SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

F O R M 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2018

B COMMUNICATIONS LTD.
(Name of Registrant)

2 Dov Friedman Street, Ramat Gan 5250301, Israel
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- __________

B COMMUNICATIONS LTD.

EXHIBIT INDEX

The following exhibit is attached:

The attached exhibits pertain to the Registrant's controlled subsidiary, Bezeq The Israel Telecommunication Corp. Ltd., (the "Company" and together with its subsidiaries, the "Group") (translated versions, unverified):

EXHIBIT NO.	DESCRIPTION
99.1	Condensed Consolidated Interim Financial Statements (Unaudited) of the Group as at September 30, 2018.
99.2	Directors' Report on the State of the Group's Affairs for the period ended September 30, 2018.
99.3	Update of Chapter A (Description of Group Operations) of the Periodic Report for 2017.
99.4	Company Separate Condensed Interim Financial Information as at September 30, 2018 (Unaudited).
99.5	Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2018.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

B COMMUNICATIONS LTD.
(Registrant)

By /s/ Doron Turgeman
Doron Turgeman
Chief Executive Officer

Date: November 29, 2018

B COMMUNICATIONS LTD.

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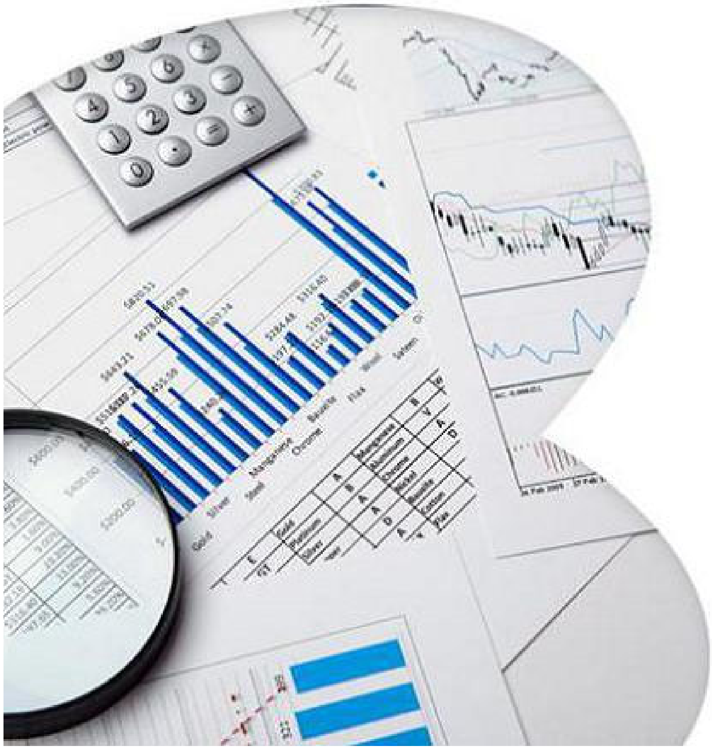
99.4	Company Separate Condensed Interim Financial Information as at September 30, 2018 (Unaudited).
99.5	Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2018.

Part C:

Condensed Consolidated Interim Financial Statements as at September 30, 2018 (Unaudited)



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

Contents Page

Somekh Chaikin
KPMG Millennium Tower
17 Ha-Arbaa Street, PO Box 609
Tel Aviv 6100601, Israel
800068403

Review Report to the Shareholders of

"Bezeq" -The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of "Bezeq" -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – "the Group") comprising of the condensed consolidated interim statement of financial position as of September 30, 2018 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine-month and three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 1 % of the total consolidated assets as of September 30, 2018, and whose revenues constitute 1% of the total consolidated revenues for the nine-month and three-month periods then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report of the other auditors.

Scope of Review

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

Conclusion

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

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

Emphasis of Matter

Without qualifying our abovementioned conclusion, we draw attention to Note 1.2 which refers to Notes 1.2.1 and 1.2.2 to the annual consolidated financial statements of 2017, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and regarding the opening of a joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433. As stated in the above note, at this stage, the Company does not have complete information regarding the investigations, their matter, investigation materials and evidence held by the authorities. Thus, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 8.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 18, 2018

Condensed Consolidated Interim Statements of Financial Position

Assets	Note	September 30, 2018* (Unaudited) NIS million	September 30, 2017 (Unaudited) NIS million	December 31, 2017 (Audited) NIS million
Cash and cash equivalents		**1,408**	2,471	2,181
Investments		**1,517**	94	289
Trade receivables		**1,792**	1,948	1,915
Other receivables		**292**	294	270
Inventory		**86**	101	125
Eurocom DBS Ltd., related party		**20**	43	43
Total current assets		**5,115**	4,951	4,823
Trade and other receivables		**423**	520	493
Broadcasting rights, net of rights exercised		**470**	457	454
Right-of-use assets	3.1	**1,434**	-	-
Fixed assets		**6,789**	6,817	6,798
Intangible assets		**2,627**	2,894	2,768
Deferred tax assets	5	**1,041**	1,014	1,019
Deferred expenses and non-current investments		**519**	489	494
Investment property	7	**140**	-	-
Total non-current assets		**13,443**	12,191	12,026
Total assets		**18,558**	17,142	16,849

Condensed Consolidated Interim Statements of Financial Position (Contd.)

Liabilities and equity	Note	September 30, 2018* (Unaudited) NIS million	September 30, 2017 (Unaudited) NIS million	December 31, 2017 (Audited) NIS million
Debentures, loans and borrowings		**1,798**	555	1,632
Current maturities of liabilities for leases	3.1	**443**	-	-
Trade and other payables		**1,602**	1,807	1,699
Employee benefits		**330**	251	280
Provisions		**106**	94	94
Current tax liabilities		**9**	118	152
Dividend payable		**318**	708	-
Total current liabilities		**4,606**	3,533	3,857
Loans and debentures		**10,149**	10,978	10,229
Liability for leases	3.1	**1,024**	-	-
Employee benefits		**266**	260	272
Derivatives and other liabilities		**212**	292	234
Deferred tax liabilities		**91**	104	73
Provisions		**40**	48	40
Total non-current liabilities		**11,782**	11,682	10,848
Total liabilities		**16,388**	15,215	14,705
Total equity		**2,170**	1,927	2,144
Total liabilities and equity		**18,558**	17,142	16,849

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

Approval date of the financial statements: November 19, 2018

* See Note 3.1 for information about early adoption of IFRS 16 - Leases

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

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 10)	**6,995**	7,331	**2,301**	2,415	9,789
Costs of activity					
General and operating expenses(Note 11)	**2,494**	2,888	**815**	956	3,891
Salaries	**1,507**	1,500	**494**	502	2,005
Depreciation and amortization	**1,609**	1,288	**547**	436	1,715
Other operating expenses (income), net (Note 12)	**123**	(28)	**16**	(23)	68
	5,733	5,648	**1,872**	1,871	7,679
Operating profit	**1,262**	1,683	**429**	544	2,110
Finance expenses (income)					
Financing expenses	**383**	358	**127**	112	477
Financing income	**(56)**	(61)	**(18)**	(18)	(60)
Financing expenses, net	**327**	297	**109**	94	417
Profit after financing expenses, net	**935**	1,386	**320**	450	1,693
Share in losses of equity-accounted investees	**(3)**	(4)	**(1)**	-	(5)
Profit before income tax	**932**	1,382	**319**	450	1,688
Income tax	**243**	352	**85**	128	453
Profit for the period	**689**	1,030	**234**	322	1,235
Basic earnings per share (NIS)	**0.25**	0.37	**0.08**	0.12	0.45

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**689**	1,030	**234**	322	1,235
Items of other comprehensive income (loss) (net of tax)	**23**	(20)	**(3)**	(12)	(8)
Total comprehensive income for the period	**712**	1,010	**231**	310	1,227

* See Note 3.1 for information about early adoption of IFRS 16 - Leases

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Attributable to shareholders of the Company						
Nine months ended September 30, 2018 (Unaudited)*						
Balance as at January 1, 2018	**3,878**	**384**	**390**	**(85)**	**(2,423)**	**2,144**
Profit for the period	**-**	**-**	**-**	**-**	**689**	**689**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**23**	**-**	**23**
Total comprehensive income for the period	**-**	**-**	**-**	**23**	**689**	**712**
Transactions with shareholders recognized directly in equity						
Dividends to Company shareholders (see Note 9)	**-**	**-**	**-**	**-**	**(686)**	**(686)**
Balance as at September 30, 2018	**3,878**	**384**	**390**	**(62)**	**(2,420)**	**2,170**
Nine months ended September 30, 2017 (Unaudited):						
Balance as at January 1, 2017	3,878	384	390	(88)	(2,361)	2,203
Profit for the period	-	-	-	-	1,030	1,030
Other comprehensive loss for the period, net of tax	-	-	-	(20)	-	(20)
Total comprehensive income for the period	-	-	-	(20)	1,030	1,010
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(1,286)	(1,286)
Balance as at September 30, 2017	3,878	384	390	(108)	(2,617)	1,927

* See Note 3.1 for information about early adoption of IFRS 16 - Leases

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

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Attributable to shareholders of the Company						
Three months ended September 30, 2018 (Unaudited)*						
Balance as at July 1, 2018	**3,878**	**384**	**390**	**(59)**	**(2,336)**	**2,257**
Profit for the period	**-**	**-**	**-**	**-**	**234**	**234**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Total comprehensive income for the period	**-**	**-**	**-**	**(3)**	**234**	**231**
Transactions with shareholders recognized directly in equity						
Dividends to Company shareholders (see Note 9)	**-**	**-**	**-**	**-**	**(318)**	**(318)**
Balance as at September 30, 2018	**3,878**	**384**	**390**	**(62)**	**(2,420)**	**2,170**
Three months ended September 30, 2017 (Unaudited)						
Balance as at July 1, 2017	3,878	384	390	(96)	(2,231)	2,325
Profit for the period	-	-	-	-	322	322
Other comprehensive loss for the period, net of tax	-	-	-	(12)	-	(12)
Total comprehensive income for the period	-	-	-	(12)	322	310
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(708)	(708)
Balance as at September 30, 2017	3,878	384	390	(108)	(2,617)	1,927
Year ended December 31, 2017 (Audited)						
Balance as at January 1, 2017	3,878	384	390	(88)	(2,361)	2,203
Profit in 2017	-	-	-	-	1,235	1,235
Other comprehensive income (loss) for the year, net of tax	-	-	-	3	(11)	(8)
Total comprehensive income for 2017	-	-	-	3	1,224	1,227
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(1,286)	(1,286)
Balance as at December 31, 2017	3,878	384	390	(85)	(2,423)	2,144

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

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**689**	1,030	**234**	322	1,235
Adjustments:					
Depreciation and amortization (Note 3.1)	**1,609**	1,288	**547**	436	1,715
Share in losses of equity-accounted investees	**3**	4	**1**	-	5
Financing expenses, net	**329**	321	**105**	94	426
Capital gain, net	**(7)**	(64)	**(1)**	(45)	(66)
Income tax expenses	**243**	352	**85**	128	453
Impairment loss of intangible assets	**10**	-	**10**	-	87
Change in trade and other receivables	**200**	121	**66**	105	193
Change in inventory	**6**	(10)	**(7)**	2	(35)
Change in trade and other payables	**(140)**	64	**(30)**	103	10
Change in provisions	**12**	15	**(3)**	16	15
Change in employee benefits	**44**	(62)	**(40)**	(65)	(33)
Change in other liabilities	**(18)**	(30)	**(2)**	4	(34)
Net income tax paid	**(382)**	(346)	**(82)**	(118)	(446)
Net cash from operating activities	**2,598**	2,683	**883**	982	3,525
Cash flow used for investing activities					
Purchase of fixed assets	**(889)**	(835)	**(308)**	(255)	(1,131)
Investment in intangible assets and deferred expenses	**(301)**	(304)	**(95)**	(98)	(399)
Payment of permit fees and purchase tax for the Sakia complex (Note 7)	**(121)**	-	**(9)**	-	-
Investment in deposits with banks and others	**(2,124)**	(76)	**(190)**	(76)	(276)
Proceeds from bank deposits and others	**907**	558	**344**	-	564
Proceeds from the sale of fixed assets	**43**	76	**12**	48	98
Payment of betterment tax for the sale of the Sakia complex (Note 7)	**(80)**	-	**-**	-	-
Miscellaneous	**22**	(6)	**14**	(7)	(4)
Net cash used in investing activities	**(2,543)**	(587)	**(232)**	(388)	(1,148)

Condensed Consolidated Interim Statements of Cash Flows (Contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	**2017**	**2018***	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Cash flows used in financing activities					
Issue of debentures and receipt of loans	**320**	1,917	**-**	500	2,517
Repayment of debentures and loans	**(232)**	(1,325)	**(50)**	(456)	(1,587)
Payments of principal and interest for leases (Note 3.1)	**(330)**	-	**(109)**	-	-
Dividend paid (Note 9)	**(368)**	(578)	**-**	-	(1,286)
Interest paid	**(209)**	(217)	**(5)**	(18)	(415)
Payment to Eurocom DBS for acquisition of shares and DBS loan	**-**	(61)	**-**	-	(61)
Miscellaneous	**(9)**	(9)	**(2)**	(3)	(12)
Net cash from (used in) financing activities	**(828)**	(273)	**(166)**	23	(844)
Increase (decrease) in cash and cash equivalents, net	**(773)**	1,823	**485**	617	1,533
Cash and cash equivalents at beginning of period	**2,181**	648	**923**	1,854	648
Cash and cash equivalents at end of period	**1,408**	2,471	**1,408**	2,471	2,181

* See Note 3.1 for information about early adoption of IFRS 16 - Leases

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

1. General

1.1 Reporting Entity

Bezeq – The Israel Telecommunication Corporation Limited ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company as at September 30, 2018 include those of the Company and its subsidiaries (jointly referred to as "the Group"). The Group is a principal provider of communication services in Israel (see also Note 14 – Segment Reporting).

1.2 Investigation of the Israel Securities Authority and the Police Force

For information about the investigation of the Israel Securities Authority and the Police Force, see Note 1.2.1 and 1.2.2 to the 2017 Annual Financial Statements.

The Company does not have full information about the investigations, their content, the materials and the evidence in the possession of the legal authorities.

Accordingly, the Company is unable to assess the effects of the investigations, their findings, and their results on the Company, as well as on the financial statements, and on the estimates used in the preparation of these financial statements, if any.

Following the special circumstances and the restrictions as described above and the restrictions that were specified, the Company performed compensatory actions, reviews and tests and procedures in order to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the Israel Securities Regulations (Periodic and Immediate Reports), 1970. In this respect, the Company, carried out the following actions, among others:

A. A special review of the adequacy of the control processes in the Company by outside consultants, led by the Company's Internal Auditor and under the supervision of a special, independent committee from among the Company's Board members. Further to this review, the special committee approved various amendments to the control processes and the work in the Company. Most of the amendments have been implemented.

B. A special review of the issues of corporate governance led by the Company's Internal Auditor and supported by outside consultants. The work included deeper reviews on the issues of risk management, compliance, enforcement, and internal control. The Group companies are implementing adjustments according to the multi-annual guidelines decided upon.

C. Retaining the services of professional accounting support to assist the process of preparing the financial statements of DBS for 2017.

D. The addition of supplementary procedures on specific subjects in order to enhance the internal control over financial reporting and over disclosure on those subjects.

E. Changes in the composition of the Group's senior officers

2. Basis of Preparation

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

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as at December 31, 2017 and the year then ended, and their accompanying notes ("the Annual Financial Statements"). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on November 19, 2018.

2.4 Use of estimates and judgments

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

The judgments made by management when applying the Group's accounting policy and the principal assumptions underlying assessments that involve uncertainty, are consistent with those used in the Annual Financial Statements, other than as set out below and in Note 3.1 below regarding early application of IFRS 16.

Subject	Principal assumptions	Possible effects
Determining the lease term	When determining the term of the lease, the Group takes into consideration the period in which the lease cannot be canceled, including options to extend that will probably be exercised and/or options to cancel that will probably not be exercised.	An increase or decrease in the initial measurement of a right-of-use asset and a lease liability and in depreciation and financing expenses in subsequent periods.
Discount rate for a lease liability	The Group discounts the lease payments at the incremental borrowing rate (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral).	An increase or decrease in the lease liability, right-of-use asset, capital, and amortization and financing expenses to be recognized

3. <u>Reporting Principles and Accounting Policy</u>

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

3.1 Initial application of IFRS 16, Leases

3.1.1 Further to Note 3.17.2 to the Annual Financial Statements as at December 31, 2017 and for the year then ended, as from January 1, 2018 ("the Initial Application Date"), the Group early adopts IFRS 16 - Leases ("IFRS 16" or "the Standard").

The main effect of early adoption of IFRS 16 is reflected in annulment of the existing requirement from lessees to classify leases as operating (off-balance sheet) or finance leases and the presentation of a unified model for the accounting treatment of all leases like the accounting treatment of finance leases in the previous accounting standard on leases, IAS 17. Accordingly, until the date of initial application, the Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all the risks and rewards from the assets.

In accordance with IFRS 16, for agreements in which the Group is the lessee, the Group applies a unified accounting model, by which it recognizes a right-of-use asset and a lease liability at the inception of the lease contract for all the leases in which the Group has a right to control identified assets for a specified period of time. Accordingly, the Group recognizes depreciation and amortization expenses in respect of a right-of-use asset, examines the right-of-use asset for impairment in accordance with IAS 36, Impairment of Assets, and recognizes financing expenses on the lease liability. Therefore, as from the date of initial application, lease expenses relating to assets leased under an operating lease, which were presented as part of general and administrative expenses in the income statement, are recognized as assets that are depreciated in the depreciation and amortization expense item.

The Group applies IFRS 16 using the cumulative effect approach without a restatement of comparative information.

In respect of all the leases, the Group has elected to apply the transitional provision of recognizing a lease liability at the initial application date according to the present value of the future lease payments discounted at the incremental interest rate of the lessee at that date and concurrently recognizing a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of IFRS 16 did not have an effect on the balance of the Group's equity and retained earnings at the date of initial application.

Upon initial application, the Group also elected to apply the following expedients, as permitted by the Standard:

A. Relying on a previous assessment of whether an arrangement is a lease or contains a lease at the application date of the Standard. Accordingly, the agreements that were previously classified as operating leases are accounted for in accordance with the new standard, and the agreements that were previously classified as service contracts continue to be accounted for as such without change.

