Update of Chapter A (description of the corporation's business) to the periodic report for 2019

Significant Events Since the Publication of the Annual Report for 2019
<u>of B. Communications Ltd. (the "Company")</u>

1. <u>Significant events since the publication of the Company's annual report for 2019.</u>

<u>Delisting of the Company's shares from trading on the Nasdaq Stock Exchange</u>

On September 9, 2020, the Company published a Form 25 in connection with the voluntary delisting of its shares from trading on the Nasdaq Stock Exchange, and from that date, the Company's shares are only traded on the Tel Aviv Stock Exchange, and the company became a "reporting corporation" within the meaning of this term in the Securities Law, 5728-1968 (subject to the transitional period stipulated in the regulations).

<u>The Company's control permit in Bezeq</u>

On October 28, 2020, the Company applied to the Ministry of Communications to eliminate the condition stipulated in the control permit given to the Company in connection with its holdings in Bezeq shares to amend Bezeq's articles of association and the subsidiaries' articles of association, after Bezeq's general meeting rejected the amendment to the control permit as required by the control permit.

Among other reasons, the Company claims that the requested amendments anchor provisions that in any case exist in the Communications Ordinance and in other laws, and therefore do not create a new law and are not required.

<u>Amendment of the terms of the Company's debentures (Series C and E)</u>

On September 17, 2020, the meetings of the Company's 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 restrictions:

1. The additional debt raised by the Company (less the issuance expenses) will first repay the debentures (Series D) and the debentures (Series E) in full, so that after its raising and after the completion of the conditions required for the release in exchange for issuing the additional series and amending existing liens in favor of Series C, a first-degree lien will be registered on the pledged Bezeq shares (as defined in the trust deed) for the benefit of the holders of the debentures (Series C) instead of the second-degree lien currently registered in their favor (as long as the debentures (Series E) are in circulation).

2. After the full repayment of the debt in respect of the debentures (Series D) and the debentures (Series E), the balance of net proceeds from the issue of the additional debt will be used for the purpose of repayment of the debentures (Series C), by means of early redemption (full or partial) in accordance with the terms of the existing trust deed.

3. The duration of the new series issued by the Company will be longer than that of the debentures (Series C), and the first payment of the principal in respect of the debentures

from the new series as aforesaid will take place only after full repayment of the debentures (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 debentures (Series C) - in the case of a partial early repayment of the debentures (Series C), the price of the partial early repayment will be the highest of the par value of the debentures (Series C) or their market value according to the - 30 trading days preceding the early redemption.

In relation to the 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, but not more than a total of 103.5% of the early repayment price, or (2) the par value of the debentures (Series E).

For further details, see the convening of a meeting of bondholders (Series C) dated September 10, 2020 (reference number 2020-10-091018) and the convening of the meeting of bondholders (series E) from the same date (reference number 2020-10-091000), the mentions of which are presented here by way of reference.

Termination of the Rating of the Company's Debentures

On August 13, 2020, Midroog announced the termination of the rating of the debentures (Series C) issued by the Company in light of the Company's request. On the eve of its termination, the Company's debentures (Series C) were rated Caa2.il with a stable rating horizon.

Legal proceedings

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 in order to settle all derivative claims in this matter. In July 2020, the District Court approved the settlement agreement, and the directors' insurance paid the Company the Directors’ Settlement Amount in full. 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 was charged directly to the Company's shareholders' equity under the item Accumulated Deficit.

On August 10, 2020, the U.S. District Court for the Southern District of New York approved the settlement in the class action lawsuit filed against the Company, under 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).

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 debentures (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.

In November 2020, a lawsuit with a motion for approval as class action was filed with the Tel Aviv District Court (Economic Department) by a private person who claims to be a shareholder in the Company ("**the Applicant**"), against the Company, Bezeq, the Company's CEO and members of the Company'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 the investing public", 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 significant scope of the phenomenon of dual subscribers in the subsidiary Bezeq International ("**Bezeq International**") and their significant negative impact on the business of the subsidiary and Bezeq". The definition of the class according to the motion is anyone who purchased Bezeq shares between August 17, 2020 until October 30, 2020 and held said shares or any of them on October 30, 2020, except for the Respondents and / or anyone acting on their behalf and / or entities related to them. According to the claim in the motion, the damage caused to the class 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.

In November 2020, a lawsuit with a motion for approval as class action was filed with the Tel Aviv District Court (Economic Department) by a private person who claims to be a shareholder in the Company ("**the Applicant**"), who claims to hold shares in the Company and in Bezeq, against the Company, Bezeq, and 72 additional respondents, including past and present officers in the two 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 classes represented for damages caused to them, as alleged in the motion, as a result of acts and omissions of the Respondents in failing to disclose to the investing public seemingly material information that they were required 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's books have unexplained net asset balances (receivables minus payables) in the tens of millions of shekels, a considerable part of which originates, apparently, in past periods of more than 15 years ago. The definition of the classes according to the motion is: (a) everyone who purchased Bezeq shares between November 8, 2005 and November 9, 2020, except for the Respondents or those on their behalf, and (b) everyone who purchased the Company's shares on the Tel Aviv Stock Exchange between November 8, 2007 and November 9, 2020, except for 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 the purposes of substantive authority)", while in accordance with the economic opinion attached to the motion, "the estimate for the plummet in the price of the security" in respect of the information included in the immediate report of November 9, 2020 is 5.40% -5.26% in relation to Bezeq, and about 9.36% - 9.07% in relation to the Company.

Officers

On October 29, 2020, Mr. Shlomo Zohar announced the termination of his term as a director in the Company, in light of his appointment as a director in Partner Communications Ltd.

2. Updates to the periodic report of Bezeq The Israel Telecommunications Corp. Ltd. (Bezeq)

Description of the general development of the Group's business

Section 1.1.5 - Investigation by the Securities Authority and the Israel Police

Regarding Footnote 4 - On May 19, 2020, a ruling was issued in a petition to the High Court that was filed against the Attorney General, the State Attorney's Office, Bezeq, Walla and Yedioth Ahronoth which concerns the failure of the Attorney General and the Attorney General's Office to order the prosecution of Bezeq, Walla and Yedioth Ahronoth in cases known as Cases 2000 and 4000. The petition was dismissed *in limine* as an early petition.

Section 1.5.4 - Principles of Results and Operational Data

A. Bezeq Landline (Bezeq activity as INO)

	Third quarter of 2020	Second quarter of 2020	First quarter of 2020	Fourth quarter of 2019	Third quarter of 2019	Second quarter of 2019	First quarter of 2019
Revenue (NIS millions)	1,042	1,044	1,018	985	1,025	1,020	1,043
Operating profit (NIS millions)	446	464	439	296	440	875	531
Depreciation and amortization (NIS millions)	222	218	212	225	225	204	207
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	668	682	651	521	665	1,079	738
Net profit (NIS millions)	300	229	295	134	175	562	321
Cash flow from operating activities (NIS millions)	561	334	611	476	484	416	471
Payments for investments in fixed assets and intangible assets and other investments (NIS millions)	272	201	200	193	*145	*333	210
Receipts from the sale of fixed assets and intangible assets (NIS millions)	1	19	7	14	14	**340	**39
Leasehold payments	26	26	32	28	25	27	34
Free cash flow (NIS millions) (2)	264	126	386	269	***328	***396	***266
Number of active subscription lines at the end of the period (in thousands) (3)	1,653	1,675	1,693	1,718	1,743	1,768	1,792
Average monthly income per telephony line (NIS) (ARPL) (4)	51	51	48	48	49	49	50
Outgoing usage minutes (millions)	1,019	1,079	883	820	888	865	926
Incoming usage minutes (millions)	1,368	1,293	1,120	1,046	1,099	1,056	1,090
Total number of Internet lines at the end of the period (in thousands) (7)	1,565	1,571	1,566	1,575	1,589	1,613	1,635
Of which the number of Internet lines at the end of the period - wholesale (in thousands) (7)	570	580	584	592	601	612	624
Average monthly income per Internet subscriber (NIS) - Retail (ARPU) (8)	100	98	98	98	98	97	96

Average package speed per Internet subscriber - Retail (Mbps) (5)	71.6	70.4	69.1	67.8	66.2	64.0	61.5
Telephony subscribers churn rate (6)	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 an additional index for assessing its business results, since it is an accepted index in Bezeq's field of activity, which neutralizes aspects arising from change in capital structure, various taxation aspects and the 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 is not used as a single index for assessing Bezeq's operating results or cash flow. Also, the index presented in this report may not be calculated in the same way as the corresponding 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 adequately presenting economic activity, Bezeq presents continuous losses from impairment of fixed assets and intangible assets in DBS and Walla as part of depreciation and amortization, as well as ongoing losses from impairment of broadcasting rights under operating expenses and general expenses (in the statement of income). In this regard, see Note 5 to Bezeq's financial statements for the period ended September 30, 2020 and section 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

(2) Free cash flow is a financial index 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, payments for leases are also deducted. Bezeq presents free cash flow as an additional index for assessing business results and cash flows, since Bezeq's free 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. In this regard, see section 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

(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 number of lines in the period. In this regard, see also section 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

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

(6) Number of telephony subscribers who abandoned (gross) Bezeq Kavi during the period divided by the average number of telephony subscribers added in the period. See also section 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

(7) Total number of Internet lines, including lines in retail and wholesale. Retail – Bezeq's direct Internet lines. Wholesale - Internet lines through wholesale service to other telecom providers.

(8) Revenue from Internet services in retail is divided by the average number of retail customers in the period. In this regard, see also section 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

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

B. Pelephone

	Third quarter of 2020	Second quarter of 2020	First quarter of 2020	Fourth quarter of 2019	Third quarter of 2019	Second quarter of 2019	First quarter of 2019
Revenue from services (NIS millions)	396	394	405	416	446	430	417
Revenue from the sale of end equipment (NIS millions)	149	141	168	186	166	140	161
Total revenue (NIS millions)	545	535	573	602	612	570	578
Operating profit (loss) (NIS millions)	(27)	(8)	(13)	(97)	16	(8)	(10)
Depreciation and amortization (NIS millions)	147	151	150	163	157	156	157
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	120	143	137	*66	173	148	147
Net profit (loss) (NIS millions)	(12)	1	(2)	(69)*	18	2	2
Cash flow from operating activities (NIS millions)	143	149	164	146	200	136	195
Payments for investments in fixed assets, intangible assets and other investments, net (NIS millions)	100	73	65	75	72	82	63
Leasehold payments	67	48	67	51	76	46	69
Free cash flow (NIS millions) (1)	(24)	28	32	20	52	8	63
Number of postpaid subscribers in the end of the period (thousands) (2)	1,986	1,959	1,939	1,911	1,895	1,866	1,842
Number of prepaid subscribers in the end of the period (thousands) (2)	420	417	428	425	415	397	382
Number of subscriptions in the end of the period (thousands) (2)	2,406	2,376	2,367	2,336	2,310	2,263	2,224
Average monthly income per subscriber (NIS) (ARPU) (3)	55	55	58	60	65	64	63
Subscribers churn rate (6)	7.1%	6.8%	7.1%	7.3%	7.3%	7.5%	8.6%

(1) Regarding the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in Bezeq Kavi's table.

(2) Subscriber data includes Pelephone subscribers (excluding other operator subscribers hosted on the Pelephone network, and without IOT subscribers), and does not include subscribers who are 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

Pelephone for services. A prepaid subscription is included in the active subscriber base from the date on which he charged up his account, and is deducted from the active subscriber base when he does not make outgoing use for six months or more. It should be noted that a customer can have more than one subscription number ("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.

(3) The average monthly income per subscriber (postpaid and prepaid). The index is calculated by dividing the monthly average of the total revenues from Pelephone’s services from both Pelephone’s subscribers and other telecom operators, including revenues received from cellular operators using the Pelephone network, repair service and extended warranty during the period in the average active subscribers at that time. See also section 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

(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 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

* The fourth quarter of 2019 includes one-off expenses as a result of the implementation of the collective bargaining agreement in the amount of approximately NIS 77 million.

C. Bezeq International

	Third quarter of 2020	Second quarter of 2020	First quarter of 2020	Fourth quarter of 2019	Third quarter of 2019	Second quarter of 2019	First quarter of 2019
Revenue (NIS millions)	315	314	317	330	329	339	341
Operating profit (loss) (NIS millions)	(275)	27	29	(190)	(40)	9	25
Depreciation and amortization (NIS millions)	42	38	43	51	47	46	46
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS million) (1)	(233)	65	72	(139)	*7	45	71
Net profit (loss) (NIS millions)	(305)	21	22	(149)	(32)	5	19
Cash flow from operating activities (NIS million)	47	48	60	87	64	48	56
Payments for investments in fixed assets and intangible assets and other investments, net (NIS millions) (2)	28	33	34	21	40	34	33
Leasehold payments	7	8	8	8	8	8	8
Free cash flow (NIS millions) (1)	12	7	18	58	16	6	15
Subscribers churn rate (6)	7.2%	6.1%	6.7%	6.3%	7.1%	6.2%	6.6%

Some of the data in the table were updated further to the restatement of Bezeq's financial statements as detailed in section 1.9 and Note 2.5 to Bezeq's financial statements for the period ended September 30, 2020 regarding the definition of operating profit.

(1) Regarding the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in Bezeq Kavi's table.
(2) The section also includes investments in long-term assets.
(3) Number of Internet subscribers who abandoned Bezeq International during the period divided by the average of Internet subscribers who joined during the period. See also section 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

D. DBS

	First quarter of 2019	Second quarter of 2019	Third quarter of 2019	Fourth quarter of 2019	First quarter of 2020	Second quarter of 2020	Third quarter of 2020
Revenue (NIS millions)	313	319	338	331	334	337	343
Operating profit (loss) (NIS millions)	18	23	9	(6)	20	(24)	(45)
Depreciation, amortization and continued impairment (NIS millions)	50	50	44	46	50	68	55
Operating profit before depreciation, amortization and continued impairment (EBITDA) (NIS millions) (1)	68	73	53	40	70	44	*10
Net profit (loss) (NIS millions)	16	18	14	(7)	15	(27)	*(50)
Cash flow from operating activities (NIS millions)	69	39	41	31	37	22	53
Payments for investments in fixed assets and intangible assets and other investments, net (in NIS millions)	38	40	37	32	69	73	64
Leasehold payments	6	7	7	7	8	7	8
Free cash flow (NIS millions) (1)	25	(8)	(3)	(8)	(40)	(58)	(19)
Number of subscribers (at the end of the period, in thousands) (2)	556	557	556	555	558	565	568
Average monthly income per subscriber (ARPU) (NIS) (3)	187	190	195	195	195	197	200
Subscribers churn rate (3)	5.4%	4.8%	5.9%	5.2%	5.5%	4.9%	5.6%

(1) Regarding the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see Notes (1) and (2) in the Bezeq Kavi’s 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 as the division of the total payment received from all non-small business customers by the average income from a small business customer, which is determined once per period.
(3) The average monthly income 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 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019. 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. In accordance with the ARPU data for previous periods were presented again.

(4) Number of DBS subscribers who abandoned DBS during the period divided by the average number of DBS subscribers who joined during the period. See also section 7 of the chapter describing the corporation's business in Bezeq's periodic report for 2019.

* The first quarter of 2019 includes a one-off expense as a result of the implementation of the collective bargaining agreement in the amount of approximately NIS 45 million.

Section 1.6 - Forecast in relation to the Group

Bezeq's periodic report for 2019 and Bezeq's statement for the first quarter of 2020 did not include a forecast in relation to the Group's results for 2020 in light of the COVID-19 pandemic, the restrictions imposed on it and the resulting uncertainty in the economy (see update to section 1.7.6). Although the uncertainty in the economy as a result of the COVID-19 pandemic is still high, in view of the lapse of time since the onset of the pandemic and an examination of Bezeq Group's performance during the pandemic, Bezeq decided to publish a forecast in the second quarter statements for 2020.

The following is the Group's updated forecast for 2020 based on the information currently known to the Bezeq Group:

- The adjusted net profit[1] for shareholders is expected to be approximately NIS 1,050 million

- Adjusted EBITDA[2] is expected to be approximately NIS 3.6 billion

- CAPEX[2] is expected to be about NIS 1.5 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, and the forecasts do not include the effects of the elimination of structural separation in the Group and merger proceedings with Bezeq's subsidiaries and all that entails, if and when they occur in 2020.

The forecasts are based, among other things, on the Group's assessments in relation to the structure of competition in the telecom market and the regulatory conditions in the sector, on the current economic situation in the economy, and accordingly the Group's ability to implement its plans for 2020, and take into account the changes that will apply to the above, the business conditions and the effects that regulatory decisions will have, technological changes, developments in the structure of the telecom market, etc., or if one or more of the risk factors listed in Bezeq's periodic statement for 2019 materialize. Also, there is no certainty that the forecast will be fulfilled, fully or partially, *inter alia* in the face of the COVID-19 pandemic and the significant uncertainty as a result thereof.

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

Regarding the adjusted net profit and adjusted EBITDA, attention is drawn to the impairment recorded in Bezeq's books in connection with the balance of assets of Bezeq International and in connection with the customers of Bezeq International as detailed in section 1.9 below and in the update to section 4.4, in Notes 2.5, 4.3 and 5 to Bezeq's financial statements for the period ended September 30, 2020 and in Bezeq's immediate reports dated October 30, 2020, November 8, 2020, November 9, 2020, November 18, 2020, and November 19, 2020 included in this report by reference. The aforesaid impairment is not included and therefore does not affect the "adjusted net profit" and "adjusted EBITDA" forecast as it does not include a one-time

[1] Net income and adjusted EBITDA - excluding the item other operating expenses / income, net and one-off losses / gains from impairment / increase in value. It should be noted that the adjusted EBITDA and the adjusted net profit for 2019 were approximately NIS 3.73 billion and approximately NIS 950 million, respectively.

[2] CAPEX - Payments (gross) for investment in fixed assets and intangible assets. It should be noted that the CAPEX for 2019 was approximately NIS 1.55 billion.

impairment loss. At the same time, this impairment will be included and will affect Bezeq's (unadjusted) net profit and (unadjusted) EBITDA in the amount of the impairment.

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

Section 1.7.1 - Telecom groups in the Israeli market

Regarding the contract for the sale of Golan Telecom shares to Cellcom - to the best of the Company's knowledge, in June 2020 the Competition Commissioner's approval for the merger was obtained, and on August 13, 2020, the Ministry of Communications approved the merger subject to conditions. On August 26, 2020, Cellcom announced the completion of the engagement.

Section 1.7.2 - Bezeq Group's activity as a telecom group and the restrictions of structural separation

Regarding Section 1.7.2.1 - Structural Separation – In relation to Bezeq's petition to the High Court for the elimination of structural separation - On July 15, 2020, the State submitted an update announcement on its part to Bezeq's petition to the High Court. The State's announcement included an update that on June 30, 2020, the Director General of the Ministry of Communications submitted to the Minister of Communications the report of the interdivisional team for the examination of the update to the structural separation obligations in the Bezeq and Hot Groups ("**the Report**"), according to which team members from the Ministry of Communications 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 the Bezeq and Hot Groups at this time. The announcement also stated that the team's recommendations were 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 dismissed - and at least removed - and Bezeq should be charged with the expenses.

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

- The team and the observers found that the conditions for the complete elimination of the structural separation in the Bezeq Group have not yet matured, since Bezeq Group has significant market power and dominance in the telecom market, and that the elimination of the structural separation at this time may increase Bezeq Group's strength 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 harm to competition in the field of telecom, and consequently, cause damage to the public and telecom consumers.
- According to the observers, the current structural separation structure does not serve the competitive goals of the separation and does not address the competitive problems in the market and therefore should not be left in the current structure, but other alternatives

should be promoted, such as separating wholesale and retail activity or separating ownership between passive infrastructure and the other activities of Bezeq Group.

- 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 service to the public and that would affect structural separation. For example, in parallel with the team’s work, the Ministry of Communications promoted a sweeping change in the way the reverse bundle was operated; In the last two years, the Ministry of Communications has not objected to 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 infrastructure service and ISP service (for this matter, see the 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, *inter alia*, 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 examine more carefully the alternatives and provide recommendations regarding the implementation of the chosen alternative.

Bezeq examines the implications of the State’s position and the report and maintains its claims in the petition (Bezeq submitted its response rejecting the State’s position on July 27, 2020). On August 9, 2020, the Court issued a decision according to which the petition will be heard (the hearing is scheduled for January 6, 2021).

Regarding Section 1.7.2.2 - Marketing of a joint basket of services with a subsidiary - on March 25, 2020, Bezeq received a letter from the Director General of the Ministry of Communications which included a temporary decision (valid for 3 months during the spread of the COVID-19 virus) regarding a change in marketing, according to which, among other things, the need to split the reverse bundle after one year has been eliminated, and Bezeq will be able contact customers for the purpose of renewing the reverse bundle at any time. Bezeq will have to offer all providers within the reverse bundle (including large suppliers that were intended to be excluded at the hearing). Subsequently, on June 18, 2020, Bezeq received a decision from the Director General of the Ministry of Communications, according to which the changes made temporarily will be valid permanently. In Bezeq's opinion, eliminating the need to split the "reverse bundle" *per se* is expected to have a positive effect on Bezeq's activity in the field of Internet, to an extent that cannot be assessed at this stage, since Bezeq's results are likely to be affected, apart from this decision, also by the moves of its competitors and the behavior of its customers. Regarding the announcement of an intention to impose a financial sanction for Bezeq’s non-compliance in full with the provisions of the license regarding the reverse bundle - on June 30, 2020, Bezeq received a demand for the payment of a financial sanction for marketing the reverse bundle in the amount of NIS 2,013,760. The amount of the sanction was paid by Bezeq.

<u>Hearing on the examination of the elimination of the separation between broadband infrastructure service and Internet access service (ISP)</u>

On October 4, 2020, a "hearing on the examination of the elimination of the separation between broadband infrastructure service and Internet access service (ISP)” was published, according to which the Ministry of Communications intends to take policy measures that include, among other things, amending the licenses of the infrastructure owners, Bezeq and Hot Telecom, so that as of 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 for ISP providers" and "ISP service", under the conditions specified in the hearing, including a prohibition on infrastructure owners from contacting certain customers with various marketing offers before and after 1.1.2022 ("**the Effective Date**"). The following is a table summarizing the marketing of the services by the infrastructure providers before and after the Effective Date:

	Until Effective Date			**As of the Effective Date**		
	Infrastructure only	Reverse bundle	Future offer of a unified service	Infrastructure only	Reverse bundle	Unified service
Customers currently subscribed to the service	Yes	Yes	No	Yes	Yes (at the discretion of the infrastructure provider)	Yes
Customers seeking to join the service	Yes	No	No	No	No	Yes

For this matter and for details of the conditions at the hearing and the hearing documents, see Bezeq's immediate report dated October 5, 2020, which is included in this report by way of reference.

Bezeq estimates that the elimination of the separation between the infrastructure provider and the access provider has a positive effect on its business. At the same time, to the extent that the arrangements proposed at the hearing regarding the period up to the determining date are accepted, they are expected to impair Bezeq's marketing capabilities in a way that will adversely affect its operations, as well as make it difficult to launch the fiber project. In addition, with regard to Bezeq International, such elimination of separation may result in damage to its results and / or a decrease in the value of its assets. On November 5, 2020, Bezeq submitted its response to the hearing, in which it mainly emphasized the need to amend the proposed restrictions for the period up to the Effective Date.

Regarding the marketing of service baskets by HOT - In accordance with a hearing published by the Ministry on October 10, 2020, it is proposed to amend the licenses of Hot Net and Hot Mobile companies, so that they may apply (in an expedited procedure) for approval of marketing a shared basket of services, which includes their services and the services of Hot Telecom and Hot Cable Communication Systems Ltd. The aforementioned baskets of services do not have to be separable, but license holders for the provision of Internet access services must be offered a corresponding basket under the same conditions.

Section 1.7.4 - Additional regulatory aspects that are relevant to the whole Group or to some of the companies in it

Regarding paragraph 1.7.4.4 (b) - Amendment regarding the IPv6 protocol (web addresses) - Regarding the Ministry of Communications' decision of July 3, 2019 regarding the transition to the IPv6 protocol, on May 12, 2020, the Ministry of Communications approved (following a hearing published on the subject) a 3-month postponement of the date of implementation of the first milestone determined in the decision (15 months instead of 12 months), in view of the spread of COVID-19 and its effects.

Regarding paragraph 1.7.4.8 - Hearing on the subject of millimeter waves - Following the hearing on the issue on April 6, 2020, an amendment to the Wireless Telegraph Ordinance (Non-Applicability of the Ordinance) (No. 2), 5742-1982 was published, which provides for, under certain conditions, the non-applicability of the Wireless Telegraph Ordinance with respect to the use of the V-Band field 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 those intended to be fixed stations in an outdoor wireless point to point line, and those intended to operate indoors only. Also, on August 2, 2020 an additional amendment was published to said ordinance stipulating, under certain conditions, the non-applicability of the Wireless Telegraph Ordinance with respect to additional uses.

