bezeq has clearly undertaken, without any real possibility of cancellation, to lay off employees before they reach the usual retirement date, according to a defined plan. The collective bargaining agreement entitles Bezeq to dismiss employees, but does not create a significant commitment for Bezeq without a real possibility of cancellation. Therefore, the expenses for early retirement are recognized in Bezeq's books at the time the plan is approved.

On December 10, 2020 Bezeq's Board of Directors approved, as part of the implementation of a streamlining plan in Bezeq, the retirement of about 50 permanent employees Veterans in an early retirement route with a total cost of approximately NIS 68 million. In light of the aforesaid, Bezeq recorded in its financial statements for the fourth quarter of 2020 an expense in the amount of approximately NIS 65 million.

17.5.2. On December 16, 2018, an early retirement plan was approved, by the end of 2021, for all Bezeq employees who were transferred to the Company from the Ministry of Communications (94 employees). The balance of the provision in respect of the commitment for the retirement of employees as aforesaid as of December 31, 2020 is approximately NIS 170 million.

17.5.3. Pelephone, Bezeq International and DBS are bound by collective bargaining agreements between them and the Histadrut and the employees committees. The agreements from 2019 determined, *inter alia*, streamlining and synergy procedures that include the right of the above companies to terminate the employment of employees, in accordance with the rules set forth in the agreements. The balance of the provision for streamlining in respect of these agreements as of December 31, 2020 is approximately NIS 43 million.

17.6. Actuarial assumptions

The main actuarial assumptions regarding defined benefit plans as of the reporting date are:

17.6.1. The mortality rates are based on the rates published in the Capital Market Authority's 2017-3-6 pension circular. Future reductions in mortality rates are based on the rates published in the 2019-1-10 circular.

17.6.2. The rates of departure were determined on the basis of past experience of Bezeq and its subsidiaries, with a distinction between the various employee populations and in accordance with the years of seniority. Departure rates include a distinction between departures that entitle to full severance pay and departures that do not confer full severance pay.

17.6.3. The (nominal) discount rate is based on the yield of high-quality index-linked corporate bonds that have a duration similar to the duration of the gross liability.

The following are the main discount rates:

	December 31, 2020	December 31, 2019
	Average discount rate	**Average discount rate**
Severance Pay	**2.7%**	2.40%
Benefits for retirees	**2.8%**	2.9%

17.6.4. Assumptions regarding salary updates for the purpose of calculating liabilities were made on the basis of Management’s assessments, distinguishing between groups of employees. The main assumptions (in nominal terms) regarding salary updates for major employee groups are:

	Assuming an annual wage increase
Permanent and veteran employees of the Company	The calculation was based on individual assumptions regarding expected wage increases for years 2021 until 2026, resulting from the collective bargaining agreement signed in August 2015 and in December 2020.
New permanent employees in the Company	An average update of 3.2% for young employees gradually drops to 1.4% at age 66.
Bezeq employees who are not permanent	6.4% for young employees gradually decreases to 0.1%, 2% (in real terms) for senior employees.
Pelephone employees, Bezeq International and DBS	The rates of wage increases were determined on the basis of the collective agreements signed. The average annual wage growth rate that is 2%.

17.6.5. Details of the weighted duration of liabilities in respect of post-employment main benefits:

	December 31, 2020	December 31, 2019
	Years	**Years**
Severance Pay	**11.9**	10.8

Benefits for retirees	**16.4**	16.6

17.7. Sensitivity analysis of major actuarial assumptions

The following is an analysis of the possible impact of the changes in key actuarial assumptions on employee benefit liabilities. The calculation is made in relation to each assumption separately, assuming that the rest of the assumptions remain unchanged.

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Discount rate - increase of 0.5%	**(35)**	(42)
Future wage increases rate - increase of 0.5%	**34**	35
Employee departure rate - an increase of 5%	**(20)**	(25)
Mortality rate assumption - 5% Increase	**(3)**	(4)

18. Contingent liabilities

18.1 Claims against the Company

18.1.1 On March 30, 2020, the Company reached a settlement regarding the derivative claim that was filed in July 2016 in the Tel Aviv-Yafo District Court (hereinafter "the Horev Claim"). As part of the settlement agreement, the Company received during the third quarter of 2020, a total amount of NIS 22 million (principal plus accrued interest) of the Company's Series C bonds held by Internet Gold - Gold Lines Ltd. (hereinafter "Internet Gold"), in exchange for waiving the derivative claim against Internet Gold. In addition, the derivative plaintiff received an amount of NIS 4.23 million in respect of attorneys' expenses and monetary compensation (which were paid out of the NIS 22 million that Internet Gold is required to pay). The net amount received by the Company is charged directly to the Company's shareholders' equity under the loss balance item.

18.1.2 In addition, on June 2, 2020, the Company and former directors of the Company signed a settlement agreement as part of the Horev Claim, according to which the directors will pay NIS 2.5 million (hereinafter "the Directors’ Settlement Amount") to the Company in order to settle all derivative claims in this matter. During July 2020, the District Court approved the settlement agreement, and the directors' insurance paid the Company the full Directors’ Settlement Amount. As part of the settlement, the Company paid the derivative plaintiff and his attorney a total of NIS 720,000. The net amount received by the Company is charged directly to the Company's shareholders' equity under the loss balance item.

18.1.3 On March 4, 2020, the Company signed a settlement agreement that settles the class action lawsuit filed against the Company with the New York Southern District Court in the United States that was filed against the Company in 2017. On August 10, 2020, the final approval was obtained from the court for settlement in respect of which settlement payments were made. The Company paid a sum of USD 1.2 million, which was fully covered by the insurance of the directors and officers of the Company, which absolved the Company from all claims related to the class action by both the plaintiffs and the members of the arrangement, without any admission of guilt.

18.1.4 Regarding two motions for approval of a class action lawsuit filed in June 2017 against the Company and against Bezeq, see Note 18.2(3) below.

18.1.5 In November 2020, a claim was filed with a motion for approval as a class action by a private person who he claims is a shareholder of Bezeq ("**the Applicant**") against the Company, Bezeq, and members of Bezeq's Board of Directors ("**the Respondents**"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, according to the motion, "due to Bezeq's failure to report and disclose on the Tel Aviv Stock Exchange (hereinafter: "**TASE**") and concealment of material information from investors. In connection with a report to the public "on moves by the Ministry of Communications to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, on the extensive and substantial scope of the phenomenon of dual subscribers in the Bezeq International subsidiary (hereinafter: "**Bezeq International**") and their material negative impact on the business of the subsidiary and Bezeq". According to the claim in the motion, the damage caused to the group members as a result of the events that are the subject of the lawsuit amounts to approximately NIS 55 million to NIS 65 million, based on an expert opinion attached to the motion.

18.1.6 In November 2020, a claim was filed with a motion for approval as a class action by a private individual ("the Applicant") who claims to be a shareholder of the Company, who claims to hold shares in the Company and Bezeq, against the Company, Bezeq and 72 other respondents, including past and present officers in both companies ("**the Respondents**"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, as alleged in the motion, as a result of acts and omissions of the Respondents when they refrained from disclosing to the investing public allegedly material information that they had to disclose in accordance with the provisions of the law, in connection with the two companies' report dated November 9, 2020 that Bezeq International books have unexplained net asset balances (receivables net of payables) of tens of millions of NIS, a considerable part thereof originates, allegedly, in past periods of more than 15 years. The amount of the class action specified in the statement of claim is "over NIS 2.5 million (for the purposes of substantive authority)" when in accordance with the economic opinion attached to the motion "the estimate for the decline in the price of the security" for the information included in the immediate report of November 9, 2020 stands at 5.26%-5.40% I relation to Bezeq and 9.07% - 9.36% in relation to the Company.

18.2 Claims against Bezeq Group

During the day-to-day business, claims have been filed against Bezeq Group companies or various legal proceedings are pending against it (hereinafter in this section: "Legal Claims").

In the opinion of the managements of Bezeq Group companies, which is based, among other things, on legal opinions regarding the probability of Legal Claims, the financial statements included adequate provisions (as detailed in Note 16), where provisions were required to cover the exposure as a result of such Legal Claims.

In the opinion of the managements of the Bezeq Group companies, the amount of the additional exposure (in addition to the aforesaid provisions), as of December 31, 2020, due to Legal Claims filed against Bezeq Group companies in various matters and whose probability of realization is not expected, amounted to a total of approximately NIS 3.8 billion. In addition, there is an additional exposure in the amount of about NIS 3.7 billion in respect of claims whose chances cannot be assessed at this stage.

In addition, requests were filed against the companies of the Bezeq Group to recognize the claims as class actions that did not specify the exact amount of the claim, for which the Group has additional exposure beyond the aforementioned.

The additional exposure amounts in this Note are nominal.

The following is a description of the contingent liabilities of Bezeq Group valid as of December 31, 2020 classified according to groups with similar characteristics:

Claims group	The nature of the claims	The balance of the provision	The amount of additional exposure	The amount of exposure in respect of claims whose chances cannot yet be assessed
		NIS millions		
Customer claims	Mainly motions for approval of class actions (and claims by virtue thereof) that concern allegations of illegal collection of funds and harm to the provision of services provided by Bezeq Group companies.	**112**	**3,126**	**1,792(1)**
Claims of enterprises and companies	Claims in which the liability of Bezeq Group companies' liability is claimed in connection with their operation and / or their investments.	-	**687 (2)**	**1.873(3)**
Claims of employees and former employees of Bezeq Group companies	Mainly individual claims filed by employees and former employees of Bezeq Group which concern various payments.	-	-	-
State and authority claims	Various legal proceedings by the State of Israel, various governmental bodies and state authorities (hereinafter: "the Authorities"). These are mainly procedures in the field of regulation applied to Bezeq Group companies and various financial disputes regarding funds paid by Bezeq Group companies to the authorities (including property tax payments). See also Note 6.	**1**	**5**	-
Miscellaneous	Other legal claims, including tort claims (except for claims in which there is no dispute as to the existence of insurance coverage), real	-	**12**	**14**

	estate, infrastructure, etc.			
Total claims against Bezeq and its subsidiaries		**113**	**3,830**	**3,679**

(1) Including exposure in the amount of NIS 0.9 billion in respect of a motion for approval of a class action lawsuit filed against Bezeq In May 2020 concerning online advertising packages through the B144 website (the amount of the exposure was indicated in handwriting and no explanation or calculation in relation to it was included).

(2) Disclosure in respect of a class action of a shareholder against Bezeq and Bezeq's officers in which reported failures of Bezeq regarding the wholesale market reform were alleged.

(3) Two motions for approval of a class action lawsuit totaling approximately NIS 1.8 billion filed in June 2017 against Bezeq, Group officers as well as companies from Bezeq's controlling group at the time regarding the transaction for the purchase of DBS shares from Eurocom by Bezeq. In accordance with a court decision, the filing of a consolidated motion is expected to replace these two motions. The procedure is delayed in light of the investigation and at the request of the Attorney General until September 6, 2021 (as described in Note 1.3).

18.3. After the date of the financial statements, two motions for approval of a class action were submitted against Bezeq Group companies, without specifying an exact amount. As of the date of approval of the financial statements, the chances of the motion have not yet been assessed. Also, claims for which the exposure was approximately NIS 372 million were terminated.

19. <u>Engagements</u>

19.1. DBS is bound by agreements to purchase space segments (As detailed in Note 19.2 below), Content and Copyright, until the end of 2026. Amounts of future contracts in respect of these contracts per day31/12/2020 Are as follows:

For the year ended December 31	Space segments	Content and Copyright	Total
	NIS millions	NIS millions	NIS millions
2021	**73**	**379**	**452**
2022	**60**	**262**	**322**
2023	**58**	**80**	**138**
2024	**58**	**8**	**66**
2025 onwards	**67**	**-**	**67**
	316	**729**	**1,045**

19.2. According to an agreement with Space Communications Ltd. ("**Space**") from 2013, as amended, DBS leases space segments in satellites from the "Amos" series ("**Space Agreement**"). In accordance with the provisions of the Space Agreement, DBS leases a number of space segments on the "Amos 3" satellites (whose estimated end of life is at the beginning of 2026), as well as the "Amos 7" satellite, in which Space has the right to lease space segments under an agreement between it and the rights holder on this satellite, which was leased to DBS until February 2022 (after exercising an extension option).

Under the Space Agreement, Space undertook to make reasonable efforts to place a new satellite, "Amos 8", by February 2021, in which case DBS will lease space segments from that date on "Amos 3" and "Amos 8" and starting from the end of the life of "Amos 3" - in "Amos 8" only. Insofar as "Amos 8" is not installed until February 2022, DBS would lease space segments in "Amos 3" until the end of its life, and it would have the right, if it so chooses, to lease space segments in "Amos 8" as well, insofar as it is placed at a later date. According to DBS, noting, among other things, that Space did not announce an agreement for an engagement to build "Amos 8" and according to the information provided by Space (according to Space reports, the agreement to build "Amos 8" was revoked by Space in 2018), placing "Amos 8” is not expected to materialize until February 2022, if at all. Thus, although the period of the original Space Agreement is until 2028, in accordance with the provisions of the Space Agreement, there will be an early termination of the Space agreement at the end of the life of "Amos 3" satellite, which to the best of DBS's knowledge is expected to be in early 2026, without payment of compensation and under the conditions set out in the agreement (subject to additional early termination options).

<u>The leased space segments</u> - according to the space agreement, during the engagement period (and subject to unavailability events) DBS will lease 12 space segments from space, in accordance with the division between the relevant satellites stipulated in the agreement according to the various periods when the "Amos 7" satellite lease expires. Ace to lease ten space segments in "Amos 3". The agreement also regulates the provision of backup segments for the leased space segments during the term of the agreement, under the terms and restrictions set forth therein.

<u>Early termination of the agreement</u> **-** the Space Agreement stipulates a right to early termination without cause, subject to 12 months' prior notice and payment of the consideration in accordance with the mechanism set forth therein.

19.3. Cellular infrastructure equipment in the UMTS / HSPA and LTE networks and 5G are manufactured by LM Ericsson Israel Ltd. ("Ericsson"), which serves as Pelephone's supplier for the deployment of 4G (LTE) and 5G radio networks. In addition, Erickson is a significant supplier of Pelephone in the field. The Pelephone has multi-year agreements for maintenance, support and software upgrades for the UMTS / HSPA network, as well as an agreement for the purchase of 4G (LTE) and 5G equipment with Ericsson, and in its opinion it may depend on it for network support and expansion. As of December 31, 2020 Pelephone has engagements with Ericsson for the purchase of end equipment and the receipt of services as aforementioned in the total amount of approximately NIS 10 million.

19.4. The Bezeq Group companies, as of December 31, 2020, have contracts for the purchase of end equipment, property, plant and equipment, intangible assets and additional assets in the amount of approximately NIS 383 million as well as additional contracts for various services in the future in the amount of approximately NIS 101 million.

19.5. For information on engagements with related parties, see Note 29.

20. Collateral, liens and guarantees

Bezeq Group's policy is to provide tender, execution and legal guarantees as provided by law. Also, Bezeq provides bank guarantees for bank liabilities of subsidiaries as needed.

20.1. The Bezeq Group companies provided guarantees to the Ministry of Communications in connection with securing the terms of their licenses in the total amount of approximately NIS 129 million (of which approximately 52 million are linked to the consumer price index).

20.2. The Bezeq Group companies provided bank guarantees to third parties in the total amount of approximately NIS 195 million (including guarantees in the amount of approximately NIS 118 million regarding the Sakia property. For details, see Note 6.6).

20.3. Restrictions on the creation of liens on the assets of Bezeq Group companies:

20.3.1. According to the Bezeq license, the license and any part of it cannot be transferred, encumbered or foreclosed. Transfer, encumbrance or foreclosure of an asset from the license assets that were not expressly permitted in the license requires the approval of the Minister who may, in special cases, allow the transfer of a license in the event of structural changes, if he is convinced that the transferee licensee meets all conditions as in the transferor. In addition, to the extent that rights to the assets from the assets used to provide Bezeq services are granted to a third party, Bezeq must ensure that no situation arises in which the exercise of the rights in the said asset may impair Bezeq's obligations under the license.

20.3.2. According to Pelephone's cellular license, it is not authorized to sell, rent or lease property from the properties used for the execution of the license without the consent of the Minister of Communications, ("the License Assets"), unless the consent of the Minister of Communications has been given, after he has assumed that the exercise of the rights by the third party will not cause harm to the provision of the services under the license, except:

A. Pledge of a license property for the benefit of a banking corporation operating legally in Israel, for the purpose of obtaining bank credit, provided that it has notified the Ministry of Communications of the lien it intends to register, according to which the lien agreement includes a clause guaranteeing that in any case the exercise of the rights by the banking corporation will not cause any harm to the provision of the services under the license.

B. Sale of equipment items when performing an upgrade procedure, including sale of equipment using the trade-in method.

C. Sale, rental, mortgage or transfer of the license assets to the holder of a mobile radio telephone infrastructure license of which Pelephone is a customer.

20.3.3. Pursuant to Bezeq International's license, it may not sell, rent or mortgage any of the assets necessary to secure the licensee's services, unless the Minister of Communications' consent has been given after he has assumed that the exercise of the rights by the third party will not impair the license. Notwithstanding the foregoing, Bezeq International may pledge an asset from the license assets in favor of a banking corporation operating legally in Israel, for the purpose of obtaining bank credit, provided that it gives prior notice of the lien it intends to make, and the lien agreement includes a clause which ensures that the exercise of the rights by the banking corporation will not result in a violation of the provision of services under the license.

20.3.4. With respect to the DBS broadcasting license, the Communications Law and the license provisions set limits with respect to the transfer, foreclosure and lien of the license and of assets from the license assets. The broadcasting license requires the approval of the Minister in relation to certain changes in the maintenance of means of control in the DBS and imposes reporting obligations regarding the holders of the means of control; There are also certain restrictions regarding the license to perform uplink operations (transferring broadcasts from DBS’s broadcasting center to the broadcast satellite and performing ancillary set-up and operation operations).