B. Applying a single discount rate to a portfolio of leases with similar characteristics

C. Not separating non-lease components from the lease components and accounting for all the components as a single lease component

D. Relying on a previous assessment of whether a contract is onerous in accordance with IAS 37 at the transition date, as an alternative to assessing the impairment of right-of-use assets

E. Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application

F. Using hindsight in determining the lease period if the contract includes options to extend or cancel the lease

3.1.2 Presented below are the principal accounting policies for leases in which the Group is the lessee, which were applied as from January 1, 2018 following the application of the Standard:

(1) Determining whether an arrangement contains a lease

At the inception of the arrangement, the Group determines whether the arrangement is or contains a lease, and examines whether the arrangement transfers the right to control the use of an identifiable asset for a period of time in return for payment. When assessing whether the arrangement transfers control over the use of an identifiable asset, the Group estimates, over the lease term, whether it has both rights set out below:

(A) The right to essentially obtain all the economic rewards associated with the use of the identifiable asset

(B) The right to direct the use of the identifiable asset

For lease contracts that include non-lease components, such as services or maintenance, which are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

(2) Leased assets and lease liability

Contracts that award the Group the right to control the use of an identifiable asset over a period of time for a consideration are accounted for as leases. At initial recognition, the Group recognizes a liability at the present value of the future minimum lease payments (these payments do not include variable lease payments that are not linked to the CPI, or to any change in the rate of interest, or any change in the exchange rate), and concurrently, the Group recognizes a right-of-use asset at the amount of the liability, adjusted for lease payments paid in advance or accrued, plus direct costs incurred in the lease.

Since the interest rate implicit in the lease is not readily determinable, the incremental borrowing rate of the Group is used (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral).

Subsequent to initial recognition, the asset is accounted for using the cost model and it is amortized over the lease term or the useful life of the asset (whichever is earlier).

(3) The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the Group will exercise or not exercise the option.

(4) Depreciation of a right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

Type of asset	Weighted average of depreciation period as at January 1, 2018 (years)
Cellular communications sites	6.5
Buildings	7
Vehicles	2

3.1.3 At the date of initial application of IFRS 16, the Group recognized right-of-use assets and lease liabilities in the amount of NIS 1.5 billion.

In measurement of the lease liabilities, the Group discounted lease payments using the nominal incremental borrowing rate at January 1, 2018. The discount rates used to measure lease liabilities range between 1.3% and 3.6% (weighted average of 1.5%).

Discounted interest rates were calculated on the basis of the market value of the marketable debentures issued by the Company. To determine the discount interest for each period, the risk-free curve was adjusted according to the risk incorporated in the debentures issued by the Company. The range of interest is affected by differences in the lease term.

The difference between the Group's agreements for the minimum contractual lease payments in the amount of NIS 1,020 million, as reported in Note 18.1 to the Annual Financial Statements, and the lease liabilities recognized at the initial application date of IFRS 16, amounting to NIS 1.5 billion, is mainly due to the options for extending the lease, which will most likely be exercised, which were not included in the reporting in Note 18.1 to the Annual Financial Statements.

3.1.4 The tables below summarize the effects on the condensed consolidated interim statement of financial position as at September 30, 2018 and on the condensed consolidated interim statements of income and cash flows for the nine and three months then ended, assuming that the Group's previous policy regarding leases continued during these periods.

Effect on the condensed consolidated interim statement of financial position as at September 30, 2018

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Other receivables	341	**(49)**	**292**
Right-of-use assets	-	**1,434**	**1,434**
Trade and other payables	1,679	**(77)**	**1,602**
Current maturities of liabilities for leases	-	**443**	**443**
Long-term lease liabilities	-	**1,024**	**1,024**
Equity	2,175	**(5)**	**2,170**

Effect on the consolidated interim statement of income for the nine months ended September 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	2,803	**(309)**	**2,494**
Depreciation and amortization expenses	1,313	**296**	**1,609**
Operating profit	1,249	**13**	**1,262**
Financing expenses	308	**19**	**327**
Profit after financing expenses	941	**(6)**	**935**
Profit before income tax	938	**(6)**	**932**
Income tax	242	**1**	**243**
Profit for the period	694	**(5)**	**689**

Effect on the consolidated interim statement of income for the three months ended September 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	920	**(105)**	**815**
Depreciation and amortization expenses	446	**101**	**547**
Operating profit	425	**4**	**429**
Financing expenses	100	**9**	**109**
Profit after financing expenses	325	**(5)**	**320**
Profit before income tax	324	**(5)**	**319**
Income tax	84	**1**	**85**
Profit for the period	238	**(4)**	**234**

Effect on the consolidated interim statement of cash flow for the nine months ended September 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	2,289	**309**	**2,598**
Net cash used in investing activities	(2,564)	**21**	**(2,543)**
Net cash from financing activities	(498)	**(330)**	**(828)**

Effect on the consolidated interim statement of cash flow for the three months ended September 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	781	**102**	**883**
Net cash used in investing activities	(239)	**7**	**(232)**
Net cash from financing activities	(57)	**(109)**	**(166)**

3.2 Initial application of IFRS 9, Financial Instruments (2014)

As from January 1, 2018, the Group applies IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The new Standard includes revised guidance on the classification and measurement of financial instruments, a new 'expected credit loss' model for calculating impairment for most financial assets, and new guidance and requirements with respect to hedge accounting Initial application of the Standard did not have a material quantitative effect on the Group's financial statements.

4. Group entities

4.1 A detailed description of the Group entities appears in Note 12 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

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

4.2.1 Further to Note 12.2.1 to the Annual Financial Statements regarding the Company's advance payments on account of the second contingent consideration for acquisition of the shares and loans of DBS, on April 22, 2018, a liquidation order was issued for Eurocom Communications Ltd. which came into effect on May 3, 2018, and a liquidation order was issued for Eurocom DBS Ltd. As a result of the aforesaid, the Company adjusted the fair value of the amount expected to be returned to it from the surplus of advance payments that it paid, to NIS 25 million as at March 31, 2018 and NIS 20 million as at September 30, 2018. As a result, the Company recognized financing expenses in the amount of NIS 18 million in the statement of income for the first quarter of 2018 and an additional NIS 5 million in the statement of income for the third quarter of 2018.

4.2.2 Further to Note 18.2 to the Annual Financial Statements regarding the amendment to the agreement between DBS and Space Communications Ltd. ("Spacecom") in 2018, on March 29, 2018, the amendment was signed. In April 2018, the satellite segment leased by DBS was replaced following the amendment to the 2017 agreement.

4.2.3 In April 2018, Spacecom announced that it had received a letter from a government entity, according to which "government entities intend to operate a satellite at the Israel Aerospace Industries at point 4.00 W in accordance with their requirements." Spacecom further stated that it is unable to estimate the feasibility and likelihood of operating such a satellite.

In September 2018, Spacecom announced that the agreement for the construction of the Amos 8 satellite will not take effect and it will be canceled and that it is taking steps to optimize the Amos 8 satellite plan and assessing the feasibility of several alternatives, including possible cooperation with the Government Israel. DBS believes that cancellation of the agreement may result in a delay in the start of the Amos 8 satellite activity compared to the timetable under this agreement.

4.2.4 In April 2018, the manufacturer of the HD Zapper and 4K PVR set top boxes that DBS acquires announced that it intends to discontinue the manufacture of the set top boxes in November 2018. In July 2018, DBS signed two agreements with other suppliers for the manufacture and sale of set top boxes by an alternative manufacturer.

4.2.5 In May 2018, Cisco informed DBS that it had sold its multi-channel television services to a third party, and in October 2018, DBS was informed that the sale of the activity has been completed. DBS is assessing the significance of this matter, taking into account its agreements with Cisco and the relevant operations.

4.2.6 On July 5, 2008, the shareholders' loan to DBS (including accrued interest), the balance of which amounted to NIS 97 million on that date, was converted to capital which was recorded in the financial statements of DBS as a premium on shares, and the Company made an additional investment in the capital of DBS against a premium in the amount of NIS 100 million.

4.2.7 Following the conversion of the shareholders loans and investment in the capital in 2016 and as a result of the conversion of the Company's share in Debentures B of DBS to capital, conversion of the loan from the Company into capital and the investment in the capital of DBS in the period, the equity of DBS as at September 30, 2018 and December 31, 2017 amounted to NIS 956 million and NIS 348 million, respectively. As at September 30, 2018, the working capital deficit amounts to NIS 301 million. The management of DBS believes that the financial resources at its disposal, which include the deficit in working capital and the investment in the equity of DBS by the Company, will be sufficient for the operations of DBS for the coming year.

5. Income tax

As at September 30, 2018, the Company's assets include a deferred tax asset of NIS 1,166 million for the carry-forward losses of DBS. The approval from the Tax Authority for the utilization of the tax asset is subject to approval from the Ministry of Communications for cancellation of the structural separation at Bezeq. The Company believes that the approval of the Ministry of Communications for cancellation of the structural separation is not expected to be received in the near future.

The Company applied to the Minister of Communications for approval of a change in the Group's legal structure, such that the Company will continue the current format of its operations, and at the same time, will establish a registered wholly-owned partnership to which the assets, licenses, and activity of the subsidiaries DBS, Pelephone, and Bezeq International will be transferred. The establishment of the partnership will allow a merger of the subsidiaries in practice and, subject to the approval of the Tax Authority, the offsetting of the carryforward losses of DBS and the utilization of the tax asset.

The Company applied to the Ministry of Communications for clarification regarding the date that any of these approvals will be received. The assumption of utilization of the tax asset is based on the current assessment of the Company's management, that taking into account the measures described above, it is more likely than not that approval will be received to allow the utilization of the tax asset.

Further to Note 2.6 to the financial statements as at December 31, 2017, the tax asset is a significant estimate and the actual results may differ from this estimate, if the Company's current estimates are not realized.

6. Assessment of impairment in the cellular communications segment

In view of the intensifying competition in the cellular market, Pelephone updated its forecasts for the coming years. As a result, the Company estimated the recoverable amount of the cash-generating cellular communications unit as at June 30, 2018.

The value in use of the cellular communications cash-generating unit for Bezeq Group was calculated by discounting future cash flows (DCF) based on a four and a half year cash flow forecast as at the end of the current period with the addition of the salvage value. The cash flow forecast is based, among other things, on Pelephone's performance in recent years and assessments regarding the expected trends in the cellular market (the number of players, level of competition, price level, and regulation aspects). The main assumption underlying the forecast is that competition in the market will continue with high intensity in the short term and that market convergence and price increases will occur in the medium to long term The revenue forecast is based on assumptions regarding the number of Pelephone subscribers, the average revenue per user, and the volume of sales of terminal equipment, and the operating, selling, marketing and investment expenses were adjusted to the volume of Pelephone's activity.

The nominal capital used was 9.97% (after tax). In addition, it was assumed that the permanent growth of Pelephone will be 2.5%.

The valuation was prepared by an independent appraiser. Based on this valuation, the Group was not required to record amortization for impairment of a cellular communication cash-generating unit as at June 30, 2018. The Company believes that as at September 30, 2018, there were no changes that may have a material effect on the conclusions of the valuation.

7. Investment property

Further to Note 18.8 to the Annual Financial Statements regarding the Company's agreement for the sale of a real estate asset in the Sakia complex, as at the date of the financial statements, the buyer deposited NIS 183.3 million with a trustee on account of the consideration for the transaction.

On May 21, 2018, a demand was received from the Israel Land Authority ("ILA") for payment of a permit fee in the amount of NIS 148 million (linked to the CPI). In June 2018, the Company paid an amount of NIS 112 million on account of the demand and in July 2018, the Company deposited a bank guarantee in the amount of NIS 44 million for the balance of the demand plus VAT. The Company filed an objection for the demand on legal grounds and it also intends to file an assessor objection.

On August 5, 2018, the Company received a demand for payment from the local planning and building committee in Or Yehuda, for betterment levy in the amount of NIS 143.5 million for disposal of the property by way of a sale. The Company filed an appeal against the demand for the betterment levy, and sent a demand to the Israel Lands Authority for full payment of the betterment levy according to the undertaking of the Authority in the settlement agreement.

It should be noted that the amount for a permit fee to be determined at the end of the proceedings may also affect the amount of the betterment levy the Company will be required to pay to the Planning Committee. If the Company is required to pay the full amount of the betterment levy and the full amount of the demand for payment of the permit fee, then the capital gain to be recorded in its financial statements is expected to amount to NIS 250 million. The Company believes that the amount of the permit fee and the betterment levy that it will be required to pay is expected to be low and possibly even significantly lower than the total amount of the demands.

On September 4, 2018, the Israel Lands Authority and the Company signed a lease referring to the Sakia asset.

The Company is expected to record a capital gain on the date on which the conditions for recognition of the sale of the asset are fulfilled in accordance with accounting principles.

The real estate asset in the Sakia complex was presented as investment property. Investment property is initially measured at cost. In subsequent periods, investment property is measured at cost less accumulated depreciation.

8. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, among other things, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 99 million, where provisions are required to cover the exposure arising from such Legal Claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at September 30, 2018 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 5 billion. There is also additional exposure of NIS 4.4 billion for claims, the chances of which cannot yet be assessed.

In addition, motions for certification of class actions have been filed against the Group companies, for which the Group has additional exposure beyond the aforesaid, since the exact amount of the claim is not stated in the claim.

The amounts of the additional exposure in this note are linked to the CPI and are stated net of interest.

8.1 Following is a detailed description of the Group's contingent liabilities as at September 30, 2018, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims that cannot yet be assessed
		(Unaudited)		
		NIS million		
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	63	4,813	532
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	4	13	3,822(2)(1)
Claims of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Group in respect of various payments and recognition of various salary components as components for calculation of payments to Group employees.	1	4	3
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the Authorities (including property taxes).	31	28	-
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	-	102	1
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	-	69	-
Total legal claims against the Company and subsidiaries		99	5,029	4,358

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

(2) Two motions for certification of a class action amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers in the Group and companies in the group of the Company's controlling shareholders regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint motion is expected to be filed instead of these two motions. The proceeding was stayed due to the investigation. On August 21, 2018, the Attorney General requested to update the court again by December 31, 2018 of the possibility of advancing the proceeding. A court ruling has not yet been handed down.

8.2 Subsequent to the reporting date, claims amounting to NIS 207 million were filed against Group companies, and a claim without a monetary estimate. At the approval date of the financial statements, the chances of these claims cannot yet be assessed. In addition, claims with exposure of NIS 239 million and two claims without a monetary estimate came to an end.

8.3 See Notes 17.2 to 17.4 to the Annual Financial Statements regarding additional proceedings against the Group companies and officers.

9. Equity

9.1 On April 26, 2018, the general meeting of the Company's shareholders approved the distribution of a cash dividend of NIS 368 million to the Company's shareholders (following the recommendation of the Company's Board of Directors of March 28, 2018). The dividend was paid on May 10, 2018.

9.2 On September 13, 2018, the general meeting of the Company's shareholders approved the distribution of a cash dividend of NIS 318 million to the Company's shareholders (following the recommendation of the Company's Board of Directors of August 22, 2018). The dividend was paid on October 10, 2018.

10. Revenue

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	**2017**	**2018**	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Domestic fixed-line communication (Bezeq Fixed-Line)					
Internet - infrastructure	**1,147**	1,109	**381**	372	1,488
Fixed-line telephony	**855**	944	**275**	310	1,255
Transmission and data communication	**578**	582	**191**	190	775
Cloud and digital services*	**197**	170	**69**	57	230
Other services	**156**	164	**45**	55	205
	2,933	2,969	**961**	984	3,953
Cellular telephony - Pelephone					
Cellular services and terminal equipment	**1,286**	1,315	**438**	451	1,743
Sale of terminal equipment	**507**	544	**155**	172	757
	1,793	1,859	**593**	623	2,500
Multi-channel television - DBS	**1,117**	1,246	**367**	406	1,650
International communications, ISP, and NEP services - Bezeq International	**987**	1,097	**323**	345	1,467
Other	**165**	160	**57**	57	219
	6,995	7,331	**2,301**	2,415	9,789

* Cloud and digital services were reclassified and presented separately to reflect the change in the mix of revenues in fixed-line domestic communications.

11. General and operating expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Terminal equipment and materials	**527**	613	**167**	181	855
Interconnectivity and payments to domestic and international operators	**585**	603	**197**	201	805
Marketing and general	**426**	437	**135**	159	595
Content costs	**480**	481	**155**	158	636
Maintenance of buildings and sites*	**213**	437	**74**	152	584
Services and maintenance by sub-contractors	**207**	198	**68**	67	260
Vehicle maintenance*	**56**	119	**19**	38	156
	2,494	2,888	**815**	956	3,891

* See Note 3.1 for information about early implementation of IFRS 16 - Leases

12. Other operating expenses (income), net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Provision for severance pay in voluntary redundancy	**93**	15	**-**	3	23
Capital gains (mainly for disposal of real estate)	**(7)**	(64)	**(1)**	(45)	(66)
Others	**27**	21	**7**	19	24
Impairment loss from intangible assets	**10**	-	**10**	-	87
Total operating expenses (income), net	**123**	(28)	**16**	(23)	68

13. Financial Instruments

13.1 Fair value

13.1.1 Financial instruments at fair value for disclosure purposes only

The table below shows the differences between the carrying amount and the fair value of financial liabilities. The methods used to estimate the fair values of financial instruments are described in Note 29.8 to the Annual Financial Statements.

	September 30, 2018		September 30, 2017		December 31, 2017	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and institutions (unlinked)	**4,734**	**4,897**	4,022	4,294	4,436	4,693
Debentures issued to the public (CPI-linked)	**4,129**	**4,342**	4,135	4,355	4,088	4,338
Debentures issued to the public (unlinked)	**1,659**	**1,694**	1,680	1,758	1,649	1,745
Debentures issued to financial institutions (CPI-linked)	**15**	**15**	22	25	15	17
Debentures issued to financial institutions (unlinked)	**256**	**268**	359	388	302	326
	10,793	**11,216**	10,218	10,820	10,490	11,119

13.1.2 Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, with details of the evaluation method. The methods used to estimate the fair value are described in Note 29.7 to the Annual Financial Statements.

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: Investment in marketable securities at fair value through profit or loss	**3**	20	14
Level 2: forward contracts	**(170)**	(217)	(212)
Level 3: contingent consideration for a business combination	**20**	43	43

14. Segment Reporting

14.1 Operating segments

	Nine months ended September 30, 2018 (Unaudited):						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	2,933	1,793	987	1,117	165	-	6,995
Inter-segment revenues	237	32	34	-	9	(312)	-
Total revenues	3,170	1,825	1,021	1,117	174	(312)	6,995
Depreciation and amortization	633	478	134	239	16	109	1,609
Segment results – operating profit (loss)	1,311	2	95	(17)	(25)	(104)	1,262
Financing expenses	376	14	12	10	-	(29)	383
Financing income	(23)	(42)	(1)	(17)	-	27	(56)
Total financing expenses (income), net	353	(28)	11	(7)	-	(2)	327
Segment profit (loss) after financing expenses, net	958	30	84	(10)	(25)	(102)	935
Share in losses of associates	-	-	-	-	(3)	-	(3)
Segment profit (loss) before income tax	958	30	84	(10)	(28)	(102)	932
Income tax	236	8	20	1	-	(22)	243
Segment results – net profit (loss)	722	22	64	(11)	(28)	(80)	689
Segment assets*	9,604	4,081	1,322	1,613	154	437	17,211
Investment in associates	-	-	5	-	4	-	9
Goodwill	-	-	6	-	10	1,322	1,338
Segment liabilities*	14,842	1,385	571	657	83	(1,150)	16,388

* Segment assets and liabilities include the right-of-use assets and liabilities for leases, due to early adoption of IFRS 16 - Leases, as described in Note 3.1.