Regarding paragraph 1.7.4.9 - Hearing on asymmetry - On November 2, 2020, the Ministry of Communications issued a decision by hearing and amendment of the BSA + Telephony wholesale service portfolio, which, among other things, imposes on infrastructure owners, including Bezeq, periodic publication duties on the mechanized interface (API) and on its website about the deployment of an advanced network. In addition, Bezeq must publish detailed statistical information in an internal interface between the operators, which relates to a wide range of parameters. The amendment to the service portfolio further stipulates that Bezeq must provide the service providers with the characterization of the appropriate computerized interface for the service providers and complete its development and the publication of the network deployment, within the deadlines determined in the amendment to the service portfolio. An amendment to Bezeq's license was also subsequently received regarding the submission of an engineering plan and making upgrades / developments in the network.

On August 9, 2020, the Government Legislation website published a memorandum to the Communications (Telecom and Broadcasting) Law (Amendment No. ____) (Change in the Format of Regulation of Provision of Telecom Services), 5744-2020 for public comments until August 30, 2020. The format of the current regulation (according to which the main instrument for regulation is a license to provide telecom and broadcasting services) in such a way as to eliminate the obligation to obtain a specific license (per person and per operation) as a condition for performing a telecom operation. It is proposed that the best way to regulate the provision of communications services in Israel will be through a general authorization, which is a public document, that prescribes clear and detailed conditions which apply in the same way to all service providers. In addition, the definition of "telecom service" and "telecom facility" subject to the regulation will be reduced, and accordingly, the number of services subject to the regulation will be reduced, in parallel with a corresponding reduction in the number of services subject to regulation. According to the annotations of the memorandum, the immediate effect of such amendment is to reduce the number of licensees from over 150 to about 30. The memorandum proposes that a telecom service whose delivery will be subject to regulation be a service provided to the public that is one of the following: (1) A service provided while operating a telecom network, which is essentially: An Internet access service, a data transmission service. (2) Telephony service. (The Minister will have the authority to extend). Telecom operations that do not provide a service to the public, except for the laying of an underwater cable, will not be subject, as proposed, to regulation under the law. That is, the obligation to obtain a license for the purpose of performing a telecom operation will be eliminated. An individual license (not n authorization) will continue to be a condition for the provision of a telecom service, in which one of the following characteristics exists: the service is provided while operating a telecom satellite network; The service is provided while operating a mobile telephony communication system; the service is provided while operating an access network with a minimum number of users, as determined in the regulations by the Minister; the service is provided by a municipal company or a municipal subsidiary or by a local authority; It is provided by a licensed service provider if he decides that the provision of the services by virtue of a general authorization may harm state security, public safety, efficient use of a resource that is in short supply or promotion of competition. According to the annotations, 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 telecommunications. On August 30, 2020, Bezeq submitted its response to the law memorandum, according to which 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 the telecommunications industry. The ability to compete on equal terms in areas where deployment is expected by providers by virtue of a general authorization. Moreover, amending the law could lead to the entry of dozens of elements into telecom infrastructure and to the uncontrolled use thereof, with all that that implies.

Regarding a decision by hearing in respect of licensing for new operators for the provision of Internet access infrastructure services - see the update to section 2.6.3.

On November 24, 2020, an amendment was published to the Consumer Protection Law, according to which a database will be established and managed by the Consumer Protection Authority to restrict marketing inquiries by a dealer through telephone calls (including an electronic communication call) in order to enter into a transaction. Pursuant to the amendment, the database will record telephone numbers of consumers who wish to restrict such marketing inquiries, and a dealer will not be allowed to contact a consumer whose telephone number is registered in the database with such marketing (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.

<u>Section 1.7.6 - Pandemic – The spread of the COVID-19 pandemic</u>

During the period from the date of publication of the periodic report for 2019 until the date of publication of this report, the outbreak of the pandemic and its effects expanded, reflecting, among other things, in the imposition of various restrictions, including restrictions on civilian movement and gatherings, employment restrictions, transportation restrictions and significant reductions in activity in the economy.

In view of the effects of the pandemic on the whole economy, on the world and on the Group companies, which also involve great 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. At this stage, the consequences of the event are mainly due to a significant decrease in revenues from mobile roaming services, as well as a certain decrease in revenues from the business sector in all the Group companies, while the impact of the pandemic on the Group companies' financial position was mixed, and the increase in Bezeq's activity, along with actions taken by the Group companies in view of the consequences of the event, offset most of the damage to revenues from mobile roaming services. Also, if the crisis persists, there may be an impact on revenues from the sale of end equipment, as well as on the amounts and collection dates mainly from some of the Group's small to medium business customers. In parallel, so far, as a result of the effects of the pandemic there has been a certain increase in demand for some of the communication services and in the revenues from such services. Regarding the examination of indicators of impairment in connection with the valuation of Pelephone, see Note 5.4 to Bezeq's financial statements for the period ended September 30, 2020.

The above estimates 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 event, the nature and extent of the economic and other restrictions associated with it, and the intensity and duration of the economic recession.

Following the various actions taken by the Group companies in order to deal with the risks and exposures arising from the consequences of the event, the Group companies implement additional ways of dealing with the event and its duration, including reducing their expenses and adjusting their activities to the situation.

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 telecommunications companies (some of which have already expired), *inter alia*, in the matter of response times at the call centers, mobilizations, connection and collection of equipment, and reverse bundle.

Regarding this section, see also Note 1.2 to the financial statements for the period ended September 30, 2020.

<u>Section 1.8 - Bezeq Group's business strategy</u>

Regarding streamlining measures and promoting the assimilation of synergies between the subsidiaries - during the first nine months of 2020, the number of employees of Bezeq's subsidiaries decreased by approximately 330 employees.

Following previous resolutions of the Bezeq Board of Directors regarding the business strategy of Bezeq Group, including activities for the sale of the subsidiaries Bezeq Online and Walla, on September 15, 2020, Bezeq entered into an agreement with Jerusalem Post Ltd. ("**the Buyer**") for the sale of all Bezeq's holdings in Walla, in exchange for a total amount of NIS 65 million, of which NIS 55 million in cash, and the balance of NIS 10 million through Bezeq's entitlement to receive advertising space from the Buyer, Walla (and related entities) for a period of up to 7 years from completion of the transaction. The sale agreement included Bezeq's undertaking to indemnify the Buyer in certain circumstances. Completion of the agreement is subject to the approval of the Competition Commissioner (obtained on October 21, 2020) and the approval of the Ministers (the Prime Minister and the Minister of Communications), as well as other conditions included in the sale agreement. In this regard, see also Bezeq's immediate report dated September 15, 2020, which is included in this report by way of reference.

Section 1.9 - Event or matter that deviates from the ordinary business of the corporation

At the beginning of November 2020, 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 resulting, *inter alia*, from non-imputation of costs from previous years in respect of payment of advances to suppliers to the income statement and from 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 tests, procedures and compensatory actions, while investing much effort and many resources, for the purpose of duly preparing the financial statements.

For details on the effect of the gaps corrections on the Group's equity and on 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 for coordination by way of restatement of Bezeq's financial statements in light of the above test results, see Notes 2.5 and 5 to Bezeq's financial statements for the period ended September 30, 2020.

The Bezeq Board of Directors has appointed an independent external examiner for the purpose of an in-depth investigation of the events and circumstances. The investigation is in process as of the date of publication of the report.

For further details on this matter, see also Bezeq's immediate reports dated November 9, 2020, November 18, 2020 and November 19, 2020 included in this report by way of reference, Chapter 2 of the Board of Directors' Report and Chapter E (Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended on September 30, 2020). Also, regarding legal proceedings related to this matter, see the update to section 2.18.1.

Stationary domestic communications - Bezeq

Section 2.2.6 - Other services

In respect of paragraph 2.2.6.1 regarding the deterioration in the payment ethics of communications operators, deferral of payments and increase in the volume of dispute claims - On April 27, 2020, Bezeq contacted the Ministry of Communications through its attorneys and announced that it does not intend to continue providing wholesale services to service providers who do not pay for said services. Bezeq further clarified that as long as the Ministry prevents it from doing so, it intends to exercise its rights in the matter. On May 12, 2020, the Ministry announced that it is examining the issues that emerge from the letter by Bezeq’s attorneys. In its response to the Ministry’s letter dated June 11, 2020, Bezeq stated that in light of the Ministry’s announcement that it intends to examine the regulation of the issue, Bezeq believes that the Ministry should act as soon as possible to regulate it, and Bezeq even proposed a payment enforcement mechanism. Bezeq also clarified that it reserves its rights and claims on the matter, since the letter does not provide a response to Bezeq's claims. In November 2020, the Ministry of Communications summoned the telecom operators to a "round table" meeting on the issue of payment duty, and in accordance with its announcement, it intends to re-examine the guideline on the issue (which has so far been a transfer of financial disputes to be decided by courts).

<u>Section 2.6.3 - The field of Internet infrastructure</u>

Regarding the announcement by the Minister of Communications as part of the draft economic plan for 2020 regarding an examination of the reorganization of the retail Internet market in Israel, including the elimination of the separation in Internet services between infrastructure services and Internet access services (ISP) and a hearing on the examination the separation between broadband and Internet access services (ISP), see updates to sections 2.7.2 and 1.7.2.2.

Regarding paragraph 2.6.3.5 in relation to IBC - to the best of Bezeq's knowledge, in September 2020, an investment agreement 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 infrastructure to be established by IBC, were signed. The fulfilment of the agreements is subject to regulatory approvals and third parties.

Regarding paragraph 2.6.3.6 in relation to the hearing on licensing for new operators for the provision of Internet access infrastructure services - On October 13, 2020, a decision was issued by the Minister of Communications at a hearing in which the threshold requirements for obtaining a license to provide broadband infrastructure services were significantly reduced, such reduction being made temporarily by allowing for a special license (for a period of thirty-six months from the date of the decision) in lieu 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, service will be provided to no more than than 8,000 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, to an extent that Bezeq cannot assess at this stage. For this matter, see Bezeq's immediate report dated October 15, 2020, which is included in this report by way of reference.

<u>Section 2.6.6 - Bezeq's preparations and ways of dealing with increasing competition</u>

Regarding paragraph 2.6.6.7 in respect of Bezeq's Be Router - As of the date of publication of the report, Bezeq's customer base using the Be Router is approximately 520,000 customers (approximately 52% of Bezeq's retail Internet customers). Bezeq also markets products for improving the range of the Bspot and Be Mesh home Internet networks, while as of the date of publication of the report, about 240,000 units of these products were marketed by Bezeq.

<u>Section 2.7.2 - Infrastructure and equipment of stationary domestic communications</u>

<u>Regarding the telephony network</u>

Bezeq has completed the replacement of its telephony switch and the conversion of all its telephony customers to the new switch.

Regarding the Internet

Regarding the use of 35B technology - on April 7, 2020, Bezeq requested the Ministry of Communications to allow it to use these infrastructures immediately, especially in light of the significant increase during the COVID-19 crisis in the volume of Internet use by a large number of subscribers simultaneously. On July 12, 2020, Bezeq received approval from the Ministry of Communications for the use of this technology, according to which the service will be launched at the end of 4 months from the date of distribution of the interface characterization of the service to the service providers. Due to the characteristics of the technology, the deployment is partial (according to Bezeq, to approximately 230,000 subscribers) and does not cover all Bezeq sites. As of the date of publication of this report, this partial deployment has almost been completed. At this stage, Bezeq intends to launch the browsing speed of up to 200 MB (compared to the current rate of up to 100 MB) to customers connected to the sites where the said technology was deployed. The launch of the new browsing speed is not expected to have a material effect on Bezeq's revenues, due in part to the extent of the said partial deployment.

Regarding the status of regulatory decisions in respect of deployment and provision of services on a fiber infrastructure (fiber outline)

(1) Policy for the deployment of ultra-broadband stationary infrastructure in Israel

Following the publication for public comments, on November 5, 2019, of the recommendations of the inter-ministerial team for the examination of the policy on deploying ultra-broadband stationary infrastructure in Israel (the "**Inter-Ministerial Team**") and to the publication for public comments, on June 14, 2020, of the recommendations of the Inter-Ministerial Team regarding the Hot Group (as detailed in the immediate report dated June 15, 2020, included in this report by way of reference) - on July 20, 2020 a report was published by the Ministry of Communications (dated July 15, 2020) by the Inter-Ministerial Team, which includes final recommendations ("**the Report**"), as well as the Minister of Communications' notice according to which he decided to adopt the team's recommendations with several changes, as detailed below. According to the report, these are the main points of the regulation recommended by the Inter-Ministerial Team:

"

A. Bezeq will be able to select the statistical areas in which it will deploy and operate an ultra-broadband network for all households residing therein ("**Deployment Areas**"). Notice of the selected statistical areas will be given to the Ministry of Communications ("**the Ministry**"), while its obligation to complete the deployment in these areas within 5 years will be enshrined in law. The milestones for completing the deployment obligation and the minimum time periods for connecting customers in the Deployment Areas will be determined in its license. If Bezeq does not notify the Ministry of the Deployment Areas, and an updated ultra-broadband network deployment obligation will not be determined in its license, the set of regulatory obligations that apply to Bezeq and the other licensees today would not change.

B. Hot Telecom will not be required to deploy an ultra-broadband network that does not use its existing access network. Alongside this, there will be no change in Hot Telecom's existing universal deployment obligation for services provided on the basis of its coaxial cable network. Should Hot Telecom choose to provide advanced services on top of its coaxial cable network, changes in the existing deployment obligation could be considered. In any case, the provision of advanced services is subject to the presentation to the Ministry for approval of a deployment plan that includes engineering and economic implications.

C. In order to encourage the deployment of an ultra-broadband network in the statistical areas in which Bezeq announced that it will not deploy an ultra-broadband network (“**the Incentive Zones**"), a fund will be established that will provide financial incentives for the deployment of an ultra-broadband network for all households residing therein (“**the Universal Fund**”, “**the Fund**”). The Fund will allocate funds through competitive procedures aimed at allocating the Fund’s resources efficiently throughout the years of the Fund’s activity, with the main criterion for selecting winners being the ratio between the number of households deployed to and the amount allocated.

D. The Universal Fund will be financed through annual payments on the part of licensees (including Bezeq) under the Communications (Telecom and Broadcasting) Law, 5742-1982 (“**the Law**" or "**the Communications Law**"), whose main activity is data transmission services ("**Infrastructure-Oriented Entities**"), as well as corporations related to Infrastructure-Oriented Entities that provide communications services, *inter alia* as part of a package of services that includes a telecom service by Infrastructure-Oriented Entities ("**Marketing-Oriented Entities**"). The rate of payment to the fund will be 0.5% of the annual income of such entities.

E. In order to encourage Bezeq to commit to extensive deployment and reduce the Incentive Zones, and in order to reduce the deployment costs in the Incentive Zones and allow competition therein despite the lack of multiple infrastructures, the team recommends to:
   1. Set restrictions on Bezeq's deployment in the Incentive Zones.
   2. Determine that Bezeq will not be able to compete in the competitive procedures for allocating the funds of the Universal Fund.
   3. Determine the cost of using Bezeq's physical infrastructure in the Incentive Zones on the basis of a different calculation method from the one set forth in the wholesale market regulation, so that it will be significantly lower.
   4. Determine that the winners of the competitive procedure for deployment in an Incentive Zone will be required to provide to other licensees a BSA service over the ultra-broadband network that they will deploy in this area.

F. Upon the lapsation of three years from the beginning of the Fund’s activity, an inter-ministerial committee will examine the rate of deployment in the Incentive Zones, the effectiveness of the competitive procedure, and the cost of financing the deployment, in order to examine the need for changes in the competitive procedure and for additional examination dates, and will formulate an additional recommendation regarding the continuation of the Fund’s activities."

Also included in the report's recommendations regarding Hot was a recommendation to allow Hot to use the BSA service over another's ultra-broadband network. However, in order to ensure that the use is made as a complementary, rather than an alternative, means of upgrading the network by Hot Telecom, the use will be possible upon presentation of an engineering plan for upgrading Hot Telecom’s network and approval by the Ministry assuring that Hot Telecom begins providing ultra-broadband service independently.

The Minister of Communications has decided to adopt the team’s recommendations, with several changes, the main ones being:

- The first allocation of funds on behalf of the Universal Fund will be made as early as 2021 (instead of 2022).
- In the first three years of the Universal Fund's activity, it will be possible to give weight to various criteria (proximity to the border, economic, security and social resilience of the area and reducing gaps between central Israel and the periphery) amounting to about 10% of the households deployed to in Incentive Zones in a year.
- If Hot Telecom chooses to deploy an ultra-broadband network that is not based on its existing access infrastructure, a minimum deployment obligation of 30% must be imposed on it, as well as an obligation to meet a deployment ratio of 1: 1 between the periphery and central Israel.
- If Hot Telecom wins a competitive procedure in an Incentive Zone, the households that will be provided access to connect to an advanced network in that area will not be considered for the purpose of examining Hot Telecom's compliance with the deployment obligations set forth in its license.
- The communications regulations will be amended in a way that will allow Hot Telecom to use the BSA service over Bezeq’s network only after Hot Telecom presents an engineering plan to upgrade the network, approved by the Ministry.

Further to this, on September 13, 2020, the Government of Israel approved the promotion of nationwide deployment of advanced communications infrastructure in Israel, in accordance with the final recommendations of the Inter-Ministerial Team. The implementation of the main part of the Government decision requires an amendment of the Communications Law. On September 18, 2020, the Memorandum to the Communications Law (Telecom and Broadcasting) (Amendment) (Advanced Network), 5724-2020, was published, and on October 8, 2020, Bezeq forwarded its reference to the memorandum to the Law. Subsequently, on November 9, 2020, the Draft Communications Law (Telecom and Broadcasting) (Amendment - Provisions Regarding the Deployment of an Advanced Network), 5772-2020 was published (as a private draft law).

Following the government's approval as aforesaid, on September 14, 2020, Bezeq's Board of Directors approved the launch and launch of the Bezeq program for the retirement of ultra-broadband stationary infrastructure (“**the Fiber Project**"). The Fiber Project is a complex and resource-intensive project that involves a considerable investment by Bezeq, in the billions of NIS, over the years of the project, and is expected to include a massive deployment of fiber optics across Israel, on a large scale that will allow ultra-fast Internet services.

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

<u>(2) Service rates on ultra-broadband fiber infrastructure</u>

Regarding wholesale BSA service rates over Bezeq’s network - Following the Ministry of Communications' hearing on setting a maximum rate for an ultra-broadband access service managed over Bezeq's fiber network, the Minister of Communications' decision regarding changes in the structure and level of rates was published on August 25, 2020, according to which the Minister decided to adopt the recommendations of the professional echelon in the Ministry and subsequently the Communications Regulations (Telecom and Broadcasting) (Use of an NIO’s Public Network) (Amendment No. 2), 5722-2020, which set the maximum rates for ultra-broadband access service managed on Bezeq's fiber network, came into force. 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 determine 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 annually, on January 1, starting in 2021, subject to changes in the consumer price index. According to the recommendation of the Ministry’s professional team, the said rates will be valid for a period of three years and will then be replaced by a fixed rate).

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

<u>(3) Shared use of fiber optic infrastructure in existing residential buildings</u>

Regarding the hearing on the shared use of fiber optic infrastructure in existing residential buildings - on July 27, 2020, the Ministry of Communications' decision of July 22, 2020 was published at the hearing. In accordance with the decision, a directive dated July 27, 2020 (attached to the decision) 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 of a domestic operator that deploys fiber infrastructure in a residential building where there is no fiber infrastructure to contact any other domestic operator with a proposal to make shared use of the fiber infrastructure that will be deployed in the building), the procedure for making the shared use, the principles for determining the payment for the shared use (which will be based on a relative cost of establishing the fiber infrastructure plus a reasonable premium for the sharing operator), the need to reach an agreement between NIOs on the level of service and maintenance of fiber and prohibition of discrimination. The decision also states that the determination of an arrangement for the shared use in existing buildings in which fiber-optic infrastructure has already been deployed will be examined by the Ministry separately, and that the need for adjustments to the recommendations of the Inter-Ministerial Team for the examination of the policy for the deployment of ultra-broadband stationary communications infrastructure in the State of Israel, which were adopted by the Minister of Communications on July 15, 2020, will be examined (see update to this section above). In this regard, see also Bezeq's immediate report dated July 27, 2020, which is included in this report by way of reference. Despite the binding directive and Bezeq's inquiries to Partner and Cellcom, Bezeq has not yet received the details of the buildings planned for deployment by Cellcom and Partner as of the entry into force of the decision (July 27, 2020).

With regard to deployment in new residential buildings, a draft amendment to the Planning and Building Regulations (Application for Permit, Conditions and Fees) was published for reference (until August 17, 2020), which stipulates, among other things, provisions regarding the installation of communication infrastructure in new buildings. According to the explanatory memorandum to the draft amendment, under the current wording of the regulations, the communications infrastructure currently installed in new buildings includes a coaxial cable (used for cable and satellite transmissions), as well as additional copper cable communications infrastructure used for telephony and Internet. This amendment is intended to determine provisions regarding the establishment of advanced communication infrastructures of fiber optics in new buildings by the contractors, already at the time of construction. On August 17, 2020, Bezeq submitted professional comments to the draft amendment to the regulations.

<u>(4) Additional matters</u>

On July 2, 2020, a draft of the economic plan for 2020 was published for public comment, which includes, *inter alia*, a government decision to amend the Communications (Bezeq and Broadcasting) Law, 5742-1982 on a number of issues related to promoting nationwide retirement of advanced communications infrastructures in Israel. In this context, it was stated that the Minister of Communications will announce that the Ministry of Communications will complete, within 90 days, an examination of the reorganization of the retail Internet market in Israel, including the elimination of the division of Internet services between infrastructure and Internet access service (ISP), noting the need to balance the competition in the market with the wellbeing of the consumers and simplify the purchase of an Internet service in Israel for end users, including recommendations for appropriate transitional provisions to maintain competition in the market, as required (for a hearing on the subject published further thereto, see update 1.7.2.2).

On August 25, 2020, the decision of the Minister of Communications and the recommendation of the director of the Ministry's Engineering Administration were published regarding an advanced network with a very high capacity. The decision adopts the recommendation of the professional factors and sets the criteria for characterizing an advanced network, which will allow each operator to choose the mix of technologies through which it will provide service to its subscribers. Depending on the decision, an advanced network is a network that will meet one of the following criteria:

- Criterion 1 - FTTH fiber network based entirely on fiber up to an optical socket in the customer's home.

- Criterion 2 - A wired network capable of providing, under normal peak conditions, end-user quality of service (QoS) that includes, among other things, a download rate of at least 1000 MB and an upload rate of at least 200 MB.

This definition will form the basis for determining the deployment obligation of infrastructure owners (Bezeq and Hot) and participants in tenders in the Incentive Zones, and it joins the Ministry’s additional decisions regarding the fiber layout.

<u>Section 2.7.4 - Real Estate</u>

In October 2020, Bezeq vacated the management offices at Azrieli Towers in Tel Aviv and moved to its new offices at 7 HaManor Street in Holon.

Section 2.9.5 - Officers and senior management employees at Bezeq

On June 22, 2020, the Chairman of the Bezeq Board of Directors, Mr. Shlomo Rodav, resigned from his position as Director and Chairman of the Board of Directors of the Company and its subsidiaries, and on June 23, 2020, Bezeq's Board of Directors has decided to approve the appointment of the independent director, Mr. David Granot, as Chairman of the Board of Directors, until the appointment of a permanent Chairman of the Board (it should be noted that on August 16, 2020, Mr. Granot announced the termination of his term as Chairman of the Board as of the end of that day). On August 2, 2020, Bezeq's Board of Directors decided to approve the appointment of Mr. Gil Sharon as a director and Chairman of Bezeq's Board of Directors, as of the date on which Mr. Gil Sharon will announce his entry into office during August 2020 (further to this, Mr. Gil Sharon began serving as Chairman of the Board of Directors on August 27, 2020). On September 6, 2020, the special general meeting of Bezeq's shareholders approved the appointment of Mr. Gil Sharon as a director in Bezeq until the next annual general meeting of Bezeq's shareholders. The terms of office of Mr. Gil Sharon will be brought for approval by the general meeting as required by law, after discussion and approval by the Remuneration Committee and the Board of Directors.

As of the date of publication of the report, Bezeq has 9 directors, of whom three 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).

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 specified in Bezeq's immediate reports dated April 2, 2020 and May 14, 2020 regarding the convening and results of the meeting included in this report.

Section 2.11 - Working capital

For details regarding the Group's working capital, see section 4.3 of the Company's Board of Directors' report.

Section 2.13 – Financing

On April 7, 2020, Bezeq published a prospectus of registration for trading and unblocking of Bezeq debentures (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 debentures (Series 11 and 12) dated July 10, 2019, on April 26, 2020, these bonds were delisted from trade in the "institutional series" system of the Stock Exchange and are listed for trade on the Stock Exchange's main list. In this regard, see also Bezeq's two immediate reports dated April 7, 2020 regarding the prospectus and the schedule for listing on the main list, included in this report by way of reference.