20.4. Regarding the conditions that the Company undertook in connection with loans and credit, see Note 15.

21. Capital

21.1 Share capital

Ordinary shares of NIS 0.1 par value each

	Number of ordinary shares	
	2020	2019
Issued and repaid capital as of January 1st	**116,316,563**	29,889,045
Shares issued during the year	**-**	86,427,518

Issued and repaid capital as of December 31	**116,316,563**	116,316,563
Registered capital To the 31st of December	**150,000,000**	150,000,000

* 19,230 of the Company's shares are held as treasury shares.
** See Note 32.1 regarding the approval of the general meeting of Bezeq shareholders, after the date of the financial statements, of the increase of Bezeq's registered capital and regarding the Bezeq Capital Remuneration Plan.

21.1.1. On January 20, 2019, the Company held a private offering of 7,385,600 ordinary shares at a cost of NIS 0.1 par value to a number of institutional entities and "qualified" private investors. The gross issue amounted to NIS 118 million, at a price of NIS 16 per share. .

21.1.2. On December 2, 2019, as part of the Searchlight-Forer transaction, the Company issued 79,041,918 ordinary shares at NIS 0.1 par value for Searchlight, the Forer family, Internet Gold and the public in the total amount of NIS 330 million, at a price of NIS 4.175 per share.

21.1.3. On February 13, 2020, a special meeting of the Company's shareholders was held at which the terms of employment of the Company's new CEO, Mr. Tomer Raved, were approved. As part of the terms of his employment, Mr. Raved was granted options to purchase up to 2,677,362 ordinary shares of the Company, which constitute 2.25% of the issued and paid-up capital of the Company as of the date of commencement of his employment. The expense recorded in the Company's books in respect of the options granted to the CEO in 2020 amounted to approximately NIS 280,000.

21.1.4. On August 26, 2020, the Company announced its intention to delist its shares from trading on the Nasdaq Stock Exchange and terminate its reporting obligation to the US Securities and Exchange Commission (SEC). The documents required for the delisting were submitted on September 9, 2020 and the Company's share ceased to be traded on the Nasdaq on the same day. The termination of the Company's reporting liability on the Nasdaq Stock Exchange began on September 21, 2020, following the submission of a required document to the US Securities and Exchange Commission In the same day.

21.2 Dividends

21.2.1 Bezeq's dividend distribution policy

Until March 6, 2018, Bezeq had a dividend distribution policy, according to which Bezeq will distribute to its shareholders, every six months, a dividend at a rate of 100% of the semiannual profit (after tax) (profit for a period attributed to Bezeq's owners) according to Bezeq’s consolidated financial statements. On March 6, 2018, Bezeq's Board of Directors decided to update the dividend distribution policy, in a manner that Bezeq will distribute to its shareholders, every six months, a dividend of 70% of the semiannual profit (after tax) according to Bezeq's consolidated financial statements, starting from the distribution following the date of the decision.

On March 27, 2019, Bezeq's Board of Directors decided to cancel Bezeq's dividend distribution policy. The decision was made out of a position of clarity and transparency vis-à-vis the shareholders and in the circumstances created against the background of the impossibility of distributing a dividend due to expectations of not meeting the profit test in the two years following the decision. Accordingly, the Board of Directors has decided that it would not be appropriate to maintain a dividend policy when in practice it is ineffective.

The repeal of said policy shall not prevent Bezeq's Board of Directors from examining from time to time dividends to Bezeq shareholders, taking into account, *inter alia*, the provisions of the law, Bezeq's business position and capital structure, while maintaining a balance between Bezeq's financial strength and stability, including the level of debt and its credit rating, and the continued value maximization to Bezeq's shareholders through a current dividend distribution, all subject to the approval of the general meeting of Bezeq's shareholders regarding each specific distribution as provided in Bezeq's Articles of Association.

21.2.2 The following is a breakdown of distributions that Bezeq made during the years 2018-2020:

Date of distribution	Amount per share distributed (in NIS)	2020	2019	2018
		NIS millions	NIS millions	NIS millions
October 5, 2018	0.133	-	-	368
October 10, 2018	0.115	-	-	318
		-	-	686

22 Revenue

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Interior landline communication - Bezeq Fixed Lines			
Internet - Infrastructure	**1,537**	1,497	1,525
Landline telephony	**981**	1,017 th most common	1,130
Transmission and data communication	**785**	745	769
Cloud and digital services	**288**	273	260
Other services	**222**	225	199
	3,813	3,757	3,883
Cellular communication - Pelephone			
Cellular services and end equipment	**1,550**	1,674	1,713
Sale of end equipment	**577**	642	688
	2,127	2,316	2,401
Multi-channel TV - DBS	**1,286**	1,344	1,473
Internet Services (ISP), international communications and network endpoint – Bezeq International	**1,217**	1,283	1,338
Other	**280**	229	226
	8,723	8,929	9,321

23 Operating and general expenses

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Connectivity and payments to communications operators in Israel and abroad	**776**	757	789
End equipment and materials	**747**	806	771
Content costs	**589**	644	653
Marketing and general	**471**	502	570
Maintenance of buildings and sites	**246**	271	286
Services and maintenance by subcontractors	**303**	270	277
Vehicle maintenance *	**50**	71	82
	3,182	3,321	3,428

* Operating and general expenses are presented net of expenses incurred in 2020 in respect of investments in property, plant and equipment and intangible assets in the amount of NIS 38 million (in 2019 approximately NIS 43 million and in 2018 approximately NIS 46 million).

24 Salaries

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Total payroll and related expenses	**2,442**	2,476	2,574
Deducting payroll attributed to investments in property, plant and equipment and intangible assets	**(548)**	539	579
	1,894	1,937	1,995

25 Other operating expenses (revenue), net

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Capital gain (mainly from exercise of real estate)	**(18)**	(475)	1
Receipts from a compromise agreement	**(9)**	-	-
Expenditure due to the termination of an employee-employer relationship in early retirement in Bezeq (see Note 17.5.1)	**64**	109	547
Provision for a collective bargaining agreement signing grant (see Note 17.5.1)	**40**	-	-
Expenses in respect of the termination of an employer-employee relationship in early retirement and a streamlining agreement in Pelephone, Bezeq International and DBS (see Note 17.5.3)	**9**	167	12
Provision for claims	**11**	10	91
Other expenses (revenue)	**(2)**	1	(1)
Profit from the sale of an investee (see Note 13.4)	**(22)**	-	(15)
Other operating expenses (revenue), net	**73**	(188)	635

26 Financing expenses (revenue), net

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Interest expenses in respect of financial liabilities	**351**	458	472
Financing expenses in respect of benefits to employees	**8**	89	9
Costs due to early repayment of loans and bonds (see Note 14)	**96**	93	-
Linkage differences and exchange rate	**23**	46	64
Financing expenses for liabilities in respect of leases	**30**	29	26
Other financing expenses	**6**	14	6
Change in the fair value of financial assets measured at fair value through statement of income	**11**	9	-
Change in liability for contingent consideration in respect of a business merger	**-**	-	43
Total financing expenses	**525**	738	620
Income from credit grossing in sales	**30**	29	30
Income from deposits and investments	**-**	-	1
Income from exchange of bonds (see Note 14)	**-**	191	-
Other financing income	**21**	46	31
Change in the fair value of financial assets measured at fair value through statement of income	**-**	-	27
Total financing revenue	**51**	266	89
Financing expenses, net	**474**	472	531

27 Profit per share

The calculation of the basic and diluted profit per share was based on profit (loss) attributed to ordinary shareholders and according to the weighted average number of ordinary shares presented in the calculation as follows:

	2020	**2019**	**2018**
Net profit (loss) attributed to Company shareholders (NIS millions)	**157**	(853)	(1,066)
Number of shares attributed to shareholders			
Balance as of January 1	**116,316,563**	29,889	29,889
Impact of shares issued during the year	**-**	13,297	-
Weighted average of common shares (basic and diluted) as of December 31	**116,316,563**	43,186	29,889
Basic and diluted profit (loss) per share (NIS)	**1.38**	(19.7)	(36.5)

28 Segment reporting

The Group operates in four different segments in the communications industry in such a way that each company in the Group operates in one separate business segment.

Each company provides services in the segment in which it operates through the property, plant and equipment and infrastructure it owns (see also Note 22). The infrastructure of each company is used to provide its services. Some Group companies use infrastructure owned by other companies in the Group.

The main reporting format, according to business segments, is based on the Group's administrative and internal reporting structure.

The business segments of the Bezeq Group are as follows:

1. "Bezeq" The Israeli Telecommunications Corporation Ltd. – Interior landline communications;
2. Pelephone Communications Ltd. - Cellular communications;
3. Bezeq International Ltd. - Internet services, international communications and network endpoint
4. DBS Satellite Services (1998) Ltd. - Multi-channel TV.

The other companies in the Group are listed in the "others" item. Other activities include customer service centers (Bezeq Online) and Internet content services (via Walla). These activities are not reported as reportable segments as they do not meet the quantitative thresholds in the reporting years.

Inter-sectoral pricing is determined according to the price set in transactions in the regular course of business.

Segment results, assets and liabilities include items that can be allocated directly to the segment as well as those that can be reasonably allocated. The results of the cellular communications segment and the multi-channel television segment are presented net of losses from impairment of assets described in Note 11.5. This is in accordance with the way in which the Group's chief operating decision maker evaluates the performance of the segments and makes decisions regarding the allocation of resources to such segments.

The capital expenditure of a segment is the total cost incurred during the period in respect of the acquisition of property, plant and equipment and intangible assets.

28.1 Activity segments

	For the year ended December 31, 2020						
	Interior landline communication	**Cellular communication ***	**Internet services and international communications**	**Multi-channel TV ***	**Others**	**Adjustments**	**Consolidated**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
External revenues	**3,813**	**2,127**	**1,217**	**1,286**	**280**	**-**	**8,723**
Inter-segmental revenue	**346**	**59**	**54**	**1**	**6**	**(466)**	**-**
Total revenue	**4,159**	**2,186**	**1,271**	**1,287**	**286**	**(466)**	**8,723**
Depreciation and amortization	**877**	**599**	**149**	**310**	**14**	**(91)**	**1,858**
Segment results - operating profit (loss)	**1,705**	**(84)**	**(241)**	**(42)**	**44**	**326**	**1,708**
Financial expenses	**419**	**18**	**5**	**15**	**1**	**67**	**525**
Financing revenue	**(16)**	**(66)**	**(3)**	**(2)**	**-**	**36**	**(51)**
Total financing expenses (revenue), net	**403**	**(48)**	**2**	**13**	**1**	**103**	**474**
Segment profit (loss) after financing expenses, net	**1,302**	**(36)**	**(243)**	**(55)**	**43**	**223**	**1,234**
Share in profits (losses) of affiliated companies	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Segment profit (loss) before taxes on income	**1,302**	**(36)**	**(243)**	**(55)**	**43**	**222**	**1,233**
Income taxes	**262**	**(11)**	**32**	**2**	**4**	**45**	**334**
Segment results - net profit (loss)	**1,040**	**(25)**	**(275)**	**(57)**	**39**	**178**	**900**
Segment assets	**8,471**	**4,371**	**781**	**1,365**	**96**	**(694)**	**14,390**
Investment in affiliated companies	**-**	**-**	**4**	**-**	**-**	**-**	**4**
Goodwill	**-**	**-**	**-**	**-**	**-**	**1,559**	**1,559**
Segment liabilities	**11,764**	**1,742**	**580**	**505**	**42**	**893**	**15,526**
Investments in fixed and intangible assets	**975**	**437**	**123**	**165**	**12**	**-**	**1,712**

* The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized starting from 2018. This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. See also Note 31.3 regarding a summary of selected data from the financial statements of DBS.

	For the year ended December 31, 2019						
	Interior landline communication	**Cellular communication ***	**Internet services and international communications**	**Multi-channel TV ****	**Others**	**Adjustments***	**Consolidated**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
External revenues	3,757	2,316	1,283	1,344	229	-	8,929
Inter-segmental revenue	316	46	56	1	9	(428)	-
Total revenue	4,073	2,362	1,339	1,345	238	(428)	8,929
Depreciation and amortization	861	633	190	334	14	32	2,064
Segment results - operating profit (loss)	2,142	(99)	(196)	(135)	1	(1,247)	466
Financial expenses	608	23	8	17	1	81	738
Financing revenue	(39)	(62)	(2)	(5)	-	(158)	(266)
Total financing expenses (revenue), net	569	(39)	6	12	1	(77)	472
Segment profit (loss) after financing expenses, net	1,573	(60)	(202)	(147)	-	(1,170)	(6)
Share in losses of affiliated companies	-	-	-	-	(2)	-	(2)
Segment profit (loss) before taxes on income	1,573	(60)	(202)	(147)	(2)	(1,170)	(8)
Income taxes	381	(13)	(45)	2	-	1,127	1,452
Segment results - net profit (loss)	1,192	(47)	(157)	(149)	(2)	(2,297)	(1,460)
Sector assets	8,091	4,088	1,080	1,491	149	(900)	13,999
Goodwill	-	-	-	-	-	1,559	1,559
Investment in affiliated companies	-	-	4	-	2	-	6
Segment liabilities	12,466	1,434	604	576	79	843	16,002
Investments in fixed and intangible assets	914	335	110	222	9	-	1,590

* Impairment loss in the cellular communications segment is presented as part of the adjustments.
** The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. See also note 31.3 regarding a summary of selected data from the financial statements of DBS.

	For the year ended December 31, 2018						
	Interior	**Cellular**	**Internet**	**Multi-**	**Others**	**Adjustmen**	**Consolidat**

	landline communication	communication *	services and international communications	channel TV *		ts	ed
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	3,883	2,401	1,338	1,473	226	-	9,321
Inter-segmental revenue	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
Operating segment profit (loss) results	1,224	(2)	77	(56)	(36)	(2,656)	(1,449)
Financial expenses	502	22	11	16	-	69	620
Financing revenue	(32)	(56)	(1)	(27)	-	27	(89)
Total financing expenses (revenue), net	470	(34)	10	(11)	-	96	(531)
Segment profit (loss) after financing expenses, net	754	32	67	(45)	(36)	(2,752)	(1,980)
Share in profits (losses) of affiliated companies	-	-	1	-	(4)	-	(3)
Segment profit (loss) before taxes on income	754	32	68	(45)	(40)	(2,752)	(1,983)
Income taxes	187	8	17	3	-	(282)	(67)
Segment results - net profit (loss)	567	24	51	(48)	(40)	(2,470)	(1,916)

***** The results of the multi-channel TV segment are presented net of the overall impact of impairment presented in Note 11.5. This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. See also Note 31.4 regarding a summary of selected data from the financial statements of DBS**.**

28.2 Adjustments for reported segments of income, profit and loss, assets and liabilities

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Revenue			
Revenue from reportable segments	**8,903**	9,119	9,503
Revenue from other segments	**286**	238	241
Elimination of revenue from inter-segmental sales	**(466)**	(428)	(423)
Consolidated Revenue	**8,723**	8,929	9,321
Income			
Operating profit in respect of reportable segments	**1,338**	1,712	1,243
Financing expenses, net	**(475)**	(472)	(531)
Loss (loss write-off) from impairment of assets (see Note 11.2)	**286**	(1,133)	(2,286)
Adjustments for the multi-channel television segment	**81**	80	-
Share in losses of affiliated companies	**-**	(2)	(3)
Reducing cost overruns	**(22)**	(185)	(357)
Loss due to activities classified in other category and other adjustments	**26**	(8)	(49)
Consolidated profit (loss) before taxes on income	**1,234**	(8)	(1,983)

	December 31, 2020	December 31, 2019
	NIS millions	**NIS millions**
Assets		
Reportable segment assets	**14,992**	14,754
Assets associated with activities classified in the other category	**96**	151
Goodwill not attributed to the activity segment	**1,559**	1,559
Net of loss from impairment of assets (see Note 11), cross-segmental assets and other adjustments	**(2,188)**	(2,755)
Assets and cost surpluses that are not attributed to a reportable segment	**(1,494)**	1,355
Consolidated assets	**15,953**	15,564
Liabilities		
Liabilities of reportable segments	**14,591**	**15,080**
Liabilities associated with activities classified in the other category	**42**	**79**
Deducting cross-segmental liabilities	**(1,242)**	**(1,236)**
Liabilities related to non-reportable segments	**2,135**	**2,079**
Consolidated assets	**15,526**	**16,002**

29 Related parties transactions

29.1 Identity of stakeholder and related parties

The related parties transactions of the Company as defined in the Securities Law and International Accounting Standard 24 regarding related parties, are mainly Searchlight and TNR, their related parties (including entities that were related parties of the Company or of Searchlight and TNR during the reported period, however, are not related parties of the Company or of Searchlight and TNR as of the date of the report), affiliates, directors and key management personnel of the Company or of Searchlight and TNR.

It should be noted that the transactions described below with related parties do not include a reference to the aforesaid in Note 1.3 regarding investigations by the Securities Authority and the Israel Police or its possible consequences.

29.2 Related parties balances

	As of December 31	
	2020	**2019**
	NIS millions	**NIS millions**
Trade receivables - affiliated companies	**2**	5
Related parties, net	**(1)**	(1)
Eurocom DBS Ltd. in respect of excess advances paid in respect of contingent consideration (excluding interest) (see Note 14.2.1)	**99**	99

29.3 Related parties transactions

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Revenue			
Related parties	**12**	**13**	31
From affiliates	**2**	**1**	6
Expenses			
To related parties	**28**	**20**	54 *
To affiliates	**2**	**-**	5
Property, plant and equipment			
Related parties	**-**	**-**	1
Update of the balance of excess advances in respect of the purchase of DBS (see Note 14.2.1)	**-**	**-**	43 **

* Expenses to related parties also include amounts paid by DBS to Space up to May 3, 2018. It should be noted that after this date, according to the Company's position, based on information received by it, Space ceased to be a related party. For further details on this matter see section 29.3.2 below. The total amount of DBS's payments to Space in 2018 amounted to approximately NIS 74 million.