14. Segment Reporting (contd.)

14.1 Operating segments (contd.)

	Nine months ended September 30, 2017 (Unaudited):						
	Domestic fixed-line communication	**Cellular communications**	**International communications and internet services**	**Multi-channel television**	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	2,969	1,859	1,097	1,246	160	-	7,331
Inter-segment revenues	228	36	61	-	13	(338)	-
Total revenues	3,197	1,895	1,158	1,246	173	(338)	7,331
Depreciation and amortization	543	293	100	213	15	124	1,288
Segment results – operating profit (loss)	1,501	57	133	136	(18)	(126)	1,683
Financing expenses	305	3	7	73	-	(30)	358
Financing income	(24)	(40)	(1)	(15)	(6)	25	(61)
Total financing expenses (income), net	281	(37)	6	58	(6)	(5)	297
Segment profit (loss) after financing expenses, net	1,220	94	127	78	(12)	(121)	1,386
Share in losses of associates	-	-	-	-	(4)	-	(4)
Segment profit (loss) before income tax	1,220	94	127	78	(16)	(121)	1,382
Income tax	308	20	31	333	-	(340)	352
Segment results – net profit (loss)	912	74	96	(255)	(16)	219	1,030

14. Segment Reporting (contd.)

14.1 Operating segments (contd.)

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

14. Segment Reporting (contd.)

14.1 Operating segments (contd.)

	Three months ended September 30, 2017 (Unaudited):						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	983	623	345	406	58	-	2,415
Inter-segment revenues	78	12	22	-	4	(116)	-
Total revenues	1,061	635	367	406	62	(116)	2,415
Depreciation and amortization	186	100	34	72	5	39	436
Segment results – operating profit (loss)	492	22	39	35	(4)	(40)	544
Financing expenses	119	3	3	1	(1)	(13)	112
Financing income	(12)	(12)	-	(2)	-	8	(18)
Total financing expenses (income), net	107	(9)	3	(1)	(1)	(5)	94
Segment profit (loss) before income tax	385	31	36	36	(3)	(35)	450
Income tax	109	7	9	159	-	(156)	128
Segment results – net profit (loss)	276	24	27	(123)	(3)	121	322

14. Segment Reporting (contd.)

14.1 Operating segments (contd.)

	Year ended December 31, 2017 (Audited)						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,953	2,500	1,466	1,650	220	-	9,789
Inter-segment revenues	291	46	71	-	17	(425)	-
Total revenues	4,244	2,546	1,537	1,650	237	(425)	9,789
Depreciation and amortization	728	383	135	285	20	164	1,715
Segment results – operating profit (loss)	1,971	72	174	163	(20)	(250)	2,110
Financing expenses	439	3	12	81	-	(58)	477
Financing income	(36)	(54)	(4)	(10)	(5)	49	(60)
Total financing expenses (income), net	403	(51)	8	71	(5)	(9)	417
Segment profit (loss) after financing expenses, net	1,568	123	166	92	(15)	(241)	1,693
Share in profits (losses) of associates	-	-	-	-	(4)	(1)	(5)
Segment profit (loss) before income tax	1,568	123	166	92	(19)	(242)	1,688
Income tax	396	28	39	336	-	(346)	453
Segment results – net profit (loss)	1,172	95	127	(244)	(19)	104	1,235
Segment assets	9,086	3,271	1,199	1,502	174	269	15,501
Investment in associates	-	-	5	-	(6)	11	10
Goodwill	-	-	6	-	10	1,322	1,338
Segment liabilities	13,901	536	410	1,154	64	(1,360)	14,705
Investments in fixed assets and intangible assets	851	331	169	237	19	-	1,607

14.2 Adjustment of profit or loss for reporting segments

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Operating profit for reporting segments	**1,391**	1,826	**481**	587	2,380
Financing expenses, net	**(327)**	(297)	**(109)**	(94)	(417)
Amortization of surplus cost for intangible assets and others	**(104)**	(120)	**(40)**	(35)	(250)
Share in losses of associates	**(3)**	(4)	**(1)**	-	(5)
Loss for operations classified in other categories and other adjustments	**(25)**	(23)	**(12)**	(8)	(20)
Income before taxes on income	**932**	1,382	**319**	450	1,688

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
	NIS million	NIS million
Assets		
Assets from reporting segments	**16,631**	15,069
Assets attributable to operations in other categories	**168**	178
Goodwill not attributable to an operating segment	**1,322**	1,322
Surplus cost not attributable to an operating segment	**1,585**	1,636
Less inter-segment assets and other adjustments	**(1,148)**	(1,356)
Consolidated assets	**18,558**	16,849
Liabilities		
Liabilities from reporting segments	**17,457**	16,001
Liabilities attributable to operations in other categories	**83**	64
Less inter-segment liabilities	**(1,152)**	(1,360)
Consolidated liabilities	**16,388**	14,705

15. Additional significant events in and subsequent to the Reporting Period

15.1 The Company's Board of Directors approved an early retirement plan in 2018 at a cost of NIS 90 million. The retirement plan is for the early retirement of 75 employees, in accordance with the terms of the valid collective agreement. In 2018, the Company recognized expenses amounting to NIS 90 million in its financial statements.

15.2 Further to Note 13.3.4 to the Annual Financial Statements regarding the terms that the Company undertook for the loans and debentures, on April 22, 2018, a liquidation order was issued for Eurocom Communications Ltd. (which came into effect on May 3, 2018) and as part of the liquidation ruling, the court clarified that the ruling does not derogate from the control permit in the Company. Subsequently, on October 24, 2018, the Company received a notice from Internet Gold-Golden Lines Ltd., which is controlled by Eurocom Communications and which controls B Communications, the controlling shareholder in the Company, whereby approval was received for control (effective as from May 3, 2018) in accordance with section 4D of the Communications Law and section 3 of the Communications Order for special managers of Eurocom Communications, who were appointed as part of the liquidation process of Eurocom Communications. It should be clarified that the aforesaid has no implications on the Company's debentures and loans.

15.3 For information about the undertaking to issue Debentures (Series 9) of the Company in 2018 and the raising of debt in March 2018 in the amount of NIS 320 million, see Note 13.6 to the Annual Financial Statements.

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

16.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**948**	1,310	1,128
Non-current assets	**3,133**	2,078	2,143
Total assets	**4,081**	3,388	3,271
Current liabilities	**656**	575	442
Long-term liabilities	**729**	98	94
Total liabilities	**1,385**	673	536
Equity	**2,696**	2,715	2,735
Total liabilities and equity	**4,081**	3,388	3,271

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,318**	1,345	**449**	461	1,782
Revenues from sales of terminal equipment	**507**	550	**155**	174	764
Total revenues from services and sales	**1,825**	1,895	**604**	635	2,546
Cost of services and sales	**1,575**	1,616	**521**	534	2,171
Gross profit	**250**	279	**83**	101	375
Selling and marketing expenses	**176**	158	**58**	58	215
General and administrative expenses	**66**	64	**21**	21	88
Other operating expenses	**6**	-	**6**	-	-
	248	222	**85**	79	303
Operating profit (loss)	**2**	57	**(2)**	22	72
Financing expenses	**14**	3	**4**	3	3
Financing income	**(42)**	(40)	**(15)**	(12)	(54)
Financing income, net	**(28)**	(37)	**(11)**	(9)	(51)
Profit before income tax	**30**	94	**9**	31	123
Income tax	**8**	20	**3**	7	28
Profit for the period	**22**	74	**6**	24	95

16.2 Bezeq International Ltd.

Selected data from the statement of financial position

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**471**	517	490
Non-current assets	**862**	720	720
Total assets	**1,333**	1,237	1,210
Current liabilities	**341**	354	295
Long-term liabilities	**230**	112	115
Total liabilities	**571**	466	410
Equity	**762**	771	800
Total liabilities and equity	**1,333**	1,237	1,210

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,021**	1,158	**333**	367	1,537
Operating expenses	**685**	799	**222**	253	1,058
Gross profit	**336**	359	**111**	114	479
Selling and marketing expenses	**151**	142	**49**	48	187
General and administrative expenses	**87**	84	**29**	28	115
Other expenses (income), net	**3**	-	**2**	(1)	3
	241	226	**80**	75	305
Operating profit	**95**	133	**31**	39	174
Financing expenses	**12**	7	**4**	3	12
Financing income	**(1)**	(1)	**-**	-	(4)
Financing expenses, net	**11**	6	**4**	3	8
Profit before income tax	**84**	127	**27**	36	166
Income tax	**20**	31	**7**	9	39
Profit for the period	**64**	96	**20**	27	127

16.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	September 30, 2018 (Unaudited) NIS million	September 30, 2017 (Unaudited) NIS million	December 31, 2017 (Audited) NIS million
Current assets	**285**	358	269
Non-current assets	**1,328**	1,246	1,233
Total assets	**1,613**	1,604	1,502
Current liabilities	**586**	789	804
Long-term liabilities	**71**	478	350
Total liabilities	**657**	1,267	1,154
Equity	**956**	337	348
Total liabilities and equity	**1,613**	1,604	1,502

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,117**	1,246	**367**	406	1,650
Operating expenses	**959**	940	**310**	312	1,260
Gross profit	**158**	306	**57**	94	390
Selling and marketing expenses	**100**	98	**34**	34	131
General and administrative expenses	**75**	72	**22**	25	96
	175	170	**56**	59	227
Operating profit (loss)	**(17)**	136	**1**	35	163
Financing expenses	**10**	73	**3**	1	81
Financing income	**(17)**	(15)	**-**	(2)	(10)
Financial expenses (income), net	**(7)**	58	**3**	(1)	71
Profit (loss) before income tax	**(10)**	78	**(2)**	36	92
Income tax	**1**	333	**-**	159	336
Loss for the period	**(11)**	(255)	**(2)**	(123)	(244)

Chapter B - Board of Directors' Report on the State of the Company's Affairs for the Period Ended September 30, 2018

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

We hereby present the Board of Directors' report on the state of affairs of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group"), for the nine months ended September 30, 2018 ("the Period") and the three months then ended ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2017 is also available to the reader.

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

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

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

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

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

The Group's results were as follows:

	1-9.2018	**1-9.2017**	**Increase (decrease)**		**7-9.2018**	**7-9.2017**	**Increase (decrease)**	
	NIS millions	**NIS millions**	**NIS millions**	**%**	**NIS millions**	**NIS millions**	**NIS millions**	**%**
Profit	689	1,030	(341)	(33.1)	234	322	(88)	(27.3)
EBITDA (operating profit before depreciation and amortization)	2,871	2,971	(100)	(3.4)	976	980	(4)	(0.4)

The above decrease in profit was mainly due to a decrease in the Group's revenue as detailed below, and in the reporting Period was also due to expenses from termination of employment relations by way of early retirement in the Domestic Fixed-Line Communications segment.

EBITDA was significantly affected by early adoption of IFRS 16 – "Leases" starting January 1, 2018 (see Note 3.1 to the financial statements).

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

1.1 Financial position

	Sept. 30, 2018	Sept. 30, 2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Cash and current investments	**2,925**	2,565	360	14.0	The increase was due to growth in current investments in the Domestic Fixed-Line Communications segment, including through receipt of loans. For more information, see Section 1.3 - Cash Flows, below.
Current and non-current trade and other receivables	**2,507**	2,762	(255)	(9.2)	The decrease was mainly attributable to the Cellular Communications segment, due to a decrease in trade receivables following a decrease in revenues from installment-based handset sales and a decrease in trade receivables in the International Communications, Internet, and NEP Services segment.
Eurocom D.B.S.	**20**	43	(23)	(53.5)	The Company has updated, as of September 30, 2018, the fair value of the amount expected to be repaid to the Company from overpayment of advances for the second contingent consideration for the purchase of DBS's shares and loans. This amount has been updated to NIS 20 million. See Note 4.2.1 to the financial statements.
Inventory	**86**	101	(15)	(14.9)	
Broadcasting rights	**470**	457	13	2.8	
Usage right assets	**1,434**	-	1,434	-	Following early adoption of IFRS 16 - Leases ("IFRS 16"), the Group has recognized a right-of-use asset for agreements in which the Group is the lessee. See Note 3.1 to the financial statements
Property, plant and equipment	**6,789**	6,817	(28)	(0.4)	
Intangible assets	**2,627**	2,894	(267)	(9.2)	The decrease was mainly due to depreciation of excess costs for intangible assets recorded upon assuming control of DBS, and impairment of DBS's goodwill to the amount of NIS 87 million in the fourth quarter of 2017.
Deferred tax assets	**1,041**	1,014	27	2.7	See Note 5 to the financial statements.
Deferred costs and non-current investments	**519**	489	30	6.1	The increase was due to an increase in net subscriber acquisition asset balances.
Investment property	**140**	-	140	-	Mainly payment of permit fees and purchase tax for the Sakia property (see Note 7 to the financial statements).
Total assets	**18,558**	17,142	1,416	8.3	

1.1. Financial Position (Contd.)

	Sept. 30, 2018	Sept. 30, 2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Debt to financial institutions and debenture holders	**11,947**	11,533	414	3.6	The increase was mainly due to receipt of loans, offset by loan and debenture repayments in the Domestic Fixed-Line Communications segment.
Liabilities for leases	**1,467**	-	1,467	-	Following early adoption of IFRS 16, the Group recognized liabilities for leases. See Note 3.1 to the financial statements.
Trade and other payables	**1,602**	1,807	(205)	(11.3)	Timing differences in payments due to the month ending on a non-business day in the corresponding period last year, and effects of applying IFRS 16 (see Note 3.1.4 to the financial statements).
Employee benefits	**596**	511	85	16.6	The increase was mainly due to a NIS 90 million provision for an early retirement plan in 2018 in the Domestic Fixed-Line Communications segment.
Current tax liabilities	**9**	118	(109)	(92.4)	The decrease was due to an income tax payment under a final appraisal agreement for 2011-2014, and an advance on a betterment tax payment following the sale of the Sakia property.
Dividend payable	**318**	708	(390)	(55.1)	For more information, see Note 9 to the financial statements.
Other liabilities	**449**	538	(89)	(16.5)	
Total liabilities	**16,388**	15,215	1,173	7.7	
Total equity	**2,170**	1,927	243	12.6	Equity comprises 11.7% of the balance sheet total, as compared to 11.2% of the balance sheet total on September 30, 2017.

1.2 Results of operations

1.2.1 Highlights

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**6,995**	7,331	(336)	(4.6)	**2,301**	2,415	(114)	(4.7)	The decrease was due to lower revenues across all of the Group's primary segments.
General and operating expenses	**2,494**	2,888	(394)	(13.6)	**815**	956	(141)	(14.7)	The decrease was mainly due to early adoption of IFRS 16 - Leases, starting January 1, 2018, whereby rent expenses, associated with properties rented under operating leases, are recognized as assets. See Note 3.1 to the financial statements.
Salaries	**1,507**	1,500	7	0.5	**494**	502	(8)	(1.6)	The change was due to an increase in salary expenses in the Domestic Fixed-Line Communications segment, which was offset by lower expenses in the International Communications, Internet and NEP Services segment and the Multi-Channel Television segment.
Depreciation and amortization	**1,609**	1,288	321	24.9	**547**	436	111	25.5	The increase was mainly due to depreciation of right-of-use assets following the early adoption of IFRS 16. See Note 3.1 to the financial statements.
Other operating expenses (income), net	**123**	(28)	151	-	**16**	(23)	39	-	The change was mainly attributable to the Domestic Fixed-Line Communications segment, and in the Period was mainly due to recognition of expenses for employment termination by way of early retirement.
Operating profit	**1,262**	1,683	(421)	(25.0)	**429**	544	(115)	(21.1)	
Finance expenses, net	**327**	297	30	10.1	**109**	94	15	16.0	The increase in net finance expense in the Period was mainly attributable to the Domestic Fixed-Line Communications segment, and was offset by lower expenses in the Multi-Channel Television segment. Expenses were also affected by early adoption of IFRS 16.
Share in losses of investees	**3**	4	(1)	(25.0)	**1**	-	1	-	
Income tax	**243**	352	(109)	(31.0)	**85**	128	(43)	(33.6)	The decrease was due to a reduction in taxable income, and a reduction in the corporate tax rate from 24% to 23% starting 2018.
Profit for the period	**689**	1,030	(341)	(33.1)	**234**	322	(88)	(27.3)	

1.2.2 Operating segments

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

	1-9.2018		1-9.2017		7-9.2018		7-9.2017	
	NIS millions	% of total revenues	NIS millions	% of total revenues	NIS millions	% of total revenues	NIS millions	% of total revenues
Revenues by operating segment								
Domestic Fixed-Line Communications	**3,170**	**45.3**	3,197	43.6	**1,043**	**45.3**	1,061	43.9
Cellular Communications	**1,825**	**26.1**	1,895	25.9	**604**	**26.3**	635	26.3
International Communications, Internet and NEP Services	**1,021**	**14.6**	1,158	15.8	**333**	**14.5**	367	15.2
Multi-Channel Television	**1,117**	**16.0**	1,246	17.0	**367**	**15.9**	406	16.8
Other and offsets	**(138)**	**(2.0)**	(165)	(2.3)	**(46)**	**(2.0)**	(54)	(2.2)
Total	**6,995**	**100.0**	7,331	100.0	**2,301**	**100.0**	2,415	100.0

	1-9.2018		1-9.2017		7-9.2018		7-9.2017	
	NIS millions	% of total revenues	NIS millions	% of total revenues	NIS millions	% of total revenues	NIS millions	% of total revenues
Operating profit by segment								
Domestic Fixed-Line Communications	**1,311**	**41.4**	1,501	47.0	**451**	**43.2**	492	46.4
Cellular Communications	**2**	**0.1**	57	3.0	**(2)**	**(0.3)**	22	3.5
International Communications, Internet and NEP Services	**95**	**9.3**	133	11.5	**31**	**9.3**	39	10.6
Multi-Channel Television	**(17)**	**(1.5)**	136	10.9	**1**	**0.3**	35	8.6
Other and offsets	**(129)**	**-**	(144)	-	**(52)**	**-**	(44)	-
Consolidated operating profit/ percentage of Group revenues.	**1,262**	**18.0**	1,683	23.0	**429**	**18.6**	544	22.5