On May 27, 2020, Bezeq completed an IPO according to a shelf offer report from May 26, 2020, which was published according to the prospectus, of Bezeq's debentures (Series 11 and 12), by expanding the series listed for trading on the Securities Exchange's main list. In this framework, 231,906,000 debentures (Series 11) were issued in exchange for an amount of approximately NIS 243,919,000 million, as well as 470,000,000 debentures (Series 12) in exchange for an amount of approximately NIS 480,481,000. In this regard, see also Bezeq's immediate report dated May 27, 2020 on the results of the IPO, included in this report by way of reference.

In addition, in June 2020, Bezeq repaid an early loan from an institutional entity in the amount of NIS 500 million (principal).

Below is an up-to-date table of the distribution of Bezeq's long-term loans (including current liabilities), including data on issues and early repayment as detailed above, as well as current repayments as of September 30, 2020.

Period of loan	Source of financing	Principal amount (in NIS million)	Currency type or linkage	Type of interest rate and change mechanism	Average interest rate	Effective interest rate	Interest rate range in 2020
Long-term loans	Banks	1,591	NIS unlinked	Fixed	3.71%	3.87%	-6.85% 3.20%
	Non-banking sources	107	NIS unlinked	Variable on the basis of the short--term loan interest rate per year *	1.44%	1.50%	-1.54% 1.43%
	Non-banking sources	3,993	NIS unlinked	Fixed	3.11%	3.20%	-5.25% 3.20%
	Non-banking sources	3,708	NIS linked	Fixed	1.99%	2.03%	-3.70% 1.70%

Short-term loan annual yield (811) - 0.042% (average of the last 5 trading days of August 2020) for the interest period that began on September 1, 2020.

Section 2.13.6 - Credit rating

On April 22, 2020, Midroog Ltd. ("**Midroog**") downgraded Bezeq's debentures (Series 6, 7, 9, 10, 11 and 12) to the rating of Aa3.il with a stable horizon. Also, on May 4, 2020, S&P Global Ratings Maalot Ltd. ("**Maalot**") confirmed the ilAA rating of Bezeq and its debentures and raised the rating outlook to stable.

In addition, following the above in connection with the issuance of Bezeq's debentures (Series 11 and 12) - on May 26, 2020, Midroog and Maalot announced the issuance of the above rating (Aa3.il with a stable rating horizon and ILAA-, respectively) for the issuance of the debentures through expansion of the series in the amount of up to NIS 710 million par value.

For these matters, as well as for the above rating reports, see Bezeq's immediate reports dated April 22, 2020 and May 26, 2020 (Midroog), and from May 4, 2020 and May 26, 2020 (Maalot).

Section 2.16 - Restrictions and supervision over Bezeq's operations

Section 2.16.1 - Supervision over Bezeq's rates

Following a hearing published by the Ministry of Communications on April 28, 2020 regarding unusual uses of landline call minutes, in light of the outbreak of the COVID-19 pandemic, which led to some landline subscribers significantly increasing the use of landline call minutes, on May 10, 2020, the Minister of Communications approved a temporary amendment to the provisions in respect of the alternative payment baskets provided by Bezeq, in accordance with an outline proposed by Bezeq that allowed for a retrospective increase in usage packages in the event of use beyond a certain threshold. On August 2, 2020, the Ministry of Communications published another hearing regarding unusual uses of stationary call minutes, in which it was proposed to determine in advance that from the date of setting restrictions due to the COVID-19 crisis, and in the Ministry's announcement, appropriate arrangements will take effect, while in relation to Bezeq, the Ministry will work with Bezeq in favor of creating a voluntary arrangement similar to the previous arrangement established as stated above. On September 17, 2020, a decision was made by the Ministry of Communications accepting the new voluntary arrangement proposed by Bezeq, which includes prior approval of alternative payment baskets that include increased use.

Regarding paragraph 2.16.1.8 in respect of the preliminary monitoring report on the price offer for transmission services sent to Bezeq on May 19, 2019 by the Ministry of Communications - on July 27, 2020, the Ministry of Communications announced its decision to close the monitoring procedure.

Regarding paragraph 2.16.1.8 in respect of the Communications (Telecom and Broadcasting) Regulations (use of NIO Public Network), 2014 ("**the Regulations**") - on November 29, 2020, the Communications (Telecom and Broadcasts) (Use of NIO Public Telecom Network), 5720-2020 notice was issued ("**the Notice**"), in which the demand forecast indices for 2021 were updated in the Regulations, from which, in accordance with the formulas in the Company Regulations, infrastructure wholesale service rates are derived (it should be noted that the exact updated rates for 2021 have not yet been published). Bezeq's revenues in respect of such services are affected by both the rates and the actual use of Bezeq's network, which depends on the conduct of the various communications operators. Based on Bezeq's assessments of the network operators' use of its network during 2021, Bezeq estimates that the updated rates, 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 manner of determining some of the demand forecast indices in the Notice by the Ministry of Communications, and Bezeq is examining its actions in this regard.

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

Section 2.16.2 - Bezeq's NIO license

On October 26, 2020, Bezeq was sent a general license by the Communications and Postal Service Staff Officer in the Judea and Samaria Civil Administration to provide stationary domestic telecom services in the Judea and Samaria area. In accordance with what is stated in the letter attached to the license, this is a license in the outline of a reference to Bezeq's general license granted thereto by the competent entities in the Ministry of Communications, while making the necessary adjustments in the area, and it is nothing but a snapshot of an existing situation in the field of infrastructure that is within 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 allows Bezeq, in principle, to streamline the field service through the use of technicians from the entire Group, subject to the approval of an appropriate procedure to be formulated by Bezeq and imported for approval by the Communications Staff Officer).

Regarding paragraph 2.16.2.9 (b) – in respect of the guarantee that Bezeq invented for the Ministry of Communications - in accordance with the amendment to the Bezeq license, the guarantee deposited by Bezeq was reduced as of May 1, 2020 to NIS 15 million.

Section 2.16.3 - The Communication Order

Regarding paragraph 2.16.3.6 – in respect of the hearing on the change in the requirement to maintain a minimum percentage of controlling interest in a general licensee by an Israeli entity, on July 8, 2020, an amendment was published to some of the communications regulations that stipulate Israeli requirements, so that the possibility of converting the 'Israelity' requirement into a provision under section 13 of the Communications Law, which will apply alternative provisions to the 'Israelity' license requirement, was added. To the best of the Company's knowledge, no parallel amendment has yet been made to the Communications Ordinance.

Section 2.16.4 - Wholesale Market

Regarding paragraph 2.16.4.4 - Wholesale Telephony Service - on May 27, 2020, Bezeq received a letter from the Ministry of Communications regarding the telephony call minutes service, which included a dispute between Bezeq and the service providers "Partner" and "Cellcom" regarding the interpretation of the service portfolio in relation to ancillary services. In accordance with the decision of the Ministry, which accepted Bezeq's position on the matter, the telephony service that Bezeq will offer to the service providers is a service that will allow the service provider to receive incoming calls and make outgoing calls, and will enable the provision of all ancillary services to the basic telephony services provided by the infrastructure owner to its customers, when the ancillary services under the service portfolio will be provided through the service provider's switch, and Bezeq will not be obligated to offer the ancillary services using the switch it operates (except if it is not possible to supply them using the service provider switch). In accordance with the Ministry's announcement, at the end of 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 reports 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 and its intention to act in accordance with the Ministry's announcement. 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 provisions of the service portfolio in respect of the telephony service, and it is not sufficient to prevent the Ministry from taking supervision and enforcement procedures in this matter.

As Bezeq noted in its reports, in its estimation, the application of wholesale telephony in general may adversely affect its financial results, but at the same time, Bezeq cannot yet assess the extent of the impact that may amount to a material effect, as it depends on many variables, including the volume of demand for the service, the price levels of replacement products available in the market today (such as the VOB service) and more.

Section 2.16.8 – Economic competition law

Regarding paragraph 2.16.8.3 in respect of conditions set forth in the approval of the Competition Authority for the merger between Bezeq and DBS - On November 24, 2020, the Competition Authority published an amendment to the terms of the merger that is under its consideration, according to which, in view of the changes that have taken place in the market, which affect the barriers to entry into the field of multi-channel television and the entry of competition into the industry, the Commissioner is considering: (1) the cancellation of section 4 of the terms of the merger, according to which: Bezeq's television services (and of a person affiliated thereto) will be sold and provided on equal terms to all Bezeq customers, whether they purchase additional communication services from Bezeq or not; and the price of the TV services as part of a basket of services will be displayed separately from the other services; and (2) an update to section 6 of the terms of the merger, which stipulates that Bezeq and Yes will cancel all exclusivity arrangements to which they are party regarding non-original TV content, and will not be parties to such exclusivity arrangements so that the section does not apply to foreign content acquisition (except sports content). The deadline set for the submission of comments on the proposed amendment to the terms of the merger is December 24, 2020. To the extent that the amendment under consideration 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 integral manner. Regarding the sale of such a package of services by Bezeq, it now requires the approval of the Ministry of Communications only.

Regarding paragraph 2.16.8.7 in respect of the notification of intent to charge (consideration of imposing an additional financial sanction on Bezeq in the amount of NIS 8,285,810 for non-response to the requirement to provide information and data and the provision of incorrect information in an inspection conducted by the Competition Authority in connection with the subject of the determination) – on July 24, 2020, the Competition Court approved an agreement between Bezeq and the Competition Commissioner regarding an agreed order under the Economic Competition Law in connection with the announcement of an intent to charge, according to which Bezeq will pay the State Treasury 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 compliance with the data requirements of the Competition Authority in connection with the determination (before the determination was issued), thereby violating Article 46 (b) of the Economic Competition Law, while 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 that was submitted to the Competition Authority by Bezeq prior to Bezeq's signing of the Agreement (“**the Arrangement**"). It should be emphasized that the said Arrangement does not affect the continuation of the proceedings regarding the determination itself, for which Bezeq filed an appeal to the Competition Court on May 7, 2020.

Section 2.18 - Legal proceedings

Section 2.18.1 - Pending proceedings

Section A - On July 12, 2020, an amended statement of claim was filed, that includes amendments that include the deletion of the matter of reducing the reciprocal link fee and reducing the definition of the class of plaintiffs regarding the wholesale market reform, following the Court's 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 "out-of-pocket" method, or alternatively NIS 1.1 billion according to the "approximate out-of-pocket" method in the unamended statement of claim). It should be noted that the amended statement of claim was not accompanied by an economic opinion.

Regarding paragraphs 2, 7, 7, 8, 9, 10 – in respect of the continued delay of the proceedings in these cases in light of the Securities Authority's investigation and proceedings derived therefrom - in view of the Securities Authority's position in respect of the continued delay in the proceedings, the handling of these cases was delayed until the second half of September 2020. At the request of the State, an extension was granted for the submission of update notices regarding the continued delay of the proceedings in these cases until December 1, 2020.

Regarding paragraphs 3 and 11 – in respect of the motion for approval as class action in paragraph 11 - on the recommendation of the Court, the hearing of the motion for deletion was transferred to the Lod Central District Court, where the motion for approval as class action from March 2018 described in paragraph 3 is processed. 2020, the Court ruled that the parties will petition for appropriate instructions in the proceeding upon completion of the proceedings in the same motion for approval as class action from March 2018. In the case of two requests for disclosure of documents under Article 198A of the Companies Law in order to examine a motion for approval of a derivative claim in connection with the determination of the Competition Commissioner regarding the abuse of Bezeq's status specified in paragraph 11 - on April 22, 2020, the High Court approved an agreed motion to unite the hearing of the two motions. On June 23, 2020, Bezeq filed a motion to delay the proceedings in the disclosure motions, until the completion of the work of the Claims Committee established for this purpose and the submission of its recommendations to Bezeq's Board of Directors. No decision has yet been made on the motion. On July 19, Bezeq submitted its response to the motions. On September 8, 2020, the Attorney General submitted a notice of his participation in the proceedings, and at the same time submitted his position, according to which a decision to appeal the decision that the plaintiffs claim constitutes the damage caused to Bezeq, may be a derivative proceeding as long as the above decision is not final. Regarding the delay of the proceedings in the motion from March 2018 described in paragraph 3 - on July 30, 2020, the Court approved a request on behalf of the Attorney General to continue the delay in the proceedings in the case until May 2, 2021. The Attorney General will update on his current position by this date.

Regarding paragraph 12 – in respect of a motion for approval as class action against Bezeq and another service company claiming that certain populations are entitled to discounts on payments for essential services that the defendants provide them - on June 25, 2020, a ruling was given that the claim was canceled due to non-payment of fees.

Regarding paragraph 13 - in respect of a motion for approval as class action regarding the details of fixed payment components in payment notices filed against Bezeq and against another respondent - on April 28, 2020, the Court ordered the applicants to split the motions for approval into two different motion, one motion for approval for each respondent, according to the lawsuit 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 capability, 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 class in whose name the class action will be conducted is a Bezeq consumer party charged with a fixed payment thereby, as defined in Article 13B (b3) of the Consumer Protection Law, without the invoice or payment notice sent to them after June 25, 2018 detailing the components of the fixed payment and their amount, with the common questions for the members of the class being: did Bezeq violate the obligation, applicable thereto in the above article of the Consumer Protection Law, to detail in the invoice or in the payment notice on its behalf the fixed payment components and their amount; The remedy claimed is the return of the fixed payment with which they were charged.

In May 2020, a motion was filed against Bezeq with the Tel Aviv District Court for approval of a lawsuit as a class action, claiming that Bezeq misled customers who joined the B144 online business service (advertising for businesses online through the B144 website) (“**the Service**") into thinking that the cost of service depends on actual use up to a maximum charge, while in fact charging its customers the maximum amount even if in practice, a lower amount of it was used. Accordingly, it is requested to include in the definition of the class of plaintiffs, on whose behalf the class action will be conducted, all Bezeq customers and / or subscribers who registered and joined service packages of all kinds starting from the date the service was marketed by Bezeq and charged thereby in excess. According to what is stated in the motion, the amount of the claim is "NIS 27,537 per applicant and any future amount that will be formed for all members of the class". Next to this is stated in handwriting "NIS 908,721,000", but no explanation or calculation is included in the motion or statement of claim except for the note in the body of the motion that "there are thousands or tens of thousands of consumers". In addition, non-pecuniary damage was generally claimed.

In October 2020, a motion was filed with the Jerusalem District Court for disclosure and review of documents prior to filing a derivative claim under Article 198A of the Companies Law against Bezeq and against Bezeq International (“**the Respondents**"), in the framework of which an order is requested addressed to the respondents for disclosure and review of various documents regarding collection from Bezeq International customers. According to the contention of the motion, the Respondents made false representations that led to an inflation of Bezeq International’s value 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 "downsized by hundreds of millions of shekels". According to the claim, the source of this impairment is in the malicious, or at least negligent, conduct of officials who knew about the situation but refrained from acting to rectify the situation, and alternatively, were negligent in finding out the true situation of Bezeq International. For this matter, see also an update to section 4.4. Also, regarding motions for approval as class actions filed against Bezeq International in this matter, see the update to section 4.12.

In November 2020, an additional motion was filed with the Jerusalem District Court for disclosure and review of documents before filing a derivative claim under Article 198A of the Companies Law against Bezeq and against Bezeq International (“**the Respondents**"), as part 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 following the immediate report published by Bezeq on November 9, 2020 regarding the matter included in this report by reference[3].

Regarding section 2.18.3 - Legal proceedings against an investee company that is not a major area of activity (Walla)

In July 2020, a lawsuit was filed against Walla with the Tel Aviv-Yafo District Court, alongside a motion for approval as class action. The lawsuit is about misleading the users on Walla's website who want to consume content in the form of short videos, regarding the number and / or volume of the commercial advertisements to which users are required to be exposed as a condition for consuming the requested content and / or regarding the waiting time for viewing the requested content. According to the applicants, this deception caused them and the other members of the class damages that were manifested, among other things, in a waste of time, exposure to a longer screen time and a violation of their autonomy. The motion stated that the amount of the class action could not be accurately estimated at this stage (in the body of the motion, it was stated that the compensation for all members of the class amounts, in an initial estimate only, according to the claim, to a total of more than NIS 5 billion).

In November 2020, a motion was filed in the Central District Court for approval of a lawsuit as class action against Walla and 3 other respondents ("**the Respondents**"), alleging, among other things, that the Respondents, who operate popular websites, display on their sites, as part of content specifically designated for children and youth, advertisements which by law are not allowed to be shown to minors. The class is defined, according to the motion, as all the minors resident in Israel, who browsed the applications and / or sites operated by the Respondents, starting from seven years before the motion for approval was submitted, and until the date of the final ruling in the lawsuit. According to the motion, the amount of personal damage of each of the applicants was set at NIS 1,000 and the applicants are unable to estimate the amount of the class action at this stage. It should be noted that a motion for approval of a class action lawsuit from December 2018, in a similar matter, is pending against Walla (section 2.18.3 (b) of the periodic report for 2019).

Regarding section 3 – in respect of the continued delay of the proceedings in the case in light of the Securities Authority's investigation and the proceedings derived therefrom, to the State's request, an extension was granted for the submission of an update notice regarding the delay of the proceedings in the case until December 1, 2020.

3. Mobile telephony communication - Pelephone Communications Ltd. ("Pelephone")

Section 3.6 - Competition

Regarding section 3.6.1 – in respect of the contract for the sale of Golan Telecom shares to Cellcom, see the update to section 1.7.1.

Section 3.8 - Intangible assets

[3] As part of the Respondents' preparations for the publication of these financial statements, Bezeq International found that its books contain unexplained net asset balances (receivables minus payables) worth tens of millions of NIS, most of which probably originate in past periods of over 15 years ago.

Regarding section 3.8.2.3 - on June 1, 2020, Pelephone returned to the Ministry of Communications frequencies in the range of 850 MHz, 5 MHz wide, so that the amount of 850 MHz frequencies owned by Pelephone was less than 10 to 5 MHz.

Regarding section 3.8.2.4 - on July 1, 2020, the Ministry of Communications approved Pelephone for a temporary use of frequencies in the range of 700 MHz, 10 MHz wide, until the publication of the tender results. On August 4, 2020, the bidding stages in the tender began, and on August 12, 2020, Pelephone received a notification from the Tenders Committee of its winning of a collection of frequencies, following its participation in the tender, as follows:

1. Winning 10MB in the 700 MHz range (for a period of 15 years); 20 MB in the 2600 MHz range (for a period of 10 years); And at 100 MB in the 3500 MHz range (for a period of 10 years). The license period does not change by virtue of the tender and can be renewed in accordance with the provisions of the license (hereinafter: "**Frequency Allocation**"). It should be noted that the frequencies won by Pelephone are for the exclusive use of Pelephone's network, which will give Pelephone's network a competitive advantage. It should also be noted that companies that do not own existing networks did not win the tender.
2. The total cost of Pelephone's win in the Frequency Allocation is 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 it will be possible to receive incentives, as specified in section 3.8.2.4 of the chapter describing the corporation's business in the periodic report, including receiving a conditional grant for the deployment of 5G sites according to the conditions specified in the tender, which can reach a total of NIS 200 million.

On October 1, 2020, Pelephone's license was amended in accordance with the winning results (shortly before, Pelephone was allocated the frequencies which it won as stated). With the amendment of the license, Pelephone began operating the 5G frequencies on the broadcast sites it upgraded.

Such Frequency Allocation will enable the support of the increase in the browsing volume on 4G and will in the future offer 5G services 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, all in order to provide a competitive solution in the market, and will involve ongoing investments.

<u>Section 3.14.2 - Pelephone's mobile telephony communication license</u>

Regarding paragraph 3.14.2.1 - in April 2020, the bank guarantee was reduced to NIS 45 million, with the approval of the Ministry of Communications.

<u>Section 3.16 - Legal proceedings</u>

<u>Section 3.16.1 - Pending legal proceedings</u>

Regarding paragraph 5 - in respect of an appeal filed in July 2019 against the ruling of the District Court, which dismissed a motion for approval as class action of a lawsuit filed against Pelephone in February 2014, claiming that Pelephone acted in a manner that constitutes harassment of a wide consumer public by repeatedly making telephone inquiries aimed at recruiting customers - on June 24, 2020 a ruling was given 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.

Regarding paragraph 8 - in respect of a motion for approval as class action of a lawsuit filed against Pelephone and another cellular company in October 2016, claiming that they do not allow their subscribers to take advantage of the full "overseas packages" purchased in advance - on April 5, 2020, a ruling rejecting the motion was issued. On June 29, 2020, an appeal was filed against the ruling by the applicants in the motion for approval of the class action.

Regarding paragraph 9 - in respect of a motion for approval as class action of a lawsuit filed against Pelephone alleging that the public was harmed due to a fire that broke out in one of the switching systems operated by Pelephone - on October 30, 2020, a ruling was approved confirming a settlement between the parties, in the framework of which, Pelephone will offer a benefit in the form of 50,000 discount vouchers for the purchase of accessories for mobile phone use, valued at a total of NIS 30 each, including VAT, with a cumulative value of up to NIS 1.5 million, and will also pay compensation to class plaintiffs and the applicants' attorneys' fees in the total amount of approximately NIS 350,000.

Regarding paragraph 12 – in respect of a motion for approval as class action of a lawsuit filed against Pelephone and other companies, claiming that they marketed and / or provided a mobile phone radio 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 ruling approving a motion with consent to withdraw from the motion for approval as class action and dismissal of the plaintiffs' personal claim was given.

On November 11, 2020, Bezeq International received a motion for approval of a lawsuit as a class action, which was filed against it with the Central District Court. The motion alleges, among other things, that Bezeq International charges for the provision of 'antivirus service' and 'backup service' without actually providing them, while according to the claim, it does not disclose to customers at the conclusion of the contract that they must perform proactive actions, including installation of special software, and that the charge begins at the time of the conclusion of the contract and not at the time of the actual provision of the service. The personal claim amount of each applicant in the motion was set at an amount ranging from NIS 130 to NIS 1,740, with the amount of damage to the Group not being estimated at this stage, but at the same time estimated by the applicants in the tens of millions of NIS, at least.

Section 3.19 - Discussion of risk factors

Regarding paragraph 3.19.3.8 - as the COVID-19 crisis continues (see update to section 1.7.6), this may lead to an impairment of its assets.

International communication, Internet services and network endpoint - Bezeq International Ltd. ("Bezeq International")

Section 4.4 – Customers

As for Bezeq International customers and their characteristics, the diverse consumption characteristics in purchasing Internet packages among the public have led to a certain percentage of customers purchasing an unnecessary ISP service from another access provider, when in fact they use only the services of one access provider. On September 10, 2020, the Ministry of Communications wrote to the operators a letter in which it raises concerns that some of the 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 in its appeal to operators to act to notify and stop charging subscribers who do not use these services, and also requests periodic reports on the matter, during the next 6 months. It was also written that the Ministry will consider in the future whether to set binding provisions in the matter, should initiated actions not lead to a significant reduction in this matter. Subsequently, 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 telecom operators will reflect a significant reduction in the phenomenon, that reference should be made at this time to the question of how the licensee acts to prevent the recurrence of the phenomenon, and, as noted in its previous letter, that as long as the phenomenon is not significantly reduced, the Ministry will take various actions, including binding provisions in this regard. Bezeq International is preparing 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 an outline for the notification and treatment of customers who pay it by virtue of an agreement and do not use ISP services for an extended period, as well as following the Ministry of Communications' recommendation as stated above, an up-to-date valuation of Bezeq International was performed. Regarding the valuation, see Note 4.3 and 5.3 to the financial statements for the period ended September 30, 2020. In addition, see Bezeq's two immediate reports dated October 30, 2020 (including regarding the motion for approval as class action in this context), as well as another immediate report by Bezeq dated November 8, 2020. The above reports are included in this report by way of reference.

Regarding motions for approval as class actions in this matter that were filed against Bezeq International, see the update to section 4.12.

<u>Section 4.6.1 - ISP services</u>

Regarding the Minister of Communications' decision of July 20, 2020 to adopt (with changes) the recommendation of the Inter-Ministerial Team regarding the deployment of ultra-broadband stationary infrastructure in Israel (see update to section 2.7.2) - the deployment of fiber is expected to improve Bezeq International's competitiveness and increase revenue from its customers.

<u>Section 4.8 - Human capital</u>

On October 11, 2020, Bezeq International was notified by the New General Workers’ 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, as well as a strike as of October 26, 2020 onwards (“**the Announcement** "). According to the Announcement, the issues in 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 closure and layoffs, changes in working conditions, rights, status, job security and organizational strength. The employee representation’s demand is to refrain from unilateral steps and confronting it with a *fact accompli* regarding such changes, as well as a demand for consultation and negotiations for the purpose of signing a special collective bargaining agreement regarding the employees’ rights in light of the said changes and their consequences, including the establishment of a safety net to ensure the rights of the employees.