** Update of a contingent consideration liability in respect of a business merger with DBS and an update of the fair value estimate of the amount expected to be returned to the Company from the excess of the advances paid in full, as financing income.

Details regarding related parties transactions

Negligence procedure in Bezeq Group

On March 7, 2011, the Bezeq's Board of Directors decided to adopt guidelines and rules for classifying a transaction Bezeq or its subsidiary with a stakeholder therein as Regulations a negligible transaction as provided in Regulation 41 (a3) of the Securities (Annual Financial Statements), 5770-2010 (hereinafter - "Financial Statements Regulations"). These rules and guidelines, as updated and / or will be updated from time to time, will also be used to examine the scope of disclosure in the periodic report and prospectus (including shelf offer reports) regarding a transaction by Bezeq, a corporation controlled thereby and its affiliate or subsidiary with a controlling shareholder therein or if a shareholder has personal interest in the approval thereof as provided in Regulation 22 of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970 (hereinafter - "Periodic Reporting Regulations") and Regulation 54 of the Securities Regulations (details of the prospectus and draft prospectus - structure and form), 5769 - 1969. Types of transactions determined in the provisions of the Financial Statements Regulations, the Periodic Reporting Regulations and the prospectus details regulations mentioned above will be referred to below as "Stakeholder Transactions". These guidelines will also be used by the Company for the purpose of examining the existence of a Stakeholder Transaction that is a "non-negligible transaction", within the meaning thereof in Article 117 (2a) of the Companies Law, 5769-1999.
Bezeq and its subsidiaries enter, from time to time, into non-exceptional negotiation transactions with stakeholders in the Company and its controlling shareholder (hereinafter – "Company Stakeholders") or that the controlling shareholder has a personal interest therein), of the types and with characteristics as detailed below:

1. Sales of services and communication products by the Group's companies - including, *inter alia*: various basic communication services (telephony, transmission and - PRI) and hosting on server farms; Providing cellular services and value-added services and selling and upgrading cellular end equipment; Internet access services, international telephony services, hosting services and data communication services; TV services.
2. Lease agreements, management and purchase of real estate, including, *inter alia*: lease of areas used for communication facilities and warehouses.

In the absence of special quality considerations arising from all the circumstances of the case, a transaction made in the ordinary course of business, under market conditions and which has no material effect on the Company will be considered a negligible transaction if all the following parameters are met:

a. The scope of the contract specified in it shall not exceed NIS 10 million.

b. Bezeq is not required to report the transaction in an immediate manner in accordance with Regulation 36 of the Periodic Reports Regulations or under other law.

c. The transaction does not include terms of office and employment (as defined in the Companies Law, 5769-1999 (hereinafter - "**the**

Companies Law") of a stakeholder or a related party, or does not constitute a contract as stated in Article 270 (4) of the Companies Law (contract of a public company with its controlling shareholder or with a relative, directly or indirectly, including through a company under his control, for the purpose of receiving services from him by the Company and if he also holds an office therein - as to the terms of his office and employment, and if he works for the company and does not hold an office therein).

Subject to the provisions of the Companies Law, as they will be from time to time, once a year, before the publication of the annual financial statements, Bezeq's Audit Committee will examine the parameters listed above and the need to update them. As a rule, each transaction will be examined separately for the purpose of examining the above negligence criterion. However, notwithstanding the above, separate transactions that form part of the same contract or ongoing transactions or very similar transactions that are performed frequently and repeatedly, will be examined as a single transaction on an annual basis for the purpose of examining the negligence criterion, provided that the above contracts do not exceed NIS 10 million.

Bezeq's Board of Directors may from time to time and at its discretion, change the above parameters for a negligible transaction. Such change will be reported as required by law.

The following are transactions listed in Article 270 (4) of the Companies Law that are not considered negligible transactions

The date of approval of Bezeq's general meeting (after receiving the approval of the Audit / Remuneration Committee and the Board of Directors of the Company), unless otherwise stated	Nature of the transaction	Transaction sum	The essence of personal interest
April 3, 2017	Approval of Bezeq's vote at the general meeting of DBS in favor of DBS's engagement with Space Communications Ltd. ("Space" and the "Parties" respectively) in the amendment / addition to the existing agreement between the parties dated November 4, 2013 for the lease of satellite segments in Space's satellites ("the Engagement"), including the refinement of the Engagement and its execution.	Total nominal cost of up to approximately USD 263 million for the entire engagement period (until December 31, 2028) which reflects an average annual cost of approximately USD 21.9 million per year. See further details regarding the Space Agreement in Note 19.1 and 19.2.	Section A below

a. The Company had a personal interest in the transaction at the time of its approval, in light of the fact that as of the date of the said transaction, Space was under the control of Eurocom Communications, which at that time controlled (along the chain) B Communications. To the best of Bezeq's knowledge and in accordance with the information provided to Bezeq by Eurocom

Communications, as of May 3, 2018, the connection between Eurocom Communications and Space was severed and Bezeq ceased to consider Space as a related party.

For transactions listed in Article 270 (4) of the Companies Law, which concern insurance and an obligation to indemnify directors and officers of the Company, see Note 29.6 below.

29.4 Benefits for the Group's key executives

Benefits for employing key management personnel in the Group in the years 2018-2020 include:

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS thousands	**NIS thousands**	**NIS thousands**
Number of key executives *	**6**	6	9
Payroll **	**8,526**	8,163	8,949
Grant***	**4,995**	3,834	5,453
Management fees for the Chairman of the Board of Directors ****	**1,919**	2,400	2,508
Remuneration to the former Deputy Chairman of the Bezeq Board of	-	-	372
	15,440	14,397	17,287

***** Key management personnel in the Group in the reporting year include the Chairman of the Company's Board and the Company's CEO (who also serves as a director in the Company), as well as the former Bezeq Board of Directors, whose remuneration for his services was paid to a management company in which 50% of the means of control are held by him, the Company's CEO and the CEO of Pelephone, Bezeq International and DBS.

Regarding options for the Company's shares granted to the Company's CEO, see Note 21.1.3.

** In 2020, the changes in other provisions (included in the total payroll) mainly include a provision for prior notice and for a non-compete period for the Chairman of Bezeq's Board of Directors in the amount of approximately NIS 0.9 million.

The salary of the CEO of the Company also includes the directors' remuneration that he receives as a director in the Company.

In 2019, the changes in other provisions (included in the total payroll) mainly include an increase in the provision for prior notice, vacation and sick leave to the Bezeq's CEO in the amount of approximately NIS 0.6 million.

In 2018, the changes in other provisions (included in the total salary and management fees) include a decrease in the provision, mainly due to the payment of advance notice and vacation to the former CEO of Bezeq in the amount of NIS 1.2 million and to the former DBS CEO in the amount of NIS 2.1 million and on the other hand an increase in respect of the creation of a provision for prior notice and vacation to Bezeq's CEO in the amount of approximately NIS 0.5 million and to the former Chairman of the Bezeq Board in the amount of approximately NIS 0.5 million.

On May 3, 2019, the former Chairman of the Bezeq Board of Directors notified the Company of a 20% reduction in management fees in respect of the entire 2019 year.

For information regarding share-based compensation, see Note 32.1.

29.5 Benefits to the Company's directors

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS thousands	**NIS thousands**	**NIS thousands**
Remuneration to Board members*	**712**	937	952
Number of directors receiving the remuneration**	**6**	10	6

* The directors' remuneration of the CEO of the Company who also serves as a director in the Company and the remuneration of the Chairman of the Company's Board of Directors in 2020 are presented in section 29.4 above due to their being key management personnel.

** In 2019, 2 new external directors and a new independent director were appointed to the Company, and 3 directors were appointed on behalf of the Company's new controlling shareholders were also appointed.

29.6 Additional benefits for the Company's directors and officers

Date of approval of the general meeting (after receiving approval from the Company's Board of Directors), unless otherwise stated	Nature of the transaction	Transaction sum
April 30, 2020	Approval of the Company's contract with run-off insurance policy to cover the liability of directors and officers of the Company.	Limit of liability of up to USD 10 million per claim and in total for the entire insurance year plus reasonable legal expenses. The total annual premium is approximately USD 300k. The deductible amount for the Company is up to USD 250k per case.
April 30, 2020	Amendment of the letter of indemnity and exemption to the directors and officers of the Company regarding the maximum amount of indemnification.	Up to 25% of the Company's equity according to the Company's latest reports published prior to the actual indemnification or up to a total of USD 15 million, whichever is higher.
November 30, 2020 Approval of the Company's Board of Directors in accordance with Regulation 1b1 of the Relief Regulations	Approval of the Company's contract in an insurance policy to cover the liability of directors and officers of the Company and its subsidiaries, in accordance with the Company's remuneration policy for the	Limit of liability of up to USD 20 million per claim and in total for the entire insurance year plus reasonable legal expenses. The total annual premium is approximately USD 675k. In addition, the Company

period up to December 31, 2021	purchased an extension of the disclosure period in the policy with a liability limit of USD 5 million and a one-time annual premium of USD 187,500. The amount of the Company's deductible is up to USD 100,000 per case for claims outside the United States and Canada, up to USD 250k per case in claims in the United States and Canada and up to USD 250k per case in securities claims in Israel.

30 Financial instruments

30.1 General

The Group is exposed to the following risks arising from the use of financial instruments:

a. Credit risk
b. Liquidity risk
c. Market risk (including currency risk, interest rate risk and CPI risks).

This note provides quantitative and qualitative information regarding the Group's exposure to each of the above risks, an explanation of how to manage the risks and the measurement processes.

30.2 The framework for financial risk management

The comprehensive responsibility for establishing and supervising the Group's financial risk management framework lies with the Board of Directors. The Group's financial risk management aims to define and monitor the various risks on an ongoing basis and to determine the level of exposure to risk that needs to be complied with and the possible effects arising from this exposure in accordance with the Board's assessments and expectations.

The Group's policy is to manage, in accordance with rules established by the Board of Directors, the exposure arising from fluctuations in foreign exchange rates, changes in interest rates and changes in the consumer price index.

30.3 Credit risk

Management monitors the Group's exposure to credit risks on an ongoing basis. Cash and investments in deposits and securities are deposited in high-rated banking corporations.

Other trade receivables
The Group's Management regularly monitors customers' debts and the financial statements include provisions for loan-loss that adequately reflect, according to Management's assessment, the loss inherent in debts whose collection is in doubt. In addition, there is a large distribution of customer balances.

Investments in financial assets
To the extent that investments are made in securities, they are made in liquid, tradable and low-risk securities. Transactions involving derivatives are conducted with entities with a high credit rating.

As of the reporting date, there is no significant concentration of credit risks.

30.4 Liquidity risk

The Group's policy for managing its liquidity is to ensure, as far as possible, sufficient liquidity to meet its existing and expected obligations at the time of their existence, in a normal business scenario and under extreme conditions, without causing it undesirable losses or goodwill damage. The cash balances held by the Group are managed mainly through liquid investment channels, subject to the financing needs of current operations and the debt service. The Group regularly examines existing and expected cash needs in the foreseeable future, even in the event of an unexpected deterioration in its business. These forecasts take into account, *inter alia*, debt raising and turnover from banking and non-banking sources. In accordance with the conclusions, active activity is carried out to minimize the risk.

Regarding the terms of debentures issued by the Group companies and the loans received, see Note 14 above.

The Group has a contractual obligation to make purchases, property, plant and equipment, end equipment and other current services. For further information regarding the engagements, see Note 19, regarding engagements.

The following are the contractual maturity dates of financial liabilities that were actually received as of December 31, 2020, including an estimate of interest payments (based on data from the Consumer Price Index and interest known as of December 31, 2020):

	As of December 31, 2020						
	Book value	**Contractual cash flow**	**H1/2021**	**H2/2021**	**2022**	**2023 to 2025**	**2026 Onwards**
				NIS millions			
Non-derivative financial liabilities							
Trade and other payables	**1,548**	**1,548**	**1,509**	**39**	**-**	**-**	**-**
Loans	**2,109**	**2,451**	**135**	**129**	**147**	**948**	**1,092**
Bonds	**8,162**	**9,334**	**109**	**685**	**1,100**	**5,215**	**2,225**
	11,819	**13,333**	**1,753**	**853**	**1,247**	**6,163**	**3,317**
Financial liabilities in respect of derivative instruments	**117**	**117**	**8**	**43**	**44**	**12**	**10**

The Group anticipates that it will not be required to repay the liabilities as set forth above or in various amounts, substantially.

30.5 Market risks

The purpose of market risk management is to manage and monitor exposure to market risks within accepted parameters to prevent significant exposures to market risks that will affect the Group's results, liabilities and cash flow.

As part of the Group's exposure management policy, it was decided to establish a mix of exposure to debt for interest and linkage as well as to reduce exposure to foreign currency. Accordingly, during its ordinary course of business, the Group performs full or partial hedging operations and takes into account the effects of the exposure in its considerations in determining the type of loans it takes out and in managing its investment portfolio.

30.5.1 Exposure to consumer price index risk and foreign currency

Consumer price index risk

Changes in the inflation rate affect the Group's profitability and its future cash flows, mainly due to its index-linked liabilities. As part of the implementation of a policy to reduce index exposure, the Group executes forward transactions against the index. The hedging transactions are carried out against the repayment schedules of the hedged debt. The Company applies hedge accounting to these forward transactions.

A significant portion of the cash balances are invested in shekel deposits that are exposed to a change in the real value as a result of changes in the rate of the consumer price index.

Foreign exchange risk

The Group is exposed to foreign exchange risks mainly due to payments for the purchase of end equipment and property, plant and equipment denominated or linked in part to the dollar and the Euro. In addition, the Group provides services to customers and receives services from around the world in foreign currency, mainly in dollars. The Group's policy is to minimize foreign exchange purchase agreements as much as possible, as well as to partially hedge the dollar exposure through forward transactions against the dollar and manage deposits in dollars.

The following is a report on the financial position according to linkage bases:

	As of December 31, 2020				
	Without linkage	Linked to the price index	In or adjacent to foreign currency (mainly dollars)	Non-monetary balances	Total balances
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets					
Cash and cash equivalents	**815**	**-**	**79**	**-**	**894**
Investments	**822**	**-**	**59**	**-**	**881**
Trade receivables	**1,592**	**16**	**13**	**-**	**1,621**
Other receivables	**50**	**90**	**-**	**40**	**180**
Inventory	**-**	**-**	**-**	**73**	**73**
Assets held for sale	**-**	**-**	**-**	**10**	**10**
Total current assets	**3,279**	**106**	**151**	**123**	**3,659**
Non-current assets					
Trade receivables	**323**	**191**	**-**	**-**	**514**
Broadcast rights – net of rights exercised	**-**	**-**	**-**	**67**	**67**
Right-of-use assets	**-**	**-**	**-**	**1,804**	**1,804**
Property, plant and equipment	**-**	**-**	**-**	**6,131**	**6,131**
Intangible assets	**-**	**-**	**-**	**3,268**	**3,268**
Deferred expenses and non-current investments	**196**	**-**	**-**	**206**	**402**
Deferred tax assets	**-**	**-**	**-**	**108**	**108**
Total non-current assets	**519**	**191**	**-**	**11,584**	**12,294**
Total assets	**3,798**	**297**	**151**	**11,707**	**15,953**
Current liabilities					
Bank loans and debentures	**268**	**517**	**-**	**-**	**785**
Current maturities of liabilities in respect of leases	**2**	**413**	**-**	**-**	**415**
Trade and other payables	**1,294**	**126**	**179**	**167**	**1,766**
Employee benefits	**479**	**-**	**3**	**-**	**482**
Provisions	**115**	**2**	**-**	**-**	**117**
Total current liabilities	**2,158**	**1,058**	**182**	**167**	**3,565**
Non-current liabilities					
Loans and bonds	**6,814**	**2,671**	**-**	**-**	**9,485**
Liabilities in respect of leases	**4**	**1,488**	**-**	**-**	**1,492**
Employee benefits	**286**	**-**	**49**	**-**	**335**
Derivatives and other liabilities	**89**	**66**	**-**	**152**	**307**
Deferred tax liabilities	**-**	**-**	**-**	**290**	**290**
Provisions	**52**	**-**	**-**	**-**	**52**
Total non-current liabilities	**7,245**	**4,225**	**49**	**442**	**11,961**
Total liabilities	**9,403**	**5,283**	**231**	**610**	**15,526**
Total exposure in the statement of financial position	**(5,604)**	**(4,986)**	**(80)**	**11,097**	**427**
Forward transactions	**(1,477)**	**1,215**	**262**	**-**	**-**

	As of December 31, 2019

	Without linkage	Linked to the price index	In or adjacent to foreign currency (mainly dollars)	Non-monetary balances	Total balances
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets					
Cash and cash equivalents	788	-	26	-	814
Restricted cash	39	-	-	-	39
Investments	1,200	-	41	-	1,241
Trade receivables	1,636	20	21	-	1,677
Other receivables	44	251	-	47	342
Inventory	-	-	-	96	96
Assets held for sale	-	-	-	43	43
Total current assets	**3,707**	**271**	**88**	**186**	**4,252**
Non-current assets					
Trade receivables	304	173	-	-	477
Broadcast rights - less rights used	-	-	-	59	59
Property, plant and equipment	-	-	-	5,968*	5,968
Intangible assets	-	-	-	3,167*	3,167
Right-of-use assets	-	-	-	1,217	1,217
Deferred tax assets	-	-	-	81	81
Deferred expenses and non-current investments	45	-	-	298*	343
Total non-current assets	**349**	**173**	**-**	**10,790**	**11,312**
Total assets	**4,056**	**444**	**88**	**10,976**	**15,564**
Current liabilities					
Bank loans and debentures	486	521	-	-	1,007
Current maturities of liabilities in respect of leases	21	395	-	-	416
Trade and other receivables	1,303	76	159	89	1,627
Employee benefits	651	-	3	-	654
Provisions	33	92	-	-	125
Total current liabilities	**2,494**	**1,084**	**162**	**89**	**3,829**
Non-current liabilities					
Loans and bonds	7,681	2,731	-	-	10,412
Liabilities in respect of leases	6	962	1	-	969
Employee benefits	307	-	49	-	356
Derivatives and other liabilities	-	66	-	73	139
Deferred tax liabilities	-	-	-	248	248
Provisions	49	-	-	-	49
Total non-current liabilities	**8,043**	**3,759**	**50**	**321**	**12,173**
Total liabilities	**10,537**	**4,843**	**212**	**410**	**16,002**
Total exposure in the statement of financial position	(6,481)	(4,399)	(124)	10,566	(438)
Forward transactions	(1,745)	1,555	190	-	-

* Reclassified

30.5.2 Data on the Consumer Price Index:

In 2020, the known consumer price index decreased by 0.6% (in 2019 an increase of 0.3%, and in 2018 an increase of 1.2%).