1.2.2 Operating segments (contd.)

B. Domestic Fixed-Line Communications Segment

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Fixed-line telephony	**875**	972	(97)	(10.0)	**282**	318	(36)	(11.3)	The decrease was due to lower average revenues per phone line and a decrease in the number of lines.
Internet - infrastructure	**1,200**	1,149	51	4.4	**401**	386	15	3.9	The increase was mainly due to growth in the number of internet subscribers through the wholesale service and higher ARPU (retail), offset by a decline in the number of retail internet subscribers.
Transmission, data communications and others	**898**	906	(8)	(0.9)	**291**	300	(9)	(3.0)	
Digital and cloud services	**197**	170	27	15.9	**69**	57	12	21.1	The increase was mainly due to IP Centrex and cyber services.
Total revenues	**3,170**	3,197	(27)	(0.8)	**1,043**	1,061	(18)	(1.7)	
General and operating expenses	**428**	514	(86)	(16.7)	**143**	183	(40)	(21.9)	The decrease was mainly due to a decrease in vehicle and building leasing expenses recognized as an asset following early adoption of IFRS 16. Results were also affected by a decrease in advertising expenses and interconnect fees to telecom operators.
Salaries	**693**	668	25	3.7	**233**	224	9	4.0	The increase was mainly due to salary raises pursuant to collective labor agreements, partially offset by employee retirement.
Depreciation and amortization	**633**	543	90	16.6	**218**	186	32	17.2	The increase was mainly due to depreciation of right-of-use assets following early adoption of IFRS 16, starting January 1, 2018.
Other operating expenses (income), net	**105**	(29)	134	-	**(2)**	(24)	22	(91.7)	The change in the Period was attributable to a NIS 90 million expense for early retirement (see Note 15.1 to the financial statements). Furthermore, capital gains were down in the Period and Quarter, partially offset by a decrease in expenses from legal claims.
Operating profit	**1,311**	1,501	(190)	(12.7)	**451**	492	(41)	(8.3)	
Finance expenses, net	**353**	281	72	25.6	**113**	107	6	5.6	The increase in net financing expenses in the Period was mainly due to NIS 23 million in finance expenses recognized in the Period following a decrease in the fair value of the amount expected to be repaid to the Company from the overpayment of advances on the second contingent consideration for the acquisition of DBS's shares and loans (see Note 4.2.1 to the financial statements), as compared to a NIS 14 million reduction in expenses in the same period last year. There was also an increase in interest expenses on loans and currency linkage differences on debentures.
Taxes on income	**236**	308	(72)	(23.4)	**81**	109	(28)	(25.7)	The decrease was mainly due to a decrease in the taxable income and a reduction of the corporate tax rate from 24% to 23% starting 2018.
Segment profit	**722**	912	(190)	(20.8)	**257**	276	(19)	(6.9)	

1.2.2 Operating segments (contd.)

C. Cellular Communications segment

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Services	**1,318**	1,345	(27)	(2.0)	**449**	461	(12)	(2.6)	The decrease was mainly due to lower rates and migration of existing customers to cheaper plans offering greater data volumes at current market prices. This decrease in rates was partially offset by growth in the post-paid customer base.
Equipment sales	**507**	550	(43)	(7.8)	**155**	174	(19)	(10.9)	The decrease was mainly attributable to a decrease in handset sales, partially offset by higher prices. The decrease in the Period was also due to cancellation of the purchase tax on imported cellular handsets in the same period last year, which lowered prices. This decrease was offset by greater revenue per unit, following a change in the product mix sold.
Total revenues	**1,825**	1,895	(70)	(3.7)	**604**	635	(31)	(4.9)	
General and operating expenses	**1,050**	1,259	(209)	(16.6)	**345**	419	(74)	(17.7)	The decrease was mainly due to a reduction in leasing expenses following early adoption of IFRS 16, a decrease in the cost of sales for handsets, and continued downsizing and streamlining of expenses. The decrease was partially offset in the Period by an increase in call completion fees, roaming expenses, and estimate updates that resulted in lower expenses in the same period last year.
Salaries	**289**	286	3	1.0	**94**	94	-	-	
Depreciation and amortization	**478**	293	185	63.1	**161**	100	61	61.0	The increase in expenses was mainly due to an increase in expenses from depreciation of right-of-use assets following early adoption of IFRS 16 starting January 1, 2018, and an increase in expenses from depreciation of subscriber acquisition assets. On the other hand, there was a decrease in expenses from depreciation of property, plant and equipment and other assets.
Other expenses	**6**	-	6	-	**6**	-	6	-	Expenses incurred following a voluntary retirement plan rolled out during the Period.
Operating profit (loss)	**2**	57	(55)	(96.5)	**(2)**	22	(24)	-	
Finance income, net	**28**	37	(9)	(24.3)	**11**	9	2	22.2	The decrease in net finance income in the Period was mainly due to an increase in finance expenses recognized following early adoption of IFRS 16.
Income tax	**8**	20	(12)	(60.0)	**3**	7	(4)	(57.1)	
Segment profit	**22**	74	(52)	(70.3)	**6**	24	(18)	(75.0)	

1.2.2 Operating segments (contd.)

D. International Communications, Internet and NEP Services

	1-9.2018 NIS millions	1-9.2017 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	7-9.2018 NIS millions	7-9.2017 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Revenues	**1,021**	1,158	(137)	(11.8)	**333**	367	(34)	(9.3)	The decrease was mainly due to a decrease in revenue from telecom solution sales to businesses and PBXs, lower revenues from hubbing and international calls. Results were also affected by a decrease in outsourcing revenues following the sale of operations in the Period.
General and operating expenses	**561**	679	(118)	(17.4)	**184**	214	(30)	(14.0)	The decrease was mainly due to a reduction in the cost of sales for telecom solutions for businesses and PBXs, and lower hubbing and international call expenses, corresponding to revenues as aforesaid. Furthermore, leasing expenses were down, following adoption of IFRS 16.
Salaries	**228**	246	(18)	(7.3)	**70**	81	(11)	(13.6)	The decrease was due to the sale of outsourced operations during the period.
Depreciation and amortization	**134**	100	34	34.0	**46**	34	12	35.3	The increase was due to amortization of right-of-use assets following early adoption of IFRS 16 starting January 1, 2018, and an increase in the amortization of the subscriber acquisition asset.
Other finance expenses (income)	**3**	-	3	-	**2**	(1)	3	-	
Operating profit	**95**	133	(38)	(28.6)	**31**	39	(8)	(20.5)	
Finance expenses, net	**11**	6	5	83.3	**4**	3	1	33.3	The increase was due to adoption of IFRS 16, and changes in foreign currency rates.
Tax expenses	**20**	31	(11)	(35.5)	**7**	9	(2)	(22.2)	
Segment profit	**64**	96	(32)	(33.3)	**20**	27	(7)	(25.9)	

1.2.2 Operating segments (contd.)

E. Multi-Channel Television

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	1,117	1,246	(129)	(10.4)	367	406	(39)	(9.6)	The decrease was mostly due to a decrease in the subscriber base and a decrease in ARPU. These were offset by revenue from content sales.
General and operating expenses	721	717	4	0.6	229	237	(8)	(3.4)	Expenses were down, mainly due to a decrease in lease expenses in the Period and the Quarter following early adoption of IFRS 16, which was offset in the Period by an update of the provision for legal actions and an increase in miscellaneous expenses.
Salaries	174	180	(6)	(3.3)	56	62	(6)	(9.7)	The decrease was mainly attributable to a reduction in the workforce.
Depreciation and amortization	239	213	26	12.2	81	72	9	12.5	The increase was mainly due to depreciation of right-of-use assets following early adoption of IFRS 16.
Operating profit (loss)	(17)	136	(153)	-	1	35	(34)	(97.1)	
Finance expenses (income), net	(7)	58	(65)	-	3	(1)	4	-	The decrease in expenses in the Period was mostly due to a change in the fair value of financial assets and a decrease in financing expenses on debentures following repayment and conversion of the Company's share in the debentures to equity.
Tax expenses	1	333	(332)	(99.7)	-	159	(159)	(100)	The decrease in tax expenses was due to amortization of the tax asset in the same period and quarter last year, following a change in expected profitability as a result of changes in Management expectations concerning the scope and severity of competition in the television market.
Segment loss	(11)	(255)	244	(95.7)	(2)	(123)	121	(98.4)	

1.3 Cash flow

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Net cash from operating activities	**2,598**	2,683	(85)	(3.2)	**883**	982	(99)	(10.1)	Due to reclassification of payments on leases as financing activity following early adoption of IFRS 16 (see Note 3.1 to the financial statements), net cash from operating activities grew by NIS 309 million in the Period, and by NIS 102 million in the Quarter. The bulk of this increase was attributable to the Cellular Communications segment. The increase was mainly offset by a decrease in the net profit and changes in working capital in the Cellular Communications segment, by a decrease in net cash in the Multi-Channel Television segment due to a decrease in cash profits and changes in working capital, and a decrease in the Period in net cash in the Domestic Fixed-Line Communications segment, which includes an increase in tax payments on final tax assessments despite the decrease in tax expenses.
Net cash used in investing activities	**(2,543)**	(587)	(1,956)	-	**(232)**	(388)	156	(40.2)	The increase in net cash used in investing activities in the Period (in the Quarter - a decrease in net cash flow) was mainly due to a net investment (in the Quarter - net proceeds) in bank and other deposits in the Domestic Fixed-Line Communications segment as compared to net proceeds on repayment of bank and other deposits in the same period last year (in the corresponding quarter of last year - investment). Furthermore, in the present Period, permit fees, purchase tax, and betterment tax were paid on the sale of the Sakia complex, for a total amount of NIS 201 million (see Note 7 to the financial statements).
Net cash from (used in) financing activities	**(828)**	(273)	(555)	-	**(166)**	23	(189)	-	Net cash used in financing activities was up due to a decrease in cash flows from debenture issuance and receipt of loans in the Domestic Fixed-Line Communications segment, offset by a decrease in debenture and loan repayments. Furthermore, data for the present Period and Quarter include principal and interest payments on leases classified as financing activities and not as operating activities, as aforesaid. On the other hand, overall dividend payouts decreased as compared to the same period last year, and the corresponding period of last year also included payments to Eurocom DBS for the purchase of DBS's shares and loans.
Net increase (decrease) in cash	**(773)**	1,823	(2,596)	-	**485**	617	(132)	(21.4)	

1.3. Cash Flows (contd.)

Average volume in the reporting Period:

Long-term liabilities (including current maturities) to financial institutions and debenture holders:

NIS 12,020 million.

Supplier credit: NIS 976 million. Short-term credit to customers: NIS 1,834 million. Long-term credit to customers: NIS 369 million.

Working Capital

As of September 30, 2018, the Group had a working capital surplus of NIS 509 million, as compared to a working capital surplus of NIS 1,418 million on September 30, 2017.

According to its separate financial statements, the Company had a working capital surplus of NIS 355 million as of September 30, 2018, as compared to a working capital surplus of NIS 921 million on September 30, 2017.

The decrease in the Group's working capital surplus was mainly due to an increase in current liabilities for debentures and loans in the Company, and current maturities on liabilities for leases which were recognized starting January 1, 2018, following early adoption of IFRS 16 (see Note 3.1 to the financial statements). This decrease in the working capital surplus was mitigated, among other things, by a decrease in dividends payable.

2. Disclosure Concerning the Company's Financial Reporting

2.1 Disclosure on the early adoption of IFRS 16 - Leases

Following publication of IFRS 16 - Leases ("the Standard"), the Company reviewed the Standard's possible impact on its financial statements, including by consultation with its auditing accountants. This review was conducted across all Group companies. As a result, the Company decided on the early adoption of the Standard, starting from January 1, 2018.

For information concerning the Standard's guidelines, its application, and adjustments to the Group's financial statements following the Standard's first-time application, see Note 3.1 to the financial statements.

Actions taken by the Group in preparation for adopting the Standard, and measures for reducing the risk for errors in its financial statements:

1. The Group studied the possible impact of the Standard on its financial statements. This process included a review of the Standard's provisions, a review of professional information issued by international accounting firms, and internal discussions with Group companies. In addition, consultations and professional meetings were held with the auditing accountants. These meetings included a thorough discussion of issues raised by the Standard's application, application of the transitional provisions, and a review of its impact on the Group's companies. Each company documented the relevant issues and their impact on the financial statements.

2. The Group has reviewed the necessary adjustments to the Group's information systems supporting the Standard's application. Following this review, specialized software was purchased which supports the accounting treatment required under the Standard, and adjustments were made to existing information systems.

3. The Group has studied the adaptation of its internal controls to the Standard, in order to achieve effective control over proper first-time application of the Standard, and the plausibility of significant judgments and estimates made in such application.

2.2 Due to legal actions brought against the Group, which cannot yet be assessed or for which the Group cannot yet estimate its exposure, the auditors drew attention to these actions in their opinion concerning the financial statements.

2.3 Disclosure of an extremely material valuation

The following table discloses an extremely material valuation pursuant to Regulation 8B to the Securities Regulations (Periodic and Immediate Reports), 1970:

The valuation is included in these reports by way of reference to the Company's financial statements as of June 30, 2018, published on August 23, 2018.

	Pelephone
Subject of valuation	Pelephone's value, in order to test for impairment of goodwill attributed to Pelephone in the Company's financial statements pursuant to IAS 36.
Date of valuation	June 30, 2018; the valuation was signed on August 21, 2018.
Value prior to the valuation	NIS 2,164 million carrying amount of Pelephone's net operating assets* (NIS 1,027 million - goodwill).
Value set in the valuation	NIS 3,907 million The Company concluded that there is no impairment requiring a write-down of goodwill recognized in the Company's books.
Assessor's identity and profile	Prometheus Financial Advisory Ltd. The study was conducted by a team headed by Eyal Shevach, who holds a bachelor's degree in electronic engineering from the Technion, and an MBA from Tel Aviv University. Mr. Shevach is an expert with extensive experience in valuation, financial statement analysis, preparing expert opinions, and performing various financial advisory studies for companies and businesses. The assessor has no dependence on the Company.
Valuation model	Discounted Cash Flow method (DCF).
Assumptions used in the valuation	Discount rate - 9.97% (post-tax). Permanent growth rate - 2.5%. Scrap value of total value set in valuation - 84%.

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

For more information, see Note 6 to the financial statements.

The period that elapsed between the valuation's effective date and the approval date of this report exceeds 90 days. The Company estimates that, as of September 30, 2018, no changes occurred which may materially affect the conclusions of the valuation.

3. Details of debt certificate series

On April 26, 2018, S&P Global Ratings Maalot Ltd. ("Maalot") affirmed the Company's ilAA rating and downgraded its rating forecast to negative due to an expected continued increase in competition and in light of the volatility in the Company's executive suite (see immediate report, ref. no. 2018-01-033573).

On April 30, 2018, Midroog Ltd. ("Midroog") maintained its Aa2.il/Stable rating for the Company's Debentures (Series 6,7,9, and 10) (see immediate report, ref. no. 2018-01-034470).

Furthermore, on November 18, 2018, Maalot (see immediate report, ref. no. 2018-01-104944) and Midroog (see immediate report, ref. no. 2018-01-104875) confirmed the above ratings, respectively, for the issue of up to NIS 550 million par value in new Debentures (Series 9), according to the letters of commitment from January 14, 2018 for a future issuance expected on December 2, 2018, or soon after that date according to the terms specified in the letters of commitment (see Note 15.3 to the financial statements).

The rating reports are included in this Board of Directors' Report by way of reference.

4. Miscellaneous

For information concerning the debt balances of the reporting corporation and those companies consolidated in its financial statements as of September 30, 2018, see the Company's reporting form on the MAGNA system, dated November 20, 2018.

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

Shlomo Rodav Chairman of the Board	Dudu Mizrahi CEO

Signed: November 19, 2018

Exhibit 99.3

November 19, 2018

Bezeq - The Israel Telecommunication Corp. Ltd.

Quarterly report for period ended September 30, 2018

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2017

Directors' Report on the State of the Company's Affairs for the period ended September 30, 2018

Interim Financial Statements as at September 30, 2018

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2018

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2017

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

Update to Chapter A (Description of Company Operations) [1]
to the Periodic Report for 2017 ("Periodic Report")
of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company")

1. General development of the Group's business

Section 1.1 - Group activities and business development

Section 1.1.1 - General, and Section 1.1.2 - Control of the Company - Eurocom Communications

On proceedings relating to the liquidation of Eurocom Communications - on April 22, 2018, an order of liquidation was issued for Eurocom Communications (which entered into force on May 3, 2018), where in the framework of the liquidation decision the Court stipulated that its ruling does not derogate from the control permit regarding the Company. Subsequently, on October 24, 2018, the Company received notice from Internet Gold-Golden Lines Ltd. ("Internet Gold"), which is controlled by Eurocom Communications and controls B Communications, the controlling shareholder in the Company, that the special managers of Eurocom Communications who were appointed in Eurocom's liquidation process,[2] were confirmed as the holders of the control permit[3] (effective from May 3, 2018), pursuant to Section 4D of the Communications Law and Section 3 of the Communications Order. It is stipulated that the foregoing has no implications for the Company's debentures and loans. On this matter, see also the update to Section 2.17.4.

As far as the Company is aware, Internet Gold is reviewing the sale of its holdings in B Communications. In accordance with an announcement made by Internet Gold on June 26, 2018, to facilitate negotiations for the sale of its holdings (all or part thereof) in B Communications and to maximize the consideration for the sale, the special administrators of Eurocom Communication acceded to Internet Gold's request that subject to court approval (which was received) and that the negotiations for the sale are underway, the special administrators will not conduct a procedure to sell the shares of Internet Gold for three months and will not take action to sell the controlling interest in Internet Gold during this period. The decision was submitted as notice to the court further to a previous proceeding on this matter. As far as the Company is aware, Internet Gold has begun the process of selling its holdings in B Communications.

On the information in this section, see also immediate reports published by the Company on June 17, 2018, June 18, 2018, June 26, 2018, October 16, 2018 and October 24, 2018, which are included in this report by way of reference.

Section 1.1.3 - Shareholders' requests and Section 1.1.4 - Organizational structure - Bezeq Group (Composition of the Company's Board of Directors)

On April 26, 2018, the Annual General Meeting of the Company's shareholders elected a new board of directors comprising 2 new external directors (in addition to three external directors already serving the Company), 2 independent directors and 6 directors who are not necessarily independent directors (including one director from among the employees), so that at the date of publication of this report 13 directors serve the Company.[4] Furthermore, on April 30, 2018, the Company's Board of Directors resolved to elect Mr. Shlomo Rodav as Chairman of the Board. For the up-to-date composition of the Company's Board of Directors, see the report on the Company's officeholders dated November 20, 2018, included in this report by way of reference.

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1 The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2017 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

2 According to the clarification received by the Company from the controlling shareholder on November 16, 2018, in view of the proceedings for the liquidation of Eurocom Communications and the resulting de-facto legal rift at the control, management, decision-making, activity, etc. level between Mr. Shaul Elovitch and Eurocom Communications and the companies it controls, then pursuant to the controlling shareholder's notice, Mr. Shaul Elovitch is no longer defined as holding joint control together with B Communications or as a principal shareholder therein or in the Company. On this matter, see also the Company's Immediate Report dated November 18, 2018, on the list of principal shareholder holdings and the senior officers, included in this report by way of reference.

3 Notably, the confirmation does not state explicitly that it is a "control permit", but that it is "confirmation under Section 4D of the Communications Law and Section 3 of the Communications Order". These clauses relate to restrictions on control and holding (control, significant influence and holding 5% or more of the means of control), and not necessarily control.