<u>Section 4.11.2 - Licenses</u>

In April 2020, the Ministry of Communications approved the reduction of the bank guarantee to the amount of NIS 2 million.

Regarding paragraph 4.11.5 – in respect of the decision of the Ministry of Communications regarding the elimination of the need to split the "reverse bundle", see update to section 1.7.2.2.

In addition, regarding the publication of a hearing on the examination of the separation between broadband infrastructure service and Internet access service (ISP), see update to section 1.7.2.2. Bezeq International is studying the details of the hearing and examining its possible effects on its business and on its manner of operation. To the extent that the said hearing is approved in its proposed format, this may lead to significant harm to Bezeq International's business and to the impairment of its assets.

Section 4.12 - Legal proceedings

Regarding paragraph 2 - in respect of a motion for approval as class action of a lawsuit filed against Bezeq International in June 2015, alleging collection of excess amounts from Internet service customers, and which was approved as a class action lawsuit on July 25, 2019 - on August 11, 2020 a hearing was held in the High Court on Bezeq International’s motion for leave to appeal the motion to approve the claim as a class action. During the hearing, the High Court recommended that the plaintiff agree to the acceptance of the motion for leave to appeal and to the rejection of the motion for approval as class action. On August 25, 2020, a ruling was issued, 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 with the plaintiff's consent.

On October 29, 2020, Bezeq International received a motion for approval as class action of a lawsuit which was filed against it with the Central District Court. The motion alleges, among other things, that Bezeq International charges its customers with 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. According to the motion, the amount of the individual claim per applicant was set at a minimum of NIS 393.4, and the amount of damage to the class cannot be estimated at this stage, but at the same time was estimated by the applicant in the NIS tens of millions, at least, for all class members. On November 5, 2020, Bezeq International received another motion for approval as class action in the same matter.

On November 11, 2020, Bezeq International received a motion for approval of a lawsuit as a class action, which was filed against it with the Central District Court. The motion alleges, among other things, that Bezeq International charges for the provision of 'antivirus service' and 'backup service' without actually providing them, while according to the claim, it does not disclose to customers at the conclusion of the contract that they must perform proactive actions, including installation of special software, and that the charge begins at the time of the conclusion of the contract and not at the time of the actual provision of the service. The personal claim amount of each applicant in the motion was set at an amount ranging from NIS 130 to NIS 1,740, with the amount of damage to the Group not being estimated at this stage, but at the same time estimated by the applicants in the tens of millions of NIS, at least.

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, in respect of "dormant subscriptions", and from November 2020 in respect of asset balances in Bezeq International’s books - see update to section 2.18.1.

Section 4.14 - Discussion of risk factors

Regarding paragraphs 4.14.3 and 4.14.8 - regulatory changes in the Internet services market (see update to section 1.7.2.2) may lead to damage to Bezeq International's results and / or impairment of its assets. For the effect of the treatment of Bezeq International customers who do not use ISP services on the value of Bezeq International's assets, see the update to section 4.4.

<u>Multi-Channel TV - DBS Satellite Services (1998) Ltd. ("DBS")</u>

<u>Paragraph 5.2.2.1 - Yes+ services</u>

In May 2020, the service also began to be provided through streamer devices that have an Android TV operating system.

<u>Paragraph 5.15.9 - Offer of baskets of services</u>

For the amendment under consideration to the terms of the merger with Bezeq published by the Competition Authority in relation to the marketing of the basket of services, see the update to section 2.16.8.3 above.

<u>Section 5.13 - Financing</u>

In November 2020, 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 October 1, 2020. This approval is in lieu of the approval given in August 2020 (and not in addition thereto).

<u>Paragraph 5.15.10 - Regulation of OTT Services</u>

In September 2020, the Minister of Communications appointed a committee for the examination of the super-regulation in the field of broadcasting, chaired by former MK Roy Folkman, in order for it to formulate a recommendation regarding the regulatory principles relevant to broadcasting, given 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 must work to reduce regulation and focus on issues that require regulation at this time, while emphasizing the promotion of competition in the market. The committee must formulate its recommendations, taking into account the reports of previous committees that examined the matter, and taking into account the 2018 legislative memorandum (see section 5.1.2.1 of Bezeq's periodic report for 2019) until December 2020. The committee addressed the public for positions on the main issues on its agenda.

<u>Section 5.17.1 - Pending legal proceedings</u>

Regarding paragraph 1 - motion for approval as class action regarding an allegation of electronic advertisements sent by DBS to its customers - In June 2020, the High Courts' ruling was given, according to which instead of the approval decision, the applicants will withdraw from the motion for approval and be paid compensation in the amount Of NIS 100,000.

Regarding paragraph 3 - for an update regarding the investigation by the Israel Police and the Securities Authority, see update to section 1.1.5.

Regarding paragraphs 5 and 6 - legal proceedings that are delayed in light of the Israel Securities Authority's investigation and the Israel Police - see an update to section 2.18.1, paragraphs 8 and 10.

<u>Section 5.18.3 - Gradual migration of DBS from satellite to Internet broadcasts (OTT)</u>

As of the date of approval of the reports, the rate of DBS subscribers using Yes+ and STINGTV services transmitted via the Internet (as stated in sections 5.2.2.1 and 5.2.2.2 of the periodic report for 2019) is approximately 20%[4] of all DBS subscribers.

[4] This rate also includes subscribers who also make parallel use of the satellite services.

Chapter B
The Board of Directors' Report on the State of Affairs of the Corporation for the period ended September 30, 2020

The Board of Directors' Report on the State of Affairs of the Corporation for the period ended September 30, 2020

1. General

We are hereby honored to submit the Board of Directors' Report on the state of affairs of "B Communications Ltd." (hereinafter: "the Company") and consolidated for the Group companies (the Company and the subsidiaries will be collectively referred to hereinafter as: "the Group"), for the period of nine months ended september 30, 2020 (Hereinafter: "the Period") and for the period of three months ending on the same date (hereinafter: "the Quarter").

The report of the Board of Directors includes an overview, in a limited format, of the matters with which it deals.

Regarding the investigation by the Securities Authority and the police, see Note 1.3 to the financial statements. The auditors drew attention to this in their opinion on the financial statements.

For the restatement, see chapter 2 below. The auditors drew attention to this in their opinion on the financial statements.

For the **effects of the COVID-19 crisis**, see Chapter 3 below.

The Group reports on four main operating segments in its financial statements as follows:

1. **National interior stationary communication**
2. **Cellular communication**
3. **International communication, Internet services and network endpoints**
4. **Multi-channel TV**

It should be noted that in addition, the Company's consolidated financial statements include the "Other" segment, which includes mainly content services in the field of Internet (through "Walla") and call center services for customers (through "Bezeq Online"). The "Other" segment activity is not material at the group level.

Group results

Below are the Group results for the reported period:

	1-9/2020	1-9/2019	Change		7-9/2020	7-9/2019	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Net profit (loss)	544	(1,643)	2,187	-	6	109	(103)	-
EBIDTA	2,532	1,830	702	38.36	665	915	(250)	(27.32)

The increase in EBITDA in the nine months ended September 30, 2020 compared to the corresponding period was mainly due to loss from impairment in the cellular communications segment in the amount of NIS 1,345 million, which was partially offset by a cpaital gain of NIS 403 million from the sale of a real estate property in the "Sakia" complex which were recorded in the corresponding period. In addition, the increase in net profit in the nine months ended September 30, 2020 was also due to the discounting of the tax asset due to losses in DBS in the amount of NIS 1,259 million in the corresponding quarter.
On the other hand, there was a decrease in EBITDA in the current quarter compared to the corresponding quarter due to an impairment loss in the Internet, international telecom and network endpoint services segment in the amount of USD 269 million (see Note 5.3 to the financial statements). The decrease was mitigated mainly due to the decrease in financing expenses in the stationary domestic telecom segment, as described below.

EBITDA is calculated in the following manner:

Item	1-9/2020	1-9/2019	4-9/2020	4-9/2019
	NIS millions		NIS millions	
Operating profit (loss)	1,171	290	205	396
Neutralizing depreciation, amortization and impairment	1,361	1,540	460	519
EBIDTA	2,532	1,830	665	915

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) – is 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 resulting from differences in the equity structure, various taxation aspects and the manner and period of the reduction of fixed and intangible assets. The Group'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 Group 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 Operating and General Expenses (in the statement of income). See Note 5 to the financial statements.

2. Restatement

At the beginning of November 2020, 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, resulting, *inter alia*, from non-imputation of costs from previous years in respect of payment of advances to suppliers to the income statement, as well as from improper recognition of advance expenses.

Following the disclosure of the discrepancies, Bezeq International's Management began an immediate examination of the issue, and Bezeq International carried out compensatory actions, tests and procedures, while investing much effort and many resources, in order to prepare the financial statements in accordance with International Financial Reporting Standards and in accordance with Disclosure Provisions in Chapter IV of Securities Regulations, 5730-1970, in all material respects.

In this context, the following actions were taken, among others:

1. Bezeq International recalculated certain balances in the statements on its financial position for the years 2016-2019 and for interim periods for the years 2019 and 2020 without relying on past records and existing processes in accounting in relation to the balance sheet items where errors were discovered.

2. In light of the change in forecasts resulting from the discrepancies described above, Bezeq International re-examined its valuation as of December 31, 2019 through an external valuator.

3. Bezeq International carried out controls and inspections on the recalculation of balances with the assistance of an independent external specialist for the purpose of monitoring. In addition, the existing team was supported by additional accounting employees from Bezeq's subsidiaries, for the purpose of carrying out the work of correcting the statements.

4. Bezeq International's internal auditor conducted an examination of the matter in cooperation with Bezeq International's Security Division, while in some of the inspections he was assisted by an independent external specialist as stated in section 3 above.

5. Bezeq's Board of Directors has appointed an independent external examiner for the purpose of an in-depth investigation of the events and circumstances. The examination is underway as of the date of approval of the financial statements.

In light of the fact that Bezeq International's accounting system included many manual transactions and poor documentation in a way that does not allow the effect of the transactions on its financial results to be fully traced, Bezeq International reconstructed the balance sheets in which errors were discovered without relying on the manual actions, with the assistance of an external specialist, reasonable controls and additional reports constructed during the process. The described complexity and method of preparing the reports, under tight schedules, did not allow for a full investigation of the discrepancies. Bezeq International is still examining the source of the discrepancies, and it is possible that additional discrepancies will be discovered following the work of the external examiner. Bezeq Group anticipates that in light of the manner in which the statements are constructed, such discrepancies, insofar as they exist, will not have a material effect on the consolidated financial statements.

As of the date of approval of these interim financial statements, the total impact of the discrepancies discovered in Bezeq International as part of the examinations as of June 30, 2020 was as follows:

1. Reduction of the Group's equity 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.

2. Reduction of the Group's profits (net tax) in the cumulative amount of approximately NIS 133 million for the period between January 1, 2018 and December 31, 2019.

3. Following the findings of the examination, Bezeq International updated its forecasts for the coming years, and the Company performed an updated valuation as of December 31, 2019, following which an additional impairment loss of NIS 122 million (NIS 100 million net of tax) was recognized as a result of updating the value of operations and the value of Bezeq International's book value as of December 31, 2019 (see Note 5 to the financial statements for details regarding the updated valuation) as well as the valuation attached to this report.

It should be noted that as of the date of the examination, no effect was found on the cash balance of Bezeq International and the Group.

In light of the findings of the examinations as stated above, the Company will make an adjustment by way of restatement of its financial statements as of December 31, 2019 and for the year ended on the same date, in order to retroactively reflect the effect of the above.

The following is a concentration of the discrepancies and their effect on Bezeq International's balance of surpluses between the reported statements and the amended statements in NIS million:

Period	Effect of amendment before valuation effects and tax effects	Valuation effect	Tax effect on correcting the error and updating valuations	Effect on surpluses
Until December 31, 2016	(102)	-	-	(102)
2017	(12)	-	-	(12)
2018	(34)	-	8	(26)
2019	(45)	(94)	32	(107)
January – June 2020	(15)	7	2	(6)
Total	**(208)**	**(87)**	**42**	**(253)**

Further to the above, as of the date of the report and based on what was stated in Bezeq's last quarterly report on internal control, and based on information brought to the attention of Management and the Board as stated above, Bezeq's internal control has significant weaknesses, and therefore internal control is ineffective.

In addition, Bezeq International examines the effects of the restated items on the remuneration components of officers for the relevant periods.

For further information, see Note 2.5 in the financial statements.

3. The COVID-19 crisis and its impact on the Group's business activities

Further to the publication of the Securities Authority's 99-7 staff accounting position dated May 11, 2020 regarding the effects of the COVID-19 crisis on disclosure and financial reporting, during the period from the date of publication of the annual peridoc report and until the date of publication of this report, the spread of the pandemic and its effects have expanded, which is reflected, among other things, in the imposition of various restrictions, including restrictions on citizen movement and gathering, employment restrictions, transportation restrictions and a significant reduction in activity in the economy.

Since the outbreak of the pandemic, the Bezeq Group companies have worked to maintain overall functional continuity for the purpose of providing full service to their full business and private customers, as well managing their business continuity, subject to all government restrictions and guidelines. In addition, the Bezeq Group companies took actions to address the risks and exposures arising from the consequences of the incident, including reducing their expenses and adjusting their activities to the situation.

In this regard, it should be noted that the telecommunications companies, as a whole, belong to the infrastructure segment, which is an essential segment that requires almost full operational activity and the residents' need to consume the Company's services is built into such events, so the Company's exposure to the risks of the crisis is relatively limited and low in relation to other segments, and even an increase was recorded in some of the services provided by Bezeq Group, as a result of the regulatory measures imposed due to the pandemic. It should also be noted that although the COVID-19 crisis has global and even transverse effects, the communications industry to which Bezeq Group belongs is mainly local, being based on local infrastructure and the provision of services mainly to the consumer market in Israel.

The aboveme statements in relation to the communications industry are even more true in relation to most of the activities of the Group companies, which, as can be seen from the Company's performance, are not expected to be materially harmed, except mainly Pelephone's roaming services, as detailed below.

As of September 30, 2020 and as of the date of approval of the report, there was damage mainly to income from mobile roaming services, as well as some damage to income from the business segment in all the Group companies, when the effect of the pandemic on the financial situation and business situation of the Bezeq Group companies was mixed, while the increase in the Company's activity, along with actions taken by the Bezeq Group companies in view of the consequences of the event, offset most of the damage to revenue from Pelephone's roaming services.

As of the date of the report, Bezeq Group's working assumption regarding the further spread of the COVID-19 pandemic is that measures to limit the spread of the virus will continue in varying intensity also during 2021, alongside a gradual recovery in aviation and international tourism. Accordingly, and subject to the above assumptions, the Group anticipates that the effects of the COVID-19 pandemic on its activities will be mainly reflected in the decline in 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. In addition, a certain decrease in the Group companies' revenues from the business segment is expected. For the Group's projection, see the update to section 1.6 in the update to Chapter A (description of the corporation's business) in Bezeq's periodic report for 2019.

The prolongation of the crisis or its exacerbation beyond the Group's assumptions as detailed above, insofar as such occur, may have a material adverse effect on the Group's results. These effects may be reflected, *inter alia*, in the impairment, beyond the estimates as stated above, of revenues from roaming services and from equipment for businesses, as well as in revenues from the business segment. The prolongation or exacerbation of the crisis may also affect revenues from the sale of cellular end equipment, employee availability, customer service and technician activity systems, supply chain, and the amounts and collection dates in respect of the Group's customers.

Bezeq estimates that its financial strength, its own cash-generating capacity, its high cash balances, its debt structure and its high accessibility to the capital market and credit providers will enable it to adequately deal with the effects of the crisis, including its prolongation or exacerbation beyond the Group's assumptions. It should also be emphasized that Bezeq's various financing agreements as well as its public debentures do not contain financial criteria.

Also, the COVID-19 pandemic has no immediate effect on the Company, the Company has sufficient liquid balances for its debt service (principal and interest payments) and its operating expenses until November 2024 (even without receiving dividends from Bezeq). Over 80% of the company's liquid balances are invested in very low risk bank deposits.

The abovementioned assessments of the Company and Bezeq Group are forward-looking information and may vary depending on various developments regarding the COVID-19 epidemic and its effects, in particular the duration and scope of the event, the nature and extent of the economic and other restrictions, and the intensity and duration of the economic recession.

For further information, see Notes 1.2 and 5.4 to the financial statements.

4. The Board of Directors' explanations on the state of the corporation's business, the results of its operations, shareholders' equity, cash flows and other matters

4.1. Financial position

Section	Sep. 30, 2020	Sep. 30, 2019	Increase/decrease		Explanation
	Millions of NIS		Millions of NIS	%	
Cash and current investments	2,455	3,093	(638)	(20.6)	The decrease was mainly due to the national interior stationary communications segment, including due to early repayment of loans and debentures. For more information, see Chapter 4.3 below.
Current and non-current trade receivable and other receivables	2,550	2,512	38	1.51	
Inventory	96	94	2	2.1	
Broadcasting rights	67	63	4	6.3	
Right-of-use assets	1,197	1,141	56	4.9	
Fixed assets	6,035	6,071	(36)	(0.57)	The decrease was due to the Internet, communications and network endpoint service segments due to the recognition of impairment losses as of December 31, 19 and as of September 30, 2020 (see Note 5.3 in the financial statements).
Intangible assets	3,167	3,202	(35)	(1.09)	The decrease was due to the Internet, communications and network endpoint service segments due to the recognition of impairment losses as of December 31, 19 and as of September 30, 2020 (see Note 5.3 in the financial statements). The decrease was offset mainly by the record of the cost of 5G frequencies in the cellular communications segment, see Note 15.1 in the financial statements.
Deferred tax assets	53	19	34	178.9	The increase was mainly due to the recognition of a deferred tax asset in respect of an expected loss for tax purposes from the sale of Walla in the amount of NIS 28 million (see Note 15.2 in the financial statements).
Assets held for sale	46	-	46	100	

Deferred expenses and non-current investments	414	510	(96)	(18.8)	The decrease was mainly due to the recognition of losses from impairment of long-term advance expenses for capacities in the Internet, communications and network endpoint services segments as of December 31, 2019 and September 30, 2020, amounting to NIS 190 million (see Note 5.3 in the financial statements). The decrease was due to the repayment of a deposit in respect of hedging transactions in the domestic landline communications segment, which was offset by cash deposited in a long-term deposit.
Total Assets	16,080	16,705	(625)	(3.7)	
Debt to financial institutions and bondholders	11,326	12,981	(1,655)	(12.7)	The decrease in debt was mainly due to the final repayment of the Company's Series B debenture principal and the early partial repayment of the Company's Series C debenture principal, as well as repayment of loans and debentures in Bezeq, including early repayment, mainly offsetting the issuance and expansion of Series 11 and 12 debentures in the national interior stationary communications segment (for more information, see Note 6 to the financial statements).
Leasehold liabilities	1,358	1,415	(57)	(4)	
Suppliers and payables	1,696	1,772	(76)	(4.28)	The decrease is partly due to a decrease in the balance of the Company's payable interest relative to the previous year, in which the Company stopped payments to its creditors
Provisions	167	182	(15)	(8.24)	
Employee benefits	775	904	(129)	(14.2)	The decrease was due to retirement payments, offsetting the provisions recognized in the fourth quarter of 2019 in respect of streamlining plans in the Group.
Current and deferred tax liabilities	306	227	79	34.8	
Other liabilities	268	178	90	50.5	The increase was due to a long-term liability in the cellular communications segment in respect of winning a frequency tender in the current quarter, see Note 15.1 in the financial statements.
Total liabilities	15,970	17,659	(1,689)	(9.56)	
Total equity (equity deficit)	110	(954)	1,064	-	Equity constitutes approximately 0.6% of the total balance sheet, compared with an equity deficit which constituted approximately (5.71%) of the total balance sheet as of September 30, 2019.

Total liabilities and equity	15,080	17,705	(625)	(3.74)	

4.2. Results of activity

4.2.1. Highlights of the results

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue	6,520	6,727	(207)	(3.07)	2,178	2,247	(69)	(3.07)	The decrease was due to a decrease in revenues in all the main segments of the Group, except for the national interior stationary communications segment.
Operating and general expenses	2,355	2,464	(109)	(4.42)	790	819	(29)	(3.54)	The decrease was due to the Internet services segment, international communications, network endpoints and the multi-channel television segment, as well as a decrease in the loss from the impairment of broadcasting rights in DBS compared with the corresponding period and quarter. (See Note 5.1 to the financial statements)
Payroll	1,399	1,458	(59)	(4.04)	475	474	1	-	The decrease in the period was due to all the main segment of the Group, mainly due to a decrease in the number of jobs.
Depreciation, amortization and impairment	1,361	1,540	(179)	(11.62)	460	519	(59)	(11.36)	The decrease was due to a decrease in the loss from impairment of fixed and intangible assets in DBS compared to the corresponding period and quarter (see Note 5.1 to the financial statements). There is also a decrease in the cellular communications segment and in the Internet services, telecommunications and network endpoint services segments, offset by an increase in expenses in the reporting period in the domestic landline communications segment.
Other operating income, net	(30)	(370)	340	92.89	(7)	39	(46)	-	The decrease in the period was due to the national interior stationary communication segment, mainly due to capital gains from the sale of real estate in the "Sakia" complex, which was recognized in the corresponding period in the amount of NIS 403 million The decrease was mitigated mainly due to expenses in respect of an arrangement for the retirement of employees in the multi-channel

									television segment in the corresponding period and expenses in respect of collective bargaining agreement in the Internet services, international telecommunications and netork endpoints segment in the corresponding quarter. (see Note 10 to the financial statements).
Impairment losses	264	1,345	(1,081)	(80.37)	255	-	-	-	In the current quarter, a loss was recognized for impairment in the Internet, communications and network endpoint Services segment in the amount of NIS 269 million (see Note 5 to the financial statements). In addition, following Bezeq's engagement for the sale of all its holdings in Walla in the current quarter, a gain from the cancellation of the previously recognized impairment in the amount of NIS 14 million was recognized (see Note 15.2 in the financial statements). In the corresponding period, a loss was recognized for impairment in the cellular communications segment in the amount of NIS 1,345 million.
Operating profit (loss)	1,171	290	881	303.79	205	396	(191)	(48.23)	
Financing expenses, net	352	516	(164)	(31.7)	106	238	(132)	(55.46)	The decrease in net financing expenses was mainly due to the national interior stationary communication segment (see Note 11 to the financial statements).
Some losses in held companies	-	2	(2)	-	-	1	(1)	-	
Taxes on income	275	1,415	(1,140)	(80.56)	93	48	45	93.75	In the corresponding quarter, the tax asset was written off due to DBS's losses, and therefore tax expenses in the amount of NIS 1,259 million were recorded.
Profit (loss) for the period	544	(1,643)	2,187	-	6	109	(103)	(94.49)	

4.2.2. Segments of Activity

a. The following are data regarding revenue and operating profit in accordance with the Group's segments of operation:

	1-9/2020		1-9/2019		7-9/2020		7-9/2019	
Revenue by segment of operation	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**
National interior stationary communication	3,104	47.6	3,088	45.9	1,042	47.8	1,025	45.6
Cellular communication	1,653	25.4	1,760	26.1	545	25	612	27.2
Internet, international communication and network endpoints	946	14.5	1,009	15.0	315	14.5	329	14.6
Multichannel TV	970	14.9	1,014	15.1	313	14.8	334	14.9
Others and adjustments	(153)	(2.4)	(144)	(2.1)	(37)	(1.7)	(53)	(2.3)
Total	6,520	100	6,727	100	2,178	100	2,247	100

	1-9/2020		1-9/2019		7-9/2020		7-9/2019	
Operating profit by activity segments	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**
National interior stationary communication	1,349	43.5	1,846	59.8	446	42.8	440	42.9
Cellular communication	(48)	(2.9)	(2)	(0.1)	(27)	(5)	16	2.6
Internet, international communication and network endpoint services	(219)	(23.2)	**(6)	(0.6)	(275)	(87.0)	**(40)	(12.2)
Multichannel TV	(33)	(3.4)	(96)	(9.5)	(16)	(5.1)	(29)	(8.7)
Others and adjustments	122	(0.71)	(1,452)	10.1	77	-	9	-
Consolidated operating	1,171	17.96	290	4.31	205	9.41	**396	17.62

profit (loss) / percentage of the Group's revenues				

* **The results of the multi-channel television segment are presented in neutralizing the overall effect of impairment recognized as of the fourth quarter of 2018.**

This is in accordance with the manner 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.

In addition, see Note 14 for a summary of selected data from DBS' financial statements.