30.5.3 Sensitivity analyzes in relation to a change in the consumer price index for a change in the exchange rate of the dollar

A 1% increase / decrease in the consumer price index at the reporting date would not materially affect net income and capital.

A 10% increase / decrease in the exchange rate of the dollar at the reporting date would not materially affect earnings and capital.

30.5.4 Interest rate risk

As of December 31, 2020, the exposure to the risk of interest rates due to a liability in respect of floating-rate debt instruments is negligible.

a. Type of interest

Below is a breakdown of the interest rate type of interest-bearing financial instruments of the Group.

	Book value	
	2020	**2019**
	NIS millions	**NIS millions**
Fixed rate instruments		
Financial assets (mainly deposits and Trade receivables)	1,919	**2,284**
Financial liabilities (loans and bonds)	(10,199)	**(11,312)**
	(8,280)	**(9,028)**
Instruments at floating interest rates		
Financial liabilities (bonds)	(71)	**(107)**

b. Analyzing the sensitivity of fair value in respect of fixed-rate instruments

The Group's fixed interest assets and liabilities are not measured at fair value through the statement of income. Thus, a change in interest rates at the reporting date will have no effect on the statement of income.

c. Analysis of cash flow sensitivity for instruments at variable interest rates

An increase / decrease of 1% in the interest rates at the time of reporting would have negligible effect on profit and capital.

30.6 Hedging

30.6.1 Cash flow hedge accounting

Bezeq entered into forward transactions, as detailed in the table below, for the purpose of reducing the exposure to changes in the consumer price index in respect of index-linked bonds. These transactions define a specific cash flow of some of the bonds and are recognized in accounting as a hedge of cash flows. The expiration date of these transactions is consistent with the repayment schedules of the bonds they were intended to protect. The fair value of forward transactions is determined by the use of marketable data (Level 2 in the fair value hierarchy).

		Number	Par value	Fair value	Capital principal balance
Hedged item	**Repayment dates**	**Transactions**	**NIS millions**	**NIS millions**	**NIS millions**
As of December 31, 2020					
Series 6 bonds	**12.2021 to 12.202**	**3**	**665**	**(78)**	**(9)**
Series 10 bonds	**12.2025 to 12.2022**	**4**	**300**	**(15)**	**(5)**
Series 12 bonds	**6.2030 to 6.2026**	**5**	**250**	**(10)**	**(6)**
		12	**1,215**	**(103)**	**(20)**
As of December 31, 2019					
Series 6 bonds	12.2020 to 12.2022	4	1,005	(112)	(10)
Series 10 bonds	12.2022 to 12.2025	4	300	(5)	(2)
Series 12 bonds	6.2026 to 6.2030	5	250	(1)	(1)
		13	**1,555**	**(118)**	**(13)**

30.6.2 Economic hedging

a. During 2020 Bezeq engaged in forward transactions for the purpose of reducing the exposure to changes in the dollar exchange rate. The net fair value of these transactions as of December 31, 2020 is a liability of approximately NIS 2 million.

b. DBS is involved in forward transactions for the purpose of reducing exposure to changes in the dollar exchange rate. The net fair value of these transactions as of December 31, 2020 is a liability of about NIS 12 million (as of December 31, 2019, a liability of approximately NIS 4 million).

30.7 Financial instruments measured at fair value

30.7.1 The table below presents an analysis of the financial instruments measured at fair value:

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Level 1 - Investment in marketable securities measured at fair value through profit or loss (see 30.7.2)	**77**	358
Level 2 - Forward contracts (see 30.7.3)	**(117)**	(122)

30.7.2 The fair value of marketable securities is determined with reference to their suggested selling price quoted at the closing of trading, at the reporting date (Level 1).

30.7.3 The fair value of forward contracts on the consumer price index or foreign exchange is based on discounting the difference between the price specified in the forward contract and the price of the current forward contract for the remainder of the contract period until maturity, using an appropriate interest rate (Level 2). The assessment is made under the assumption that a market participant takes into account the credit risks of the parties in pricing such contracts.

30.8 Financial instruments measured at fair value for disclosure purposes only

The table below lists the differences between the book value and the fair value of financial liabilities.

The fair value of bonds issued to the public is determined according to their purchase price quoted at the close of trading, at the reporting date (Level 1).

The fair value of non-traded loans and bonds is measured on the basis of the present value of future cash flows in respect of the principal and interest component, discounted at the market rate corresponding to similar liabilities plus the required adjustments for risk premium and non-marketability as of the financial statements (Level 2).

	As of December 31, 2020			As of December 31, 2019		
	Book value (including accrued interest)	Fair value	Discount rate (weighted average)	The value in the books	Fair value	Discount rate (weighted average)
	NIS million		%	NIS million		%
Loans from banks and institutional entities (unlinked)	**2,118**	**2,252**	**1.97**	3,401	3,561	**2.39**
Bonds issued to the public (index-linked)	**3,199**	**3,394**	**0.44**	2,508	2,647	**0.05**
Bonds issued to the public (unindexed)	**4,913**	**5,187**	**1.40**	4,071	4,160	**1.00**
Bonds issued to financial institutions (index-linked)	-	-	-	762	855	**1.24**
Bonds issued to financial institutions (unlinked)	-	-	-	607	646	**2.69**
	10,230	**10,833**		11,349	11,869	

30.9. Offsetting financial assets and financial liabilities

The Group has agreements with various communications companies for the provision and receipt of communications services. Under some of the agreements, each party has the right to offset the amounts that each party owes. The table below shows the book value of balances offset as presented in the statement of financial position:

	December 31, 2020	**December 31, 2019**
	NIS millions	**NIS millions**
Balance of other trade receivables, gross	**93**	90
Amounts offset	**(84)**	(81)
Balance of trade receivables presented in the statement of financial position	**9**	9
Gross balance of suppliers	**102**	100
Amounts offset	**(84)**	(81)
Balance of suppliers presented in the statement of financial position	**18**	19

31. Summary of selected data from the financial statements of Bezeq the Israel Telecommunications Corporation Ltd., Pelephone Communications Ltd., Bezeq International Ltd. and DBS Satellite Services (1998) Ltd.

31.1 Bezeq the Israel Telecommunications Corporation Ltd.

Data from the report on the financial position:

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Current assets	**2,014**	2,283
Non-current assets	**9,600**	9,251
	11,614	11,534
Current liabilities	**2,096**	2,327
Non-current liabilities	**9,668**	10,139
Total liabilities	**11,764**	12,466
Equity	**(150)**	(932)
	11,614	11,534

Data from the statement of income:

	For the year ended December 31		
	2020	2019	2018
	NIS millions	NIS millions	NIS millions
Revenue	**4,159**	4,073	4,196
Operating expenses			
Salaries	**919**	911	912
Depreciation and amortization	**877**	861	850
Operating and general expenses	**590**	565	596
Other operating expenses (revenue), net	**68**	(406)	614
Total operating expenses	**2,454**	1,931	2,972
Operating profit (loss)	**1,705**	2,142	1,224
Financing expenses (revenue)			
Financial expenses	**419**	608	502
Financing revenue	**(16)**	(39)	(32)
Financing income, net	**403**	569	470
Profit after financing expenses, net	**1,302**	1,573	754
Share in profits (losses) of investee companies, net	**(244)**	(2,386)	(1,659)
Profit (loss) before income taxes	**1,058**	(813)	(905)
Expenses (revenue) Taxes on income	**262**	381	187
Profit (loss) for the year	**796**	(1,194)	(1,092)

31.2. Pelephone Communications Ltd.

Data from the statement on the financial position:

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Current assets	**899**	843
Non-current assets	**3,472**	3,245
	4,371	4,088
Current liabilities	**720**	667
Non-current liabilities	**1,022**	767
Total liabilities	**1,742**	1,434
Equity	**2,629**	2,654
	4,371	4,088

Data from the statement of income:

	For the year ended December 31		
	2020	2019	2018
	NIS millions	NIS millions	NIS millions
Revenue			
Revenue from jobs	**1,591**	1,709	1,755
Revenue from the sale of end equipment	**595**	653	688
Total revenue from jobs and sales	**2,186**	2,362	2,443
Operating expenses			
Operating and general expenses	**1,329**	1,373	1,402
Salaries	**324**	373	379
Depreciation and amortization	**599**	633	655
Total operating expenses	**2,252**	2,379	2,436
Other operating expenses, net	**18**	82	9
Operating loss	**(84)**	(99)	(2)
Financing expenses (revenue)			
Financial expenses	**18**	23	22
Financing revenue	**(66)**	(62)	(56)
Financing revenue, net	**(48)**	(39)	(34)
Profit (loss) before income taxes	**(36)**	(60)	32
Expenses (revenue) before taxes on income	**(11)**	(13)	8
Profit (loss) for the year	**(25)**	(47)	24

31.3. Bezeq International Ltd.

Data from the report on the financial position:

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Current assets	**443**	482
Non-current assets	**342**	602
	785	1,084
Current liabilities	**432**	461
Non-current liabilities	**148**	143
Total liabilities	**580**	604
Equity	**205**	480
	785	1,084

Data from the statement of income:

	For the year ended December 31		
	2020	2019	2018
	NIS millions	NIS millions	NIS millions
Revenue	**1,271**	1,339	1,391
Operating expenses			
Operating and general expenses	**802**	827	812
Salaries	**248**	261	300
Depreciation and amortization	**149**	190	194
Other operating expenses, net	**313**	257	8
Total operating expenses	**1,512**	1,535	1,314
Operating profit (loss)	**(241)**	(196)	77
Financing expenses (revenue)			
Financial expenses	**5**	8	11
Financing revenue	**(3)**	(2)	(1)
Financing expenses, net	**2**	6	10
Share of profits of equity accounted investees	-	-	1
Profit (loss) before taxes on income	**(243)**	(202)	68
Expenses (revenue) before taxes on income	**32**	(45)	17
Profit (loss) for the year	**(275)**	(157)	51

31.4. DBS Satellite Services (1998) Ltd.

Data from the report on the financial position:

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Current assets	**176**	**203**
Non-current assets	**248**	**268**
	424	471
Current liabilities	**436**	485
Non-current liabilities	**69**	91
Total liabilities	**505**	576
Capital deficit	**(81)**	(105)
	424	471

Data from the statement of income:

	For the year ended December 31		
	2020	2019	2018
	NIS millions	NIS millions	NIS millions
Revenue	**1,287**	1,345	1,473
Operating expenses			
Operating and general expenses	**857**	923	956
Salaries	**203**	216	233
Depreciation and amortization	**203**	219	323
Impairment loss	-	-	1,100
Other operating expenses (revenue), net	**(15)**	42	17
Total operating expenses	**1,248**	1,400	2,629
Operating profit (loss)	**39**	(55)	(1,156)
Financing expenses (revenue)			
Financial expenses	**15**	17	16
Financing revenue	**(2)**	(5)	(27)
Financing expenses (revenue), net	**13**	12	(11)
Profit (loss) before taxes on income	**26**	(67)	(1,145)
Expenses before taxes on income	**2**	2	3
Net profit (loss) for the year	**24**	(69)	(1,148)

32. Significant events after the date of the financial statements

32.1 Share-based remuneration

On December 10, 2020, Bezeq's Board of Directors approved a capital remuneration plan ("the Plan"). As part of the approval, the allocation of up to 58,735,000 options to up to 117 officers, executives and senior employees of Bezeq and its subsidiaries, including granting 12,000,000 options to the Chairman of the Bezeq Board of Directors and granting 9,000,000 options to Bezeq's CEO and granting 9,000,000 options to the CEO of Pelephone, DBS and Bezeq International were approved.

On January 18, 2021, the general meeting of Bezeq shareholders approved the increase in Bezeq's registered capital In order to enable future allocation of capital remuneration under the Plan. In addition, Bezeq's general meeting approved the granting of options to the Chairman of the Board of Directors of Bezeq and the CEO of Bezeq as stated above.

The fair value of the options granted, which is estimated by an external valuator while applying the Monte Carlo model, is approximately NIS 45 million, according to a maturation period of four years and the terms of exercise and maturity of the options as set forth in the Plan, in accordance with the terms of exercise and maturity of the options as set forth in the Plan (the options include four batches with a maturation period of one to four years). Out of this amount, the fair value at the grant date of the options granted to the Chairman of Bezeq's Board of Directors is approximately NIS 9.3 million. The fair value at the grant date of the options granted to the CEO of Bezeq and the CEOs of Pelephone, DBS and Bezeq International is approximately NIS 6.9 million each.

32.2 Sale of real estate

On February 25, 2021 Bezeq engaged in an agreement for the sale of a real estate property in Tel-Aviv ("The Property"). Bezeq is expected to record in its financial statements for the first quarter of 2021 a capital gain in the amount of approximately NIS 125 million before tax in respect of the sale of the Property.

32.3 Examination of a plan for structural change in Bezeq's subsidiaries

Regarding the decision of Bezeq's Board of Directors dated March 23, 2021 regarding the examination of a plan for structural change in Bezeq's subsidiaries, see Note 13.1.2.

Separate Financial Information for the Year Ended December 31, 2020

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Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
8000 684 03

To:
Shareholders of B Communications Ltd.

Dear Sirs,
Re: Special report of the auditors on separate financial information under Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We audited the separate financial information presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – “the Company") as of December 31, 2020 and 2019 and for each of the three years the last of which ended on December 31, 2020. The separate financial information is within the responsibility of the Company's Board of Directors and Management. It is our responsibility to form an opinion on the separate financial information based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel. According to these standards, we are required to plan and perform the audit with the aim to obtain a reasonable degree of assurance that the separate financial information does not constitute a material misstatement. Our audit includes a sample examination of evidence supporting the amounts and details contained in the separate financial information. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company’s Board of Directors and Management, as well as evaluating the overall adequacy of the presentation of the financial statements. We believe that our audit and the reports of the other auditors provide an adequate basis for our opinion.

In our opinion, based on our audit, the separate financial information has been prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Without limiting our above opinion, we draw attention to what is stated in Note 1 which refers to Note 1.3 in the consolidated reports, regarding the Securities Authority’s investigation of a suspicion of committing offenses under the Securities Law and the Penal Code concerning, *inter alia*, transactions related to the former controlling shareholder and the transfer of the case to the State Attorney's Office, as well as what is stated in said note regarding the filing of an indictment against the former controlling shareholder in the Company, for various offenses, including offenses of bribery and intentional misstatement in an immediate report. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the financial statements and estimates used in the preparation of these reports, if any.

In addition, without limiting our above opinion, we draw attention to what is stated in Note 18 to the Company’s consolidated financial statements, regarding claims filed against the Group companies and the exposure in respect of which cannot be assessed or calculated at this stage.

Somekh Chaikin
Certified Public Accountants
March 24, 2021

Separate financial information as of December 31, 2020

Financial position as of December 31

		2020	2019
	Note	**NIS millions**	**NIS millions**
Assets			
Cash and cash equivalents		**55**	413
Restricted cash		**-**	39
Short-term investments and bank deposits	**3.1**	**157**	46
Other receivable		**23**	1
Total current assets		**235**	499
Long-term deposits	**3.2**	**160**	-
Investment in investee companies		**1,398**	1,135
Total non-current assets		**1,558**	1,135
Total assets		**1,793**	1,634
Liabilities			
Trade and other payables	**4**	**7**	14
Total current liabilities		**7**	14
Debentures	**5**	**1,893**	1,861
Total non-current liabilities		**1,893**	1,861
Total liabilities		**1,900**	1,875
Equity deficit		**(107)**	(241)
Total liabilities and equity deficit		**1,793**	1,634

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
Chief Financial Officer

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

The notes attached to the separate financial information form an integral part thereof.

Separate financial information as of December 31, 2020

Income data for the year ended December 31

		2020	2019
	Note	**NIS millions**	**NIS millions**
Operating expenses			
Salaries		**3**	4
Operating and general expenses	7	**8**	12
Total operating expenses		**11**	16
Operating loss		**(11)**	(16)
Financing expenses (revenue)			
Financial expenses		**110**	111
Financing revenue		**(6)**	(188)
Financing expenses (revenue), net		**104**	(77)
Profit (loss) after financing expenses, net		**(115)**	61
Share in the profits (losses) in equity accounted investee, net		**265**	(914)
Profit (loss) before taxes on income		**150**	(853)
Tax income	4.1	**7**	-
Profit (loss) for the year		**157**	(853)

Comprehensive profit for the year ended December 31

	2020	2019
	NIS millions	**NIS millions**
Profit (loss) for the year	**157**	(853)
Loss items including other, net of tax	**(3)**	(9)
Total comprehensive profit (loss) for the year	**154**	(862)

The notes attached to the separate financial information form an integral part thereof.