4 On April 18, 2018, in the Company's response to a request from Entropy Corporate Governance Consulting Ltd. in the name of various shareholders, the Company's Board of Directors made it clear that it intends to operate to reduce the number of directors, and this no later than the next annual general meeting of the Company's shareholders. On this matter, see the Company's Immediate Report dated April 18, 2018, included here by way of reference.

Section 1.1.5 - Mergers and acquisitions

On a debt of Eurocom DBS to the Company for advances paid by the Company on account of the Second Contingent Payment and a motion on this matter filed by the Company for the liquidation of Eurocom DBS - on April 22, 2018, the court issued an order of liquidation for Eurocom DBS and the Company's attorneys were appointed the liquidator of Eurocom DBS.

Section 1.1.6 - Investigations by the Securities Authority and Israel Police

On the absence of complete information for the Company regarding the investigations and their impact on the Company, see Note 1.2 to the Company's consolidated financial statements for the period ended September 30, 2018.

Section 1.4 - Dividend distribution

For information about a dividend distribution in the amount of NIS 368 million in respect of profits in the second half of 2017 that was approved by the general meeting of the Company's shareholders on April 26, 2018, and distributed on May 10, 2018, and in connection with a dividend distribution in the amount of NIS 318 million in respect of profits in the first half of 2018 that was approved by the general meeting of the Company's shareholders on September 13, 2018 and distributed on October 10, 2018, see Note 9 to the Company's Financial Statements for the period ended September 30, 2018.

Outstanding, distributable profits at the date of the report - NIS 529 million (surpluses accumulated over the last two years, after subtracting previous distributions).

Section 1.5.4 - Highlights of the operating results and figures

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

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	1,043	1,064	1,063	1,047	1,061	1,058	1,078
Operating profit (NIS million)	451	387	473	470	492	496	513
Depreciation and amortization (NIS million)	218	211	204	185	186	177	180
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	669	598	677	655	678	673	693
Net profit (NIS million)	257	202	263	260	276	317	319
Cash flow from current activities (NIS million)(1)	583	507	516	587	573	465	600
Payments for investments in property, plant & equipment, intangible assets and other investments (NIS million)	233	393*	205	226	170	219	210
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	8	22	7	22	46	16	10
Free cash flow (NIS million)(2)	330	107*	285	383	449	262	400
Number of active subscriber lines at the end of the period (in thousands)(3)	1,843	1,865	1,889	1,916	1,942	1,961	1,986
Average monthly revenue per line (NIS) (ARPL)(4)	51	52	53	53	54	54	56
Number of outgoing use minutes (millions)	959	1,010	1,055	1,068	1,132	1,098	1,177
Number of incoming use minutes (millions)	1,133	1,151	1,191	1,205	1,266	1,220	1,281
Total number of internet lines at the end of the period (thousands)(7)	1,663	1,662	1,653	1,635	1,608	1,593	1,580
The number of which provided as wholesale internet lines at the end of the period (in thousands)(7)	617	600	574	532	484	444	414
Average monthly revenue per Internet subscriber (NIS) - retail	93	93	92	92	90	90	90
Average bundle speed per Internet subscriber - retail (Mbps)(5)	57.4	55.4	53.5	51.5	49.5	47.2	45.1
Telephony churn rate(6)	2.7%	2.8%	3.0%	2.4%	2.3%	2.4%	2.7%

(1) EBITDA (Earnings before income taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations which counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices which are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies. Commencing January 1, 2018, the Company has early adopted IFRS 16 - Leases. The effect of applying this standard to EBITDA and to the cash flow from current activities was an increase of NIS 23 million and NIS 26 million, respectively, in Q1 2018, an increase of NIS 23 million and NIS 29 million, respectively, in Q2 2018, and an increase of NIS 23 million and NIS 21 million, respectively, in Q3 2018.

(2) Free cash flow is a financial index which is not based on GAAP. Free cash flow is defined as cash from current activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net and as of 2018, with the application of IFRS 16, as described in par. (1) above, payments for leases are also deducted. The Company presents free cash flow as an additional index for assessing its business results and cash flows because the Company believes that free cash flow is an important liquidity index that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets.

(3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (except for a subscriber during (roughly) the first three months of the collection process).

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

(5) For bundles with a range of speeds, the maximum speed per bundle is taken into account.

(6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the quarter divided by the average number of registered telephony subscribers in the quarter.

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

(*) Including permit fee payments in the amount of NIS 112 million (75% of the requirement) and land appreciation tax of NIS 80 million for the sale of the Sakia property (on this matter, see also the update to Section 2.7.4).

B. Pelephone

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue from services (NIS million)	449	438	431	437	461	449	435
Revenue from sale of terminal equipment (NIS million)	155	164	188	214	174	183	193
Total revenue (NIS million)	604	602	619	651	635	632	628
Operating profit (loss) (NIS million)	(2)	2	2	15	22	30	5
Depreciation and amortization (NIS million)	161	159	158	90	100	99	94
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	159	161	160	105	122	129	99
Net profit (NIS million)	6	7	9	21	24	34	16
Cash flow from current activities (NIS million)(1)	194	181	239	86	209	193	117
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	69	90	69	76	78	82	73
Free cash flow (NIS million)(1)	61	41	95	10	131	111	44
Number of postpaid subscribers for the period (thousands) (2) (6)	1,817	1,800	1,760	1,755	1,723	1,689	1,686
Number of prepaid subscribers for the period (thousands) (2) (6)	368	801	786	770	752	721	744
Number of subscribers at the end of the period (thousands) (2) (5)	2,185	2,601	2,546	2,525	2,475	2,410	2,430
Average monthly revenue per subscriber (NIS) (ARPU) (3)	68	57	57	58	63	61	60
Churn rate(4)	9.1%	7.3%	8.0%	6.9%	7.1%	6.3%	7.9%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table. Commencing January 1, 2018, the Company has early adopted IFRS 16 - *Leases*. The effect of applying this standard to EBITDA and to the cash flow from current activities was an increase of NIS 62 million and NIS 75 million, respectively, in Q1 2018, an increase of NIS 63 million and NIS 50 million, respectively, in Q2 2018, and an increase of NIS 63 million and NIS 64 million, respectively, in Q3 2018.

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers from Q3 2018), and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, or has performed no surfing activity on his phone or has not paid for Pelephone services. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. Notably, a customer may have more than one subscriber number ("line"). On the change in the definition of subscribers from Q3 2018, see the update to Section 3.4 and Note 6 below.

(3) Average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. On the effect of the change in the definition of a subscriber from Q3 2018 on the ARPU index, see the update to Section 3.4 and Note 6 below.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the quarter, to the average number of active subscribers during the quarter. The churn rate in Q2 2017 does not include the effect of the disconnection of 83,000 CDMA subscribers when the network was closed down. On the effect of the change in the definition of a subscriber from Q3 2018 on the churn rate, see the update to Section 3.4 and Note 6 below.

(5) On June 28, 2017, Pelephone discontinued operation of the CDMA network, as a result of which 83,000 subscribers ceased to receive service and were written off the subscriber listings.

(6) On the change in the definition of a subscriber from Q3 2018, see the update to Section 3.4 and Note 2 below. At the beginning of Q3 2018, approximately 426,000 prepaid subscribers and about 2,000 IOT subscribers were removed from the list of subscribers. This led to an increase of NIS 11 in the ARPU index and an increase of 1.5% in the churn rate in Q3 2018.

C. Bezeq International

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	333	336	352	379	367	407	384
Operating profit (NIS million)	31	30	34	41	39	45	49
Depreciation and amortization (NIS million)	46	45	43	35	34	33	33
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	77	75	77	76	73	78	82
Net profit (NIS million)	20	20	24	31	27	33	36
Cash flow from current activities (NIS million)(1)	73	54	67	82	74	69	52
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)(2)	26	44	31	35	29	46	29
Free cash flow (NIS million)(1)	38	1	27	47	45	23	23
Churn rate(3)	5.8%	6.0%	6.0%	6.8%	6.3%	5.0%	5.3%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table. Commencing January 1, 2018, the Company has early adopted IFRS 16 - *Leases*. The effect of applying this standard to EBITDA and to the cash flow from current activities in Q1, Q2 and Q3 2018 is an increase of NIS 9 million each in each quarter.

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

(3) The number of Internet subscribers who left Bezeq International during the quarter, divided by the average number of registered Internet subscribers in the quarter.

D. DBS

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	367	375	375	404	406	416	424
Operating profit (loss) (NIS million)	1	(17)	(1)	27	35	49	52
Depreciation and amortization (NIS million)	81	79	79	72	72	71	70
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	82	62	78	99	107	120	122
Net profit (loss) (NIS million)	(2)	(10)	1	11	(123)	(151)	19
Cash flow from current activities (NIS million)(1)	34	60	86	95	115	169	51
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	79	75	62	53	69	52	60
Free cash flow (NIS million)(1)	(54)	(23)	16	42	46	117	(9)
Number of subscribers (at the end of the period, in thousands)(2)	584	582	580	587	597	603	608
Average monthly revenue per subscriber (ARPU) (NIS)(3)	210	215	214	226	226	229	232
Churn rate(4)	5.1%	4.7%	6.1%	5.9%	4.8%	3.8%	4.3%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table. Commencing January 1, 2018, the Company has early adopted IFRS 16 - *Leases*. The effect of applying this standard to EBITDA and to the cash flow from current activities in Q1 and Q2 2018 is an increase of NIS 8 million each in each quarter. The effect on Q3 2018 is NIS 9 million each.

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

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

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

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

Section 1.7.2 - Activities of Bezeq Group as a communications group and the structural separation restriction

Pursuant to a preliminary HQ work, which included an initial review of certain synergies between the Company's subsidiaries and as part of a review of Bezeq Group's strategy and the alternatives available to it in light of changes in the communications market, regulatory requirements, technology developments and customer preferences, on May 23, 2018, the Company's Board of Directors resolved to review certain issues aimed at focusing on the Group's future core operations, including synergies between the activities of the Company's subsidiaries, the sale of the subsidiaries Bezeq Online Ltd. and Walla!,[5] enhancing the independence of the Company's wholesale activity and establishing an innovation unit which will work to position the Company at the center of the future communications world. All this without derogating from the Company's continuing activity to eliminate the structural separation between it and each of the subsidiaries, as specified in Section 1.7.2.1 (B) in the Description of Company Operations chapter in the 2017 periodic report. This entails a review of various topics where certain alternatives are now being examined with the ministry of Communications, and the presence or absence of regulatory certainty could affect the preferred alternatives. Subsequently, the Company's Board of Directors is moving ahead in the formulation of a new, comprehensive strategic plan for the Group, parts of which are contingent on various regulatory approvals, and the Group has already begun to implement parts of it.

In this context, on August 22, 2018, the Board of Directors approved a request to obtain approval in principle from the Minister of Communications, to advance a move to change the Group's legal structure. This will enable the Company to continue to operate in its current format as a public company providing fixed-line, domestic carrier telecommunications services, and in parallel to establish a fully owned registered partnership to which the assets, licenses and activity of the subsidiaries, DBS, Pelephone and Bezeq International will be transferred and which will be fully separated, structurally, from the Company. The purpose of the change is to adapt the structure of the subsidiaries to prevailing technological, economic and competitive conditions in the telecoms market for the purpose of advancing the communications market in Israel and to allow Bezeq group to maintain a proper economic raison d'etre for the benefit of its employees and the investors in its shares. Subject to the approval of the tax authority, this change will also enable losses to be offset from the entire Group's profits. This request does not imply any change in the Company's position with respect to its demand to cancel the structural separation. At the time of publication of the report, the MOC's response to the request had not yet been received.

Notably, on November 12, 2018, the subsidiaries DBS, Pelephone and Bezeq International announced the entry into negotiations with the union representatives in each of the companies regarding streamlining processes and organizational changes in their operations. On this matter, see also the update to Sections 3.9.5, 4.8 and 5.11.3. Furthermore, in connection with the streamlining processes, some of the subsidiaries are working share their management resources.

Section 1.7.2.1(B) - Cancellation of structural separation - further to discussions between the Company and the Ministry of Communications and in view of the resulting reservations raised by the Company regarding the Ministry's intention to advance cancellation of the structural separation, on November 7, 2018, a clarification notice was received from the Ministry stating that it was discussing the structural separation in relation to Bezeq and HOT, and that all options are being discussed by the ministerial committee. The Company is assessing the notice of the Ministry of Communications, taking into account, among other things, the deferred tax asset in the amount of NIS 1.166 billion that was recorded in respect of carry-forward losses for tax purposes in DBS, as described in Note 5 to the Company's financial statements for the period ended September 30, 2018. Furthermore, on November 15, 2018, the Company asked the Ministry of Communications for additional clarifications further to the aforementioned MOC announcement.

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5 Regarding the subsidiary Walla - it is noted that on September 12, 2018, the Board of Directors of Walla approved its engagement in a collective labor agreement, signed on September 6, 2018, between the Union of Journalists in Israel - New Histadrut Labor Federation and the Walla Journalists Committee. The agreement is in force from the date on which it was signed through September 5, 2021. After this date, the agreement will be extended automatically for 24-month periods, unless one of the parties gives written notice of its intention to terminate or amend the Agreement The agreement will apply to employees defined in the agreement as "journalists" employed by Walla (except for the management, talents and other employees that the parties have agreed to be excluded).

Section 1.7.3 - Regulatory oversight and changes in the regulatory environment - wholesale market

Section 1.7.3.1 - Policy Document (tariffs) - On November 11, 2018, the Company received a Ministry of Communications hearing document on the subject of extending the validity of the payments for wholesale services of infrastructure owners (the Company and HOT), set out in the Communications (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network) Regulations, 2014 ("the Use Regulations"), that were originally set to be valid until the end of 2018. The hearing document states that the Ministry of Communications believes price supervision will still be necessary after the end of 2018 and that the key market trends, including demand and declining equipment prices, indicate that the cost of providing the wholesale services is decreasing over time. The Ministry has initiated a regulatory process to determine the maximum tariffs for wholesale services in 2019-2022, and it intends, shortly, to publish a hearing regulating the updated maximum payments on the Company's network. Until this process is complete, the hearing proposes extending application of the maximum payments for the wholesale services for 2018 currently set in the Use Regulations so as to continue to apply from 2018 onwards. The Company submitted its comments on the hearing whereby, under the circumstances, it does not object to the actual extension of the application, but regarding future updates of the tariffs, it believes that the cost of providing the wholesale services has increased, contrary to the statement in the hearing that the cost of providing the wholesale services is decreasing over time, and that in any event, the update in relation to the prices of the Company and HOT must be made at the same time.

Section 1.7.3.3 - Wholesale service use of physical infrastructures - on April 16, 2018, the Ministry of Communications announced that after reviewing the comments of the Company and an ISP (Partner), the Ministry has formulated its decision and it instructed, inter alia, that the Company must allow the service providers, through parties with the relevant security authorization, to insert communications cables through the Company's telecom manhole which is located at the opening of the conduit leading to private land, and to perform any necessary works in the manhole for this purpose, all this without derogating from the service providers' responsibility to obtain the landowner's permission. On August 9, 2018, the Ministry of Communications published a hearing concerning a "service portfolio allowing service providers to make mutual use of each other's passive infrastructures". The purpose of this service portfolio is to regulate implementation of the obligation to allow the use of passive infrastructures belonging to one domestic carrier by another domestic carrier (including infrastructure owners). This service portfolio will replace the service portfolio for the use of physical infrastructures which will be revised to include the dark fiber and optical wave services only (which are not subject to the obligation of mutual use). The draft service portfolio contains revised instructions, including with respect to the design stages, execution of the works, use of infrastructures on private land and deployment to buildings. In this context, the instruction stipulating that the connecting points will be in the passive infrastructure facilities belonging to the infrastructure owner, and that in order to connect the infrastructure of one domestic carrier to the infrastructure of another domestic carrier, it will set up a passive infrastructure facility (such as a telecom manhole) near the infrastructure owner's passive infrastructure facility, is replaced by an instruction that the connecting points between the infrastructures will be inside the infrastructure owner's passive infrastructure facility or in a facility belonging to another domestic carrier, as it chooses, and that the other domestic carrier will be able to install its communications components inside the infrastructure owner's passive infrastructure facility for the purpose of connecting the two infrastructures. This irrespective of whether it refers to the last manhole before the building or to a passive infrastructure component belonging to the infrastructure owner on private land. The draft portfolio also states that the infrastructure owner will allow another domestic carrier to insert cables through its last manhole before the building and conduits to the building, as far as the communications cabinet in the building or to any other physical infrastructure facility. The draft also includes an instruction according to which when new underground infrastructure is set up, an infrastructure owner that is obligated to provide universal deployment will offer the other domestic carries to share its investments in advance, and for three years it will not be obligated to provide right of use to another infrastructure owner who is obligated to provide universal deployment but refused to do so. On August 9, 2018, annexes to the service portfolios of the Company and Hot were also amended, stipulating that other domestic carriers, infrastructure owners and contracting companies whose employees meet certain security requirements will be able to carry out work on the passive infrastructure of other domestic carriers and infrastructure owners. The draft portfolio further stipulates that access to information for design purposes must be available both in designated information rooms and by remote access. On October 15, 2018, the Company submitted its comments on the service portfolio hearing in which it clarified, among other things, that the proposed regulation is unsustainable since it is inconsistent with developments in the market and it must be fundamentally reconsidered and adjusted, and also because its provisions deviate from the Ministry's powers and are disproportionate (for example, they make no distinction between operators with infrastructures and those that do not own infrastructures). It was also argued that the service portfolio was written from the perspective of maximizing the convenience and free access for users of the Company's infrastructures, at the expense of maintaining standards and the Company's ability to manage its affairs and future development. The Company emphasized that it is essential for the MOC to hold individual work meetings with the Company's professional entities in order to create structured and implementable processes.

Section 1.7.3.4 - Use of the Company's physical infrastructure by infrastructure owners - see 1.7.3.3 above. Additionally, on August 13, 2018, a hearing and draft regulations were published on determining the maximum payments for mutual use by infrastructure owners of access service to passive infrastructure so that based on the recommendations of the Economics Department from July 30, 2018, the Minister is considering determining that the tariff will be the same as for the payments currently defined in the Use Regulations for a domestic carrier which is a special general license holder. Notably, a letter attached to the hearing dated August 9, 2018, concerning the service portfolio described in the update to Section 1.7.3.3 states that the Ministry is considering not setting a maximum or minimum payment for service to be provided by other domestic carriers for which no payment was defined. On September 9, 2018, the Company submitted its comments on the hearing to determine the payments (together with an expert economic opinion), in which it stipulated, among other things, that the distinction must be maintained between operators that do not own infrastructures and infrastructure owners, and certainly those governed by the obligation of universal service.

Section 1.7.3.5 - Wholesale telephony service - On June 5, 2018, the Ministry of Communications informed the Company that it will not extend the temporary arrangement relating to telephony service in resale format and that accordingly, as of August 1, 2018, the Company must provide wholesale telephony service in the format defined in the BSA + Telephony service portfolio ("the Service Portfolio") and that the Company must provide this service both as a stand-alone service and as a supplementary service to the BSA service.