4.2.2 Segments of activity (cont.)

a. National interior stationary communication segment

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Internet - infrastructure	1,205	1,186	19	1.6	408	393	15	3.8	The increase was mainly due to an increase in the average income per retail subscription, an update in the rates of wholesale Internet services, as well as an increase in the number of retail Internet lines in the current quarter compared to the corresponding quarter. The increase was mitigated by a decrease in the number of wholesale Internet lines.
Landline telephony	760	792	(32)	(5.0)	254	259	(5)	(1.9)	The decrease was due to a decrease in the number of lines, and was moderated due to an increase in the average revenue per telephone line due to an increase in call revenues due to the COVID-19 crisis.
Data communication, transmission and others	926	902	24	2.7	309	304	5	1.6	The increase was, *inter alia*, due to an increase in revenue from transmission services for Internet providers and due to sales of cellular end equipment.
Cloud & digital services	213	208	5	2.4	71	69	2	2.9	

Total revenues	3,104	3,088	16	(0.5)	1,042	1,025	17	1.7	
Operating and general expenses	436	418	18	4.3	154	144	10	6.9	The increase is mainly in connectivity to telecommunications operators due to increased consumption, provision for loan loss expenses, subcontractor services and end equipment costs, offsetting a decrease in building maintenance expenses, mainly due to property tax credits as a result of the COVID-19 crisis in the reporting period and a reduction in vehicle maintenance expenses.
Payroll	678	688	(10)	(1.5)	225	224	1	0.4	The change in payroll was mainly due to the retirement of employees and an increase in payroll attributed to investment, offset by an increase in payroll.
Depreciation and amortization	625	636	16	2.5	222	225	(3)	(1.3)	
Other operating expenses (income), net	(11)	(500)	489	(97.8)	(5)	(8)	3	(37.5)	The decrease in the period was mainly due to a decrease in capital gains from the sale of real estate, mainly due to a capital gain from the sale of real estate in the "Sakia" complex, which was recognized in the corresponding period in the amount of NIS 403 million.
Operating profit	1,349	1,846	(497)	(26.9)	446	440	6	1.4	

4.2.2 Segments of activity (cont.)

b. National interior stationary communication segment – cont.

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Financing expenses, net	303	454	(151)	(33.3)	91	207	(116)	(56.0)	The decrease was mainly due to a decrease in financing expenses in respect of employee benefits, a decrease in interest expenses due to early repayment of loans in the second half of 2019, as well as lower costs of early repayment of a loan (see Note 6 in the financial statements) in the reporting period than the costs of early repayment of loans and bonds recognized in the corresponding quarter (See Note 11 to the financial statements).
Taxes on income	250	334	(84)	(25.1)	83	58	25	43.1	In the current quarter, a deferred tax asset was recognized in respect of an expected loss for tax purposes from the sale of Walla in the amount of NIS 28 million (see Note 15.2 in the financial statements).
Segment profit	796	1,058	(262)	(24.8)	272	175	97	55.4	

4.2.2 Segments of activity (cont.)

c. Cellular communication segment

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Services	1,195	1,292	(97)	(7.5)	396	446	(50)	(11.2)	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 cellular minutes revenue from incoming calls. In addition, there is a continuation of the transition of existing customers to cheaper packages that include extended browsing volume and which are compatible with current market prices. This decrease was partially offset by growth in the number of postpaid subscribers.
End equipment sales	458	468	(10)	(2.1)	149	166	(17)	(10.2)	The decrease was mainly due to a decrease in retail sales due to the closure of points of sale following the COVID-19 crisis. The decrease in the period was partially offset by an increase in wholesale sales.
Total revenues	1,653	1,760	(107)	(6.1)	545	612	(67)	(10.9)	
Operating and general expenses	1,017	1,009	8	0.8	346	348	(2)	(0.6)	The change was mainly due to an increase in call completion fees as a result of an increase in the number of subscribers and an increase in uses due to the impact of the COVID-19 crisis. The increase in expenses was offset by a continued reduction and streamlining in operating expenses.
Payroll	239	279	(40)	(14.3)	79	89	(10)	(11.2)	The decrease was mainly due to the continued decrease in the number of jobs as part of a streamlining plan and sending employees on unpaid

									leave in light of the COVID-19 crisis.
Depreciation and amortization	448	469	(21)	(4.5)	147	157	(10)	(6.4)	
Other operating expenses (income), net	3	(5)	8	-	-	(2)	2	(100)	
Operating loss	(48)	(2)	(46)	-	(27)	16	(43)	-	
Financing income, net	33	31	2	6.5	12	8	4	50.0	
Taxes on income	(2)	7	(9)	-	(3)	6	(9)	-	
Segment profit (loss)	(13)	22	(35)	-	(12)	18	(30)	-	

4.2.2 Segments of activity (cont.)

d. Internet services, international communications and netwrok endpoint segment

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue	946	1,009	(63)	(6.2)	315	329	(14)	(4.3)	The decrease was due to a decrease in the sale of equipment and licensing to businesses, Internet revenues and revenues from international calls (HUBBING).
Operating and general expenses	571	*617	(46)	(7.5)	203	*213	(10)	(4.7)	The decrease was due to a decrease in equipment and licensing expenses for businesses and in international call expenses, and from streamlining other operating expenses. The decrease was offset by an increase in local capacity expenses as a result of an increase in Internet customers' demand for browsing volume. In addition, in the reporting period there is a decrease in local capacity expenses due to a retroactive update in the Communications Regulations (Telecom and Broadcasting) in respect of Internet rates in the wholesale market.
Payroll	189	199	(10)	(5.0)	63	64*	(1)	(1.6)	The decrease was mainly due to the continued decrease in the number of jobs as part of a streamlining plan.
Depreciation and amortization	123	139	(16)	(11.5)	42	47	(5)	(10.6)	The decrease was mainly due to an impairment of assets that was recognized as of December 31, 2019.
Other operating expenses, net	282	60	222	-	282	45	237	-	In the current quarter, an impairment loss of NIS 282 million was recognized, see Note 5 in the financial statements. It should be noted that in the

									corresponding quarter, costs were recognized in respect of a collective bargaining agreement that includes streamlining and synergy procedures.
Operating loss	(219)	*(6)	(213)	-	(275)	*(40)	(235)	-	
Neet financing expenses	1	6	(5)	(83.3)	1	2	(1)	(50.0)	
Taxes on income	42	*(4)	46	-	29	*(10)	39	-	The increase was mainly due to the discount of a tax asset in the amount of NIS 28 million, since Bezeq International does not expect future profits.
Segment loss	(262)	*(8)	(254)	-	(305)	*(32)	(273)	-	

* Reclassified

4.2.2 Segments of activity (cont.)

e. Multichannel TV *

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue	970	1,014	(44)	(4.3)	313	334	(21)	(6.3)	The decrease was mainly due to a decrease in the number of customers and average income per subscriber, offsetting revenue from the sale of content in the reporting half.
Operating and general expenses	638	667	(29)	(4.3)	204	219	(15)	(6.8)	The decrease was mainly due to the streamlining of operating expenses and a decrease in content costs.
Payroll	146	156	(10)	(6.4)	48	50	(2)	(4.0)	The decrease in the period was mainly due to the continued decrease in the number of jobs as part of a streamlining plan and sending employees on unpaid leave in light of the COVID-19 crisis.
Depreciation and amortization	230	252	(22)	(8.7)	76	93	(17)	(18.3)	The decrease was mainly due to a decrease in investments in fixed assest.
Other operating expenses (income), net	(11)	35	(46)	-	1	1	-	-	The change in the period was mainly due to the recording of expenses in respect of an settlement for the retirement of employees in the corresponding period.

Operating loss	(17)	(67)	50	(74.6)	(6)	(8)	2	(25.0)	
Financing expenses, net	-	11	(11)	(100)	1	4	(3)	(75.0)	The decrease was mainly due to a change in the fair value of financial assets.
Taxes on income	2	2	-	-	1	1	-	-	
Segment loss	(35)	(109)	74	(67.9)	(18)	(34)	16	(47.1)	

*** The results of the multi-channel television segment are presented in neutralizing the overall effect of impairment recognized as of the fourth quarter of 2018.**

This is in accordance with the manner 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.

In addition, see Note 14 for a summary of selected data from DBS' financial statements.

4.3. Cash flow

	1-9/2020	1-9/2019	Increase (decrease)		7-9/2020	7-9/2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Cash flow, net resulting from operating activities	2,261	2,160	101	4.67	828	782	46	5.88	The increase in net cash flow from operating activities was due to an increase in Bezeq's profit, in the period, and also due to income tax refunds, offset by changes in working equity. The increase was mainly due to the national interior stationary communications segment, offsetting a decrease in net cash flow in the cellular communications segment.
Cash flow used for investment activities, net	(1,537)	(876)	(661)	(75.45)	(537)	22	(559)	-	The decrease in net cash flow used in investing activities in the quarter was mainly due Bezeq Group's net investment in deposits with banks and securities compared to net receipts in the national interior stationary communications segment. In addition, the corresponding quarter included a refund in respect of the improvement levy. During the period, there was a decrease in net investments in deposits with banks and securities, which was offset due to the net receipts from the sale of the Sakia complex included in the corresponding period.
Cash flow used for financing activities, net	(618)	(1,138)	520	45.69	(119)	(995)	876	88.04	The increase in net cash flow used for financing activities was mainly due to a decrease in loan and bond repayment, mainly due to early repayment of loans and bonds in the corresponding quarter in the fixed domestic communications sector, offset by a decrease in loan receivables and bond issuance. There is also a decrease in costs for early repayment (see Note 6 in the financial statements).
Increase (decrease) in	106	146	(40)	(27.39)	172	(191)	363	-	

cash, net			

Average volume in the reporting period

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approximately NIS 11,326 million.
Credit from suppliers: approximately NIS 787 million. Short-term customer credit: approximately NIS 1,695 million. Long-term customer credit: approximately NIS 302 million.

Working equity

The surplus in the Group's working equity as of September 30, 2020 amounted to approximately NIS 1,975 million, compared with a deficit in working equity of approximately NIS 1,060 million as of September 30, 2019.
The Company (according to the "Solo” financial statements) has a working equity surplus as of September 30, 2020 in the amount of NIS 241 million, compared with a deficit in working equity of NIS 1,854 million as of September 30, 2020.
The increase in the surplus in the working equity of the Group and the Company was mainly due to the reclassification of the Company's debt from short-term to ong-term in light of the debt settlement that the Company reached with its creditors.

4.4. 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 fulfillment of the warning indicators - equity deficit - in the Company's (solo) statement, in the consolidated statement, as well as continous negative cash flow from operating activities in the Company's (solo) statement, the projected cash flow report for the Company is presented below, detailing the sources and financial uses for the period from October 1, 2020 until September 30, 2022.

	October 1, 2020 until December 31, 2020	**January 1, 2021 until December 31, 2021**	**January 1, 2022 until September 30, 2022**
		NIS millions	
Deposits and marketable securities	428	373	293
Cash and cash equivalents in the beginning of the period	**23**	**38**	**33**
Total liquidity	**451**	**411**	**326**
Sources - Company			
Cash from investment activities			
Proceeds from the repayment of bank deposits	40	80	40
Gains from marketable securities and interest on deposits	1	4	3
Total cash from investment activities	**41**	**84**	**43**
Uses - Company			
Cash from operating activities			
Operating expenses	(2)	(8)	(6)
Cash for operating activities, net	**(2)**	**(8)**	**(6)**
Cash from financing activities			
Payment of interest on debentures	(39)	(78)	(39)
Total cash from financing activities	(39)	(78)	(39)
Closing balance			
Deposits and securities	388	308	268
Cash and cash equivalents in the end of the period	**23**	**21**	**19**
Total liquidity	**411**	**329**	**287**

4.5. The assumptions underlying the cash flow projection:

4.5.1. The Company expects an average annual return of approximately 1% on its investments in marketable securities and long-term deposits.

4.5.2. The annual interest payments in respect of the Company's traded debentures amount to NIS 78 million in accordance with the repayment schedule of the debentures.

4.5.3. The Company has sufficient liquid sources to finance its liabilities through cash balances and cash equivalents, deposits and marketable securities which can be converted into cash in the short term.

The Board of Directors reviewed and approved the sources included in the disclosure regarding the projected cash flow after they were found to be reasonable regarding the financial scope of each source and the expected timing of its receipt.

The foregoing 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 projection are based on the Company's data as of the reporting date, and assuming its continued operations in the normal business. There is no certainty that these assumptions and estimates will be realized in full or in part, since they also depend on external factors over which the Company has no control or ability to influence, as well as in view of the uncertainty currently prevailing in the communications market. Actual data may differ materially from the above estimate in case of a change in one of the factors taken into account in these estimates.

5. <u>Disclosure in connection with the financial reporting of the corporation</u>

5.1. Disclosure regarding very significant valuations

The following are details regarding highly material valuations performed in the Company and in the Group in accordance with Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. The valuation was attached to the financial statements.

A.

	Bezeq International Ltd. – December 31, 2019 Restatement – see Note 2.5 in the financial statements)
Valuation topic identification	Value of the use of Bezeq International Ltd. for the purpose of impairment examination following a restatement from November 2020.
Valuation timing	December 31, 2019; Valuation signed on November 30, 2020
The value of the subject of the valuation immediately before the date of the valuation	NIS 767 million book value of the net operating assets of Bezeq International Ltd.
The value of the subject of the valuation determined according to estimate	Approiximately NIS 374 million. The Company recognized a loss from the impairment of assets in the amount of NIS 393 million.

Identification and characterization of valuator	Prometheus Financial Advisory Ltd. The work was carried out 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 conducting 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 the Company. The Company undertook to indemnify the valuator for damages in excess of three times his fee, unless he acted maliciously or with gross negligence.
Valuation model	The cash flow discounting method (DCF).
The assumptions by which the valuation was made	Discount rate 9.7% (after tax) Permanent growth rate 0.7% Scrap value rate out of the total value determined in the valuation - 63%

B.

	Bezeq International Ltd. –September 30, 2019 Restatement – see Notes 2.5 and 5.2 in the financial statements)
Valuation topic identification	Value of the use of Bezeq International Ltd. for the purpose of impairment examination.
Valuation timing	September 30, 2019; Valuation signed on Movember 30, 2020
The value of the subject of the valuation immediately before the date of the valuation	NIS 392 million book value of the net operating assets of Bezeq International Ltd.
The value of the subject of the valuation determined according to estimate	Approiximately NIS 123 million. The Company recognized a loss from the impairment of assets in the amount of NIS 269 million.
Identification and characterization of valuator	Prometheus Financial Advisory Ltd. The work was carried out 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 conducting 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 the Company. The Company undertook to indemnify the valuator for damages in excess of three times his fee, unless he acted maliciously or with gross negligence.
Valuation model	The cash flow discounting method (DCF).
The assumptions by which the valuation was made	Discount rate 9.7% (after tax) Permanent growth rate 0.8% Scrap value rate out of the total value determined in the valuation - 76%

C.

	DBS (*)

Valuation topic identification	Value of the use of DBS Satellite Services (1998) Ltd. for the purpose of examining the impairment of non-current assets.
Valuation timing	September 30, 2020; The valuation was signed on November 4, 2020.
The value of the subject of the valuation immediately before the date of the valuation	Negative total - NIS (51) million.
The value of the subject of the valuation determined according to estimate	Negative total - NIS (118) million.
Identification and characterization of valuator	Prometheus Financial Advisory Ltd. The work was carried out 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 conducting 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 the Company. The Company undertook to indemnify the valuator for damages in excess of three times his fee, unless he acted maliciously or with gross negligence.
Valuation model	Net realizable value.
The assumptions by which the valuation was made	Assumptions regarding net realizable value of DBS's assets.

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

(*) This valuation was performed by Bezeq and not by the Company, and is not attached to the Company's statements. Despite the negative value of DBS's operations, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 4 to the financial statements). The Company's support of DBS stems, among other things, from the current and expected contribution of the multi-channel television activity to all of Bezeq Group's activities.

5.2. Due to lawsuits filed against the Group, the chances of success and exposure in respect of which cannot yet be assessed, the auditors indicated this in their opinion on the financial statements.

5.3. For **material events after the date of the financial statements -** see Note 16 in the financial statements and Chapter 3 above.

6. Details related to a series of certificates of commitment

6.1. Amendment of the terms of the Company's debentures

On September 17, 2020, the meetings of the holders of the debentures (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 borrowed by the Company (less the issuance expenses) will first repay the debentures (Series D) and the debentures (Series E) in full, so that after its borrowing and after the completion of the conditions required for release for the issuance of the additional series and correction of existing liens in favor of Series C, a first-degree lien will be registered on Bezeq shares pledged (as defined in the trust deed) for the benefit of the holders of the debentures (Series C), *in lieu* of a second-degree lien registered in their favor (as long as the debentures (Series E) are in circulation).
2. After the full repayment of the debentures in respect of the debentures (Series D) and the debentures (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 debentures (Series C), by early redemption (full or partial) in accordance with the terms of the existing trust deed.
3. The duration of the new series issued by the Company will be longer than that of the debentures (Series C), and the first principal payment in respect of the debentures from the new series as aforesaid will be only after full repayment of the debentures (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 debentures (Series C) - in the case of a partial early repayment of the debentures (Series C), the price of the partial early repayment will be the highest of the par value of the debentures (Series C) or their market value according to the price of the debentures on the stock exchange in 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 debentures according to the price of the debentures 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 debentures (Series E).

6.2. On April 7, 2020, Bezeq published a listing for trading and derestriction prospectus and Bezeq's shelf prospectus dated April 8, 2020. Following the publication of the prospectus, on April 26, 2020, Series 11 and 12 debentures were removed from trade on the "tact institutional" list and began trading on the Stock Exchange's main list on the same date.

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

470,000,000 debentures (Series 12) in exchange for an amount of approximately NIS 480,481,000 (see Note 6 to the financial statements).

6.3. Credit rating

On April 22, 2020, Midroog Ltd. ("Midroog") lowered the rating of Bezeq's debentures (Series 6, 7, 9, 10, 11 and 12) to Aa3.il with a stable rating horizon (see Immediate Report reference No. 2020-01-036094). In addition, on May 4, 2020, S&P Global Ratings Ltd. ("Maalot") confirmed the ilAA rating of Bezeq and its debentures and updated the rating forecast to stable (see Immediate Report Reference No. 2020-01-039514). In addition, further to the above in connection with the issue of Bezeq's debentures (Series 11 and 12) - on May 26, 2020, Midroog (see Immediate Report reference No. 2020-01-046375) and Maalot (see Immediate Report reference No. 2020-01-046354) announced the provision of rating as aforesaid (Aa3.il with a stable rating horizon and ILAA-, respectively) for the issue of the debentures by expanding the series in the amount of up to NIS 710 million par value.

On August 13, 2020, Midroog announced the cessation of rating of the debentures (Series C) issued by the Company in light of the Company's request. On the eve of its termination, the Company's debenture (Series C) rating was Caa2.il with a stable rating horizon.

6.4. Financial covenants

In accordance with the Company's liability in debt series C, D and E to comply with the LTV covenant, (the first test date is according to the financial statements as of December 31, 2021), The LTV ratio as of September 30, 2020 was 54.8%.%, Compared to June 30, 2020 when the LTV ratio was 69.5%.

7. Miscellaneous

For information regarding the liability base of the reporting corporation and the companies consolidated in its financial statements as of September 30, 2020, see the reporting form to be reported by the Company on the MAGNA system on November 30, 2020.

We thank the directors of the Group companies, their employees and the public.

Darren Glatt Chairman of the Board of Directors	Tomer Raved CEO

Signed on: November 30, 2020

Chapter 3
Condensed Consolidated Interim Financial Statements as of September 30, 2020

(Unaudited)

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Tel Aviv 6100601
03-684-8000

Auditors' review report to the shareholders of B Communications Ltd.

Introduction

We reviewed the attached financial information of B Communications Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated statement of financial position as of September 30, 2020 and the consolidated statements of income, comprehensive profit, changes in equity and cash flows for periods of nine and three months that ended on said date. The Board of Directors and Management are responsible for preparing and presenting financial information in respect of these interim periods in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting", and are also responsible for preparing financial information for these interim periods under Chapter D of Securities Regulations (Periodic and Immediate Reports), 5730-1970. It is our responsibility to present a conclusion on the financial information in respect of these interim periods based on our review.

We did not review the condensed financial information for the interim periods of a consolidated company whose assets included in the consolidation constitute approximately 1% of all consolidated assets as of September 30, 2020, and its revenues included in the consolidation constitute approximately 1% of all consolidated revenues for periods of nine and three months that ended on the same date. The condensed interim financial information for that company's is reviewed by other accountants, whose review report was forwarded to us, and our conclusion, as it relates to the amounts included in respect of said company, is based on the review report of the other accountants.

Scope of the review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods conducted by the entity's auditor". A review of financial information for interim periods consists of inquiries, especially with people responsible for financial and accounting matters, and the implementation of analytical and other review procedures. The review is considerably smaller in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore, does not allow us to obtain assurance that we will know all the significant matters that could have been identified in the audit. Accordingly, we do not provide an audit opinion.

Conclusion

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

In addition to what was stated in the previous paragraph, based on our review and the review report of other auditors, nothing comes to our attention that causes us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions under Chapter D of Securities Regulations (Periodic Reports And immediately), 5730-1970.

In addition to what is stated in the previous paragraph, based on our review and the review report of other auditors, nothing comes to our attention that causes us to believe that the above financial information does not fulfill, in all material respects, the disclosure provisions under Chapter D of Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Please note the following:

Without limiting our above conclusion, we draw attention to what is stated in Note 1.3 to the above financial information, 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 offenses committed under the Securities Law and the Penal Code relating, *inter alia*, to transactions related to the former controlling shareholder and the transfer of the investigation file to the State Attorney's Office, as well what is stated in this Note regarding the filing of an indictment against the former controlling shareholder in the Company, in respect of various offenses, including bribery, misrepresentation including a misleading detail in immediate reporting. As stated in the abovementioned Note, the Company is unable to assess at this stage the effects of the investigations, their findings and their results in respect of the Company, as well as on the financial statements and on the estimates used in the preparation of these statements, if any.

Also, without limiting our above conclusion, we draw attention to the aforesaid in Note 2.5 to the above financial information regarding adjustment by way of restatement of the consolidated financial statements as of December 31, 2019 and the year that ended on the same date, in order to retroactively reflect in them the effect of correcting the error in the calculation of assets and liabilities balances, and to the fact that the Company is still examining the source of the discrepancies discovered and that the work of the external auditor it is assisted with has not been completed. The Company anticipates that such discrepancies, insofar as they exist, will not have a material effect on the Group's financial statements.

Also, without limiting our above conclusion, we draw attention to what is stated in Note 7 to the above financial information regarding the claims filed against the Group, which cannot yet be assessed or the exposure in respect of which cannot be estimated.

Somekh Chaikin
CPA

November 30, 2020

Condensed Consolidated Interim Financial Statements as of September 30, 2020 (Unaudited)

Condensed consolidated interim financial statements as of

		September 30 2020	September 30 2019	December 31 2019
		(unaudited)	(unaudited)	(audited)
Assets	**Note**	**NIS millions**	**NIS millions**	**NIS millions**
Cash and cash equivalents		**920**	1,250	814
Restricted cash		**-**	-	39
Investments		**1,692**	1,727	1,241
Trade receivables		**1,716**	1,746	1,689
Other receivables		**333**	343	*343
Inventory		**96**	94	97
Assets held for sale		**46**	-	43
Total current assets		**4,622**	5,257	4,254
Trade receivable and other receivables		**525**	442	477
Fixed assets		**6,035**	6,071	*5,992
Intangible assets		**3,167**	3,202	*3,151
Deferred expenses and non-current investments *		**414**	510	*324
Broadcasting rights		**67**	63	59
Right-of-use assets		**1,197**	1,141	*1,217
Deferred tax assets		**53**	19	*81
Total non-current assets		**11,458**	11,448	11,301
Total Assets		**16,080**	16,705	15,555

** Including long-term restricted deposits.

Condensed consolidated interim financial statements as of (cont.)

Liabilities and Equity	Note	September 30 2020 (unaudited) NIS millions	September 30 2019 (unaudited) NIS millions	December 31 2019 (audited) NIS millions
Debentures, loans and credit	6	**957**	3,588	1,007
Current maturities for liabilities in respect of leases		**387**	427	416
Suppliers and payables		**1,696**	1,772	*1,618
Current tax liabilities		**53**	22	11
Provisions	7	**113**	143	125
Employee benefits		**441**	365	654
Total current liabilities		**3,647**	6,317	3,831
Loans and debentures	6	**10,369**	9,393	10,412
Leasehold obligations		**1,971**	988	969
Employee benefits		**334**	539	356
Derivatives and other liabilities		**342**	178	139
Provisions		**54**	39	49
Deferred taxes liabilities		**253**	205	237
Total non-current liabilities		**12,323**	11,342	12,162
Total liabilities		**15,970**	17,659	15,993
Equity (equity deficit)				
(Equity deficit) attributed to the company's shareholder		**(146)**	(720)	*(241)
Equity (equity deficit) attributed to non-controlling interests		**256**	234	*(197)
Total equity (equity deficit)		**110**	(954)	*(438)
Total liabilities and equity (equity deficit)		**16,080**	16,705	15,555

Darren Glatt Chairman of the Board of Directors	**Tomer Raved** CEO	**Itzik Tadmor** CFO

Date of approval of the financial statements: November 30, 2020

* Restated. See Note 2.5.