Data on cash flows for the year ended December 31

	2020	2019
	NIS millions	NIS millions
Cash flows from operating activities		
Profit (loss) for the year	**157**	(853)
Adjustments:		
Share in losses (profits) of investee companies, net	**(265)**	914
Financing expenses, net	**106**	(81)
Change in suppliers, trade payables and credit balances	**(7)**	-
Change in other trade receivables	**(1)**	2
Net cash used for current activities	**(10)**	(18)
Cash flows from investing activities		
Investment in subsidiary	**(40)**	-
Deposit to limited cash	**-**	(39)
Change in deposits and investments, net	**(229)**	339
Interest / dividend received from securities	**2**	5
Net cash derived from (used for) investing activities	**(267)**	305
Cash flows for financing activities		
Issuance of bonds and receipt of loans	**-**	410
Repayment of bonds and loans	**-**	(840)
Receipts from share issue, net	**-**	447
Interest paid	**(78)**	(104)
Net compensation for the Horev Claim	**(3)**	-
Net cash used for financing activities	**(81)**	(87)
Net (decrease) in cash and cash equivalents	**(358)**	200
Cash and cash equivalents as of January 1st	**413**	213
Cash and cash equivalents at the end of the year	**55**	413

The notes attached to the separate financial information form an integral part thereof

1. General

The following are financial data from the Group's consolidated financial statements as of December 31, 2020 (hereinafter - "Consolidated Financial Statements"), which are published in the periodic reports, attributed to the Company itself (hereinafter - "Separate Financial Information"), presented in accordance with Regulation 9C (hereinafter - "the Regulation") and the Tenth Addendum (hereinafter – “the Tenth Addendum") to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 regarding separate financial information of the corporation.

The Separate Financial Information should be read in conjunction with the Consolidated Financial Statements.

In this Separate Financial Information -

"The Company" - "B Communications Ltd."

"Affiliated company", "subsidiary", "group", "investee company", "stakeholder": per the definition of these terms in the Group's Consolidated Financial Statements for 2020.

For an investigation by the Securities Authority and the Police, see Note 1.3 to the consolidated financial statements.

2. Note to the main accounting policies applied in the Separate Financial Information

The accounting policy rules set forth in the Consolidated Financial Statements have been applied consistently to all periods presented in the Separate Financial Information by the Company, including the manner in which the financial data in the Consolidated Financial Statements have been classified as required by the following:

2.1. Presentation of the financial data

The data on the financial position, income, comprehensive income and cash flows include information contained in the consolidated statements and attributed to the Company itself. The investment balances and results of operations of investee companies are treated according to the equity method. Cash flows from operating activities, investing activities and financing activities in respect of transactions with investee companies are presented separately in net terms, as part of the relevant activity in accordance with the nature of the transaction.

2.2. Restatement

At the beginning of November 2020, as part of the preparation of the quarterly report for September 30, 2020, Bezeq International found that there are discrepancies between the assets and liabilities listed in its books and the actual assets and liabilities, resulting, among other things, non-imputation of costs from previous years in respect of payment of advances to suppliers to the income statement and improper recognition of advance expenses.

In light of the findings as stated above, the Company republished its financial statements for 2019 on December 21, 2020, in order to retroactively reflect the effect of correcting the discrepancies as aforesaid.
Comparative data that are included in these financial statements are the data after the representation.

2.3. New standards that have not yet been adopted

Regarding new standards that have not yet been adopted, see Note 3.18 to the Consolidated Financial Statements.

3. Note on financial instruments

3.1. Short-term investments and deposits

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Investments in marketable securities (1)	**76**	46
Short-term deposits	**81**	-
	157	46

(1) The deposits are due for repayment by December 2021.

3.2. Long-term deposits

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Long-term deposits (1)	**160**	-
	160	-

(1) The deposits are due for repayment by December 2021.

3.3. Trade payables and credit balances

	December 31, 2020	December 31, 2019
	NIS millions	NIS millions
Institutes	**-**	7
Interest payable	**7**	7
	7	14

3.4. Debentures

	December 31, 2020		December 31, 2019	
	Balance in books	Face value	Balance in books	Face value
	NIS millions	NIS millions	NIS millions	NIS millions
Bonds issued to the public:				
Series C bonds	**1,739**	**1,878**	1,708	1,878
Series D bonds	**54**	**58**	53	58
Series E bonds	**100**	**100**	100	100
Total Bonds	**1,893**	**2,036**	1,861	2,036

On September 17, 2020, the meetings of the holders of the Company's bonds (Series C and E) approved the amendment of the trust deeds of the said series, in a manner that will enable the Company to raise additional debt that will be secured by a lien on Bezeq shares pledged in favor of Series C, *pari-passu* with Series C, under the following restrictions:

a) The additional debt that will be raised by the Company (less the expenses of issuance) will first repay the bonds (Series D) and the bonds (Series E) in full, so that after the raising thereof and after completing the conditions required for release in exchange for issuing the additional series and amending existing liens in favor of Series C, a first level lien will be recorded on the pledged Bezeq's shares (as defined in the trust deed) for the benefit of the bondholders (Series C), in lieu of the second level lien currently registered in their favor (as long as the bonds (Series E) are in circulation).

b) After the full repayment of the debt in respect of the bonds (Series D) and the bonds (Series E), the balance of the proceeds from the net issue of the additional debt will be used for the purpose of repayment of the bonds (Series C), by early redemption (full or partial), according to the terms of the existing trust deed.

c) The duration of the new series issued by the Company will be longer than that of the bonds (Series C) and the payment of the first principal in respect of the bonds from the new series as aforesaid will be only after full repayment of the bonds (Series C).

In addition, the amount of early repayment to be paid to the bondholders in the event of early repayment of the bonds by the Company has been amended as follows:

In relation to the bonds (Series C) - in the case of a partial early repayment of the bonds (Series C), the price of the partial early repayment will be the highest of the par value of the bonds (Series C) or their market value according to the 30 trading days preceding the early repayment.

In relation to bondholders (Series E) - the full early repayment price will be the highest of: (1) The market value of the bonds according to the price of the bonds on the stock exchange in the 30 trading days preceding the early repayment, the early repayment price, but not more than 103.5%, or (2) the par value of the bonds (Series E).

For further details, see Note 14 to the Consolidated Financial Statements.

3.4. Liquidity risk

The following are the predicted maturities of financial liabilities, including an estimate of interest payments (based on the known interest data as of December 31, 2020):

	December 31, 2020					
	Book value	Contractual cash flow	H1/2021	H2/2021	2022	2023-2025
	NIS millions					
Non-derivative financial liabilities						
Suppliers trade payables	7	7	7	-	-	-
Bonds	1,893	2,341	32	39	78	2,192
Total	**1,900**	**2,348**	**39**	**39**	**78**	**2,192**

4. Income taxes

The Company has final tax assessments until 2018. In December 2020, the Company signed an assessment agreement with the tax authorities for the years 2015-2018, according to which the Company was not required to pay any tax for these years. Following the signing of the assessment agreement, the Company wrote off a tax provision in the amount of approximately NIS 7 million in 2020.

5. Subsidiaries

5.1 Subsidiaries held directly by the Company**:**

	Company rights in capital	Investment in subsidiaries (according to the equity method) as of	
		December 31, 2020	December 31, 2019
		NIS millions	NIS millions
Bezeq	**26.72%**	**1,398**	1,135
		1,398	1,135

Regarding the registration of impairments in investments in the Group companies, see Notes 11.2-11.5 to the Consolidated Financial Statements.

5.2 Dividends

Details regarding dividends received from subsidiaries:

	For the year ended December 31		
	2020	**2019**	**2018**
	NIS millions	**NIS millions**	**NIS millions**
Bezeq	-	-	181
Total	-	-	181

6. Contingent liabilities

6.1 On March 30, 2020, the Company reached a settlement regarding the derivative claim that was filed in July 2016 in the Tel Aviv-Yafo District Court (hereinafter "the Horev Claim"). As part of the settlement agreement, during the third quarter of 2020, the Company received a total amount of NIS 22 million (principal plus accrued interest) in the Company's Series C bonds held by Internet Gold - Gold Lines Ltd. (hereinafter "Internet Gold") in exchange for waiving the derivative claim against Internet Gold. In addition, the derivative plaintiff received an amount of NIS 4.23 million in respect of attorneys' expenses and monetary compensation (which were paid out of the NIS 22 million that Internet Gold is required to pay). The net amount received by the Company is imputed directly to the Company's shareholders' equity under the loss balance item.

6.2 In addition, on June 2, 2020, the Company and the Company's former directors signed a settlement agreement as part of the Horev Claim, according to which the directors will pay NIS 2.5 million (hereinafter "the Directors' Settlement Amount") to the Company to settle all derivative claims in this matter. During July 2020, the District Court approved the settlement agreement, and the directors' insurance paid the Company the full Directors' Settlement Amount. As part of the settlement, the Company paid the derivative plaintiff and his attorney a total of NIS 720,000. The net amount received by the Company is imputed directly to the Company's shareholders' equity under the loss balance item.

6.3 On March 4, 2020, the Company signed a settlement agreement that settles the class action lawsuit filed against the Company in the New York Southern District Court in the United States that was filed against the Company in 2017. On August 10, 2020, final approval of the settlement was obtained from the Court as part of which the settlement payments were made. The Company paid a sum of USD 1.2 million, which was fully covered by the insurance of the directors and officers of the Company, which absolved the Company from all claims related to the class action by both the plaintiffs and the members of the settlement, without any admission of guilt.

6.4 Regarding two motions for approval of a class action lawsuit filed in June 2017 against the Company and against Bezeq, see Note 18.2 (3) to the Consolidated Financial Statements.

6.5 In November 2020, a lawsuit was filed with a motion for approval as a class action by a private individual who claims to be a shareholder of Bezeq ("the Applicant") against the Company, Bezeq, and members of Bezeq's Board of Directors ("the Respondents"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, according to the motion, "due to Bezeq's failure to report and disclose on the Tel Aviv Stock Exchange (hereinafter: "TASE") and concealing material information from investors, in connection with a public report "on moves by the Ministry of Communications to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, on the extensive and substantial scope of the phenomenon of dual subscribers in the subsidiary Bezeq International (hereinafter: "Bezeq International") and their material negative impact on the subsidiary and Bezeq. According to the claim in the motion, the damage caused to the group members as a result of the incidents that are the subject of the lawsuit amounts to approximately NIS 55 million to NIS 65 million, based on an expert opinion attached to the motion.

6.6 In November 2020, a claim was filed with motion for approval as a class action by a private individual ("the Applicant") claiming to be a shareholder of the Company, who claims to hold the Company's shares and Bezeq shares, against the Company, Bezeq and 72 other respondents, including former and present officers in both companies ("the Respondents"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented groups for damages caused to them, as alleged in the motion, as a result of acts and omissions of the Respondents when they failed to disclose to the investing public allegedly material information, that they had to disclose in accordance with the provisions of the law, in connection with the two companies' report dated November 9, 2020 that Bezeq International's books have unexplained net asset balances (receivables minus payables) of tens of millions of NIS, most of which originate, probably, from past periods of over 15 years. The amount of the class action specified in the statement of claim is "over NIS 2.5 million (for the purposes of substantive authority)" when in accordance with the economic opinion attached to the motion "the estimate of the fall in the price of the security" for the information included in the immediate report of November 9, 2020 stands at 5.26%-5.40% in relation to Bezeq and 9.07% - 9.36% in relation to the Company.

6.7 For more information regarding contingent liabilities, see Note 18 In the Consolidated Financial Statements.

7. Events during and after the reporting period

7.1 On February 13, 2020, a special meeting of the Company's shareholders was held at which the terms of employment of the Company's new CEO, Mr. Tomer Raved, were approved. As part of the terms of his employment, Mr. Raved was granted options to purchase up to 2,677,362 ordinary shares of the Company, which constitute 2.25% of the Company’s issued and paid-up capital as of the date of commencement of his employment. The vesting period of the options granted to the Company's CEO is 3 years. The expense recorded in the Company's books in respect of the options granted to the CEO in the year 2020 amounted to approx. NIS 280k.

7.2 On August 26, 2020, the Company announced its intention to delist its shares from trading on the Nasdaq Stock Exchange and terminate its reporting obligation to the US Securities and Exchange Commission (SEC). The documents required for the delisting were submitted on September 9, 2020 and the Company's share ceased to be traded on the Nasdaq on the same day. The termination of the Company's reporting obligation on the Nasdaq Stock Exchange began on September 21, 2020, on the same day of submitting a required document to the US Securities and Exchange Commission (SEC).

7.3 On December 10, 2020, the Company acquired 10,580,000 ordinary shares of the Bezeq subsidiary. The Company purchased such shares in exchange for the payment of a total amount of approximately NIS 40 million and at an average price of NIS 3.78 per share. Following the said acquisition, the Company holds 26.72% of the issued share capital and voting rights in the subsidiary. The shares are purchased when they are clean and free from any pledge, mortgage, lien, foreclosure or any other right of any third party, including any other obligation to banks, financial institutions and others.

Chapter IV
Additional Details about the Corporation
And Corporate Governance
Questionnaire
For the Period ended December 31, 2020

1. **Regulation 10a: Condensed statements of consolidated quarterly income for each of the quarters in the reported year**

See section 1.3 of the Board of Directors' report attached in the second part of this report.

2. **Regulation 10c: Use of proceeds from securities**

a. In the reported period, the Company did not offer securities according to a prospectus.

3. **Regulation 11: List of investments in subsidiaries as of the date of the statement of the financial position**

Company Name	Name of holder	Share type	Number of shares held	Total par value	Rate of holding of the issued capital and voting rights	Rate of holding of the right to appoint directors	Value in the Company's separate financial statement (NIS millions)
Bezeq the Israel Telecommunication Corporation Ltd. ("Bezeq")	The Company	Ordinary NIS 1	738,953,713	738,953,713	26.72%	26.72%	1,398

4. **Regulation 12: Changes in investments in subsidiaries during the reported period**

Date of change	Essence of the change	Company name	Reported amounts (NIS millions)
December 10, 2020	Purchase of additional shares	Bezeq	40

5. **Regulation 13: Income of subsidiaries and income of corporation therefrom as of the date of the statement of financial position (NIS millions)**

Company name	Profit (loss) for the period	Comprehensive profit (loss) for the period	Dividend	Management fee	Interest revenue
Bezeq	NIS 796 million	NIS 782 million			

6. **Regulation 20: Trading on the stock exchange**

a. For the best The Company's knowledge, In the reported period, there was no halt in the trading of the Company's securities listed for trading.

b. On September 9, 2020, the Company announced its delisting of trading on the NASDAQ stock exchange.. As of this date, the Company is traded on the Tel Aviv Stock Exchange Ltd. only.

7. **Regulation 21: Remuneration for stakeholders and senior officers**

The following is a breakdown of the remuneration for 2020, as recognized in the 2020 financial statements, for each of the most remunerated among the senior officers of the Company or corporation under its control, and which were given thereto in connection with his office. It should be emphasized that the amounts indicated in the table are the amounts recognized in the 2020 financial statements, but some of the actual payments to some of the officers include amounts recognized in previous financial statements and some are contingent on the conditions set forth below.

Details of remunerated persons					Remuneration (NIS thousands)				Total (NIS thousands)	Section below
Name	Position	Sex	Job volume	Holding rate in the corporation's capital	Wage[1]	Bonus[2]	Share-based payment	mther (Management fee)	Total	
Tomer Raved	CEO and director	Male	Full-time	-	1,421	-	280	225[3]	1,926	A
Itzik Tadmor	CFO	Male	Full-time	-	641	104	-	-	745	B
Ilan Chaikin	Internal auditor	Male	Full-time	-	56	-	-	-	56	C
Dudu Mizrahi	Bezeq CEO	Male	Full-time	-	2,514	2,695	-	-	5,209	D
Ran Guron	Pelephone, Bezeq International and DBS CEO	male	Full-time	-	2,454	2,300	-	-	4,754	E
Directors	Director		Full-time	-	900	-	-	-	900	F

The following is a breakdown of the terms of engagement with the stakeholders and officers listed in the table above:

a. Tomer Raved

Mr. Raved has been the CEO and Director of the Company since January 2020. According to the employment agreement with him approved at the Company's General Meeting on February 13, 2020, Mr. Raved is entitled to to an annual salary according to an employer's cost of NIS 1.4 million, including social and ancillary benefits as customary in the Company and in accordance with the Company's remuneration policy (convalescence allowance, study fund, pension, sick pay, car expenses, vacation days, cell phone, business expenses and social security, except for vehicle expenses).

In addition, in respect of his office as a director, Mr. Raved is entitled to an annual remuneration and a participation fee in the amount determined by an external expert in accordance with the Remuneration Regulations, as they will be from time to time and in accordance with the Company's classification at the relevant time, and he is also entitled to directors' remuneration for his office as a director of Bezeq.

In addition, Mr. Raved will be entitled to be included in the liability insurance for directors

[1] Regarding senior executives at Bezeq, wage amounts include the cost of wages (employer cost) and the ancillary wage components, including benefits and social conditions, such as coverage of telephone expenses, a personal vehicle of the type customary in the Group (cost of leasing or depreciation expenses and reimbursement of expenses instead of using a company vehicle), study fund (for some of the managers), deposit in a pension fund and deposits due to termination of employee-employer relationship (for employees subject to Article 14 of the Compensation Law), reimbursement of expenses and quota of vacation days, sick and annual convalescence as customary, expenses for holiday gift to employee (grossing amount), fees for membership in professional organizations paid for the employee' (outside the employee's occupation) and also, to the extent that a loan was made to the employee - the value of the grossing benefit in the interest that the loan bears.

[2] Regarding senior executives at Bezeq , the bonus amounts listed in the table are as recognized in the 2020 consolidted statements and include a performance-dependant bonus as well as special bonuses (for details regarding each of the officers see details in sections A-F after the table below), all in accordance with the companies' remuneration policy. The performance-dependent bonus that appears in the table is for the year 2020 (not yet paid to senior executives at Bezeq as of the date of the report) and includes a contingent portion that will be paid in practice to the aforementioned Bezeq officers according to the distribution described in the notes to the table. During 2020, bonuses were paid to some of the above officers for 2019, the amount of which [including a contingent portion not paid in practice in 2020, but paid in practice in 2021 (if any)] is included in the corresponding table in Bezeq's annual statements for 2019 (as restated on December 21, 2020).