Upon receiving this notice, the Company stipulated that it does not expect to meet the deadline specified in the notice, further to its previous clarifications that the service format in the service portfolio cannot be implemented technologically and that it requires the replacement of a switch which is a prolonged, complex process, and that it intends to ask the Ministry to find a solution for this problem.

After discussions with the Ministry, the Company offered, commencing August 1, 2018, telephony call minutes service and associated wholesale services in the wholesale market on the basis of the service portfolio in a technology format which is similar to the resale arrangement and with wholesale market tariffs. In parallel, the Company began the process of replacing the switch which will also enable compliance with the service portfolio requirements.

The Company believes that the implementation of wholesale telephony will adversely affect its financial results. However, at this time the Company is unable to estimate the extent of the impact, which could be significant, given that it depends on different variables, including the volume of demand for the service, the price levels of substitute products currently available on the market (such as VoB), etc.

Further to the Ministry of Communication's announcement dated October 19, 2017, that it intends to apply financial sanctions to the Company, on August 8, 2018 the Company received a "Supplementary Supervisory Report to the Final Supervisory Report Concerning Non-implementation of the Wholesale Telephony Service" as well as an "Updated Notice of its intention to apply financial sanctions concerning implementation of the broadband reform" ("the Updated Notice") in which the Ministry of Communications announced its intention to apply financial sanctions to the Company of NIS 11,327,540 (a similar amount to that stated in the Notice described in Section 1.7.3.5 to the 2017 Periodic Report). The notice further states that the Ministry intends to take additional enforcement measures if the breach continues. On October 4, 2018, the Company submitted its position on the hearing whereby financial sanctions should not be imposed on it.

On October 18, 2018, the Company's license was amended so that "telephony service in resale format" was eliminated from the list of basic services, in accordance with Appendix J, and "telephony service in voluntary resale format" was added, and the comments noted that the service does not detract from the obligation to provide wholesale telephony service according to the Use Regulations.

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

Section 1.7.4.4(A) - Hearing about call center waiting times - on May 21, 2018, the Company, Pelephone and Bezeq International received an amendment to their licenses which will be effective on March 21, 2019. The amendment to the licenses prescribes, among other things, provisions concerning the obligation to route calls on certain matters to a professional human response, call waiting times as well as provisions concerning call center work hours, the recording and documenting of calls and reporting obligations. Notably, on October 21, 2018, the Ministry of Communications published a secondary hearing on an amendment to the license pertaining, among other things, to postponement of the date on which the license amendment will enter into force (May 19, 2019 instead of March 21, 2019). On November 11, 2018, the Company submitted its response to the hearing in which it requested, among other things, an adjustment the date on which the amendment will enter into force so that it corresponds with the definition in the law (as specified below), modifications to the measurement of call waiting times, and also clarifying exclusion of the business call centers from the scope of the amendment to the license.

On July 25, 2018, an amendment to the Consumer Protection Law was published which will become applicable one year from its publication. According to the amendment, the Company, Bezeq International, Pelephone and DBS are required, among other things, to route customers' calls to a professional, human response within six minutes when dealing with calls about malfunctions, clarifying bills and terminating contracts. The amendment prescribes an instruction whereby if the license or other legislation prescribe instructions relating to the call response time, the regulator may instruct that a business is entitled to deviate from the defined call response time of six minutes. The Company is studying the implications of the amendments which could lead to an increase in the costs of operating the call centers of the Group's companies, and it is preparing to implement them.

Internet access - on October 16, 2018, the Ministry of Communications published a hearing which includes a draft amendment to the operators' licenses, including those of the Group companies, to which comments must be submitted by November 29, 2018, in connection with a transition to IPv6 protocol. IPv6 defines the number of possible legal addresses on the Internet, in view of the fact that current protocol has a limited number of addresses, and its purpose is also to support future growth, development and competition in the global market, based on trends in Internet use such as: portability, smart devices, smart traffic, remote monitoring, etc. According to the draft license amendment, the Company will be required to operate the network and its components so that it fully supports IPv6 and to provide end user access to the Internet service on IPv6 from any terminal equipment, and also to voluntarily transfer existing and new subscribers to addresses on IPv6 so that whenever a technician visits a subscriber's home, the software version of the terminal equipment that the Company provided that is connected to the network will be upgraded to support IPv6. The transition to IPv6 might entail costs arising, among other things, from the need to replace equipment and the subject will be assessed by the Group companies.

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

Section 2.6.3 - Internet infrastructure segment

As far as the Company is aware, in July 2018, Partner began to sell services as part of the BSA wholesale service over the HOT network.

Section 2.6.5 – Other competing infrastructures

With respect to the obligation for universal deployment by IBC - on February 27, 2018, the Ministry of Communications published a hearing concerning: "Changes in the obligation for nationwide deployment applicable to IBC", according to which the Ministry is considering amending IBC's license and changing the deployment obligation applicable to it. The Company submitted its opposition and stated that the reasons given by the Ministry for the change are erroneous and in any event do not justify granting the far-reaching relief being considered by the Ministry, and that the decisions considered in the hearing have ramifications for the Company and the structure of the domestic carrier market, and it therefore requested an opportunity to present its arguments orally as well.

On August 8, 2018, the Minister of Communications decision on the hearing was received. This followed a decision made by the government on August 5, 2018, granting the Minister of Communications discretion to determine the scope of IBC's deployment obligation in its license. Pursuant to this decision of the Minister of Communications, regulations will be drawn up for the activity of a special, general license holder (infrastructure) as a type of special, general license and wholesale operator that provides its services exclusively to license holders (or permit holders), similar to the domestic carrier infrastructure license ("the New License"). These regulations will allow IBC to apply for such a license, and subject to IBC's compliance with the conditions, will facilitate limiting the deployment obligation applicable to IBC so that it gradually reaches at least 40% of households in Israel within 10 years and only after the Cherry Picking period (which will last three years), will the New License holder be required to provide accessibility for at least one household in the periphery for every household provided with access in the center of the country.

Furthermore, on August 8, 2018, Cellcom reported that it had signed a Memorandum of Understanding (MOU) to acquire 70% of IBC's share capital. On this, see also an Immediate Report of Cellcom dated August 8, 2018.

The foregoing is expected to adversely affect the Company, however at this time it is unable to assess the impact of the foregoing on it and on its business, given that it is dependent on different variables and factors.

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

In April 2018, the Company launched its new router - Be. This is an advanced router with an innovative design and cutting-edge capabilities including, among others, smart Wi Fi which provides quality, continuous browsing on home Internet, cyber protection and preparation for a smart home. The router and services are managed by a dedicated application

Section 2.7.4 – Real estate

Section 2.7.4.4 (sale of real estate) - on the entering into an agreement by the Company for the sale of the Sakia property to Naimi Towers Ltd. - on May 21, 2018, the Company received a demand for permit fees from the Israel Land Authority with respect to the property improvement plan approved prior to signing the agreement, in which the Company was required to pay NIS 148 million plus VAT ("the Demand"). The Company filed an objection to the Demand on legal grounds and it also intends to submit an appeal on the assessment. On August 5, 2018, the Company received from the Or Yehuda Local Planning Committee a demand for payment of a betterment levy of NIS 143.5 million for the sale of the Property ("Demand for Betterment Levy"). On September 17, 2018, the Company filed an appeal on the Demand for Betterment Levy, and it sent the ILA a demand for payment of the full amount of the betterment levy according to the Authority's undertaking in the compromise settlement. Notably, the amount of the permit fee to be determined at the end of the proceedings could also affect the amount of the betterment levy that the Company will be required to pay the planning committee. If in the final outcome the Company is required to pay the full amount of the Demand for the Betterment Levy and the full sum of the Demand, then the capital gain to be recorded in its financial statements is expected to be NIS 250 million. The Company estimates that the permit fees and the betterment levy it will be required to pay will be lower and possibly even substantially lower than the total amount of the demands. On September 4, 2018, the ILA and the Company signed a lease agreement relating to the Sakia property.

The information contained in this section relating to the Company's estimates and the capital gain resulting from the sale of the property is forward-looking information as this term is defined in the Securities Law, and it is based, *inter alia*, on the foregoing and on the Company's estimates of the costs of the transaction, various expenses of the Company in connection with the property and regarding the Company's arguments pertaining to payment of the Demand, while at this stage the Company is not in possession of all the arguments of the Israel Land Authority on these matters. The information may not fully materialize insofar as the Company's aforementioned estimates materialize differently than expected.

Section 2.9.3 - Early retirement plans

On May 23, 2018, the Company's Board of Directors approved an early retirement plan in 2018 at a cost of NIS 80 million, following a previous decision of the Board of Directors in March 2018, which approved early retirement at a cost of NIS 10 million in respect of the first quarter of 2018 (hereinafter together "the Retirement Plan"). The Retirement Plan is in consistent with terms of the collective agreement between the Company and the Labor Union and the Histadrut from December 2006, as last amended in August 2015. At the date of publication of the report, 71 employees retired within the framework of the Retirement Plan at a cost of NIS 92 million. On this matter, see also Note 15.1 to the Company's consolidated financial statements for the period ended September 30, 2018.

Section 2.9.5 - Officers and senior management in the Company

On changes in the composition of the Company's Board of Directors, see the update to sections 1.1.3 and 1.1.4.

On the service of the Company's CEO - on September 1, 2018, Mr. David Mizrahi began to serve as the Company's CEO, replacing Ms. Stella Handler, who stepped down on August 31, 2018.

On May 21, 2018, the general meeting of the Company's shareholders approved an amendment to the Company's compensation policy whereby the annual premium for insuring Directors and Officers (D&O) of the Company will not exceed USD 1 million, with a deductible of up to USD 1 million. Additionally, on September 17, 2018, the special general meeting of the Company's shareholders approved a further amendment to the Company's compensation policy whereby the possibility of compensating the chairman of the Company's Board of Directors through a management company will be added, and the possibility of providing compensation for directors who are not external directors and are not independent directors will be added up to the maximum amount of compensation payable to an expert external director, as defined in the Fourth Schedule to the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000. The same general meeting also approved the entering into agreement between the Company and Mr. David Mizrahi, CEO, and an agreement with a management company for Board of Directors services. On these matters, see the Company's Immediate Reports dated August 12, 2018, and September 17, 2018, concerning the convening and results of the meeting, included here by way of reference.

Section 2.11 – Working capital

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

Section 2.13.6 - Credit rating

On April 26, 2018, S&P Global Rating Maalot Ltd. ("Maalot") affirmed the Company's ilAA rating and downgraded the rating outlook to negative and on April 30, 2018, Midroog Ltd. ("Midroog") affirmed the current Aa2.il rating for the Company's debentures (Series 6, 7, 9 and 10) with a stable outlook. Additionally, on November 18, 2018, on November 18, 2018, Maalot and Midroog affirmed the aforementioned ratings, respectively, for the issuance of new Series 9 debentures in the amount of NIS 550 million par value, in accordance with letters of undertaking dated January 14, 2018, for a future issuance which is expected to take place on December 2, 2018, or immediately after this date, consistent with the letters of undertaking (as detailed in Section 2.13.5 in the Description of Company Operations in the Periodic Report for 2017).

On these and on the aforementioned rating reports, see Immediate Reports of the Company dated April 26, 2018 (Maalot) and April 30, 2018 (Midroog), and November 18, 2018 (Maalot and Midroog), included here by way of reference.

Section 2.14 - Taxation

For information about the deferred tax asset with respect to carry-forward losses for tax purposes in DBS, see Note 5 to the Company's financial statements for the period ended September 30, 2018.

Section 2.16.1 - Control of Company tariffs

On May 23, 2018, the Ministry of Communications announced an update of the Company's tariffs stipulated in the regulations, effective from June 1, 2018, based on the update formula set out in the Communications (Telecommunications and Broadcasts) (Calculation and Linkage of Payments for Telecommunications Services), 2007, so that the tariffs for the services provided by the Company which are stipulated in the regulations will be reduced by 11.88%, except for the fixed monthly payment for the telephone line, which will remain unchanged. According to the Ministry's announcement and in the Company's estimate, the implications of this tariff change are an annual decline of NIS 16 million in the Company's revenues.

Section 2.16.3 - The Communications Order

On October 15, 2018, the Knesset approved the government's announcement under Section 31(B) of the Basic Law: The Government, to transfer to the Minister of Communications powers invested in the prime minister under Sections 4D through 4E2 of the Communications Law, including powers exercised by virtue of the Communications Order, as well as Section 13 of the Communications Law, which must be exercised in connection with one of the following: matters pertaining to Mr. Shaul Elovitch, matters pertaining to Eurocom Holdings Ltd. and the companies it owns, and matters that materially influence them. According to the announcement, the transfer of powers in connection with the matters listed in this paragraph will remain in force as long as Mr. Shaul Elovitch is a principal shareholder in Eurocom Holdings Ltd. and the companies it owns. Regarding approval by the Minister of Communications of the special administrators of Eurocom Communications under Section 4D of the Communications Law and Section 3 of the Communications Order, see the update to Section 1.1.1.

Section 2.16.7 – Antitrust Laws

Section 2.16.7.8 - On notice from the Antitrust Authority that it is considering determining that the Company abused its position and imposing sanctions on the Company and its CEO - on August 5, 2018, an oral hearing took place at the Antitrust Authority prior to which the Company and its CEO submitted their position in writing. The position submitted to the hearing included arguments and evidence that there had been no fault in the Company's actions and it had not breached the Antitrust Law, and there is therefore no reason to apply any enforcement powers by virtue of the law (including sanctions) and that the determination being considered should not be published. In this context, the Company and CEO pointed out, among other things, factual errors that were included in the Antitrust Authority's notice with respect to the methods of inserting cables in the conduits. Since the hearing commenced, the Company has received additional requests for information from the Antitrust Authority, and the Company submits the requested information.

Section 2.16.10 – Consumer legislation

On the Consumer Protection Authority's requirement to provide documents on the description of the Company's cyber service in various advertisements - on May 10, 2018 the Company received notice of an intention to impose financial sanctions of NIS 243,000. The Company has the right to submit its arguments requesting cancellation of the intention to impose these sanctions. On August 6, 2018, the Company submitted its arguments in a request to cancel the Antitrust Authority's intention of imposing the financial sanctions in which it argued that the content of the publications is correct and that the Consumer Protection Authority's conclusions were erroneous. On November 11, 2018, the Consumer Protection Authority resolved to reject the Company's arguments.

Section 2.17.4 - Management agreement

On July 26, 2018, the Company's Board of Directors decided that the provision of all components of the services under the management agreement was discontinued de facto on April 25, 2018, the date that the Board of Directors in its new composition was appointed by the annual general meeting of the Company's shareholders; the amount due to Eurocom Communications from the Company by virtue of the management agreement for the period between January 1, 2018 and April 25, 2018, based on actual performance, was NIS 800,000; the amount based on the above calculation will not be paid to Eurocom Communications in practice, but will be offset against the debt of Eurocom Communications to the Company, similar to the other payments under the management agreement that were offset in the past. Accordingly, the Company informed the special administrators of Eurocom Communications of this decision. In response, they rejected the information in the Company's statement and in particular dismissed the existence of any debt towards the Company, the amount of the Company's debt towards Eurocom Communications and that the Company has any grounds for offsetting amounts. The Company rejected these arguments.

Section 2.18 – Legal proceedings

In April 2018, a motion was filed against the Company in the Tel Aviv District Court to certify a claim as a class action. The motion alleges that the Company is in breach of the prohibition prescribed in the Communications Law on sending advertisements ("spam"), in part by means of text messages to customers who contact it, which include a link to Bezeq's website. The petitioners estimate the amount of the class action at NIS 85 million, consisting of monetary loss (estimate of the loss for time wasted in dealing with the spam messages) and non-monetary loss due to mental anguish, causing a nuisance and so forth. Notably, a similar motion for the same matter (but for a later period) and in the amount of NIS 52 million was filed in March 2015 in the same court ("the Previous Motion") and on January 9, 2018 it was certified as a class action. The Company filed a motion for leave to appeal the decision and it is scheduled for a court hearing, with a stay of implementation. The present motion for certification was filed in respect of text messages sent by the Company after the Previous Motion was filed. Concurrently with the filing of the present motion, the petitioners also filed a motion to consolidate the hearing on the current motion with that of the Previous Motion.

In June 2018, a motion to disclose and inspect documents under Section 198(a) of the Companies Law was filed in the Tel Aviv District Court (Economics Department). In this motion, the court is asked to instruct the Company, DBS, the indirect controlling shareholder in the Company, Mr. Shaul Elovitch, and his son Mr. Or Elovitch (hereinafter together: "Messrs. Elovitch"), to submit to the petitioner, as a shareholder in the Company, various documents for the purpose of examining the possibility of filing a motion to certify a derivative claim on behalf of Bezeq. According to the petitioner, the controlling shareholder of Bezeq, B Com, and Messrs. Elovitch breached their duties of loyalty and fairness towards the Company in that the sale of 115 million Bezeq shares on February 2, 2016 by B Com while B Com and Messrs. Elovitch used inside information about the Company, and at a value significantly higher than the real value of the shares. The petitioner argues that this sale produced unlawful profits for B Com in the amount of NIS 313 million. The alleged inside information is that the financial statements of DBS and the Company supposedly did not reflect the Company's de facto financial position, but rather a "free cash flow" that was allegedly inflated in order to increase the consideration in the transaction in which the Company acquired the shares of Eurocom Communications Ltd. (a company indirectly controlled by Mr. Shaul Elovitch) in DBS ("Yes Transaction"). Notably, there is another motion pending against the Company to certify a derivative claim in connection with the Yes Transaction (see Section 2.18(B) in the chapter Description of Company Operations in the 2017 Financial Statements and an update to the motion in this section), which is stayed due to the ISA's investigation ("the Investigation"). In this current motion, the petitioner argues that despite the fact that its motion is based in part on the same factual background, it is different from the existing proceedings in this matter. In view of the Investigation, the proceeding was stayed, at this stage until January 2, 2019.

Subsection A - On a motion to certify a class action alleging that the Company's shareholders sustained losses due to the Company failing to submit reports to the TASE and concealing material information from the investor public regarding two significant issues: lowering the interconnect fees and reform of the wholesale market - on August 27, 2018, the Economics Department of the Tel Aviv District Court issued a ruling certifying the action as a class action ("the Certification Decision"). Regarding the cause in the wholesale market reform, the class action group was defined as anyone who purchased Bezeq's shares starting on June 9, 2013 and held all or some of the shares until the filing of the class action lawsuit In this matter, the Court held that the plaintiff proved the existence of alleged damage, by virtue of the fact that during the period of disclosure, Bezeq's stock price fell by 10%, but the actual damage will be calculated during the hearing of the main case. With respect to the cause of the lowering of the interconnect fees, the class action group was defined as anyone who purchased Bezeq's shares from February 28, 2013 and held them up to May 29, 2014. In this regard, the Court ruled that no impairment was recorded that could be attributed to the discovery of the alleged misleading information, but the plaintiff should be allowed to prove that during the hearing of the main case. On October 28, 2018, the Company and the senior officers who are being sued, filed a motion in the Economics Department in the Tel Aviv District Court for a re-hearing on the Certification Decision. In the motion for a re-hearing before a panel of three judges, the court is moved to cancel the Certification Decision and to dismiss the motion to certify a class action. Notably, in accordance with the motion filed by the Company and the senior officers who are being sued, the court ruled to stay the proceedings in the class action until a decision has been made on the motion for a re-hearing.