The Notes accompanying the condensed consolidated interim financial statements form an integral part thereof.

Condensed Consolidated Interim Financial Statements as of September 30, 2020 (Unaudited)

Condensed Consolidated Interim Statements of Income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues (Note 8)	**6,520**	6,727	**2,178**	2,247	8,929
Operating expenses					
Depreciation, amortization and impairment **	**1,361**	1,540	**460**	519	2,064
Payroll	**1,399**	1,458	**475**	474	1,939
Operating and general expenses (Note 9)	**2,355**	2,464	**790**	819	*3,321
Impairment loss (See Note 5)	**264**	1,345	**255**	-	*1,340
Other operating income (expenses), net (Note 10)	**(30)**	(370)	**(7)**	39	(188)
Total operating expenses	**5,349**	6,437	**1,973**	1,851	*8,476
Operating profit	**1,171**	290	**205**	396	*453
Financing expenses (income)					
Financing expenses	**395**	571	121	259	738
Financing income	**(43)**	(55)	(15)	(21)	(266)
Financing expenses (Note 11), net	**352**	516	**106**	238	472
Profit (loss) after financing expenses, net	**819**	(228)	**99**	158	*(19)
Share in losses of equity-accounted investees	**-**	2	**-**	1	2
Profit (loss) before taxes on income	**819**	(228)	**99**	158	*(21)
Taxes on income	**275**	1,415	**93**	48	*1,439
Profit (loss) for the period	**544**	(1,643)	**6**	109	(1,460)
Profit (loss) attributable to the company's shareholders	**80**	(1,002)	**(18)**	3	*(853)
Profit (loss) attributable to non-controlling interests	**464**	(641)	**24**	106	*(607)
Profit (loss) for the period	**544**	(1,643)	**6**	109	(1,460)
Profit (loss) per share (NIS)					
Basic profit (loss) per share	**0.68**	(27.26)	**(0.15)**	0.08	*(19.70)
Diluted profit (loss) per share	**0.68**	(27.26)	**(0.15)**	0.08	*(19.70)

* Restated. See Note 2.5.
** See Note 5 regarding impairment losses recognized by DBS in the reporting period.
The Notes accompanying the condensed consolidated interim financial statements form an integral part thereof.

Condensed Consolidated Interim Financial Statements as of September 30, 2020 (Unaudited)

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit (loss) for the period	**544**	(1,643)	**6**	109	*(1,460)
Remeasurement of defined benefit plan, net of tax (items that will not be reclassified to income)	**-**	(35)	****(11)**	(33)	(33)
Additional items of other comprehensive income (net of tax)	**(15)**	-	**(2)**	(5)	1
Total comprehensive profit (loss) for the period	**529**	(1,678)	**(7)**	71	(1,492)
Attributable to:					
The company's shareholders	**76**	(1,011)	**(21)**	(8)	*(862)
Non-controlling interests	**453**	(667)	**14**	79	*(630)
Total profit (loss) for the period	**529**	(1,678)	**(7)**	71	(1,492)

* Restated. See Note 2.5.

** The comprehensive profit (loss) was recognized as a result of the update of the discount rate according to which the net liability for a defined benefit is calculated as of September 30, 2020.

The Notes accompanying the condensed consolidated interim financial statements form an integral part thereof.

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

	Share capital	Premium on shares	Treasury shares	Other funds	Deficit balance	Total attributable to the parent company's shareholders	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Nine-month period ended September 30, 2020 (unaudited)								
Balance as of January 1, 2020	12	1,495	(**)	(38)	(1,710)	(241)	**(197)	**(438)
Net receipt for Horev settlement, see Note 7.1	**-**	**-**	**-**	**-**	**19**	**19**	**-**	**19**
Profit for the period	**-**	**-**	**-**	**-**	**80**	**80**	**464**	**544**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**(4)**	**-**	**(4)**	**(11)**	**(15)**
Total comprehensive profit (loss) for the period	**-**	**-**	**(**)**	**(4)**	**80**	**76**	**453**	**529**
Balance as of September 30, 2020	**12**	**1,495**	(**)	**(42)**	**(1,611)**	**(146)**	**256**	**110**
Nine-month period ended September 30, 2019 (unaudited)								
Balance as of January 1, 2019	3	1,057	(**)	(38)	(848)	174	*433	*607
Issuance of shares	1	116	-	-	-	117	-	117
Loss for the period	-	-	-	-	(1,002)	(1,002)	(641)	(1,643)
Other comprehensive profit (loss) for the period, net of tax	-	-	-	-	(9)	(9)	(26)	(35)
Total comprehensive profit (loss) for the period	-	-	-	-	(1,011)	(1,011)	(667)	(1,678)
Balance as of September 30, 2019	4	1,173	(**)	(38)	(1,859)	(720)	*(234)	*(954)
Three-month period ended September 30, 2020 (unaudited)								
Balance for 1 July 2020	12	1,495	(**)	(39)	(1,612)	(144)	242	98
Net receipt for Horev settlement, see Note 7.1	**-**	**-**	**-**	**-**	**19**	**19**	**-**	**19**
Profit for the period	**-**	**-**	**-**	**-**	**(18)**	**(18)**	**24**	**6**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**(3)**	**-**	**(3)**	**(10)**	**(13)**
Total comprehensive loss for the period	**-**	**-**	**-**	**(3)**	**(18)**	**(21)**	**14**	**(7)**
Balance as of September 30, 2020	**12**	**1,495**	(**)	**(42)**	**(1,611)**	**(146)**	**256**	**110**

Three-month period ended September 30, 2019 (unaudited)

Balance as of July 1, 2019	4	1,173	(**)	(36)	(1,854)	(713)	(312)	(1,025)
Profit for the period	-	-	-	-	3	3	106	109
Other comprehensive loss for the period, net of tax	-	-	-	(2)	8	(10)	(28)	(38)
Total comprehensive loss for the period	-	-	-	(2)	(5)	(7)	78	71
Balance as of September 30, 2019	4	1,173	(**)	(38)	(1,859)	(720)	(234)	(954)
Year ended December 31, 2019 (unaudited)								
Balance as of January 1, 2019	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)
Total other comprehensive loss for the year, net of tax	-	-	-	-	(9)	(9)	*(23)	**(32)
Total comprehensive loss for 2019	-	-	-	-	(862)	(862)	*(630)	*(1,492)
Balance as of December 31, 2019	12	1,495	(**)	(38)	*(1,710)	(241)	(197)	(438)

* Restated. See Note 2.5.

** Represents an amount lower than NIS 1 million

The Notes accompanying the condensed consolidated interim financial statements form an integral part thereof.

Condensed Consolidated Interim Statements of Cash Flows

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	**2019**	**2020**	**2019**	**2019**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Cash flows from operating activities					
Profit (loss) for the period	**544**	(1,643)	**6**	109	*(1,460)
Adjustments:					
Depreciation, amortization and impairment losses	**1,361**	1,540	**460**	219	2,064
Impairment losses	**264**	1,345	**255**	-	*1,340
Share in losses of equity-accounted investees	**-**	2	**-**	1	2
Financing expenses, net	**367**	467	**105**	203	420
Equity loss (profit), net	**(11)**	(441)	**(6)**	(10)	(475)
Income tax expenses	**275**	1,415	**93**	48	*1,439
Change in inventory	**(10)**	(5)	**10**	4	*(19)
Change in trade receivable and	**(19)**	48	**26**	20	*105

other receivables					
Change in suppliers and other payables	**(91)**	(120)	**34**	*50	*(77)
Change in provisions	**(11)**	32	**(8)**	(5)	(49)
Change in employee benefits	**(232)**	(156)	**(66)**	(58)	(50)
Change in other liabilities	**(12)**	(18)	**(5)**	(11)	(8)
Income tax paid, net	**(164)**	(242)	**(78)**	(89)	(327)
Cash derived from operating activities, net	**2,261**	2,160	**826**	782	2,905
Cash flows for investment activity					
Purchase of fixed assets	**(824)**	(851)	**(342)**	(300)	(1,095)
Investment in intangible assets and deferred expenses	**(307)**	(302)	**(100)**	(104)	(382)
Transaction in bank deposits and securities, net	**(446)**	(58)	**(97)**	338	569
Proceeds from the sale of fixed assets	**31**	64	**3**	15	76
Deposits to restricted cash	**-**	-	**-**	-	(39)
Proceeds from the sale of the Sakia complex	**-**	328			328
Proceeds from valuation tax from the sale of real estate for investment	**-**	5	**-**	-	-
Payment of permit fees, betterment levy and the Sakia complex purchase tax	**-**	(74)	**-**	75	(69)
Miscellaneous	**9**	12	**(1)**	(2)	35
Cash derived from (used for) investment activities, net	**(1,537)**	(876)	**(537)**	22	(577)

Condensed Consolidated Interim Statements of Cash Flows (Cont.)

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows for financing activities					
Issuance of debentures and receipt of loans	**718**	1,688	**-**	1,188	2,275
Repayment of debentures and loans	**(772)**	(2,333)	**(3)**	(1,971)	(4,287)
Principal and interest payments in respect of leases	**(305)**	(322)	**(106)**	(115)	(414)
Interest paid	**(203)**	(211)	**(4)**	(21)	(496)
Issuance of ordinary shares	**-**	117	**-**	-	447
Costs for early repayment of loans and debentures	**(51)**	(73)	**-**	(73)	(93)
Miscellaneous	**(5)**	(4)	**(5)**	(3)	(50)
Cash used for financing activities, net	**(618)**	(1,138)	**(118)**	(995)	(2,618)
Increase (decrease) in cash and cash equivalents, net	**106**	147	**171**	(191)	(290)
Cash and cash equivalents in the beginning of the period	**814**	1,104	**749**	1,441	1,104
Cash and cash equivalents in the end of the period	**920**	1,250	**920**	1,250	814

* Restated. See Note 2.5.

The Notes accompanying the condensed consolidated interim financial statements form an integral part thereof.

1. General

1.1. The reporting entity

B Communications Ltd. (hereinafter – "the Company") is a company incorporated in Israel, the address of which is 144 Menachem Begin Rd., Tel Aviv. The Company is a public company traded on the Tel Aviv Stock Exchange. The Company started its operations in 1999 and is the controlling shareholder of Bezeq, the largest and leading communications group in Israel.

The condensed consolidated financial statements of the Company as of September 30, 2020 include those of the Company and of its subsidiaries (hereinafter, collectively - "the Group"). (See also Note 13 – Segment Reporting).

1.2. Substantive events during the reporting period - effects of the spread of the COVID-19 pandemic

Further to Note 33 to the annual reports regarding the outbreak of the COVID-19 pandemic, during the period from the date of publication of the annual financial statements until the date of publication of this report, the spread of the pandemic and its effects expanded, which was reflected, among other things, in the imposition of various restrictions, including restrictions on citizen movement and gathering, employment restrictions, transportation restrictions and a significant reduction in activity in the economy.

As of September 30, 2020 and as of the date of approval of the financial statements, there was an impairment mainly in revenues from roaming services in Pelephone and a certain impairment in revenues from the business segment in all Bezeq Group companies, when the total impact of the pandemic on the financial position and business position of the Bezeq Group companies was mixed, while the increase in Bezeq's activity, along with actions taken by the Bezeq Group companies in view of the consequences of the event, offset most of the damage to roaming revenues.

In addition, Bezeq's observations show that at this stage, the COVID-19 crisis did not have a material effect on Bezeq's ability to meet liabilities, measurement of assets and liabilities, impairment of assets and recognition of expected credit losses (in this context, see also Note 5 regarding the examination of indicators of impairment in Pelephone). In addition, there was no material impact on critical estimates and considerations.

As of the date of the report, Bezeq Group's working assumption regarding the further spread of the COVID-19 pandemic is that measures to limit the spread of the virus will continue with varying intensity also during 2021, alongside a gradual recovery in the aviation and international tourism industries. Accordingly, and subject to the above assumptions, Bezeq anticipates that the effects of the COVID-19 pandemic on its activities will be mainly reflected in the decline in 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. In addition, a certain decrease in the Bezeq Group companies' revenues from the business segment is expected.

The prolongation of the crisis or its exacerbation beyond the Group's assumptions as detailed above, insofar as such occur, may have a material adverse effect on Bezeq Group's results. These effects may be reflected, *inter alia*, in the impairment, beyond the estimates as stated above, of revenues from roaming services and from equipment for businesses, as well as in revenues from the business segment. The prolongation or exacerbation of the crisis may also affect revenues from the sale of cellular end equipment, employee availability, customer service and technician activity systems, supply chain, and the amounts and collection dates in respect of the Group's customers.

Bezeq's estimates 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 event, 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.

1.3. Investigations by the Securities Authority and the police

Regarding the investigations by the Securities Authority and the police, see Note 1 to the annual financial statements.

As stated in Note 1 to the annual financial statements, Bezeq does not have complete information regarding the investigations, plans, materials and evidence in the possession of the relevant law authorities. Accordingly, Bezeq is unable 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 its financial statements, if any. Upon removal of the restriction on conducting tests and inspections related to issues that arose in the course of the investigations, the tests will be completed as necessary with regard to matters that arose in the framework of said investigations.

2. Basis for the preparation of the financial statements

2.1. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, which deals with financial reporting for interim periods, and in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

2.2. The condensed consolidated interim financial statements do not include all the information required in full annual financial statements, and these statements should be read in the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2019 and for the year ended on the same date, and the accompanying Notes (hereinafter – "the Annual Financial Statements"). The Group presents in the Notes to the condensed consolidated interim financial statements only the material changes that occurred from the date of the last Annual Financial Statements to the date of these interim financial statements.

2.3. These condensed consolidated interim financial statements were approved by the Company's Board of Directors on November 30, 2020.

2.4. Use of estimates and discretion

When preparing the condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRS), Management is required to exercise discretion and be assisted by estimates, assessments and assumptions that affect the implementation of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from the estimates determined.

Management's discretion when implementing the Group's accounting policies and the key assumptions used in the estimates involving uncertainty are consistent with those used in preparing the Annual Financial Statements, except as stated in Note 2.5 below. In addition, see Note 1 above regarding the effect of the spread of the COVID-19 pandemic on the Group's companies, as well as Note 5 regarding impairment of assets and examination of indicators of impairment.

2.5. Restatement

At the beginning of November 2020, 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 Ltd. (hereinafter: "Bezeq International") discovered that there are discrepancies between the assets and liabilities listed in its books and the actual assets and liabilities, resulting, *inter alia*, from non-imputation of costs from previous years in respect of payment of advances to suppliers to the income statement, as well as from improper recognition of advance expenses.

Following the disclosure of the discrepancies, Bezeq International's Management began an immediate examination of the issue, and Bezeq International carried out tests, procedures and compensatory actions, while investing much effort and many resources, in order to prepare the financial statements in accordance with International Financial Reporting Standards and in accordance with Disclosure Provisions in Chapter IV of Securities Regulations, 5730-1970, in all material respects.

In this context, the following actions were taken, among others:

1. Bezeq International recalculated certain balances in the statements on its financial position for the years 2016-2019 and for interim periods for the years 2019 and 2020 without relying on past records and existing processes in accounting in relation to the balance sheet items where errors were discovered.

2. In light of the change in forecasts resulting from the discrepancies described above, Bezeq International re-examined its valuation as of December 31, 2019 through an external valuator.

3. Bezeq International carried out controls and inspections on the recalculation of balances with the assistance of an independent external specialist for the purpose of monitoring. In addition, the existing team was supported by additional accounting employees from Bezeq's subsidiaries, for the purpose of carrying out the work of correcting the statements.

4. Bezeq International's internal auditor conducted an examination of the matter in cooperation with Bezeq International's Security Division, while in some of the inspections he was assisted by an independent external specialist as stated in section 3 above.

5. Bezeq's Board of Directors has appointed an independent external examiner for the purpose of an in-depth investigation of the events and circumstances. The examination is underway as of the date of approval of the financial statements.

In light of the fact that Bezeq International's accounting system included many manual transactions and poor documentation in a way that does not allow the effect of the transactions on its financial results to be fully traced, Bezeq International reconstructed the balance sheets in which errors were discovered without relying on the manual actions, with the assistance of an external specialist, reasonable controls and additional reports constructed during the process. The described complexity and method of preparing the reports, under tight schedules, did not allow for a full investigation of the discrepancies. Bezeq International is still examining the source of the discrepancies, and it is possible that additional discrepancies will be discovered following the work of the external examiner. Bezeq Group anticipates that in light of the manner in which the statements are constructed, such discrepancies, insofar as they exist, will not have a material effect on the consolidated financial statements.

As of the date of approval of these interim financial statements, the total impact of the discrepancies discovered in Bezeq International as part of the examinations as of June 30, 2020 was a reduction in the Group's equity according to the following:

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. For more information regarding the impairment of the Internet Services and International Communications segment, see Note 5.3 below.

2. Reduction of the Group's equity 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. Reduction of the Group's profits (net tax) in the cumulative amount of approximately NIS 133 million for the period between January 1, 2018 and June 30, 2020.

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 122 million (NIS 100 million net of tax) was recognized as a result of updating the value of operations and the value of Bezeq International's book value as of December 31, 2019 (see Note 5 to the financial statements for details regarding the updated valuation).

   It should be noted that as of the date of the examination, no effect was found on the cash balance of Bezeq International and the Group.

   In light of the findings of the examinations as stated above, the Company will make an adjustment by way of restatement of its financial statements as of December 31, 2019 and for the year ended on the same date, in order to retroactively reflect the effect of the above.

The following is a breakdown of the effect of the restatement:

Impact on the financial statements as of December 31, 2019 and for the year ended on that date

	Effect on the statement on the financial position as of December 31, 2019		
	As previously reported	Impact of restatement	As reported in these financial statements
	(audited)	(audited)	(audited)
	NIS millions	NIS millions	NIS millions
Customers	1,689	(12)	**1,677**
Other trade receivables	313	30	**343**
Inventory	93	4	**97**
Right of use assets	1,182	35	**1,217**
Fixed assets	6,032	(40)	**5,992**
Intangible assets	3,180	(29)	**3,151**
Deferred expenses and non-current investments	366	(42)	**324**
Deferred taxes assets	59	22	**81**
Suppliers and trade payables	1,414	204	**1,618**
Balance deficit	(187)	(54)	**(241)**
Total equity deficit	(202)	(236)	**(438)**

	Effect on the statement of income for the year ended December 31, 2019		
	As previously reported	Impact of restatement	As reported in these financial statements
	(audited)	(audited)	(audited)
	NIS millions	NIS millions	NIS millions
Operating and general expenses	3,276	45	**3,321**
Impairment loss	1,274	66	**1,340**
Operating profit	566	(113)	**453**
Taxes on income	1,473	(34)	**1,439**
Net loss in the year	(1,381)	(79)	**(1,460)**
Loss per share (in NIS)	(19.76)	(0.06)	**(19.7)**

	Effect on the comprehensive income for the year ended December 31, 2019		
	As previously reported	Impact of restatement	As reported in these financial statements
	(audited)	(audited)	(audited)
	NIS millions	NIS millions	NIS millions
Loss in period	(1,381)	(77)	**(1,460)**
Other comprehensive loss for the period, net of tax	(35)	-	**(32)**
Total comprehensive loss for the period	(1,413)	(77)	**(1,492)**

Impact on statement of changes in equity:

	As of January 1, 2019		
	As previously reported	Impact of restatement	As reported in these financial statements
	(audited)	(audited)	(audited)
	NIS millions	NIS millions	NIS millions
Equity	228	(54)	**174**
Total equity	764	(157)	**607**

3. Reporting principles and accounting policies

3.1. The Group's accounting policy in these condensed consolidated interim financial statements is the same policy implemented in the Annual Financial Statements.

3.2. Accounting policies implemented in the wake of new events

Government grants

Government grants are initially recognized at fair value when there is reasonable assurance that they will be received 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 unfreeze in the statement of income and loss, throughout the useful duration of the asset. See Note 16.1.

3.3. New standards and interpretations that have not yet been adopted

On May 14, 2020, an amendment was published to International Accounting Standard 37 - Provisions, Contingent Liabilities and Contingent Assets (IAS 37) in respect of onerous contracts (hereinafter: the "Amendment"). The Amendment stipulates that in examining the costs of maintaining an onerous contract, it is necessary to also consider indirect costs in addition to supplemental costs (see Note 3 to the Annual Financial Statements).

The date of initial application of the Amendment is set for January 1, 2022, and will be made by adjusting the surplus balance in respect of the cumulative effect as of that 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 the date scheduled.

4. The Group’s entities

4.1. A detailed description of the Group's entities appears in Note 12 to the annual financial statements. The following is a detail of the material changes that have taken place in connection with the Group's entities since the publication of the Annual Financial Statements.

4.2. D.B.S. Satellite Services (1998) Ltd. (DBS)

4.2.1. As of September 30, 2020, DBS has an equity deficit in the amount of NIS 57 million, as well as a working equity deficit in the amount of NIS 239 million. In accordance with DBS’ projections, 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 the Company’s support.

In 2019, Bezeq has invested in DBS' equity in the amount of NIS 145 million, in accordance with the promissory notes submitted by Bezeq to DBS.

During 2020, Bezeq's Board of Directors approved, once every quarter, the granting of an irrevocable commitment by Bezeq to DBS to provide a credit facility or capital investment in the amount of NIS 250 million, for a period of 15 months, with the last approval being in August 2020, valid until September 9, 2021. It should be noted that during the nine-month period that ended on September 30, 2020, no utilization of this credit was made by DBS.

In November 2020, Bezeq's Board of Directors approved the granting of an irrevocable commitment by Bezeq to DBS to provide a credit facility or capital investment in the amount of NIS 150 million, for a period of 15 months, from October 1, 2020 until December 31, 2121 *in lieu* of the commitment of August 2020.

In the opinion of DBS' management, the sources of funding available to it, which include, *inter alia*, the working equity deficit and the credit and investment framework in such equity from Bezeq, will satisfy the needs of DBS' operations for the coming year.

4.2.2. See Note 5.2 below regarding impairment of assets recognized by DBS in the financial statements as of September 30, 2020.

4.3. Bezeq International Ltd. (hereinafter - Bezeq International)

On September 10, 2020, the Ministry of Communications wrote to the operators a letter in which it raises concerns that some of the 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 in its appeal to operators to act to notify and stop charging subscribers who do not use these services, and also requests periodic reports on the matter, during the next 6 months. It was also written that the Ministry will consider in the future whether to set binding provisions in the matter, should initiated actions not lead to a significant reduction in this matter. Subsequently, 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 telecom operators will reflect a significant reduction in the phenomenon, that reference should be made at this time to the question of how the licensee acts to prevent the recurrence of the phenomenon, and, as noted in its previous letter, that as long as the phenomenon is not significantly reduced, the Ministry would consider in the future whether to determine binding provisions in the matter, if proactive actions do not lead to a significant reduction in this matter. See also Note 5.3 regarding impairment in Bezeq International in this context.

5. <u>Impairment</u>

5.1. The following is the composition of the Impairment loss recognized by the Group:

	For a period of nine months ended September 30		For a period of three months ended September 30		Year ended December 31
	2020	**2019**	**2020**	**2019**	**2019**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Impairment loss in the Internet and International Communications Services segment (see Note 5.3 below)	**269**	-	**269**	-	*365
Cancellation of impairment loss in respect of Walla (see Note 15.2)	**(14)**	-	**(14)**	-	
Impairment loss in the cellular communications segment	**8**	951	**-**	-	975
	263	951	**255**	-	1,340

* Restated, see Note 2.5.

In addition, the Group recognized losses from continuing impairment of DBS assets as set forth in Section 5.2 below.

5.2. Multi-channel television segment

Further to Note 9 to the Annual Financial Statements regarding impairment recognized in 2019 in respect of a multi-channel television cash-generating unit, the valuation as of December 31, 2019 presented a substantially lower realizable value than the book value of DBS. Depending on the examination performed as of September 30, 2020 and in accordance with the assessment of DBS's Management, It was found that there were no changes in DBS' expectations of the financial results, no significant changes in market expectations and no regulatory changes that could materially affect the results.. Therefore, in light of the negative value of the activity as determined in the valuation as of December 31, 2019, DBS has reduced its non-current assets as of December 31, 2019, up to the amount of the net realizable value of these assets.

Based on the fair value assessment of DBS' non-current assets, which was performed by an external valuator as of September 30, 2020, the book value of the depreciable assets is approximately NIS 217 million higher than the fair value less realization costs. The Group recognized, in the nine- and three-month periods ended September 30, 2020, impairment losses of approximately NIS 217 million and approximately NIS 67 million, respectively. The impairment loss was attributed to fixed assets, broadcasting rights and intangible assets. as described below.