[3] Remuneration for service as a director in the Company and Bezeq.

and officers and for indemnification as is customary in the Company, as are all other officers in the Company.

Mr. Raved was granted 2,677,362 unlisted options, exercisable into the Company's shares, which as of the date of approval of his employment agreement amount to approximately 2.25% of the issued and paid-up share capital of the Company. The employment agreement with Mr. Raved can be terminated by the Company upon prior notice of up to 6 months. Mr. Raved may terminate his employment at any time with 30 days' prior notice.

b. Itzik Tadmor

As of January 2019, Mr. Tadmor is employed as the Company's CFO. Mr. Tadmor served as the Company's Chief Financial Officer (Principal Financial Officer) from May 2015 until January 2019. According to the employment agreement with him, Mr. Tadmor is entitled to a gross monthly salary of NIS 42 thousand and social and ancillary benefits as customary (vacation days, executive insurance, study fund, etc.). In accordance with the employment agreement with him, if he continues to work for the Company until December 2023, he will be entitled to a retention bonus. He is also entitled to liability insurance for directors and officers and indemnification as is customary in the Company, as are all other officers in the Company.

c. Ilan Chaikin

Ilan Chaikin is employed as the internal auditor of the Company. Mr. Chaikin is entitled to a fee at a rate of NIS 240 per hour plus VAT. During 2020, Mr. Chaikin was employed in the volume of 200 hours. For further details, see section 2.4 of the Company's Board of Directors' report as of December 31, 2020, in Chapter B of te periodic report.

d. Dudu Mizrahi

Employed as CEO of Bezeq as of September 1, 2018, as part of a personal employment agreement dated October 4, 2018 (in this section: "**the Employment Agreement**"). His total monthly salary (gross) is NIS 150,000. The contract is for an unlimited period, with the right of each party to bring it to an end at any time with 6 months' prior notice by either party

Mr. Mizrahi's bonus targets for 2020 as Bezeq's CEO were set in advance by Bezeq's Board of Directors in December 2019, following the approval of Bezeq's Remuneration Committee and included: Adjusted EBITDA target[4] for Bezeq (Solo) weighing 50% in the bonus calculation; Profit after tax target of the Company (solo) weighing 25%; And Coordinated Free Flow Target (FCF))[5] for Bezeq (Solo) weighing 25%. The threshold conditions for the bonus were that the FFO targets[6] for Bezeq (Solo) for 2020 (approximately NIS 1,230.5 million), will not decrease by more than 20% from the target set in Bezeq's budget (solo) for 2020 (NIS 1,227.7 million) – this condition was met. The rate of Bezeq's CEO's compliance with the set of bonus targets for 2020 was approximately 119.04%. Accordingly, the bonus granted to Bezeq's CEO for 2020 is approximately 119.04% of his annual salary. Mr. Dudu Mizrahi will be entitled to 40% of the bonus for meeting the adjusted EBITDA target for Bezeq (Solo) in 2020 only in 2022 (after the date of approval of the financial statements for 2021) and only if the minimum adjusted EBITDA target for Bezeq (Solo) is achieved in relation to the 2021 budget. It should be noted that after the year of the report, Mr. Dudu Mizrahi was approved, in accordance with Bezeq's Remuneration Policy,

[3] Adjusted EBITDA for the p[urpose of determining remuneration - calculated as EBITDA minus other operating expenses / revenue (net), losses / gains from impairment / increase in value (including losses from ongoing impairment) and the effects of the implementation of International Financial Reporting Standard IFRS16 "Leases".

[4] Adjusted Current Cash Flow (FCF) - calculated as cash arising from current activities less cash for the purchase / sale of fixed assets and intangible assets (net), minus payments for leases.

[5] FFO (funds from operation) Sources from activity - calculated as cash flow from operating activities (as defined in the Company's annual financial statements) before changes in working capital and before changes in other assets and liabilities and minus payments in respect of leases

payment of a special bonus for 2020 in the amount of NIS 539k (included in the table above in the bonus component for 2020). This is due to the investment of exceptional and extraordinary efforts in the promotion and implementation of a number of Bezeq's major projects and moves in a number of areas, including the promotion of Bezeq's fiber deployment project, promoting a number of significant regulatory moves, a project to deal with the COVID-19 crisis that has been carried out with great success, as well as projects to recruit and reduce customer churn rates.

On January 18, 2021, Bezeq's general meeting approved, following the approval of Bezeq's Board of Directors dated December 10, 2020, and Bezeq's Remuneration Committee dated December 9, 2020, an amendment to Bezeq's remuneration policy and granting 9,000,000 options to Bezeq's CEO. For details regarding the terms of the options, see the amendment report regarding the outline for granting options to Bezeq employees and the report of a material private offer from Bezeq dated January 14, 2021 (reference: 20201-01-006340). The fair value of the options at the date of granting thereof (calculated in accordance with the Monte Carlo model) is approximately NIS 6.9 million.

e. Ran Guron

As of January 1, 2019, his total monthly salary (gross) for his office as CEO of the three material subsidiaries of Bezeq: Pelephone, Bezeq International and DBS (in this section, collectively: "**the Subsidiaries**"), amounts to a total of of NIS 15k. The contract is for an unlimited period, with the right of each party to bring it to an end at any time with 6 months' prior notice by either party.

Mr. Gurion's bonus targets for 2020 as CEO of the subsidiaries were set in advance by Bezeq's Board of Directors in December 2019, after approval by Bezeq's Remuneration Committee and included: Adjusted EBITDA target[7] for the subsidiaries weighing 70% in the bonus calculation; Payroll expenses of Subsidiaries (net of disocunts) weighing 10%; Free cash flow target (FCF)[8] adjusted to the Subsidiaries weighing 10%; And a net profit target for Subsidiaries weighing 10%. The threshold condition for receiving the bonus was that the adjusted EBITDA results[9] for subsidiaries for 2020 (NIS 697 million), will not decrease by more than 40% of the target determined for this in the Subsidiaries's budget for 2019 (NIS 785 million) – this condition was met. The rate of compliance of the CEOs of the Subsidiaries in the set of bonus targets for 2020 was approx. 93.7%. Accordingly, the bonus to be granted to Mr. Guron for 2020 is approx. 93.7% of his annual salary. Mr. Guron will be entitled to 40% of the remuneration for meeting the adjusted EBITDA target in 2020 only in 2022 (after the date of approval of the 2021financial statements) and only if the minimum adjusted EBITDA target set in relation to the budget year 2021 is achieved. It should be noted that in the reported year, Mr. Ran Guron was approved, in accordance with Bezeq's Remuneration Policy, the payment of a special bonus in respect of the implementation of a synergy and streamlining plan in the subsidiaries ("**Alpha Plan 1**") for 2020 in the amount of NIS 603.6k (included in the table above in the bonus component for 2020). This is due to the implementation of the Alpha 1 plan - an exceptional, unusual and very significant event involving an investment of exceptional effort by the CEO of the Subsidiaries, and bringing significant savings in expenses and value to the Group, preserving the CEO of the Subsidiaries as a key player in the development of the Alpha 1 plan and in order to incentivize him to continue to make exceptional and extraordinary efforts to promote it. In addition, the outline of the special bonus is worthy and closely linked to the success of the Alpha 1 plan.

* In light of the correction of the error in Bezeq International's 2019financial statements, there has been a change in the rates of meeting the targets for the annual bonus to Mr. Guron in respect of 2019. The amount of the difference between the amount of the bonus

[6] See footnote 3.
[7] See footnote 4.
[8] See footnote 5.

paid in practice for 2019 and the amount of the bonus when calculated according to the amended 2019 financial statements is up to NIS 160k. The Company is still examining the calculation of the gap and the manner of handling the bonuses paid for years whose financial statements have been restated.

On December 10, 2020, Bezeq's Board of Directors and the boards of directors of the subsidiaries approved, following the approval of Bezeq's Remuneration Committee dated December 9, 2020, the granting of 9,000,000 options to the CEO of the subsidiaries. On January 18, 2021, Bezeq's general meeting approved an amendment to the remuneration policy for Bezeq's officers, which was a condition for granting the options. For details regarding the terms of the options, see the amendment report regarding the outline for granting options to Bezeq employees and the report of a substantial private offer of Bezeq dated January 14, 2021 (reference: 20201-01-006340). The fair value of the options at the date of their grant (calculated according to the Monte Carlo model) is about NIS 6.9 million.

f. Directors

Each director (including the Chairman of the Board) is entitled to an annual remuneration and a participation remuneration for each meeting, in the maximum amount, in accordance with the Company's classification under to the remuneration regulations. In addition, directors with financial accounting expertise, as this term is defined in the Companies Regulations (Terms and Tests for a Director with Accounting and Financial Expertise and for a Director with Professional Competence), 5765-2005 are entitled to an annual remuneration to an external expert director as stated in the Remuneration Regulations. In addition, the directors are entitled to be included in the arrangement for liability insurance of directors and officers and indemnification as is customary in the Company, as are all other officers in the Company. In 2020, remuneration was paid to the directors of the Company in accordance with the Remuneration Regulations in the amount of NIS 900 thousand.

8. Regulation 21a: The controlling shareholder in the corporation

On December 2, 2019, a debt settlement was completed between the Company and its bondholders, under which Searchlight II BZQ LP and a corporation controlled by the Forer family (TNR Investments Ltd.) acquired control of the Company (and consequently, Bezeq). The company owns Bezeq through a company under its full control (indirectly) B Communications (SP2) Ltd.[10] In this regard, see also Bezeq's immediate report dated December 2, 2019 regarding the Company's announcement of the completion of the said transaction, as well as Bezeq's immediate reports dated January 2, 2020 regarding holdings of stakeholders and those who became stakeholders in the corporation.

As of the date of completion of the debt settlement as aforesaid, the controlling owners of the Company are Searchlight II BZQ L.P, a limited partnership incorporated in the Cayman Islands ("**Searchlight**") and TNR. Investments Ltd. ("**TNR**"), a private company incorporated in Israel. The final general partner of Searchlight is Searchlight Capital Partners II GP, LLC, a limited liability company incorporated in the State of Delaware, which is held by a number of individuals including Eric Zinterhofer, Erol Uzumeri and Oliver Harmaann, with the latter being among the only ones to receive the Company's control permit from the Ministry of Communications. TNR is fully owned and controlled by Mr. David Forer (50%) and Mrs. Michal Forer (50%). Searchlight and TNR are considered controlling shareholders in the Company by virtue of a control permit dated November 11, 2019 and by virtue of a voting agreement between them which confers on them a cumulative holding, as of the date of publication of this report, of approximately 72% of the voting rights in the Company.

[10] 714,169,560 of Bezeq's shares are owned by B Communications (SP2) Ltd., a private company, registered in Israel, which is wholly owned and controlled by B Communications (SP1) Ltd., a private company registered in Israel. B Communications (SP1) Ltd. is wholly owned and controlled by the Company. In addition to the above, 24,784,153 shares of Bezeq's shares are directly owned by the Company.

To the best of the Company's knowledge, the shareholders' agreement between Searchlight and TNR includes, among other things, a provision according to which as long as the holdings of an "Israeli entity" in Bezeq's controlling shareholder are required, Searchlight will grant TNR power of attorney in respect of the amount of shares that will allow TNR to vote at the general meetings of the Company, an amount of shares equal to: (a) the amount of shares held by TNR on the effective date of the meeting, or (b) the amount of shares reflecting 19% of the issued capital and voting rights in the Company on the effective date of the meeting, whichever is highest. To the best of the Company's knowledge, the shareholders' agreement includes additional provisions, including a commitment by Searchlight to refrain from voting for the approval of certain issues without the consent of TNR.

For details regarding the control permit, see section 1.1.4 in Chapter A of the periodic report.

9. Regulation 22: Transactions with the controlling shareholder

For details, to the best of the Company's knowledge, regarding any transaction with the controlling shareholder in the Company, or such that the controlling shareholder in the Company has a personal interest in the approval thereof, which the Company, the companies controlled thereby or related thereto entered into in the reporting year or after to the end of the reporting year and until the date of submission of this report, or it is still valid at the date of the report, as well as for details regarding the Company's negligence procedure, see Note 29 to the financial statements.

10. Regulation 24: Holdings With Interest And subjects job Senior

The holder	Number of ordinary shares	Options	Capital and voting rate	Capital and voting rate (fully diluted)
Searchlight	69,994,038	-	60.18%	58.81%
TNR Investments	13,248,905	-	11.39%	11.13%
Tomer Raved	-	2,677,362	-	2.25%
The Company	19,230	-	-	-

It should also be noted that as of December 31, 2020, Michael Clare, a director of the Company, held 75,000 ordinary shares of Bezeq, which, as of the date of this report, constitute as 0.003% of the issued and paid-up capital and voting rights in Bezeq.

11. Regulation 24a: Registered capital, issued capital and convertible securities

The registered capital of the Company as of the date of publication of the periodic report is 150,000,000 ordinary shares of NIS 0.1 par value each ("**Ordinary Shares**"). For details regarding the convening of a general meeting to increase the Company's registered capital, see the immediate report dated March 31, 2021 (Reference No. 2021-01-021487).
The issued and paid-up capital of the Company, as of the date of publication of the periodic report, is 116,316,563 Ordinary Shares (excluding 19,230 Ordinary Shares held by the Company and which are dormant).

12. Regulation 24b: Register of shareholders

Shareholder name	Number of shares	Share type and nominal value
Bank Hapoalim Listing Company	109,266,213	Ordinary shares of NIS 0.1 par value each.
American stock transfer	7,050,350	Ordinary shares of NIS 0.1 par value each.

13. Regulation 25a: Registered address of the corporation

Address: 144 Menachem Begin St., Tel Aviv
Phone 1: 03-6796101 Fax: 03-6796111
Email: tomer@bcomm.co.il

This table lists the directors who serve on the Company's Board of Directors as of the date of publication of the report, followed by details of directors who served in the year of the report but ended their office before the date of publication of the report..

14. Regulation 26: The directors of the corporation

a. **Directors who have served as of the date of publication of the report**

Last name and first name	Darren Glatt, Chairman	Phil Bacal	Ran Forer	Tomer Raved	Michael Clare	Efrat Makov	Stephen Joseph
ID number	549871770 (foreign passport)	HP037044 (foreign passport)	066522772	036864288	324616648	023044365	551988678 (foreign passport)
Date of birth	November 18, 1975	September 13, 1985	September 2, 1984	April 18, 1985	May 25, 1976	June 17, 1968	April 10, 1980
Address for the service of court documents	16 Abba Hillel St., Ramat Gan (with Meitar Attorneys)	16 Abba Hillel St., Ramat Gan (with Meitar Attorneys)	2 Haysur St., Ramat Hasharon	16 Abba Hillel St., Ramat Gan (with Meitar Attorneys)	68B Herzl St.,, Raanana 4335434	118 Tamar Road, Moshav Ben Shemen, 73115	16 Abba Hillel St., Ramat Gan (with Meitar Attorneys)
Citizenship	American	Canadian	Israeli	Israeli	Israeli, British	Israeli	British
Education	BACCY, George Washington University MBA, Harvard Business School	MBA Richard Ivey School of Business at the University of Western Ontario.	Degree in Law, IDC Herzliya, B.A. in Management, IDC Herzliya,LL.M. Commercial Law (cum laude), Tel Aviv University, M.Sc. General	MBA from New York University - NYU Stern School of Business. Bachelor's degree in Law and Economics from Tel Aviv University.	B.A. In Psychology and Philosophy from the University of Leeds.	B.A. In Economics and Accounting from Tel Aviv University.	BSc in Business and Financial Economics from Leeds University, KPMG.

			Management, Stanford University, Semester in Law at Berkeley University				
Occupation for the past five years	Partner in the Searchlight Capital Partners and head of investments in infrastructure, communications, media and technology. Director in Bezeq, PatientPoint. Previously, he was also a director at the following companies: Rackspace, Charter Communication, Ocean Outdoor, 160over90, MediaMath.	Senior Director of Searchlight Capital Partners. Director in Octave Group, Roots Corporation.	VP of Business Development at the Neopharm Group, Business Development Manager at Celgene Corporation.	The Company CEO. Director and Vice President of the Telecom and Technology Group at RBC Investment Bank in New York from 2016-2020. Investment banker at UBS between 2013-2016 in New York.	From 2010 to August 2019, Senior Equity Analyst (Director) at Citibank Israel Bank Investments (with responsibility for the review of companies in Israel, Greece and consumer companies in Russia). CEO and Director of ABA Science Play	Jewelry Designer (Independent Business)	CFO and VP of Operations at Ocean Outdoor Group (LSE: OOUT). Outdoor media and advertising company.