Subsection B - On a motion to certify a derivative claim in connection with the transaction to purchase all the holdings and owners' loans of Eurocom DBS in DBS - a process that was stayed until November 11, 2018 due to the Investigation. On November 11, 2018, the Securities Authority requested that the court should receive a further update by December 31, 2018,, with respect to the possibility of advancing the process. No ruling has yet been given on the matter.

Subsection G - On two motions to certify class actions alleging unlawful charges in payment for support services and/or responsibility in the context of the use of Internet infrastructure, striking out of one of the motions in view of another, similar earlier motion, and filing of an appeal in respect of that striking out - on October 10, 2018, the appeal was dismissed after the appellant withdrew the motion.

Subsection I - On two motions to certify class actions in relation to the Company's B144 service - on July 19, 2018, the Supreme Court resolved to dismiss the appeal that was filed against the decision to dismiss, *in limine*, the first motion (motion in the amount of NIS 1.11 billion), in view of the fact that no guarantee was deposited.

Subsection J - On two motions to certify a class action in connection with the agreement to purchase DBS - further to a motion filed by the Attorney General to extend the stay of proceedings in view of the Investigation, on May 2, 2018 the court approved a further stay of proceedings of four months. On August 21, 2018, the Attorney General requested that the court should receive another update by December 31, 2018, with respect to the possibility of advancing the process. At the court's request, the parties announced that they would not to oppose the motion. No ruling has yet been given on the matter.

Subsection K - par. (b) - Motions to disclose documents in connection with the DBS - Spacecom transaction - on April 15, 2018, the court resolved to consolidate the four motions that had been filed on this matter. Subsequently, on June 24, 2018, the plaintiffs filed a consolidated and amended motion. Notably, on August 16, 2018, the motion for permission to appeal the decision on consolidation that was filed by one of the applicants in which the court was asked to cancel the consolidation decision and instruct that the other motions should be struck out, was dismissed. Additionally, further to a request by the Securities Authority, the proceeding was stayed until August 12, 2018. On August 21, 2018, the Securities Authority requested that the court should receive a further update by December 31, 2018, with respect to the possibility of advancing the process. The court has not yet issued its ruling on this matter.

Subsection K - par. (c) - An additional motion to disclose documents in connection with the agreement for the purchase of DBS and in connection with the DBS - Spacecom transaction - pursuant to the court's decisions from April 15, 2018 and April 24, 2018, the motion was struck out in view of the similarity with other existing motions on the same matter (motion to certify a derivative claim from March 2015, described in Section 2.18 B in the Chapter on the Description of Company Operations in the 2017 Financials, and four motions that were consolidated as detailed above with respect to par. (b)).

Subsection K - par. (d) - On a motion to disclose documents with respect to advance payments on account of the Second Contingent Consideration in the YES transaction - on April 17, 2018, the motion was struck out with the petitioner's agreement in view of the similarity with another motion on the same matter (motion to certify a derivative claim from March 2015, detailed in Section 2.18 B in the chapter on Description of Company Operations in the 2017 Financial Statements).

Subsection L - On a motion to certify a class action that was filed in the USA in the name of shareholders in B Communications, among others against officeholders (past and present) in the Company and DBS - in July 2018, the respondents filed motions to dismiss the motion and claim in limine. As far as the Company is aware, the motion to dismiss in limine that was filed by B Communications, was partially accepted on September 27, 2018, after the court held that the arguments relating to reports of the statements about the control and reporting mechanisms and the ethical code of B Communications do not establish grounds for a claim. The court refrained from dismissing outright the grounds pertaining to reports about the special Board of Directors Committee and those relating to the consolidated cash flow of B Communications. The court also dismissed B Communications' motion to stay the proceedings in view of the Investigation. To the best of the Company's knowledge, no decisions have not yet been issued on the motions to dismiss in limine that were filed by officers (past and present) of the Company and DBS.

Subsection M - On a motion to certify a derivative claim against directors and the controlling shareholders in the Company in connection with a tax assessment agreement - at the request of the ISA, the proceeding was stayed until August 20, 2018 in view of the investigation. On August 21, 2018, the Securities Authority requested that the court should receive a further update by December 31, 2018, with respect to the possibility of advancing the process. At the court's request, the parties announced that they would not to oppose the motion.

A new legal proceeding against an investee company which is not a key operating segment (Walla) - in May 2018 an action was filed in the court against Walla, together with a motion for its certification as a class action. The motion alleges that on its website, Walla publishes "advertising-related articles" without due disclosure of the fact that they contain marketing content, and that the publication of marketing content without proper disclosure, as alleged, is, among other things, a breach of the provisions of the Consumer Protection Law, violation of the Rules of Journalism Ethics, a tort and unjust enrichment. The petitioner estimates that the value of the loss caused to the class members is NIS 60 million.

Section 2.20 – Risk factors

<u>Section 2.20.5 – Restriction on relations between the Company and companies in Bezeq Group</u>

The Company's assets include a deferred tax asset of NIS 1.166 billion for carry-forward losses for tax purposes of DBS ("the Tax Asset"). Utilization of the Tax Asset is contingent on receiving Ministry of Communications approval to cancel the structural separation in Bezeq, or alternatively on Ministry of Communications approval to change the Group's legal structure[6] and obtain approval from the Tax Authority to offset the past losses of DBS in this legal structure. On this matter, see the update to Section 1.7.2.1 (B) and Note 5 to the Company's financial statements for the period ended September 30, 2018. The Company is working to obtain these approvals. Nevertheless, there is no certainty as to if and when the approvals will be received. Accordingly, there is a risk that the Company's current assessment (as specified in the aforementioned Note 5) will change and result in the writing off of all or part of the Tax Asset, recording of the loss and a decrease in the Company's equity. The extent of the risk factor's impact on the Company if it materializes is high.

3. <u>Pelephone - Mobile radio-telephone (cellular telephony)</u>

Section 3.1 - General information about the area of operations

Section 3.1.8.1 - in April 2018, Marathon 018 (Xfone) began to operate in this sector (thus increasing the number of cellular telephony operators to six), further intensifying competition in this sector.

Section 3.4 - Trade receivables

As noted in the Periodic Report, Pelephone has prepaid subscribers where the volume of revenues from these subscribers is not material to the Company's total revenue. From Q3 2018, further to its decision, Pelephone updated the definition of an active subscriber so that its subscriber listing will no longer include IOT subscribers, and it added a separate comment for prepaid subscribers so that a prepaid subscriber will be included in the list of active subscribers from the date on which the subscriber loaded his device, and it will be removed from the list of active subscribers if no outgoing calls were made for six months or more. As a result of this change, at the beginning of the third quarter 426,000 prepaid subscribers and about two thousand IOT subscribers were written off Pelephone's subscriber listings. This led to an increase of NIS 11 in the ARPU index and an increase of 1.5% in the churn rate in Q3 2018.

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6 Establishment of a registered partnership wholly owned by the Company to which the assets, licenses and operations of the subsidiaries DBS, Pelephone and Bezeq International will be transferred, which in practice will be merged into a single entity or other possibilities.

Section 3.8.2 - Frequency usage rights, and Section 3.19.3 G - Pelephone's risk factors - Frequency spectrums

On July 3, 2018, Pelephone received notice from the Ministry of Communications that the 850 MHz frequency allocation used by Pelephone will expire on September 9, 2022. Instead Pelephone will receive the same bandwidth on frequencies in the 900 MHz spectrum, no later than March 22, 2021. The Ministry explained its decision by the need to designate use of the first giga spectrum to the region in which the State of Israel is located. The notice further stipulates that the format and timetable for making the replacement will be formulated by a joint professional team with representatives from the Ministry of Communications, the Ministry of Finance Budget Division and where necessary, also representatives of the relevant companies, including Pelephone. Pelephone will wait for the format and timetable to be formulated and it will work to exercise its rights in accordance with the law, respectively.

Furthermore, on July 12, 2018, the Ministry of Communications granted a temporary allocation of two bandwidths, each of 5 MHz, on the 700 MHz spectrum, to Partner and Hot Mobile. According to the Ministry's notice dated May 17, 2018, the purpose of these temporary allocations is to facilitate technological deployment for the supply of advanced services and to streamline the integration of the relevant technologies using this frequency. This temporary allocation will be cancelled depending on the results of the tender to allocate additional frequency spectrums to the cellular companies, which is due to be published at the end of this year. Pelephone decided, for reasons of its own, not to request a temporary allocation on this frequency spectrum at this time.

Section 3.9.5 - Announcement of a labor dispute

On June 6, 2018, Pelephone received notice from the New General Federation of Labor - Cellular, Internet and High-Tech Workers Union ("Histradrut"), of a labor dispute in accordance with the Settlement of Labor Disputes Law, 1957 and a strike/stoppage commencing on June 21, 2018 onwards. According to the notice, the matters in the dispute are the intention to make organizational and structural changes in Pelephone, including a merger and consolidation of activities etc. with the Company and/or its subsidiaries, a demand by the employees' representatives to provide details and data on the planned organizational and structural changes and to hold the necessary consultations, and a demand to conduct negotiations for the signing of a collective labor agreement for the regulation of the rights of Pelephone's employees, including the subject of a safety net, following the aforementioned organizational and structural changes. At this stage, the Company and/or Pelephone are unable to assess the implications deriving from this Notice.

Notably, on June 27, 2018, Pelephone received notice from the Histadrut that the additional notice concerning a labor dispute dated January 31, 2018 regarding organizational and structural changes and regarding an expansion of services and outsourcing, is cancelled in view of agreements that were reached and that the announcement of other labor disputes in Pelephone remain in force.

On this matter, see also the update to Section 1.7.2.

Section 3.14.3 – Site construction licensing

On October 24, 2018, the Planning and Building (Installation of Cellular Wireless Communication Access Installation) Regulations, 2018, were published. The regulations restrict and introduce additional conditions for the erection of a wireless access installation which is exempt from a building permit. Among other things, the additional regulations stipulate that the horizontal safety range for public health purposes will not be more than 4 meters, or 6 meters for a combination of wireless access installations belonging to more than one license holder or for a combination of wireless access installations for the same license holder, that broadcast on two different technologies one of which is New Generation technology. Among other things, the regulations also allow modifications to be made in an existing installation, to replace an existing installation with another installation or to relocate an existing installation, provided that after all these the same installation remains on the same building roof, or that replacement of the installation does not lead to a change in the number of installations on that roof, as applicable. The regulations also enable, in an expedited licensing process, the relocation of up to two existing installations to the roof of another building, and the erection of up to ten new installations by the same license holder in one calendar year. Moreover, the regulations stipulate that an installation will not be moved to the roof of a building on which there are already seven or more broadcasting installations, and a new installation will not be erected on a roof that has several broadcasting installations, unless the roof of the building is more than 500 sq.m. The regulations as they have been published significantly limit the possibility of making use of the building permit exemption track to position cellular access installations.

Section 3.16 – Legal proceedings

In April 2018, an action was filed against Pelephone in the Tel Aviv District Court together with a motion for its certification as a class action. The main subject of the action is the allegation that Pelephone markets and sells repair services while requiring customers to commit to unreasonable periods of time and without the possibility in the agreement of canceling the transaction during the commitment period and/or of transferring the service to another cellular device. The petitioners do not explicitly state the amount of the action against the respondent, but estimate that the value of the loss caused to each class member by the inability to cancel the repair service before the end of the commitment period is hundreds of shekels each year for each class member.

In November 2018, an action was filed against Pelephone in the Tel Aviv District Court together with a motion for its certification as a class action. The subject of the action is the allegation that Pelephone allegedly breached its obligation to compensate its customers for a large-scale malfunction that occurred on its network on September 11-12, 2018, and in a manner that prevented most of the customers from receiving any appropriate compensation. The petitioner estimates the value of the damage caused to members of the class at NIS 200 million. Notably, a claim together with a certification motion for approximately NIS 43 million is pending against Pelephone, with respect to a malfunction on September 2, 2018. On these malfunctions, see also the update to Section 3.20.

Section 3.16.1 H - on a claim and motion for its certification as a class action which was filed against Pelephone in the Nazareth District Court, alleging that Pelephone fails to block access to foreign internet browsing services for its subscribers who did not purchase a package for web-browsing abroad or who asked for voluntary access to the surfing services, and that it charges these subscribers retroactively when they purchase a web-browsing package and after accumulating a debt for the surfing services. The plaintiff argues that Pelephone therefore practices unjust enrichment. On June 6, 2018, the court approved the plaintiff's abandonment of the motion for certification as a class action, struck out the motion, dismissed the plaintiffs' personal claim and instructed that the proceeding be closed without an order for legal costs.

Section 3.20 - Event or matter deviating from the normal course of the corporation's business

Due to a malfunction that occurred while work was underway to upgrade and service the HLR system (which contains a dynamic database of the network subscribers), in September 2018 there were disruptions to the cellular network, that intermittently affected incoming and outgoing calls, text messages and Internet browsing for some Pelephone subscribers. These disruptions recurred several more times in September 2018 and Pelephone therefore restored use of the HLR system that preceded the upgrade and offered its customers a choice of various bonus alternatives.

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

Section 4.8 – Human resources

On a collective labor agreement dated January 12, 2016 between Bezeq International and the New Histadrut Labor Federation and the workers committee of Bezeq International - on May 15, 2018, the validity of the agreement was extended for an additional year, until December 31, 2019.

Further to reports in relation to announcements in January 2018 regarding labor disputes in the Company and Pelephone with respect to the possible transfer of control in the Company (Sections 2.9 and 3.9 in the Periodic Report for 2017), it is noted that on that date, Bezeq International received similar notice.

On May 31, 2018, Bezeq International received notice from the New General Federation of Labor ("Histradrut") - Cellular, Internet and Hitech Workers' Union, of a labor dispute in accordance with the Settlement of Labor Disputes Law, 1957 and a strike commencing on June 15, 2018. According to the notice, the matters in the dispute are the intention to make organizational and structural changes in Bezeq International, including a merger and consolidation of activities, etc. with the Company and/or the Company's subsidiaries, a demand by the employees' representatives to provide details and data on the planned organizational and structural changes and to hold the necessary consultations, and a demand to conduct negotiations for the signing of a collective labor agreement for regulation of the rights of Bezeq International's employees, including the subject of a safety net, following the aforementioned organizational and structural changes.

On this matter, see also the update to Section 1.7.2.

Section 4.13 – Legal proceedings

Subsection B - on a claim and motion for its recognition as a class action with respect to content filtering services - in April 2018, the court approved part of the action as a class action (the part relating to additional compensation of NIS 1,000 for each of the students using the website filtering software was struck out). Additionally, Bezeq International's service provider was removed from the proceeding.

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

Section 5.1.2 - Legislation, restrictions and special constraints in the segment of operations

Bill for the regulation of content providers - in July 2018, a Memorandum of the Communications (Telecommunications and Services) (Regulation of Content Providers) Law, (Amendment no. __), 2018, ("the Memorandum"), was published. According to the Memorandum, the purpose of and need for the Bill are changes in the format of regulations in the multi-channel television market and adapting it to technological developments so that they will apply to the providers of audio-visual content that transmit content to the Israeli public, from a certain volume of revenues, unrelated to the type of technology used for transmitting the content, while encouraging competition and reducing the regulatory burden. At this initial stage, DBS is unable to estimate the overall ramifications stemming from the Memorandum. It is stipulated that the legislative process is still in its early stages and there is no certainty that the Memorandum will develop into binding legislation in its proposed version or at all.

Section 5.8.2 - Terminal satellite equipment

In April 2018, Altech, the manufacturer of Zapper HD decoders and 4K PVR decoders which DBS purchases from Draco and OSI, announced its intention of discontinuing its decoder manufacturing activity in November 2018, and in May 2018 it announced that it will not supply some of the existing orders of decoders to Draco and OSI.

In July 2018, an agreement was signed between DBS, Altech, Draco and OSI (to which a corporation that indirectly controls Altech added a "backup" undertaking for the obligations of Altech) which includes, among other things, regulation of the transfer of intellectual property rights in connection with the Zapper HD decoders and 4K PVR decoders to DBS and substitute manufacturer/s as well as an additional undertaking by Altech in connection with the aforementioned decoder orders and the commencement of the manufacture of these decoders by the substitute manufacturer/s. The agreement also cancels the previous supply agreements for decoders of these models and includes a general and reciprocal waiver by the parties of arguments and claims in connection with the two aforementioned decoder models and their supply agreements.

Additionally, in July 2018, DBS signed two supply agreements between DBS, an alternative set-top box (STB) manufacturer (Skardin Industrial Corp. - "Skardin"), and OSI. Under these agreements, Skardin will manufacture and OSI will import, sell and supply to DBS, Zapper HD decoders and 4K PVR decoders as a substitute for Altech's production.

The deployment in this section concerning the expected discontinuation of Altech's manufacturing activity with respect to DBS's requirements until decoders can be obtained from a substitute manufacturer and with respect to the losses that DBS might sustain, if and to the extent that there is no continuous supply of the decoders, is forward-looking information according to its definition in the Securities Law, which is based, inter alia, on the information provided to DBS by Altech, Skardin, Draco and OSI, and on DBS's assessments with respect to its requirements and the feasibility of Skardin actually manufacturing the decoders, as well as with respect to the estimated timing of the sale and supply of these alternative decoders to DBS by Draco and OSI. Consequently, these estimates may not materialize, or may materialize differently than expected, in part depending on conditions relating to Altech (including its ability to meet its undertakings in connection with the assistance for the substitute manufacturer and transfer of the intellectual property), Skardin and OSI, and the conditions that could affect the materialization and timing of the chain of supply and manufacture of the decoders, as well as the needs of the market in which DBS operates.

Section 5.8.5 - Operating and encryption systems

In May 2018, Cisco informed DBS of the sale of its activity for serving multi-channel providers to a third party, and in October 2018 DBS received notice that the sale of this activity had been completed. DBS is reviewing the significance of this matter, taking note of its agreements with Cisco and the relevant activity.

Section 5.10.2

On August 7, 2018, DBS signed a long-term agreement with the Sports Channel Ltd. ("Sports Channel") in which the Sports Channel will provide DBS with National channels produced by it as well as other channels that it will produce in the future, including for broadcasting on OTT platforms.

The consideration to which the Sports Channel will be entitled is based mainly on a fixed monthly payment in accordance with the number of subscribers to DBS broadcasts.