The following is a breakdown of the allocation of the loss from the impairment the Group's assets:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Broadcasting rights – minus utilized rights*	**122**	154	**35**	41	202
Fixed assets **	**64**	98	**26**	30	117
Intangible assets **	**31**	36	**6**	10	44
Rights of use of leased assets **	**-**	(1)	**-**	(1)	(1)
Total impairment recognized	**217**	287	**67**	80	362

* The expense was presented as part of operating and general expenses

** The expense was presented as depreciation, amortization and impairment expenses

For information regarding the manner in which DBS determined the fair value (at level 3) of the assets minus realization costs, see Note 9 in Bezeq's annual financial statements.

5.3. Internet Services and international telecom segment (Bezeq International)

A. Valuation of activity for September 30, 2020

As of the financial statements for the third quarter of 2020, Bezeq International identified signs of a possible impairment in view of the lack of a gap between the value of its operations and the book value of its operating assets, net as measured on December 31, 2019 (after restatement, as described in Note 2.5 above). Following the recommendation of the Ministry of Communications in its appeal from September 10, 2020 and November 8, 2020 to market operators (as described in Note 4.3 above), to act in an outline of informing and treating customers who pay Bezeq International by virtue of an agreement and do not use ISP services for an extended period. Due to the aforesaid, the Group estimated the recoverable amount of the cash-generating unit of Internet services, International Communications and network endpoint as of September 30, 2020. The use value is calculated 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.

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 cash flow forecast does not include the possible effects of the Ministry of Communications' hearing of October 4, 2020 on the examination of the existing separation between broadband infrastructure services and Internet access services (ISP), described in Note 16.3, since Bezeq International and the Company are of the opinion that this event does not indicate circumstances that existed at the time of reporting.

The revenue forecast is based on assumptions regarding Bezeq International's Internet subscriber base and average revenue per subscriber (including assumptions regarding notification and termination of subscriptions who do not use ISP services), assumptions regarding Bezeq International's activity in the international communications market and assessments regarding its development in business communications services. The expenditure forecast is based, among other things, on assumptions regarding the extent of the decrease in the number of Bezeq International employees and the payroll expenses derived from them, as well as on assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet television broadcasts in general, and the expected migration of DBS from satellite television broadcasts to Internet television broadcasts in particular). In addition, the forecast of expenses includes assumptions regarding the effect of impairment (as reflected in the correction of the error and restatement of operating expenses, as explained in Note 2.5 above) in the forecast years, including the permanent year. The rest of the operating expenses and the level of investments were adjusted to the projected scope of Bezeq International's activity.

The nominal capital price used in the valuation is 9.7% (after tax) (in 2019 - 9.7%). In addition, a permanent growth rate of 0.8% was assumed (in 2019 - 0.7%).

The valuation is sensitive to changes in the rate of permanent growth and in the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to changes in the field of Internet activity in particular (subscriptions, ARPU and traffic costs). An increase (decrease) of 1% in the discount rate results in a decrease (increase) in the value of Bezeq International's activity in the range of approximately NIS 15 million to approximately NIS 19 million. An increase (decrease) of 0.5% in the permanent growth leads to an increase (decrease) in the value of the activity in the range between NIS 11 million and approximately NIS 12 million.

The valuation is sensitive to estimates of operating expenses during the forecast period. An increase (decrease) of NIS 5 million in operating expenses leads to a decrease (increase) in the value of the activity in the amount of approximately NIS 47 million. The valuation is sensitive to decrease in income from inactive subscribers (see Note 4.3), any decrease of 5% in the income from these subscriptions compared to the forecast set in the valuation, will result in a decrease in the value of the Company's activity of approximately NIS 18 million.

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 value in the Group's books in the amount of NIS 392 million. Accordingly, the Group recognized a loss from impairment attributable to the Internet, international communications and network endpoint services segment in the amount of approximately NIS 269 million. Since Bezeq International does not expect future profits, no tax asset has been recognized. In addition, the Group discounted the deferred tax balance that existed in its books in the amount of NIS 37 million.

Below is a breakdown of the allocation of the loss from the impairment of the Group's assets as of September 30, 2020:

	As of September 30, 2020
	(unaudited)
	NIS millions
Fixed assets	79
Intangible assets	92
Long-term advance expenses for capacities	98
Total impairment recognized	269

B. Amended valuation of activity as of December 31, 2019

As a result of Bezeq International's findings regarding discrepancies between the assets and liabilities in its books and the actual assets and liabilities and the amendment of the profitability data as a result of the findings for 2018-2019 as described in Note 2.5 above, Bezeq International updated its valuation on December 31, 2019. As part of this, Bezeq International updated its profit forecast for the coming years, including the permanent year.

As described in Note 2.5 above, Bezeq International recalculated certain balances in its statement of financial position without relying on past records and existing processes in accounting in relation to the balance sheet items in which the errors were discovered, with the assistance of an external independent specialist, reasonable controls and additional reports constructed during the process. The described complexity and method of preparing the reports, under very tight schedules, did not allow for a full investigation of the discrepancies and the extent of their impact on the forecasts used for the valuations. Bezeq International estimates that the effect of the amendment on the decrease in operating profit for a period of nine months, which ended on September

30, 2020, and the estimate of its expected impact for the whole of 2020, will accompany it in the forecast years, including the permanent year.

As a result of the said update, the value of Bezeq International's activity in 2019 decreased to NIS 374 million, compared with NIS 652 million in the original valuation, a difference of approximately NIS 278 million. At the same time, the book value of Bezeq International in the Group's books decreased. - NIS 1,045 million to approximately NIS 767 million.

As a result of the update of the value of the activity and the book value as of December 31, 2019, as stated above, the Group recognized a loss from impairment of NIS 365 million (NIS 285 million net of tax), compared with NIS 299 million, in the original valuation (NIS 241 million net of tax). Accordingly, as part of the (restated) statement of income for 2019, the total loss from impairment increased by approximately NIS 66 million, and the total tax income, as a result of the recognition of the tax asset due to impairment, also increased by approximately NIS 22 million.

The updated use value 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 starting from December 31, 2019.

The updated cash flows forecast is based on assumptions regarding Bezeq International's Internet subscriber base and average revenue per subscriber (including assumptions regarding notification and termination of subscriptions who do not use ISP services), assumptions regarding Bezeq International's activity in the international communications market and assessments regarding its development in business communications services. The expenditure forecast is based, among other things, on assumptions regarding the extent of the decrease in the number of Bezeq International employees and the payroll expenses derived from them, as well as on assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet television broadcasts in general, and the expected migration of DBS from satellite television broadcasts to Internet television broadcasts in particular). In addition, the forecast of expenses includes assumptions regarding the effect of impairment (as reflected in the correction of the error and restatement of operating expenses, as explained in Note 2.5 above) in the forecast years, including the permanent year. The rest of the operating expenses and the level of investments were adjusted to the projected scope of Bezeq International's activity.

The nominal capital price used in the valuation is 9.7% (after tax) (in 2018 - 9.7%). In addition, a permanent growth rate of 0.7% was assumed (in 2018 - 0.4%). These data are unchanged from the original valuation.

The valuation is sensitive to changes in the rate of capitalization and permanent growth. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to changes in the field of Internet activity in particular (subscriptions, ARPU and traffic costs). An increase (decrease) of 1% in the discount rate results in a decrease (increase) in the value of the Company's activity in the range between approximately NIS 36 million and approximately NIS 57 million. An increase (decrease) of 0.5% in the permanent growth leads to an increase (decrease) in the value of the activity in the range between NIS 22 million and approximately NIS 27 million.

The valuation is sensitive to estimates of operating expenses during the forecast period. An increase (decrease) of NIS 5 million in operating expenses leads to a decrease (increase) in the value of the activity in the amount of around NIS 43 million.

The following is a breakdown of the updated loss allocation from the impairment of the Group's assets as of December 31, 2019:

	As of December 30, 2019
	(audited)

	NIS millions
Fixed assets	103
Intangible assets	112
Long-term advance expenses for capacities	130
Goodwill	19
Rights of use of leased assets	1
Total impairment recognized	365

5.4. Cellular communications segment (Pelephone)

A. Valuation of activity as of 30.06.20

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 Pelephone's operating value as measured as of 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 cash-generating unit of cellular communications as of June 30, 2020.
The use value of a cash-generating unit in cellular communications was 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 and 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.

Pelephone's Management expects its revenues from roaming services to be materially adversely affected during 2020 as a result of the measures imposed due to the pandemic. Pelephone does not anticipate a material effect of the pandemic on its performance forecast for the coming years, except for its revenues from roaming services in 2021, based on Pelephone's working assumption regarding the spread of the COVID-19 pandemic to the date of approval of these financial statements, according to which measures to limit the spread of the virus will continue until the end of 2020 without any economy-wide restrictions, and a gradual recovery in the aviation and international tourism industries will occur during 2021. Also, in light of the results of the advanced broadband cellular services tender from August 12, 2020 (see Note 15), the future cash flow forecasts take into account the amount of payment for the frequencies determined in the tender as well as the incentives and grants that are expected to be received in accordance with the conditions specified in the tender.

The nominal capital price used in the valuation is 10.3% after tax (10.3% in 2019). Also, a permanent growth rate of 2.5% (2.5% in 2019) was assumed. The valuation is sensitive to changes in the rate of permanent growth and discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general and to the valuation of the ARPU level (average income per subscriber) and the subscriber base at the end of the forecast range in particular (a change of NIS 1 in ARPU leads to a change in operating value in the amount of NIS 302 million, a change of 1% in the discount rate leads to a change in operating value of NIS 274 million and a change of 1% in the rate of permanent growth leads to a change in operating value of NIS 157 million).

The valuation was conducted by an external valuator. Based on the valuation as detailed above, the value of Pelephone's operations 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 the impairment of assets attributed to the cellular communications cash-generating unit in the amount of approximately NIS 8 million. On the other hand, the deferred tax liability balance due to the impairment decreased by NIS 2 million. After recognizing the decrease in value, the recoverable amount of the unit is the same as its value in the books.

The following is a breakdown of the allocation of loss from the impairment of Pelephone's assets:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Fixed assets	2	202	-	-	77
Intangible assets	3	239	-	-	122
Rights of use of leased assets	3	219	-	-	91
Goodwill	-	685	-	-	685
Total impairment recognized	8	1,345	-	-	975

B. Examination of signs of impairment as of September 30, 2020

The Company conducted an orderly examination for the existence of indicators of impairment as of September 30, 2020, in accordance with the provisions of International Accounting Standard IAS 36.

According to the Company's assessment, there is no material change in the assessments that were taken into account when performing the valuation of Pelephone's operations, which was performed as of June 30, 2020. Therefore, the Company concluded that there are no indicators of impairment in the cellular communications cash-generating unit as of September 30, 2020. To the extent that the crisis continues significantly beyond Pelephone’s assumptions that were taken into account in the valuation of the activity as of June 30, 2020, as detailed above, this may lead to the impairment of Pelephone's assets.

6. Debentures, loans and credit

6.1. Further to Note 33 to the annual reports regarding the approval of Bezeq's Board of Directors in respect of submitting an application for a permit to publish a prospectus for the listing of debentures (Series 11 and 12) for trading, registered for trading in the tact institutional system, and a shelf prospectus, on April 7, 2020 Bezeq published a listing and derestriction prospectus, and Bezeq’s shelf prospectus dated April 8, 2020. Following the publication of the prospectus, on April 26, 2020, Series 11 and 12 debentures were delisted from trading in the "tact institutional" 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 debenture principal as of the date of their listing for trading on the Stock Exchange's main list has been reduced by 0.4%, in accordance with the terms of the debentures.

6.2. In May 2020, Bezeq completed an issue according to a shelf offer report dated May 26, 2020, which was published according to the prospectus (as stated above), of Bezeq's debentures (Series 11 and 12) by expanding the series listed on the Stock Exchange's main list. The total (gross) proceeds received in respect of the issue amounted to NIS 724.4 million.

6.3. In June 2020, Bezeq made an early repayment of a private loan from an institutional entity in the amount of NIS 500 million. Bezeq recognized financing expenses in respect of the payment of the early repayment fee in the amount of NIS 51 million.

6.4. On September 17, 2020, the meetings of the holders of the debentures (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:

a. The additional debt borrowed by the Company (less the issuance expenses) will first repay the debentures (Series D) and the debentures (Series E) in full, so that after its borrowing and after the completion of the conditions required for release for the issuance of the additional series and correction of existing liens in favor of Series C, a first-degree lien will be registered on Bezeq shares pledged (as defined in the trust deed) for the benefit of the holders of the debentures (Series C), *in lieu* of a second-degree lien registered in their favor (as long as the debentures (Series E) are in circulation).

b. After the full repayment of the debentures in respect of the debentures (Series D) and the debentures (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 debentures (Series C), by early redemption (full or partial) in accordance with 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 debentures (Series C), and the first principal payment in respect of the debentures from the new series as aforesaid will be only after full repayment of the debentures (Series C).

In addition, 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 debentures (Series C) - in the case of a partial early repayment of the debentures (Series C), the price of the partial early repayment will be the highest of the par value of the debentures (Series C) or their market value according to the price of the debentures on the stock exchange in 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 debentures according to the price of the debentures 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 debentures (Series E).

7. Contingent liabilities

7.1. Claims against the Company

7.1.1. Further to what is stated in Note 22 (2) to the Annual Financial Statements, on March 30, 2020, the Company reached a settlement regarding the derivative claim that was filed in July 2016 with 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 debentures which were held by Internet Gold – Kavei Zahav (hereinafter "Internet Gold"), in exchange for waiving the derivative claim against Internet Gold. Moreover, the derivative plaintiff received an amount of NIS 4.23 million for legal expenses and monetary compensation (which was 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 item Accumulated Deficit.

7.1.2. 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. 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 their 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 item Accumulated Deficit.

7.1.3. Further to what is stated in Note 22 (1) to the annual statements, on March 4, 2020, the Company signed a settlement agreement settling the class action claim filed against the Company with the Southern District Court of New York 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 a settlement during 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, who released 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. See also Note 7.2.1 (3) below.

7.1.4. For additional lawsuits against the Company, see Note 7.2 (4).

7.1.5. Regarding lawsuits filed against the Company and companies in Bezeq Group after the balance sheet date, see Note 7.3.

7.2. Claims filed against Bezeq Group companies

Within the regular course of business, claims have been filed or various legal proceedings are pending against companies in the Bezeq Group (hereinafter in this section: "the Claims").

In the opinion of the managements of the Bezeq Group companies, which is based, among other things, on legal opinions regarding the chances of success of the Claims, the financial statements included adequate provisions in the amount of NIS 108 million, where provisions were required to cover the exposure as a result of such Claims.

In the opinion of the managements of the Bezeq Group companies, the amount of the additional exposure (beyond such provisions), as of September 30, 2020, due to Claims filed against the Group companies in various matters, amounted to a total of NIS 48.9 billion (from this amount, the exposure in the amount of approximately NIS 5 billion is in respect of a claim filed in July 2020 together with a motion for approval as class action against Walla as detailed in section 7.1 (1) below). In addition, there is an additional exposure of NIS 4 billion in respect of claims whose chances cannot be assessed at this stage.

In addition, requests were filed against companies from the Group to recognize the claims as class actions that did not specify an exact amount of the claim, for which the group has additional exposure beyond the above.

The additional exposure amounts in this note are nominal.

For updates regarding changes after the date of the report, see section 7.3 below.

7.2.1. The following is a description of the contingent liabilities of the Bezeq Group that as of September 30, 2020 are classified in accordance with groups with similar characteristics.

Claims group	The nature of the claims	Provision balance	Amount of additional exposure	Amount of exposure for claims that cannot yet be assessed
		NIS millions		
Customer claims	Mainly requests for approval of class actions (and claims by virtue thereof) that concern allegations of illegal collection of funds and damage to the provision of services provided by the Group companies.	**107**	**8,217**(1)	**2,147**(2)
Claims by enterprises and companies	Legal claims in which the Group companies' responsibility was claimed in connection with their operations and / or in connection with investments made in various projects.	**-**	**687**(3)	**1,808**(4)

Claims by former employees of the Group's companies	Mainly individual claims filed by employees and former employees of the Group involving various payments	**-**	**1**	**-**
State and authority claims	Various legal proceedings by the State of Israel, various governmental entities and State authorities (hereinafter: "the Authorities"). These are mainly procedures in the field of regulation applied to the Group companies and various financial disputes regarding the funds paid by the Group companies to the Authorities (including Property Tax payments). See also Note 13 to the Annual Financial Statements.	**1**	**4**	**-**
Claims by suppliers and telecommunications providers	Claims for compensation for claimed damages as a result of the provision of the service and / or product.	**-**	**4**	**14**
Tort, real estate and infrastructure claims	Claims of bodily injury or property damage for which the Group companies are allegedly responsible, as well as real estate and infrastructure issues. The amount of additional exposure in respect of tort claims does not include claims for which the existence of insurance coverage is not in dispute.	**-**	**12**	**-**
Total litigation against the Company and the consolidated companies		**108**	**8,925**	**3,969**

(1) Including exposure in respect of a lawsuit filed in July 2020 with a motion for approval as class action against Walla alleging the misleading of network users on Walla's website regarding the number and / or volume of commercial advertisements to which surfers are required to be exposed, as a condition for consuming the requested content. The motion stated that the amount of the class action cannot be accurately estimated at this stage and only an initial estimate is available, which totals more than NIS 5 billion. In Walla's estimation, the chances of the motion for approval as class action being accepted are less than 50%, since the applicants do not have a cause, *a fortiori*, such that justifies the clarification of the claim as a class action. If and to the extent that the sale of Walla is completed, as described in Note 17.2, the claim would be deducted from the total exposure of the Bezeq Group.

(2) Including exposure in the amount of NIS 0.9 billion in respect of an application for approval of a class action lawsuit filed against Bezeq in May 2020 which concerns Internet advertising packages via the B144 website (the amount of exposure was specified in handwriting and did not include explanation or calculation in relation to it).

(3) Disclosure in respect of a class action by a shareholder against Bezeq and officers in the Company in which it is alleged that the Company failed to report regarding the wholesale market reform.

(4) Two motions for approval of class actions in the total amount of NIS 1.8 billion were filed in June 2017 against the Company, Bezeq Group officers, as well as Group companies that then controlled Bezeq in the matter of the acquisition of DBS shares

by Bezeq from Eurocom DBS Ltd. In accordance with a court decision, the filing of a consolidated application is expected to replace these two applications. There was a stay in the procedure in light of the investigation (as described in Note 1.3) and at the request of the Attorney General, at this stage, until the second half of September 2020. At the request of the State, an extension was granted for the filing of update notices regarding the continued stay of the proceedings in these cases until December 1, 2020.

7.3. After the date of the financial statements, six motions for approval of claims as class action were filed against the Group companies, five of which do not indicate the accurate amount (while one of them is also against the Company and officers in the Group). As of the date of approval of the financial statements, the chances of the motions cannot yet be assessed. In addition, lawsuits against companies in Bezeq Group were concluded, the amount of exposure in respect of which was approximately NIS 100 million.

8. Income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
National interior stationary communication – Bezeq Fixed Lines					
Internet - infrastructure	**1,141**	1,126	**387**	372	1,497
Wired telephony	**740**	775	**246**	253	1,017
Data transmission and Communication	**579**	571	**194**	191	745
Cloud & digital services	**213**	208	**71**	69	273
Other services	**174**	167	**57**	58	225
	2,847	2,847	**955**	943	3,757
Cellular - Pelephone					
Cellular services & end equipment	**1,165**	1,265	**386**	438	1,674
End equipment sales	**441**	459	**146**	157	642
	1,606	1,724	**532**	595	2,316
Multichannel TV - DBS	**969**	1,013	**313**	333	1,344
Internet services (ISP), international Communication and network endpoints - Bezeq International	**904**	969	**301**	316	1,283
Other	**194**	174	**77**	60	229
Total revenues	**6,520**	6,727	**2,178**	2,247	8,929

9. Operating and general expenses

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	**2019**	**2020**	**2020**	**2019**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
End equipment and materials	**553**	574	**189**	202	*806
Connectivity and payments to telecommunications operators in Israel and abroad	**585**	576	**198**	193	757
Content costs (including content impairment)	**442**	485	**135**	149	644
Marketing & general	**353**	370	**118**	123	502
Maintenance of buildings and sites	**179**	203	**68**	70	271
Services and maintenance by subcontractors	**207**	201	**68**	63	270
Vehicle maintenance	**36**	55	**14**	19	71
Total operating and general expenses	**2,355**	2,464	**790**	819	*3,321

* Restated. See Note 2.5.

10. Other operating expenses (income), net

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	**2019**	**2020**	**2020**	**2019**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Equity losses (gains) (primarily real estate realization)	**(11)**	(442)	**(6)**	(11)	(475)
Receipts from settlement agreements	**(9)**	-	**-**	-	-

Recognition of the provision (cancellation of the provision) for the streamlining agreement in Pelephone, Bezeq International and DBS	**5**	90	**-**	45	167
Recognition of the provision (cancellation of the provision) for termination of employee-employer relations in early retirement in the Group	**-**	(21)	**-**	3	109
Recognition of the provision (cancellation of the provision) for claims	**(3)**	3	**(1)**	2	10
Others	**(2)**	-	**-**	-	1
Total other operating expenses (income), net	**(30)**	(370)	**(7)**	39	(188)

11. Financing expenses, net

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial obligations	**292**	354	**93**	128	458
Costs of the early repayment of loans and	**51**	73	**-**	73	93

debentures (Note 6)					
Linkage and exchange rate differences	**16**	35	**10**	1	46
Financing expenses in respect of lease obligations	**21**	22	**7**	9	29
Other financing expenses	**7**	6	**3**	3	14
Financing expenses in respect of employee benefits	**8**	72	**8**	42	89
Change in the fair value of financial assets measured at fair value through profit & loss	**-**	9	**-**	3	9
Total financing expenses	**395**	571	**121**	259	738
Income in respect of credit embodied in sales	**23**	23	**8**	8	(29)
Bond swap revenues	**-**	-	**-**	-	(191)
Change in the fair value of financial assets measured at fair value through profit & loss	**5**	-	**1**	-	-
Other financing income	**15**	32	**6**	13	(46)
Total financing income	**43**	55	**15**	21	(266)
Financing expenses, net	**352**	516	**106**	238	472

12. Share capital

On August 26, 2020, the Company announced its intention to delist its shares from trading on the Nasdaq Stock Exchange and terminate its reporting liability to the US Securities and Exchange Commission (SEC). The documents required for the delisting were filed on September 9, 2020 and the Company's stock stopped trading on 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 (SEC) on the same day.

13. Financial instruments

Fair value

13.2.1.1 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 methods for determining the fair value of financial instruments are set out in Note 19 to the Annual Financial Statements..

	As of September 30, 2020		As of September 30, 2019		As of December 31, 2019	
	Book value (including interest accrued)	Fair value	Book value (including interest accrued)	Fair value	Book value (including interest accrued)	Fair value
	(unaudited)		(unaudited)		(audited)	
	NIS millions		NIS millions		NIS millions	
Loans from banks and institutional entities (not index-linked)	**2,646**	**2,814**	3,882	4,037	3,401	3,561
Publicly issued Debentures (index-linked)	**3,747**	**3,919**	3,490	3,655	2,508	2,647
Publicly issued Debentures (not index-linked)	**4,953**	**5,251**	4,779	4,422	4,071	4,160
Debentures issued to financial institutions (index-linked)	**-**	**-**	471	498	762	855
Debentures issued to financial institutions (not index-linked)	**-**	**-**	430	454	607	646
	11,346	**11,984**	13,052	13,066	11,349	11,869

* See Note 6 regarding the listing of series 11 and 12 debentures for trading.

13.2.1.2 Fair value hierarchy

The table below shows an analysis of the financial instruments measured at fair value, detailing the evaluation method. The methods by which the fair value in Note 19 is determined for the Annual Financial Statements are as follows:

	September 30, 2020	September 30, 2019	December 31, 2019
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Level 1 – Investment in securities measured at fair value through profit & loss	**86**	406	358
Level 2 – Forward contracts	**(167)**	(160)	(122)

14. Transactions with stakeholders

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 Company shares, which constitute 2.25% of the issued and paid-up capital of the Company as of the date of commencement of his employment. The vesting period of the options granted to the CEO is 3 years. The expense recorded in the Company's books in respect of the options granted to the CEO in the first nine months of 2020 amounted to approximately NIS 210,000.