Serves as a director in other corporations	Bezeq, PatientPoint	Octave Group, Roots Corporation	Bezeq	Bezeq	Minoti Israel Ltd., ABA Science Play		Scp Acquisition Topco Limited, Scp Acquisition Midco Limited, Scp Acquisition Bidco Limited, Ocean Topo Limited, Ocean Bidco Limited, Ocean Outdoor UK Limited, Signature Outdoor Limited, Mediaco Outdoor Limited, Forrest Outdoor Media Limited, Forrest Media (Holdings) Limited Limited, Forrest Media Limited, DKTD Media B.V, Ngage Media B.V, Interbest B.v, Global Agencies Stockholm AB, Gudfar& son AB, Visual Art & Global Agencies Sweden AB, Visual Art International Holding AB, Visual Art Sweden AB,

							Visual Art Sweden Holding AB, Visual Art Denmark City Reklame A/S, Visual Art Norway AS.
Has accounting and financial expertise	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is the director an employee of the corporation, of its subsidiary, of its affiliated company or of a stakeholder therein	Yes, see details of occupation in the last five years.	Yes, see details of occupation in the last five years.	Yes, the director serves as VP of Business Development of the Neopharm Group, whose controlling shareholders, David and Michal Forer, are also controlling shareholders of TNR Investments Ltd., which owns the controlling interest in your company, B. Communications, a parent company of	Yes, the CEO of the Company	No	No	No

			the corporation.				
Is the director a family member of another stakeholder in the corporation	No	No	Yes, the director serves as VP of Business Development and officer in Neopharm Group, of which his parents, David and Michal Forer, are the controlling shareholders and TNR Investments Ltd., which has a joint controlling interest in Bee Communications, the parent company of the corporation.	No	No	No	No
Membership of a committee or committees of the board of directors	No	No	No	No	The Committee for the Examination of Financial Statements; The Audit Committee; Remuneration	The Committee for the Examination of Financial Statements; The Audit Committee; Remuneration	The Committee for the Examination of Financial Statements; The Audit Committee; Remuneration Committee;

					Committee;	Committee;	
Is this board member an outside director	No	No	No	No	Yes	Yes	No
Does the company see the director as an independent director	No	No	No	No	Yes	Yes	Yes

b. **Directors who served in the year of the report but ended their office before the date of publication of the report**:

During the year of the report, the director Shlomo Zohar served in the Company until October 29, 2020. In addition, the external director, Debbie Safirya, ended her office in the Company on January 20, 2020.

15. Regulation 26 A: Senior officers

This table lists senior officers who serve in the Company as of the date of publication of the report, followed by details of senior officers who served in the Company in the year of the report but ended their office before the date of publication of the report..

a. Senior officers who served in the year of the report and as of the date of publication of the report

Name of senior officer	Itzik Tadmor	Dudu Mizrahi	Ran Guron
Role in the Company, subsidiary, affiliate or stakeholder	Chief Financial Officer	CEO of Bezeq the Israel Telecommunications Corporation Ltd.	CEO of the subsidiaries Pelephone, Bezeq International and DBS
Date of birth	February 14, 1980	January 28, 1970	December 25, 1968
Education	BA in Accounting and Economics, Tel Aviv University. MBA in Business Administration, Tel Aviv University.	B.A. In Economics, The Hebrew University of Jerusalem	B.A. In Economics and Business Administration, The Hebrew University of Jerusalem, MBA - Business Administration, The Hebrew University of Jerusalem
Main occupations in the last 5 years and a list of the corporations in which he serves as a director	CFO B Communications Ltd. and Internet Gold Lines - Gold Ltd.	Bezeq CEO, Deputy CEO and CFO Tnuva, CFO Partner and CFO and Deputy CEO of Bezeq	Deputy CEO and VP of Marketing at the Company, CEO of Pelephone, Bezeq International and DBS
Is he a stakeholder in the Company or a family member of another senior official or of another stakeholder in the Company	No	Yes, a stakeholder in the corporation by virtue of his office as CEO of Bezeq	No

16. Regulation 27: The accountant of the corporation

Somekh Chaikin, CPA

Address: 17 HaArbaa St.,, KPMG Millennium Tower, Tel Aviv 6473917
Tel: 03-6848000

17. Regulation 29 (a): The recommendations and decisions of the directors before the general meeting and their decisions that do not require the approval of a general meeting in matters specified in Regulation 29(a)

a. Regarding exceptional transactions, see Note 29.3 to the financial statements.
b. Recommend to the general meeting of shareholders to amend the indemnity letters for the Company's officers and directors so that the maximum amount of indemnity is equal to 25% of the Company's equity or USD 15 million, whichever is higher.

18. Regulation 29 (c): Resolutions of a special general meeting

a. Approval of the terms of employment of Mr. Tomer Raved as CEO of the Company (resolution dated February 13, 2020).
b. Approval of the renewal of the appointments of Darren Glatt, Phil Bacal, Ran Forer, Stefan Joseph, Tomer Raved and Shlomo Zohar as directors of the Company, from April 30, 2020 until the date of the next annual general meeting (resolution dated April 30, 2020).
c. Approval of amendment of letter of commitment for indemnification and exemption for directors of the Company who serve on the date of the notice convening the general meeting of the Company's shareholders from March 25, 2020 and / or who will serve in the Company from time to time, as specified in the aforesaid notice convening the meeting.
d. Approval of the adoption of an insurance policy for directors and officers in the form specified in the meeting convening report dated March 25, 2020 (resolution dated April 30, 2020).

19. Regulation 29A (4): Exemption, insurance or obligation to indemnify officers

For details regarding exemption, insurance or indemnification obligation for officers, See Note 29.6 to the financial statements.

March 24, 2021
Date

B Communications Ltd.

Name and role of signatories:
Tomer Raved, CEO and director
Itzik Tadmor, CFO

CORPORATE GOVERNANCE QUESTIONNAIRE [1]

BOARD OF DIRECTORS INDEPENDENCE				
			Correct	**Incorrect**
1.		In each reporting year, two or more external directors served in the corporation. This question can be answered "Correct" if the period of time in which two external directors did not serve does not exceed 90 days, as stated in Article 363A (b) (10) of the Companies Law, but any answer (Correct / Incorrect) must state the period of time (days) in which the corporation did not have two or more external directors in the reporting year (including a term of office approved retrospectively, while separating between the various external directors): Director A: 0. Director B: 0. The number of external directors serving in the corporation as of the date of publication of this questionnaire: 2.	√	

[1] Published as part of legislative proposals to improve the statements on March 16, 2014.

2.		The rate[2] of independent directors[3] serving in the corporation as of the publication of this questionnaire: 3/7. The rate of independent directors determined In the Articles of Association[4] of the corporation[5]: _______. ☒ Irrelevant (not provided for in the Articles of Association).	_____	_____
3.		In the reporting year, an examination was conducted with the external directors (and the independent directors) and it was found that in the reporting year they complied with the provision of Article 240 (b) and (f) of the Companies Law regarding the lack of affiliation of the external (and independent) directors serving in the corporation and they meet the conditions required for serving as an external (or independent) director.	√	
4.		All directors who served in the corporation during the reporting year are not subordinated[6] to the CEO, directly or indirectly (except for a director who is an employee representative, if the corporation has employee representation). If you answered "Incorrect" (namely, the director is subordinated to the CEO as mentioned) – indicate the rate of directors that do not meet the aforesaid limitation: _____.	√	

[2] In this questionnaire, "rate" - a certain number out of the total. For example 3/8.
[3] Including "external directors" as defined in the Companies Law.
[4] For the purposes of this question - "Articles of Association" including according to a specific legal provision applicable to the corporation (for example in a banking corporation - the directives of the Supervisor of Banks).
[5] A bond company is not required to answer this section.
[6] For the purposes of this question - the very office of a director of a holding corporation controlled by the corporation will not be considered "subordinate", on the other hand, the office of a director of a corporation serving as an officer (other than a director) and / or an employee of the corporation controlled by the corporation will be considered "subordinate".

5.		All the directors who announced the existence of a personal interest in approving a transaction on the agenda of the meeting, did not attend the discussion and did not participate in such vote (except for discussion and / or voting in the circumstances under Article 278 (b) of the Companies Law): If Your answer is "Incorrect"- Was it for the purpose of presenting a particular subject thereby in accordance with the provisions of Article 278 (a): ☐ Yes ☐ No (mark x in the appropriate box). Indicate the rate of meetings at which such directors were present at the discussion and / or participated in the vote, except in the circumstances as stated in paragraph a: _____.	√	
6.		The controlling shareholder (including his relative and / or someone on his behalf), who is not a director or other senior officer in the corporation, was not present at the board meetings held in the reporting year. If your answer is "incorrect" (i.e., a controlling shareholder and / or relative and / or someone on his behalf who is not a board member and / or a senior official in the corporation was present at such board meetings) - indicate the following details regarding the presence of any additional person at board meetings: Identity: _____. Position in the corporation (if any): _____.	√	

		Details of the affiliation to the controlling shareholder (if the person present is not the controlling shareholder himself): _____. Was it for the purpose of presenting a certain subject thereby: Yes No (mark x in the appropriate box) The rate of presence[7] thereof in meetings of the board of directors that took place in the reporting year for the purpose of presenting a certain subject thereby: _____, Other presence: _____ ☐Irrelevant (there is no controlling shareholder in the corporation).		

QUALIFICATIONS AND SKILLS OF THE DIRECTORS				
			Correct	**Incorrect**
7.		There are no provisions in the corporation's articles of association that restrict the possibility of immediately terminating the office of all directors in the corporation, who are not external directors (in this matter - determination by a simple majority is not considered a restriction)[8]. If Your answer is "incorrect" (namely, there is a restriction as mentioned) indicate -	√	

[7] While separating between the controlling shareholder, his relative and / or someone on his behalf.

[8] A bond company is not required to comply with this section.

		A.	The period of time stipulated in the articles of association for the term of office of a director:		
		B.	The required majority set forth in the articles of association for the termination of office of the directors:		
		C.	A statutory quorum set forth in the articles of association at the general meeting for the purpose for the termination of office of the directors:		
		D.	The majority required to amend these provisions in the articles of association:		
8.			The corporation prepared a training program for new directors, in the field of the corporation's business and in the field of law applicable to the corporation and the directors, and also arranged a follow-up program for the training of incumbent directors, adapted, among other things, to the director's position in the corporation. If your answer is "correct" - indicate whether the program was implemented in the reporting year: ☒ Yes ☐ No (mark x in the appropriate box)	√	
9.		A.	The corporation has a required minimum number of directors on the board of directors who must have accounting and financial expertise. If your answer is "correct" – indicate the minimum number determined:		√

		B.	Number of directors who served in the corporation during the reporting year With accounting and financial expertise[9]: 5. See note at the end of the questionnaire. With Professional qualifications[10]: 0. In the event of changes in the number of directors as stated in the reporting year, indicate the lowest number (except in a time period of 60 days of change) of directors of any type who served in the reporting year.	________	________
10.		A.	Throughout the reporting year, the board of directors included members of both sexes. If your answer is "incorrect" – indicate the period of time (days) in which the aforesaid did not exist: _____. This question can be answered "correct" if the period of time in which directors of both sexes did not serve does not exceed 60 days, however in any answer (correct / incorrect), indicate the period of time (days) in which directors of both sexes did not serve: _____.	√	

[9] After the evaluation of the board of directors, in accordance with the provisions of the Companies Regulations (conditions and tests for a director with accounting and financial expertise and for a director with professional Qualification), 5765-2005.
[10] See Footnote 9.

		B.	The number of directors of any sex serving on the corporation's board of directors as of the date of publication of this questionnaire: Men: 6, women: 1.	_____	_____

BOARD MEETINGS (AND CONVENING A GENERAL MEETING)

					Correct	Incorrect
11.		A.		Number of board meetings held during each quarter of the reporting year: First quarter (2020): 7. Second quarter: 4. Third quarter: 3. Fourth quarter: 4.	_____	_____
		B.		Next to each of the names of the directors who served in the corporation during the reporting year, indicate the rate[11] of participation in the meetings of the Board of Directors (in this paragraph - including the meetings of the committees of the board of directors of which he is a member, and as indicated	_____	_____

[11] See H.S. 2.

below) that took place during the reporting year (and with reference to term of office): See note at the end of the questionnaire.

(Add lines according to the number of directors).

Director's name	Rate of his participation in the meetings of the **board of directors**	Rate of his participation in meetings of the Audit Committee 12	Rate of his participation in meetings of the **Committee for Examining the financial statements** 13	Rate of his participation in meetings of the **Remuneration Committee**14	Rate of his participation in meetings of other **board of directors** committees in which he is a member (indicate the name of the committee)
Darren Glatt	100%				
Tomer Raved	100%				

[12] Regarding the company director in this committee.

[13] Regarding the company director in this committee.

[14] Regarding the company director in this committee.

			Phil Bacal	100%						
			Ran Forer	95%						
			Stephen Joseph	95%	100%	100%	100%			
			Michael Clare	100%	100%	100%	100%			
			Efrat Makov	100%	100%	100%	100%			
			Shlomo Zohar (served during the reporting year until October 29, 2020)	100%						
12.				In the reporting year, the board of directors held at least one discussion regarding the management of the corporation's business by the CEO and his subordinates, without their presence, and they were given an opportunity to express their position.					√	

SEPARATION BETWEEN THE FUNCTIONS OF THE CEO AND THE CHAIRMAN OF THE BOARD				
			Correct	**Incorrect**
13.		Throughout the reporting year, a chairman of the board served in the corporation. This question can be answered "correct" if the period of time in which a chairman of the board did not serve in the corporation does not exceed 60 days as stated in Article 363A (2) of the Companies Law, but in any answer (correct / incorrect), indicate the period (days) in which a chairman of the board did not serve in the corporation as aforesaid: [__].	√	
14.		Throughout the reporting year, a CEO served in the corporation. This question can be answered "correct" if the period of time in which a CEO did not serve in the corporation does not exceed 60 days as stated in Article 363A (2) of the Companies Law, but in any answer (correct / incorrect), indicate the period (days) in which a CEO did not serve in the corporation as aforesaid: [__].	√	

15.		In a corporation in which the chairman of the board also serves as the CEO of the corporation and / or exercises his powers, the duplication of office is approved in accordance with the provisions of Article 121 (c) of the Companies Law[15]. ☒ Irrelevant (if there is no such dual office in the corporation).		
16.		The CEO <u>Is not</u> a relative of the chairman of the board of directors. If your answer is "incorrect" (i.e., the CEO is a relative of the chairman of the board)-	√	
		A. Indicate the family relation between the parties: _____.	_____	_____
		B. The office was approved in accordance with Article 121 (c) of the Companies Law[16]: ☐ Yes ☐ No *(mark x in the appropriate box)*	_____	_____
17.		A controlling shareholder or his relative <u>does not</u> serve as CEO or senior executive officer in the corporation, except as a director. ☐ Irrelevant (the corporation has no controlling shareholder).	√	

[15] In a bond company - approval in accordance with Article 121 (d) of the Companies Law.
[16] In a bond company - approval in accordance with Article 121 (d) of the Companies Law.

AUDIT COMMITTEE				
			Correct	**Incorrect**
18.		In the reporting year, on the Audit Committee <u>did not serve</u> -	_____	_____
	A.	A controlling shareholder or his relative. ☐ Irrelevant (the corporation has no controlling shareholder).	√	
	B.	Chairman of the board of directors.	√	
	C.	A director employed by the corporation or by the controlling shareholder of the corporation or by a corporation under his control.	√	
	D.	A director who regularly provides services to the corporation or controlling shareholder of the corporation or corporation under its control.	√	
	E.	A director whose main livelihood depends on the controlling shareholder.	√	

		☐ Irrelevant (the corporation has no controlling shareholder).		
19.		A person who is not allowed to be a member of the Audit Committee, including a controlling shareholder or his relative, was not present at the reporting year at the meetings of the Audit Committee, except in accordance with the provisions of Article 115 (e) of the Companies Law.	√	
20.		A legal quorum for discussion and decision-making at all Audit Committee meetings held in the reporting year was a majority of committee members, with the majority present being independent directors and at least one of them being an external director. If your answer is "incorrect" - indicate the rate of meetings in which the said requirement was not met: _____.	√	
21.	In the year of the report, the Audit Committee held at least one meeting in the presence of the internal auditor and the auditor and without the presence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the corporation.		√	
22.	All meetings of the audit committee attended by those who are not allowed to be members of the committee, were with the approval of the committee chairman and / or at the request of the committee (regarding the legal advisor and the corporation secretary who is not a controlling shareholder or his relative).		√	

23.	In the reporting year, arrangements were established by the Audit Committee regarding the manner in which the corporation's employees' complaints were handled in connection with deficiencies in the conduct of its business and regarding the protection to be given to the employees who complained as aforesaid.	√	
24.	The Audit Committee (and / or the Committee for the Examination of the Financial Statements) was of the opinion that the scope of the auditor's work and his fees in relation to the financial statements in the reporting year were adequate for carrying out proper audit and review work.	√	

FUNCTIONS OF THE COMMITTEE FOR EXAMINING THE FINANCIAL STATEMENTS (HEREINAFTER - THE COMMITTEE) IN ITS PRELIMINARY WORK FOR THE APPROVAL OF THE FINANCIAL STATEMENTS				
			Correct	**Incorrect**
25.	A.	Indicate the period of time (in days) determined by the Board of Directors as a reasonable time to submit the Committee's recommendations prior to the discussion of the board of directors for approval of the financial statements: 3 days when approving the periodic statements and 2 days when approving the quarterly statements.	_____	_____

	B.	The number of days that have actually elapsed between the date of the transfer of the recommendations to the board of directors and the date of the board's discussion: First quarter statements (year 2020): 3 Days. Second quarter statements: 3 Days. Third quarter statements: 0 Days. Annual statements: 4 days.	_____	_____
	C.	The number of days that have elapsed between the date of submission of the draft financial statements to the directors and the date of the discussion of the board of directors of the approval of the financial statements: First quarter statements (year 2020): 5 Days. Second quarter statement: 3 Days. Third quarter statements: 5 Days. Annual statements: 6 Days.		