15. Segment reporting

15.1. Segments of activity

	Nine-month period ended September 30, 2020 (unaudited)						
	National interior stationary communication	Cellular Communication*	Internet & international communication services	Multichannel TV**	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	**2,847**	**1,605**	**903**	**970**	**195**	**-**	**6,520**
Inter-segmental revenues	**257**	**48**	**43**	**-**	**4**	**(352)**	**-**
Total revenues	**3,104**	**1,653**	**946**	**970**	**199**	**(352)**	**6,520**
Depreciation and amortization	**652**	**448**	**123**	**230**	**10**	**(102)**	**1,361**

Segment results – operating profit (loss)	**1,349**	**(48)**	**(220)**	**(33)**	**36**	**87**	**1,171**
Financing expenses	**317**	**17**	**4**	**4**	**1**	**52**	**395**
Financing income	**(14)**	**(50)**	**(3)**	**(4)**	**-**	**28**	**(43)**
Total expenses (income) financing, net	**303**	**(33)**	**1**	**-**	**1**	**80**	**352**
Segment profit (loss) after financing expenses, net	**1,046**	**(15)**	**(221)**	**(33)**	**35**	**7**	**819**
Taxes on income	**222**	**(2)**	**42**	**2**	**2**	**9**	**275**
Segment results – net profit (Loss)	**824**	**(13)**	**(263)**	**(35)**	**33**	**(2)**	**544**

	Three-month period ended September 30, 2020 (unaudited)						
	National interior stationary communication	**Cellular Communication***	**Internet & international communication services**	**Multichannel TV****	**Others**	**Adjustments**	**Consolidated**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
External revenues	**955**	**531**	**301**	**313**	**78**	**-**	**2,178**
Inter-segmental revenues	**87**	**14**	**14**	**-**	**6**	**(121)**	**2,178**
Total revenues	**1,042**	**545**	**315**	**313**	**78**	**(115)**	**2,178**
Depreciation and amortization	**222**	**147**	**42**	**76**	**2**	**(29)**	**460**
Segment results – operating profit (loss)	**446**	**(27)**	**(275)**	**(16)**	**27**	**50**	**205**
Financing expenses	**95**	**5**	**1**	**2**	**-**	**18**	**121**
Financing income	**(4)**	**(17)**	**-**	**(1)**	**-**	**7**	**(15)**
Total financing expenses (income), net	**91**	**(12)**	**1**	**1**	**-**	**25**	**106**
Segment profit (loss) after financing expenses, net	**355**	**(15)**	**(276)**	**(17)**	**27**	**25**	**99**
Taxes on income	**55**	**(3)**	**29**	**1**	**-**	**11**	**93**
Segment results – net profit (Loss)	**300**	**(12)**	**(305)**	**(18)**	**27**	**14**	**6**

** The results of the multi-channel television segment are presented in neutralizing the overall effect of impairment recognized as of the fourth quarter of 2018. This is in accordance with the manner 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. In addition, see Note 14 for a summary of selected data from DBS' financial statements.

15.1. Segments of activity (cont.)

	Nine-month period ended September 30, 2019 (unaudited)						
	National	**Cellular**	**Internet**	**Multicha**	**Others**	**Adjustm**	**Consolid**

	interior stationary communication	Communication*	& international communication services	nnel TV**		ents	ated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	2,847	1,724	969	1,013	174	-	6,727
Inter-segmental revenues	241	36	40	1	7	(325)	-
Total revenues	3,088	1,760	1,009	1,014	181	(325)	6,727
Depreciation and amortization	636	469	139	252	11	33	1,540
Segment results – operating profit (loss)	1,846	(2)	***(6)	(96)	4	(1,456)	***290
Financing expenses	473	15	8	16	1	54	570
Financing income	(19)	(46)	(2)	(5)	-	18	(54)
Total financing expenses (income), net	454	(31)	6	11	1	75	516
Segment profit (loss) after financing expenses, net	1,392	29	***(12)	(107)	3	(1,531)	***(226)
Share in investee losses	-	-	-	-	(2)	-	(2)
Segment profit (loss) after financing expenses, net	1,392	29	***(12)	(107)	1	(1,531)	***(228)
Taxes on income	334	7	***(4)	2	2	1,074	***1,415
Segment results – net profit (loss)	1,058	22	***(8)	(109)	(1)	(2,605)	***(1,643)

	Three-month period ended September 30, 2019 (unaudited)						
	National interior stationary communication	Cellular Communication*	Internet & international communication services	Multichannel TV**	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	944	595	316	333	59	-	2,247
Inter-segmental revenues	81	17	13	1	3	(115)	-
Total revenues	1,025	612	329	334	62	(115)	2,247
Depreciation and amortization	225	157	47	93	4	(7)	519
Segment results – operating profit (loss)	440	16	***(40)	(29)	6	3	***396
Financing expenses	214	7	3	4	1	27	259
Financing income	(7)	(15)	(1)	(3)	-	5	(21)

Total financing expenses (income), net	207	(8)	2	4	1	32	238
Segment profit (loss) after financing expenses, net	233	24	***(42)	(33)	5	(29)	***158
Share in investee losses	-	-	-	-	(1)	-	(1)
Segment profit (loss) after financing expenses, net	233	24	***(42)	(10)	4	(29)	***157
Taxes on income	58	6	***(10)	1	2	(9)	***48
Segment results – net profit (loss)	175	18	(18)	***(32)	2	(20)	***109

15.1. Segments of activity (cont.)

	Year ended December 31, 2019						
	National interior stationary communication	**Cellular Communication***	**Internet & international communication services**	**Multichannel 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 revenues	316	46	56	1	9	(428)	-
Total revenues	4,073	2,362	1,339	1,345	238	(428)	8,929
Depreciation and	861	633	190	334	14	32	2,064
Segment results – operating profit (loss)	2,142	(99)	***(196)	(135)	1	(1,258)	***455
Financing expenses	608	23	8	17	1	(81)	738
Financing income	(39)	(62)	(2)	(5)	-	158	(266)
Total financing expenses (income), net	569	(39)	6	12	1	77	472
Segment profit (loss) after financing expenses, net	1,573	(60)	***(202)	(147)	-	(1,183)	***(19)
Share in investee profits (losses)	-	-	-	-	(2)	-	(2)
Segment profit (loss) after financing expenses, net	1,573	(60)	***(202)	(147)	(2)	(1,183)	***(21)
Taxes on income	381	(13)	***(45)	2	-	1,114	***1,439
Segment results – net profit (loss)	1,192	(47)	***(157)	(149)	(2)	(2,297)	***(1,460)

* Impairment losses in the cellular communications segment is presented as part of the adjustments.

** The results of the multi-channel television segment are presented in neutralizing the overall effect of impairment recognized as of the fourth quarter of 2018. This is in accordance with the manner 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. In addition, see Note 14 for a summary of selected data from DBS' financial statements.

*** Restated. See Note 2.5.

15.2. Income adjustments in respect of reporting segments

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Operating profit in respect of reporting segments	**1,048**	1,742	**129**	387	1,712
Financing expenses, net	**(352)**	(516)	**(106)**	(238)	(472)
Adjustments in respect of the multichannel TV segment	**83**	47	**34**	50	80
Profit (loss) in respect of activities classified in the Others category	**36**	4	**26**	6	1
Share in investee losses	**-**	(2)	**-**	(1)	(2)
Reduction of purchase costs	**14**	(146)	**4**	(39)	(152)
Impairment losses	**8**	(1,345)	**-**	-	(1,338)
Other adjustments	**(18)**	(12)	**12**	(8)	150
Profit (loss) before taxes on income	**819**	(228)	**99**	157	*(21)

16. Condensed financial statements of Bezeq, Pelephone, Bezeq International and DBS

16.1. Bezeq Israel Telecommunications Corp. Ltd.

Data from the statement of financial position:

	September 30, 2020	September 30, 2019	December 31, 2019
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Current assets	**2,957**	2,974	2,283
Non-current assets	**9,162**	9,499	9,251
Total assets	**12,119**	12,473	11,534
Current liabilities	**2,251**	2,318	2,327
Long-term liabilities	**10,193**	11,003	10,139
Total liabilities	**12,444**	13,321	12,466
Equity deficit	**(325)**	(848)	(932)
Total liabilities and equity deficit	**12,119**	12,473	11,534

Data from the statement of income:

	Nine-month period ended	Three-month period ended	Year ended

	September 30		September 30		December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**3,104**	3,088	**1.042**	1,025	4,073
Operating expenses					
Payroll	**678**	688	**225**	224	911
Depreciation and amortization	**652**	636	**222**	225	861
Operating and general expenses	**436**	418	**154**	144	565
Other operating income, net	**(11)**	(500)	**(5)**	(8)	(406)
Total operating expenses	**1,755**	1,242	**596**	585	1,931
Operating profit	**1,349**	1,846	**446**	440	2,142
Financing expenses (income)					
Financing expenses	**317**	473	**95**	214	608
Financing income	**(14)**	(19)	**(4)**	(7)	(39)
Financing expenses, net	**303**	454	**91**	207	569
Profit after financing expenses, net	**1,046**	1,392	**355**	233	1,573
Share in investee profits (losses), net	**(202)**	*(165)	**(274)**	*2	*(2,386)
Profit (loss) before taxes on income	**1,844**	*(773)	**81**	*235	*(813)
Taxes on income	**222**	334	**55**	58	381
Profit (loss) for the period	**622**	*(1,071)	**26**	*177	*(1,194)

16.2. Pelephone Communications Ltd.

Data from the statement of financial position:

	September 30th 2020	September 30th 2019	December 31st 2019
	(unaudited)	(unaudited)	(audited)
	Millions of NIS	Millions of NIS	Millions of NIS
Current assets	**839**	1,019	843
Non-current assets	**3,395**	3,106	3,245
Total assets	**4,234**	4,125	4,088
Current liabilities	**668**	642	667
Long-term liabilities	**925**	762	767
Total liabilities	**1,593**	1,404	1,434

Equity deficit	**2,641**	2,721	2,654
Total liabilities and equity	**4,234**	4,125	4,088

Data from the statement of income:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	**2019**	**2020**	**2020**	**2019**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Revenue from services	**1,195**	1,292	**396**	446	1,709
Proceeds from end equipment sales	**458**	468	**149**	166	653
Total revenues from services and sales	**1,653**	1,760	**545**	612	2,362
Operating expenses					
Operating and general expenses	**1,017**	1,009	**346**	348	1,373
Payroll	**239**	279	**79**	89	373
Depreciation and amortization	**448**	469	**147**	157	633
Total operating expenses	**1,704**	1,757	**572**	594	2,379
Other operating expenses (income), net	**(3)**	5	**-**	2	82
Operating profit (loss)	**(48)**	(2)	**(27)**	16	(99)
Financing expenses (income)					
Financing expenses	**17**	15	**5**	7	23
Financing income	**(50)**	(46)	**(17)**	(15)	(62)
Financing income, net	**(33)**	(31)	**(12)**	(8)	(39)
Profit (loss) before taxes on income	**(15)**	29	**(15)**	24	(60)
Expenses (income) in respect of taxes on income	**(2)**	7	**(3)**	6	(13)
Profit (loss) for the period	**(13)**	22	**(12)**	18	(47)

16.3. Bezeq International Ltd.

Data from the statement of financial position:

	September 30, 2020	September 30, 2019	December 31, 2019
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions

Current assets	**472**	*482	*482
Non-current assets	**267**	*796	*602
Total assets	**739**	1,278	1,084
Current liabilities	**26**	*482	*461
Long-term liabilities	**95**	*170	143
Total liabilities	**521**	652	604
Equity deficit	**218**	*626	*480
Total liabilities and equity	**1,739**	1,278	1,084

Data from the statement of income:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**946**	1,009	**315**	329	1,339
Operating expenses					
Operating and general expenses	**571**	*617	**203**	*213	*827
Payroll	**189**	199	**63**	67	261
Depreciation and amortization	**123**	139	**42**	47	190
Other expenses, net	**282**	60	**282**	45	*257
Total operating expenses	**1,165**	1,015	**590**	369	1,535
Operating loss	**(219)**	*(6)	**(275)**	*(40)	*(196)
Financing expenses (income)					
Financing expenses	**4**	8	**1**	3	8
Financing income	**(3)**	(2)	**-**	(1)	(2)
Financing expenses (income), net	**1**	6	**1**	2	6
Loss before taxes on income	**(220)**	*(12)	**(276)**	*(42)	*(202)
Income tax expenses (income)	**42**	*(4)	**29**	*(10)	*(45)
Loss for the period	**(262)**	*(8)	**(305)**	*(32)	*(157)

* Restated, see Note 2.5.

16.4. DBS Satellite Services (1998) Ltd.

Data from the statement of financial position:

	September 30, 2020	September 30, 2019	December 31, 2019
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Current assets	**196**	198	203
Non-current assets	**256**	283	268
Total assets	**452**	481	471
Current liabilities	**435**	500	485
Long-term liabilities	**74**	104	91
Total liabilities	**509**	604	576
Equity deficit	**9570**	(123)	(105)
Total liabilities and equity deficit	**452**	481	471

Data from the statement of income:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**970**	1,014	**313**	334	1,345
Operating expenses					
Operating, general, and impairment expenses	**636**	693	**195**	211	923
Depreciation, amortization and impairment	**144**	173	**50**	50	219
Payroll	**152**	162	**50**	52	216
Other operating expenses (income), net	**(12)**	35	**-**	1	42
Total operating expenses	**92**	1,063	**295**	314	1,400
Operating profit (loss)	**50**	(49)	**18**	20	(55)
Financing expenses (income)					
Financing expenses	**4**	16	**2**	7	17

Financing income	**(4)**	(5)	**(1)**	(3)	(5)
Financing expenses, net	**-**	11	**1**	4	12
Profit (loss) before taxes on income	**50**	(60)	**17**	16	(67)
Income tax expenses	**2**	2	**1**	1	2
Profit (loss) for the period	**48**	(62)	**16**	15	(69)

17. Other material events during the period of the financial statements and thereafter

17.1. In August, 2020, Pelephone won a cluster of frequencies following its participation in the tender for advanced bandwidth cellular services. Pelephone's win in the frequency allocation has a total cost of NIS 88.2 million, 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* in order to advance the deployment of the 5G technology, the winning companies would be eligible for a grant if they meet the engineering conditions of deployment and operation of 250 intracellular 5G radio stations, and the operation of a minimum bandwidth as specified in the terms of the tender, the amount of which, for all its winners, can reach a total amount of NIS 200 million.

The grants will be divided among the eligible winners according to the following distribution:

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

As of the date of the financial statements, Pelephone estimates that it meets the conditions for eligibility for the grant and expects that it will be entitled to a grant of approximately NIS 74 million, which was recognized in the statement of financial position within the Trade Receivable and Other Receivables item, under non-current assets.

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

17.2. On September 15, 2020, the Company entered into an agreement with Jerusalem Post Ltd. (the "Buyer") for the sale of all the Company’s holdings in Walla, in exchange for a total of NIS 65 million, of which NIS 55 million in cash, and the balance of NIS 10 million in the Company’s eligibility to receive advertising space from the Buyer and Walla (and related entities) for a period of up to 7 years from the date of completion of the transaction. The sale agreement included the Company’s undertaking to indemnify the Buyer in certain circumstances. Completion of the agreement is subject to the approval of the Competition Commissioner (obtained on October 21, 2020) and the approval of the Ministers (Prime Minister and Minister of Communications), as well as other conditions included in the sale agreement.

Following the signing of the sale agreement, Walla recognized a gain from the cancellation of the previously recognized impairment of NIS 14 million. Insofar as the transaction is completed, the Company is expected to record, after the transaction is completed, an equity gain in the amount of approximately NIS 24 million, before additional tax. This amount may vary depending on the results of Walla's business until the transaction is completed. In addition, Bezeq recognized a deferred tax asset of approximately NIS 28 million in respect of an expected loss for tax purposes from the sale of Walla.

17.3. On October 4, 2020, the Ministry of Communications issued a "hearing to examine the separation between broadband infrastructure service and Internet access service (ISP)" according to which the Ministry of Communications intends to take, *inter alia*, the following policy measures:

1. Cancellation of the "Internet Services Licensing" policy document dated December 17, 2000.

2. Correction of the licenses of the infrastructure owners **-** the Company and "Hot Telecom", so that from January 1, 2022 they will be allowed to provide customers with a unified Internet service (infrastructure and ISP service), and that they will not be allowed to offer infrastructure service to new retail customers. This section relates to Internet services that cater to the private sector.

3. Prohibition on infrastructure owners to contact certain customers with various marketing proposals before and after January 1, 2022 (the "Effective Date") as specified in the said document of the Ministry of Communications.

4. Postponement of the Effective Date in the event of a significant increase in the percentage of customers of the infrastructure owner who consume service in a unified non-wholesale configuration, in the period up to a certain date to be determined before the Effective Date, and in cases of anti-competitive practices.

5. Determination of arrangements regarding the transition between operators and preventing the formation of the phenomenon of double charges.

These changes in the Internet services market and the preparations for them may lead to significant damage to Bezeq International's business and to the impairment of its assets.

Condensed Separate Interim Financial Information
As of September 30 ,2020

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Somekh Chaikin
KPMG Millennium Tower
17 Haarbaa Street, PO Box 609
Tel Aviv 6100601
03-684-8000

To:
The shareholders of B Communications Ltd.

Re: Special Auditors' Report on Interim Separate Financial Information under Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Introduction
We reviewed the interim separate financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter - the Company), as of September 30, 2020 and for periods of nine and three months ending on the same date. The interim separate financial information is the responsibility of the Company's Board of Directors and Management. is our responsibility to present a conclusion on the financial information in respect of these interim periods based on our review.

We did not review the interim separate financial information from the financial statements of an investee company in which the total investments amounted to approximately NIS 38 million as of September 30, 2020 and the profit from which investee amounted to approximately NIS 18 million and NIS 19 million for the periods of six and three months that ended on the same date, respectively. The financial statements of that company have been reviewed by other auditors whose reports have been presented to us and our conclusion, insofar as it relates to the financial statements in respect of such company, is based on the review report of the other auditors.

Scope of the review
We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods conducted by the entity's auditor". A review of financial information for interim periods consists of inquiries, especially with people responsible for financial and accounting matters, and the implementation of analytical and other review procedures. The review is considerably smaller in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore, does not allow us to obtain assurance that we will know all the significant matters that could have been identified in the audit. Accordingly, we do not provide an audit opinion.

Conclusion
Based on our review, and the review report of other auditors, nothing has come to our attention that causes us to believe that the above interim separate financial information has not been prepared, in all material respects, in accordance with the provisions of Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Please note the following:

Without limiting our above opinion, we draw attention to what is stated in Note 1.3 to the condensed consolidated interim financial statements which refers to what is stated in Note 1.2 in the annual financial statements regarding the Securities

Authority's investigation into suspicions of offenses committed under the Securities Law and the Penal Code relating, *inter alia*, to transactions related to the former controlling shareholder in Bezeq and the transfer of the investigation file to the State Attorney's Office, as well what is stated in this Note regarding the filing of an indictment against the former controlling shareholder in Bezeq in respect of various offenses, including bribery, misrepresentation including a misleading detail in immediate reporting. As stated in the abovementioned Note, Bezeq is unable to assess at this stage the effects of the investigations, their findings and their results in respect of Bezeq, on the financial statements and on the estimates used in the preparation of these statements, if any.

Also, without limiting our above conclusion, we draw attention to what is stated in Note 7 to the consolidated interim financial statements regarding the claims filed against the Group, which cannot be estimated, or the exposure in respect of which cannot yet be assessed.

Somekh Chaikin
CPA

November 30, 2020

Condensed interim data on the financial position as of

	September 30, 2020	September 30, 2019	December 31, 2019
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**23**	611	413
Restricted cash	**-**	-	39
Short-term investments and deposits	**228**	93	46
Other receivables	**23**	1	1
Total current assets	**274**	705	499
Long-term deposits	**200**	-	-
Investment in investees	**1,297**	1,134	1,135
Total non-current assets	**1,297**	1,134	1,135
Total Assets	**1,756**	1,826	1,623
Liabilities			
Current maturities of long-term liabilities	**-**	2,462	-
Suppliers, payables and credit balances	**33**	97	14
Total current liabilities	**33**	2,559	14
Debentures	**1,884**	-	1,861
Total non-current liabilities	**1,884**	-	1,861
Total liabilities	**1,917**	2,559	1,875
Equity deficit	**(146)**	(720)	(241)
Total liabilities and Equity	**1,771**	1,839	1,634

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: November 30, 2020

The Notes accompanying the condensed consolidated interim financial statements form an integral part thereof.

Condensed interim data on income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Operating expenses					
Payroll	**2**	4	**1**	1	4
Operating and general expenses	**5**	9	**1**	2	12
Total operating expenses	**7**	13	**2**	3	16
Operating loss	**(7)**	(13)	**(2)**	(3)	(16)
Financing income (expenses) (see Note 2)					
Financing expenses	**(81)**	(89)	**(27)**	(35)	(111)
Financing income	**2**	14	**-1**	2	188
Financing income (expenses), net	**(79)**	(75)	**(26)**	(33)	77
Profit (loss) after financing expenses, net	**(86)**	(88)	**(28)**	(36)	61
Share in investee profits (losses), net	**166**	(914)	**10**	39	(914)
Profit (loss) for the period	**80**	(1,002)	**(18)**	3	(853)

Condensed interim data on comprehensive profit

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit (loss) for the period	**80**	(1,002)	**(18)**	3	(853)
Additional items of other comprehensive income (net of tax)	**(4)**	(9)	**(3)**	(10)	(9)
Total comprehensive profit (loss) for the period	**76**	(1,011)	**(21)**	(7)	(862)

The Notes accompanying the condensed consolidated interim financial statements form an integral part thereof.

Condensed interim data on cash flows					
	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Profit (loss) for the period	**80**	(1,002)	**(18)**	3	(853)
Adjustments:					
Share in losses (profits) of investees	**(166)**	914	**(10)**	(39)	914
Financing expenses, net	**79**	72	**25**	33	(81)
Change in other receivables	**(1)**	1	**-**	-	2
Cash used for current operations, net	**(8)**	(15)	**(3)**	(3)	(18)
Cash flows from investment activities					
Deposits to restricted cash	**-**	-	**-**	-	(39)
Change in deposits and investments, net	**(343)**	291	**(15)**	144	339
Others	**-**	5	**-**	1	5
Cash derived from (used for) investment activities, net	**(243)**	296	**(15)**	145	305
Cash flows from financing activities					
Issuance of debentures and receipt of loans	**-**	-	**-**	-	410
Repayment of debentures and loans	**-**	-	**-**	-	(840)
Interest paid	**(39)**	-	**-**	-	(104)
Net receipts from issuance of shares	**-**	117	**-**	-	447
Cash derived from (used for) investment activities, net	**(39)**	117	**-**	-	(87)
Increase (decrease) in cash and cash equivalents, net	**(390)**	398	**(18)**	142	200
Cash and cash equivalent in the beginning of the period	**413**	213	**41**	469	213
Cash and cash equivalents in the end of the period	**23**	611	**23**	611	413

The Notes accompanying the condensed consolidated interim financial statements form an integral part thereof.

Notes to the Condensed Separate Interim Financial Information

1. Method of preparation of the financial data

1.1. Definitions

"The Company" - "B Communications" Ltd.

"Affiliated Company", "Group", "Investee": as these terms are defined by the Company's consolidated financial statements for 2019.

1.2. Highlights of the methods used for preparing the financial data

The following is a summary of the financial statements from the condensed consolidated financial statements of the Group as of September 30, 2020 (hereinafter – “the Consolidated Financial Statements”), which are attributed to the Company itself (hereinafter: "the Condensed Separate Interim Financial Information"), which are presented in accordance with the provisions of Regulation 38D (hereinafter – "the Regulation") and Schedule 10 to the Securities Regulations (Periodic and Immediate Reports), 5770-1970 (hereinafter – “Schedule 10") regarding the Condensed Separate Interim Financial Information of the Corporation. This Condensed Separate Interim Financial Information should be read together with the Consolidated Financial Statements for December 31, 2019 and for the year ended December 31, 2019, and together with the condensed consolidated interim financial statements for September 30, 2020 (hereinafter: "the Consolidated Financial Statements").

The accounting policy in this Condensed Separate Interim Financial Information, is in accordance with the accounting policy rules set forth in the Consolidated Financial Statements for December 31, 2019 and for the year ended December 31, 2019.

2. Financing income/expenses

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2020	**2019**	**2020**	**2019**	**2019**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Interest expenses	**81**	86	**27**	34	111
Exchange rate change	**-**	3	**-**	1	-
Total financing expenses	**81**	89	**27**	35	111
Income from change in debt conditions	**-**	-	**-**	-	(177)
Profit from marketable securities	**(2)**	(14)	**(1)**	(2)	(11)
Total financing income	**(2)**	(14)	**(1)**	(2)	(188)
Financing expenses (income), net	**79**	75	**26**	33	(77)

3. Contingent liabilities

For information regarding claims against the Company, see Note 7.1 to the consolidated financial statements.

4. Significant events during the reporting period and after the period of the financial statements

A. For information regarding options granted to the Company's new CEO, see Note 13 to the consolidated financial statements as of September 30, 2020.

B. For information regarding the delisting of the Company's shares from trading on the NASDAQ Stock Exchange in the United States and the termination of the reporting obligation to the US Securities and Exchange Commission (SEC), see Note 12 to the consolidated financial statements as of September 30, 2020.

C. For information regarding the Company's debentures and loans, see Note 6 to the Consolidated Financial Statements.

D. Regarding loss from impairment in respect of DBS and examination of indicators of impairment in Pelephone and Bezeq International, see Note 5 to the Consolidated Financial Statements.