26.	The corporation's auditor attended all meetings of the Committee and the board of directors, at which the corporation's financial statements relating to the periods included in the reporting year were discussed. If your answer is "incorrect", indicate the participation rate: _______		√	
27.	In the Committee, all the conditions listed below were met throughout the reporting year until the publication of the annual statements:		______	______
	A.	The number of its members was not less than three (at the time of the discussion in the Committee and the approval of the statements as aforesaid).	√	
	B.	It complied with all the conditions set out in Article 115 (b) and (c) of the Companies Law (regarding the office of members of the Audit Committee).	√	
	C.	The chairman of the Committee is an external director.	√	
	D.	All its members are directors and most of its members are independent directors.	√	
	E.	All its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
	F.	Committee members gave a statement prior to their appointments.	√	

	G.	The legal quorum for discussion and decision-making in the Committee was the majority of its members, provided that the majority of those present were independent directors, including at least one external director. .	√	
	If your answer is "incorrect" regarding one or more of the subsections of this question, indicate in relation to which statements (periodic / quarterly) the said condition was not met and the condition that was not met.		_____	_____

REMUNERATION COMMITTEE

				Correct	Incorrect
28.		The committee consisted of, in the reporting year, at least three members and the external directors constituted a majority (at the time of the committee's deliberations). ☐ Irrelevant (No discussion took place).		√	
29.		The terms of office and employment of all members of the Remuneration Committee in the reporting year are in accordance with the Companies Regulations (Rules regarding Remuneration and Expenses for an External Director), 5769-2000.		√	
30.		In the reporting year, on the Remuneration Committee did not serve -		_____	_____
		A.	The controlling shareholder or his relative ☐ Irrelevant (the corporation has no controlling shareholder).	√	
		B.	Chairman of the board of directors.	√	

		C.	A director employed by the corporation or by the controlling shareholder of the corporation or by a corporation under his control.	√	
		D.	A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or to a corporation under his control.	√	
		E.	A director whose main livelihood depends on the controlling shareholder. ☐ Irrelevant (the corporation has no controlling shareholder).	√	
31.		The controlling shareholder or his relative were not present in the reporting year at the meetings of the Remuneration Committee, unless the chairman of the committee determined that either of them was required to present a particular subject.		√	
32.	The Remuneration Committee and the board of directors did not exercise their authority under Articles 267A (c), 272 (c) (3) and 272 (c1) (1) (c) to approve a transaction or remuneration policy, despite the opposition of the general meeting. If your answer is "incorrect" indicate - Type of transaction approved as stated: ______ The number of times their authority was used in the reporting year: ______			√	

INTERNAL AUDITOR

		Correct	Incorrect
33.	The chairman of the board or the CEO of the corporation is the organizational supervisor of the internal auditor of the corporation.	√	
34.	The chairman of the board or the Audit Committee approved the work plan in the reporting year. In addition, indicate the audit topics that the internal auditor dealt with in the reporting year: Bezeq supervision and enforcement / internal audit. (mark x in the appropriate box).	√	
35.	Scope of employment of the internal auditor in the corporation in the reporting year (in hours[17]): 200 hours.	_____	_____
	In the reporting year, a discussion took place (in the audit committee or on the board of directors) of the internal auditor's findings.	√	

[17] Including working hours invested in investee corporations and audits outside Israel, and as appropriate, both by the Company's internal auditor and by the internal auditors of the Company's subsidiaries.

36.	The internal auditor is not a stakeholder in the corporation, a relative of such, an auditor or anyone on his behalf, nor does he maintain material business relationships with the corporation, its controlling shareholder, or a relative or corporations under their control.	√	

STAKEHOLDER TRANSACTIONS

		Correct	Incorrect
37.	The controlling shareholder or his relative (including a company under his control) is not employed by the corporation or provides it with management services. If your answer is "incorrect" (namely, the controlling shareholder or his relative is employed by the corporation or provides it with management services) indicate - - Number of relatives (including the controlling shareholder) employed by the corporation (including companies under their control and / or through management companies): - Have the employment agreements and / or the management services as aforesaid been approved by the organs established by law: ☐ Yes ☐ No	√	

	(mark x in the appropriate box) ☐ Irrelevant (In a corporation nothing husband control). ______.		
38.	To the best of the corporation's knowledge, the controlling shareholder has no other business in the corporation's field of activity (in one or more fields). See note at the end of the questionnaire. If your answer is "incorrect" - indicate whether an arrangement has been established to delimit activities between the corporation and its controlling shareholder. ☐ Yes ☐ No (there is to mark x In the box Appropriate) ☐ No relevant (the corporation has no controlling shareholder).	√	

Closing notes to the questionnaire:

1. **Meetings of the board of directors (and convening a general meeting)**

Section 11B - It should be noted that in the column on the participation rate in meetings of additional board committees, the reference is to permanent board committees only and does not include non-permanent committees established on an ad hoc basis for certain issues. It should be noted that in the number of meetings of the board of directors and its committees, the meetings held during the reporting year were taken into account, with reference to the term of office of each of the directors on the board and in each of the committees, as the case may be.

2. **Qualification and skills of the directors**

Section 9B - It should be noted that Shlomo Zohar, who served during the year of the report until October 29, 2020, has accounting and financial expertise.

3. **Stakeholder transactions**

Section 38- Searchlight Group, which owns the company, has holdings in many communications companies around the world (mainly in the United States). As stated in section 1.8 of Chapter A of this report, Bezeq Group's strategy as of this date is leading the communications market in Israel.

Chairman of the Board of Directors: ___________

Chairman of the Audit Committee: ___________

Chairman of the Committee for Examining the Financial Statements: ___________

Chapter E

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Year ended December 31, 2020

(1) Report on the internal control over financial reporting and disclosure:

Annual report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 9 (b) a of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

Management, under the supervision of the Board of Directors of B Communications Ltd. (hereinafter - "the Corporation" or "the Company"), is responsible for determining and maintaining adequate internal control over the financial reporting and disclosure in the Corporation.

For this purpose, the members of Management are:

1. Tomer Raved, General Manager;
2. Itzik Tadmor, VP of Finance;

In addition to the said members of Management, serving in the Company are:

1. Ilan Chaikin, Internal Auditor;
2. Yuval Snir, Comptroller;

Internal control over financial reporting and disclosure includes controls and procedures existing in the Corporation, designed by or under the supervision of the CFO and CEO in the field of finance, or by the person actually performing the said functions, supervised by the Corporation's Board of Directors, which are intended to provide a reasonable degree of assurance regarding the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in reports it publishes under the provisions is collected, processed, summarized and reported.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information the disclosure of which by the Corporation is required, is accumulated and transmitted to the Corporation's Management, including the CEO and senior executives in the field of finance or to those actually performing the said functions, in order to enable decisions with regard to the disclosure requirement to be made at the appropriate time.

Due to its structural limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance that misrepresentation or omission of information in the reports will be avoided or discovered.

Management, under the supervision of the Board of Directors, performed an audit and evaluation of the internal control over the financial reporting and disclosure in the Corporation and its effectiveness;

The evaluation of the effectiveness of the internal control over the financial reporting and disclosure carried out by Management under the supervision of the Board of Directors included:

1. Mapping and identifying the relevant business units, accounts and processes which the Corporation considers to be highly material for financial reporting and disclosure;

2. Examination and updating of reporting and disclosure risks;

3. Updating the documentation of the controls that address the identified risks as well as documenting new controls;

4. Testing and evaluating the effectiveness of the performance of such controls;

5. Overall assessment of the effectiveness of internal control

The model of evaluating the effectiveness of the internal control over financial reporting and disclosure was based on the following components:

1. Entity Level Controls, including controls on the process of preparing and closing reports;

2. Controls over cash process and debt management.

Based on the evaluation of the effectiveness carried out by Management under the supervision of the Board as detailed above, the Board and Management of the corporation concluded that the internal control over the financial reporting and disclosure in the corporation as of December 31, 2020 is ineffective due to material vulnerabilities identified in the controls at the organization level and in the process of preparing and closing the reports, which led to failure in the proper recognition of expenses, as detailed below.

The following is a detail regarding the material vulnerabilities that exist in internal control:

As part of the preparation of the quarterly report for September 30, 2020 and as part of the controls of the process of preparing and closing the financial statements, Bezeq International Ltd., a subsidiary of the Company ("**Bezeq International**"), found that there are discrepancies between the assets and liabilities listed in its books and the actual assets and liabilities, which result, among other things, from non-imputation of costs from previous years in respect of the payment of advances to suppliers to the income statement and the improper recognition of advance expenses.

Bezeq International's Management began an immediate investigation into the matter, including through Bezeq International's Internal Auditor.

In November 2020, Bezeq's Board of Directors was updated on the preliminary findings of Bezeq International's Internal Auditor, who conducted his examination in collaboration with Bezeq International's Security Division and accompanied by an independent external expert. The interim findings revealed, among other things, that over the years there have been professional errors (incorrect handling and accounting records and failures in the manner in which the controls are performed) as well as poor conduct, possibly intentional, on the part of Bezeq International employees.

The total effect of the corrections of the discrepancies discovered in Bezeq International as part of the examinations as of December 31, 2019 was as follows:

1. Errors that occurred until 2010 affected the balance of goodwill recognized at the time of gaining control of Bezeq. The correction of the goodwill balance

affected subsequent impairments of cash-generating units recognized by the Group.

2. The reduction of the Group's capital as of January 1, 2018 in the amount of approximately NIS 103 million in respect of past balances from the years 2002-2017, with most of the amount (approximately NIS 80 million) originating in the years 2002-2003.
3. The reduction of the Group's profits (net tax) in the cumulative amount of approximately NIS 133 million in respect of the period between January 1, 2018 and December 31, 2019.
4. Following the findings of the examination, Bezeq International updated its forecasts for the coming years and performed an updated valuation as of December 31, 2019, following which an additional impairment loss of NIS 54 million (NIS 43 million net of tax) was recognized in 2019 as a result of the update of the value of the activity and the book value of Bezeq International as of December 31, 2019.

In light of the findings of the aforesaid examinations, the Company carried out adjustment of its financial statements as of December 31, 2019 and the year ended on the same date by way of restatement, in order to retroactively reflect in them the effect of the aforesaid.

On November 23, 2020, Bezeq's Board of Directors appointed an independent external auditor (hereinafter: "the External Auditor") for the purpose of an in-depth investigation of the issue, including the circumstances that led to the discrepancies and the processes and controls that were supposed to prevent them.

On February 4, 2021, the External Auditor presented his findings to the Bezeq Board of Directors, as part of the audit report prepared by him (hereinafter: "the Audit Report"). The following are the main findings and conclusions as they emerged in the Audit Report:

1. Suppliers' debit balances that were created as a result of direct debit payments that were not recorded as expenses in the years 2001-2003 but accumulated under a general accounting card. Most of the suppliers' debit balances found are with the parent company Bezeq as a related party.

Due to the non-recognition of expenses as aforesaid, expenses were recorded during the accounting period based on an estimated and partial cumulative calculation, which did not necessarily correspond to the actual payments made. This record was made against the expenses payable card which also served as a kind of general accounting card.

As part of the examination, it was found that during all the years that were the subject of the examination, the manner of presentation and analysis of the suppliers' item by Bezeq International's Finance Division was performed in net terms, thus making it difficult for the Company to control the suppliers' accounts payable, as aforesaid.

In addition, it was found that some of the employees of the Finance Division at Bezeq International knew about the existence of the unexplained accounts payable but did not act to find out their source and deal with them in real time. In addition, said employees did not notify Bezeq International's Management and the Auditor of the issue

2. Non-recognition of expenses in parallel to revenue in service agreements with customers between the years 2018-2019: Registration of expenses in arrears due to mistakes made in distinguishing between the components of the agreements and in the manner of recording the expenses.
3. Disruption of data presented to the Auditor: Throughout several years, the composition of the suppliers item was presented to the Auditor in net terms, without detailing any of the balances created in the accounts in the general ledger that made up the net suppliers item. In this way the unexplained debit balances were blurred before the Auditor. In addition, throughout several years, a deliberate omission of rows (reflecting invoices) was performed on one of the supplier accounting cards in order to reflect an alleged adjustment to the net supplier balance item presented.

As part of the investigation, it was found that some of the employees of the Finance Division at Bezeq International knew and took part in disrupting the data provided to the Auditor.

It should also be noted that from the test report and from the samples prepared by the External Auditor, no indications were identified that raise suspicion of the occurrence of an embezzlement incident during the test period[1].

Bezeq International's Management, Bezeq International's Board of Directors and Bezeq's Board of Directors performed compensatory actions, tests and procedures, investing considerable effort and resources, as detailed below, to ensure that despite the material vulnerability in internal control, the reports are prepared in accordance with the law:

1. Bezeq International recalculated certain balances in the reports on its financial position for the years 2016-2019 and for the interim periods for the years 2019 and 2020 without relying on past records and the existing processes in accounting in relation to the balance sheet items in which the errors were discovered.
2. In order to carry out the work of correcting and restating the reports, the staff of the Finance Division at Bezeq International will be added with employees and managers from the finance divisions of the subsidiaries in Bezeq Group. In addition, Bezeq International conducted tests and controls on the recalculation of balances with the assistance of an independent external expert.
3. As part of the preparation of Bezeq International's financial statements for 2020, all controls performed by Bezeq International employees and managers who were found to be involved in the incidents subject to the examination were mapped. Such controls were reviewed by employees and managers in subsidiaries of the Bezeq Group, as well as by independent parties with relevant professional skills, including, *inter alia*, various external professional consultants.
4. Bezeq’s Board of Directors and the Board of Directors of Bezeq International have decided to adopt the deficiency correction plan that Bezeq International's

[1] It should be noted that according to the Audit Report, due to the number of accounting entries, lack of documentation and completeness in the documents and lack of full explanations on the subject by employees of the Finance Division in those years who still work at Bezeq, an embezzlement incident can not be ruled out unequivocally.

Management has begun to implement, which also includes the recommendations of the External Auditor in the Audit Report.

5. The Management of Bezeq International and the Company's Board of Directors have hired the services of various professional consultants to assist them in the process of correcting the deficiencies.
6. Bezeq's Board of Directors authorized the Audit Committee of the Bezeq Board of Directors to continue to discuss the findings of the Audit Report and its recommendations, including monitoring the implementation of the recommendations, discussing the implications of audit and control issues and examining the need to draw conclusions and take further steps.
7. It should be emphasized that the process of correcting the deficiencies has not yet been completed. The Audit Committee, Bezeq International's Board of Directors and Bezeq's Board of Directors frequently monitor the program for correcting deficiencies and the status of the plan's progress. Bezeq's Board of Directors instructed Bezeq International's Management to continue working to correct the material vulnerability as early as possible, and in any case no later than the date of the financial statements for Q1/2021.

Main points of the deficiency correction plan:

1. Control environment:
    - The Board of Directors of Bezeq International has decided to act in accordance with the law to terminate the employment of a number of employees in the Finance Division at Bezeq International who were involved in the incidents subject to the examination (who are not its officers).
    - Bezeq International's Management has decided on changes in the organizational structure of the Finance Division.
    - Bezeq International is working to fill the jobs of the employees whose employment is expected to end. As of the date of approval of the 2020 statements, some of the new employees have begun their employment with the Company, but the recruitment process has not yet been completed.
    - Bezeq International will provide employees of the Finance Division with a dedicated periodic refresher training on the subject of the Code of Ethics.

- Bezeq International will work to improve its anonymous reporting mechanism.

2. Processes:
   - The work processes in which the deficiencies were identified were mapped.
   - Bezeq International has begun updating the work procedures in which the deficiencies have been identified, including strengthening and expanding existing controls and creating new controls.
   - Bezeq International has begun developing new system reports and is expected to make developments in existing reports in order to support the updated work processes.
   - General accounting cards at Bezeq International were canceled and, at the same time, dedicated accounting cards were opened. In addition, Bezeq International is in the midst of a process of improving all accounting cards.
   - Bezeq International updates the working methods and procedures of the Company's accounting system.

Disclosure regarding the material discrepancies between the assets and liabilities listed in Bezeq International's books and the actual assets and liabilities was provided for the first time by the Company in an immediate report dated November 9, 2020. The Company continued to update on the subject as part of additional immediate reports released in November and December 2020 and February 2021.

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Regarding the investigations of the Securities Authority and the Israel Police in connection with Bezeq, as detailed in section 1.1.7 of the chapter describing the business of the corporation in this report, the corporation does not have complete information regarding these investigations, plans, materials and evidence in the hands of the law authorities in the matter. Accordingly, the corporation is not yet able to assess the effects of the investigations, their findings and results on Bezeq and the corporation as well as the financial statements and estimates used in the preparation of these reports, if any. Upon removal of the restriction on conducting examinations and inspections related to issues that arose in the course of the investigations, the examinations will be completed as necessary with regard to matters that arose in the framework of those examinations.

(2) Executive statements:

a) Statement of the CEO pursuant to Regulation 9B (d) (1) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

I, Tomer Raved, declare that:

(1) I examined the periodical report of B Communications Ltd. (hereinafter – the Corporation) for 2020 (hereinafter - "the Reports");

(2) To my knowledge, the Reports do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reported period;

(3) To my knowledge, the financial statements and other financial information contained in the Reports adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the statements relate;

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabilities in the determination or exercise of internal control over the financial reporting and disclosure that are likely to adversely affect the Corporation's ability to collect, process, summarize or report financial information in a manner that casts doubt on the financial reporting reliability and preparation of financial statements; and-

(B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or with others in the Corporation:

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; -

(B) Have established controls and procedures, or verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(C) Have assessed the effectiveness of the internal control over the financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control as of the date of the Reports.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

Date: March 24, 2021

____

Tomer Raved, CEO

b) **Statement of the most senior officer in the field of finance pursuant to Regulation 9B(d)(2) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970**:

I, Itzik Tadmor, declare that:

(1) I examined the periodical report of B Communications Ltd. (hereinafter – the Corporation) for 2020 (hereinafter - "the Reports");

(2) To my knowledge, the Reports do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reported period;

(3) To my knowledge, the financial statements and other financial information contained in the Reports adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the statements relate;

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabilities in the determination or exercise of internal control over the financial reporting and disclosure that are likely to adversely affect the Corporation's ability to collect, process, summarize or report financial information in a manner that casts doubt on the financial reporting reliability and preparation of financial statements; and-

(B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or with others in the Corporation:

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; -

(B) Have established controls and procedures, or verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(C) Have assessed the effectiveness of the internal control over the financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control as of the date of the Reports.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

Date: March 24, 2021

____

Itzik Tadmor, Chief Financial Officer