Notably, DBS also has a long-term agreement with Charlton Ltd. ("Charlton") in which Charlton will provide DBS with the sports channels that it produces, including for broadcasting on OTT platforms. The consideration to which Charlton is entitled is fixed payment based on the number of subscribers to the channels, but will not be less than a defined amount.

Section 5.11 – Human resources

On August 1, 2018, the CEO of Pelephone, Mr. Ran Guron, took up office as the CEO of DBS (in addition to his position as the CEO of Pelephone), replacing Mr. Ron Eilon.

Section 5.11.3 - Benefits and the nature of employment agreements

In June 2018, the National Labor Federation declared a labor dispute. According to the Federation's announcement, the issues in dispute are the intention to make organizational and structural changes in DBS, including a merger and consolidation of operations with the Company or with its subsidiaries, a lack of good faith reflected by not providing information and actually implementing structural changes without conducting the required consultation and negotiations as required by law within the framework of the collective labor dialog.

On this matter, see also the update to Section 1.7.2.

Section 5.15.10 - Regulation of the transmission of video content via the Internet

On a memorandum relating to the application of regulations to the providers of audio-visual content in Israel, see the update to Section 5.1.2.

Sections 5.16.2 and 5.16.4 - Space segment leasing agreement

In April 2018, a space segment leased by DBS was replaced following an amendment to the 2017 agreement, where the replacement period was extended to September 2019.

In April 2018, Spacecom announced that it had received a letter from a government entity whereby "government entities intend to take action to launch and operate a communications satellite through Israel Aerospace Industries to a point in the sky at 4^0W (Israel's national air space), consistent with their requirements". Spacecom further noted that it is unable to estimate the feasibility and chances of launching this satellite. In July 2018, Spacecom announced that it is continuing to examine several options for building Amos 8, including possible cooperation with the Israeli government. Any delay in positioning the Amos 8 satellite will have repercussions for DBS with respect to the number of space segments available to it and in view of the fact that beyond the period in which it was agreed that the space segments would be leased from just one satellite, there will be an additional period.

In September 2018, Spacecom announced that the agreement in which it engaged to manufacture the Amos 8 satellite (mentioned in footnote no. 71) will not take effect and will be cancelled, and that it is working to advance the Amos 8 satellite in the best possible manner, and is reviewing the feasibility of several options open to it, including cooperation with the Israeli government. DBS estimates that cancellation of this agreement could lead to a delay in the commencement of activity by the Amos 8 satellite as against the date specified in this agreement.

Further to Spacecom's notice to DBS and its announcement that it is examining various options with respect to the construction of Amos 8, that may require changes in the agreement between DBS and Spacecom, a special independent committee of Bezeq's Board of Directors was appointed to review the various options open to DBS, as part of the existing agreement or its amendment. The committee was authorized to be actively involved in negotiating independently with Spacecom regarding an amendment to the existing agreement, and also to formulate and submit its recommendations with respect to amending the agreement, if at all, to the Audit Committee and Board of Directors of Bezeq.

Section 5.17 – Pending legal proceedings

Subsection A - motion to certify a class action relating to electricity consumption by the broadcasting equipment on apartment buildings that belongs to DBS - on July 31, 2018, the court approved conducting the action as a class action and it determined that there are ostensible grounds for representatives of the apartments in the buildings in which the representatives signed any forms in which there is no explicit agreement, to pay the cost of a monthly charge for communal electricity consumption by the broadcasting equipment. Further to the parties' request, on September 26, 2018, the Supreme Court approved deferring the date for filing motions for permission to appeal the decision to January 1, 2019.

Subsection C - Allegation regarding discrimination of DBS customers - in its decision dated March 27, 2018, on motions to approve procedural arrangements, the court ruled that proceedings against all the communications companies, including the television companies and the motions against DBS, will be heard jointly and it established court proceedings for clarifying the motions for certification. Furthermore, and after the parties to the proceeding submitted their summaries to the court, on July 11, 2018, a hearing took place on all the motions for certification against all the communications companies, in which the court recommended that the plaintiffs should consider withdrawing from the motions for certification with compensation, and it ruled that to the extent that no recommendation is received by September 2018, the court will rule on the motions for certification. The plaintiffs did not file notice by the appointed time, and the court is therefore expected to make a decision on the motions for certification.

Subsection D - claim concerning the automatic renewal of fixed-period transactions while charging customers unilaterally and without their consent - in May 2018, in accordance with a court ruling, the compromise settlement reached by the parties and the motion for its certification were published in the press and on the Internet. According to the main points of the settlement, DBS will open a designated channel for those entitled to the benefit for three months.

Subsection F - class action on the discontinuation of broadcasts of the Children's Channel - on April 11, 2018, the Council informed the applicant in response to her request that it rejects her arguments whereby there is a period in which no worthy alternative was provided for the discontinued Children's Channel. On May 28, 2018, the applicant's attorney filed an "agreed motion to strike out the motion for certification" and on that same day the court issued its ruling in which it determined that the applicant must file a motion for abandonment in accordance with Section 16 of the Class Actions Law. Subsequently, on July 13, 2018, a court ruling was issued in which, if the applicant does not file a motion for abandonment by July 31, 2018, the court will consider setting a date for a hearing and charging the applicant costs. On August 19, 2018, the court issued its ruling in which the applicant failed to act in accordance with the court's decision of May 28, 2018, and a hearing was scheduled for December 31, 2018. On October 4, 2018, the court approved the plaintiff's abandonment of the action.

Subsection H - On a motion to certify a class action in connection with a transaction between the Company and Eurocom DBS Ltd. - see the update to Section 2.18 J.

Subsection I - On various motions to disclose documents prior to filing a motion for certification of a derivative claim under Section 198(a) of the Companies Law, which was filed subsequent to the ISA investigation, see the update to Section 2.18 K.

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

November 19, 2018	
Date	Bezeq – The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:

Shlomo Rodav, Chairman of the Board of Directors

Dudu Mizrahi, CEO

Exhibit 99.4

Condensed Separate Interim Financial Information
as at September 30, 2018

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

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Somekh Chaikin
KPMG Millennium Tower
17 Ha-Arbaa Street, PO Box 609
Tel Aviv 6100601, Israel
800068403

To:
The Shareholders of "Bezeq"- The Israel Telecommunication Corporation Ltd.

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of "Bezeq"- The Israel Telecommunication Corporation Ltd. (hereinafter – "the Company") as of September 30, 2018 and for the nine-month and three-month period then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 45 million as of September 30, 2018, and the loss from this investee company amounted to NIS 33 million and NIS 15 million for the nine-month and three-month periods then ended, respectively. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report of the other auditors.

Scope of Review

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

Conclusion

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

Emphasis of Matter paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 8.1, which refers to Notes 1.2.1 and 1.2.2 to the annual consolidated financial statements of 2017, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and regarding the opening of a joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433. As stated in the above note, at this stage, the Company does not have complete information regarding the investigations, their matter, investigation materials and evidence held by the authorities. Thus, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

November 18, 2018

Condensed Interim Information of Financial Position

	September 30, 2018*	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**975**	1,802	1,769
Investments	**1,520**	75	275
Trade receivables	**707**	707	685
Other receivables	**233**	177	172
Eurocom DBS Ltd, an affiliate	**20**	43	43
Loans granted to investees	**100**	69	69
Investment in DBS debentures	**-**	202	202
Dividends receivable	**60**	152	-
Total current assets	**3,615**	3,227	3,215
Trade and other receivables	**100**	141	121
Property, plant and equipment	**4,978**	4,917	4,933
Intangible assets	**226**	220	224
Investment in investees	**7,408**	7,017	6,958
Loans granted to investees	**90**	101	196
Right of use assets - see Note 1.3	**321**	-	-
Investment in DBS debentures	**-**	455	257
Non-current and other investments	**134**	140	141
Investment property - see Note 8.5	**140**	-	-
Total non-current assets	**13,397**	12,991	12,830
Total assets	**17,012**	16,218	16,045

Condensed Interim Information of Financial Position (contd.)

	September 30, 2018*	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,776**	526	1,589
Loan from an investee	**-**	15	-
Trade and other payables	**712**	690	604
Current tax liabilities	**-**	111	148
Employee benefits	**272**	193	223
Current maturities for lease liabilities - see Note 1.3	**112**	-	-
Provisions (Note 5)	**70**	63	59
Dividend payable	**318**	708	-
Total current liabilities	**3,260**	2,306	2,623
Debentures and loans	**10,128**	10,943	10,223
Loans from a subsidiary	**755**	475	570
Employee benefits	**225**	222	229
Lease liabilities - see Note 1.3	**223**	-	-
Derivatives and other liabilities	**199**	276	220
Deferred tax liabilities	**52**	69	36
Total non-current liabilities	**11,582**	11,985	11,278
Total liabilities	**14,842**	14,291	13,901
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	383	384
Reserves	**328**	283	305
Deficit	**(2,420)**	(2,617)	(2,423)
Total equity attributable to equity holders of the Company	**2,170**	1,927	2,144
Total liabilities and equity	**17,012**	16,218	16,045

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

Date of approval of the financial statements: November 19, 2018

* See Note 1.3 concerning early application of IFRS 16 - Leases

The attached notes are an integral part of these condensed separate interim financial information.

Condensed Interim Information of Profit or Loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 2)	**3,170**	3,197	**1,043**	1,061	4,244
Costs of activity					
Salaries	**693**	668	**233**	224	891
Depreciation and amortization	**633**	543	**218**	186	728
Operating and general expenses (Note 3)	**428**	514	**143**	183	677
Other operating expenses (income), net (Note 4)	**105**	(29)	**(2)**	(24)	(23)
Cost of activity	**1,859**	1,696	**592**	569	2,273
Operating profit	**1,311**	1,501	**451**	492	1,971
Financing expenses (income)					
Financing expenses	**376**	305	**122**	119	439
Financing income	**(23)**	(24)	**(9)**	(12)	(36)
Financing expenses, net	**353**	281	**113**	107	403
Profit after financing expenses, net	**958**	1,220	**338**	385	1,568
Company's share in (losses) earnings of investees, net	**(33)**	118	**(23)**	46	63
Profit before income tax	**925**	1,338	**315**	431	1,631
Income tax	**236**	308	**81**	109	396
Profit for the period attributable to the owners of the Company	**689**	1,030	**234**	322	1,235

Condensed Interim Information of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**689**	1,030	**234**	322	1,235
Items of other comprehensive income (loss), net of tax	**23**	(20)	**(3)**	(12)	(8)
Total comprehensive income for the period attributable to equity holders of the Company	**712**	1,010	**231**	310	1,227

* See Note 1.3 concerning early application of IFRS 16 - Leases

The attached notes are an integral part of these condensed separate interim financial information.

Condensed Interim Information on Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	**2017**	**2018***	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Cash flows from operating activities					
Profit for the period	**689**	1,030	**234**	322	1,235
Adjustments:					
Depreciation and amortization	**633**	543	**218**	186	728
Company's share in (earnings) losses of investees, net	**33**	(118)	**23**	(46)	(63)
Financing expenses, net	**332**	264	**100**	99	358
Capital gain, net	**(5)**	(64)	**(1)**	(45)	(65)
Income tax expenses	**236**	308	**81**	109	396
Change in trade and other receivables	**(40)**	27	**10**	17	61
Change in trade and other payables	**20**	22	**38**	84	2
Change in provisions	**11**	15	**(4)**	15	11
Change in employee benefits	**44**	(67)	**(34)**	(61)	(37)
Miscellaneous	**(2)**	4	**(2)**	3	6
Net cash (used in) from operating activities due to transactions with subsidiaries	**8**	(43)	**-**	(10)	(39)
Net income tax paid	**(353)**	(283)	**(80)**	(100)	(368)
Net cash from operating activities	**1,606**	1,638	**583**	573	2,225
Cash flows from investment activities					
Investment in intangible assets and other investments	**(84)**	(78)	**(25)**	(27)	(110)
Proceeds from the sale of property, plant and equipment	**37**	72	**8**	46	94
Investment in bank deposits and others	**(2,124)**	(76)	**(190)**	(76)	(276)
Proceeds from bank deposits and others	**896**	547	**338**	-	547
Payment of permit fees and purchase tax for the Sakia complex	**(121)**	-	**(9)**	-	-
Payment of betterment tax for the sale of the Sakia complex	**(80)**	-	**-**	-	-
Investment in DBS debentures	**-**	-	**-**	-	(20)
Proceeds from investment in DBS debentures	**-**	-	**-**	-	194
Purchase of property, plant and equipment	**(547)**	(521)	**(199)**	(143)	(715)
Investments in a subsidiary	**(100)**	-	**(100)**	-	-
Miscellaneous	**23**	(34)	**14**	(7)	(12)
Net cash from investment activities due to transactions with subsidiaries	**86**	(70)	**6**	28	5
Net cash flows from (used in) investment activities	**(2,014)**	(160)	**(157)**	(179)	(293)

Condensed Interim Information of Cash Flows (contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	**2017**	**2018***	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Cash flow from finance activities					
Issue of debentures and receipt of loans	**320**	1,918	**-**	500	2,517
Repayment of debentures and loans	**(225)**	(1,116)	**(50)**	(274)	(1,363)
Dividends paid	**(368)**	(578)	**-**	-	(1,286)
Payment to Eurocom DBS for acquisition of DBS shares and loans	**-**	(61)	**-**	-	(61)
Interest paid	**(208)**	(186)	**(5)**	(12)	(397)
Payment of principal and interest for lease	**(90)**	-	**(28)**	-	-
Net cash from financing activities due to transactions with subsidiaries	**185**	165	**-**	(90)	245
Net cash from (used for) financing operations	**(386)**	142	**(83)**	124	(345)
Net increase (decrease) in cash and cash equivalents	**(794)**	1,620	**343**	518	1,587
Cash and cash equivalents at beginning of period	**1,769**	182	**632**	1,284	182
Cash and cash equivalents at the end of the period	**975**	1,802	**975**	1,802	1,769

* See Note 1.3 concerning early application of IFRS 16 - Leases

The attached notes are an integral part of these condensed separate interim financial information

Notes to the Condensed Separate Interim Financial Information

1. Manner of preparing financial information

1.1 Definitions

"The Company": Bezeq - The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2017.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial information for the year ended December 31, 2017 and in conjunction with the condensed interim consolidated financial statements as at September 30, 2018 ("the Consolidated Financial Statements").

The accounting policies used in preparing this condensed separate interim financial information are in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2017.

1.3 First-time Application of Accounting Standards

As of January 1, 2018, the Company implements early adoption of the international financial reporting standard IFRS 16 (the "Standard").

For further information concerning the first-time adoption of IFRS 16 see Note 3.1 to the Consolidated Financial Statements.

The tables below present a breakdown of the effects on the condensed interim statement of financial position as at September 30, 2018 and on the condensed statement of income and interim statement of cash flows for the nine and three months then ended, assuming that the Company's previous policy regarding leasing activities would have continued during this period.

Effect on the condensed interim information on financial position as at September 30, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Other receivables	233	**-**	**233**
Right of use assets	-	**321**	**321**
Trade and other payables	724	**(12)**	**712**
Current maturities of lease liabilities	-	**112**	**112**
Non-current lease liabilities	-	**223**	**223**
Capital	2,172	**(2)**	**2,170**

Effect on the interim statement of income for the nine months ended September 30, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	497	**(69)**	**428**
Depreciation and amortization costs	566	**67**	**633**
Operating profit	1,309	**2**	**1,311**
Financing expenses, net	349	**4**	**353**
Profit after financing expenses	960	**(2)**	**958**
Profit for the period	691	**(2)**	**689**

Effect on the interim statement of income for the three months ended September 30, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	166	**(23)**	**143**
Depreciation and amortization costs	195	**23**	**218**
Operating profit	451	**-**	**451**
Financing expenses, net	111	**2**	**113**
Profit after financing expenses	340	**(2)**	**338**
Profit for the period	236	**(2)**	**234**

Effect on the interim statement of cash flows for the Nine months ended September 30, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	1,537	**69**	**1,606**
Net cash used for investing activities	(2,035)	**21**	**(2,014)**
Net cash used for financing activities	(296)	**(90)**	**(386)**

Effect on the interim statement of cash flows for the three months ended September 30, 2018

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	562	**21**	**583**
Net cash used for investing activities	(164)	**7**	**(157)**
Net cash used for financing activities	(55)	**(28)**	**(83)**

For information regarding the first time application of additional accounting standards see Note 3.2 to the Consolidated Financial Statements

2. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017*	2018	2017*	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Internet - infrastructure	**1,200**	1,149	**401**	386	1,544
Fixed-line telephony	**875**	972	**282**	318	1,281
Transmission and data communication	**734**	738	**243**	244	975
Cloud and digital services	**197**	170	**69**	57	230
Other services	**164**	168	**48**	56	214
	3,170	3,197	**1,043**	1,061	4,244

* Cloud and digital services were reclassified and presented separately to reflect the changes in revenue mix.

3. Operating and General Expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites*	**103**	141	**38**	49	185
Marketing and general	**131**	140	**42**	54	188
Interconnectivity and payments to communications operators	**80**	91	**25**	31	118
Services and maintenance by sub-contractors	**60**	55	**20**	19	73
Vehicle maintenance*	**24**	53	**9**	18	69
Terminal equipment and materials	**30**	34	**9**	12	44
	428	514	**143**	183	677

* See Note 1.3 concerning early application of IFRS 16 - Leases

4. Other operating expenses (income), net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Provision for severance pay in voluntary redundancy	**93**	15	**-**	3	23
Capital gain from the sale of property, plant and equipment (mainly real estate)	**(5)**	(64)	**(1)**	(45)	(65)
Others	**17**	20	**(1)**	18	19
Total operating income, net	**105**	(29)	**(2)**	(24)	(23)

5. Contingent Liabilities

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

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of these litigations, the financial statements include appropriate provisions in the amount of NIS 70 million, where provisions are required to cover the exposure arising from such litigation.

At September 30, 2018:

Provision	* Amount of additional exposure for which probability of realization cannot be foreseen	* Exposure for claims that cannot as yet be assessed
	NIS million	
70	**1,403**	**4,186**(1) (2)

* CPI-linked, before interest

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

(1) Including exposure of NIS 2 billion for a motion to certify a class action filed by a shareholder against the Company and officers in the Company, claiming Company reporting failures concerning the wholesale market and decrease in interconnect fees, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method to be determined for calculating the damage). On August 27, 2018, the court certified the claim as a class action. On October 28, 2018, the Company filed a motion for a rehearing of the decision to certify. Subsequently, the court decided to stay proceedings until after a decision is handed on the motion for a rehearing.

(2) Including two motions to certify class action suits, amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group that is the controlling shareholder of the Company, concerning the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. Pursuant to the court's decision, a consolidated motion is expected to be filed, replacing these two motions. The proceedings were postponed due to the investigation. On August 21, 20189, the Attorney General requested to update the court by December 31, 2018 regarding the possibility of the proceedings moving forward. A decision has not yet been handed on this matter.

5.2 See Notes 11.2 through 11.4 to the annual financial statements for 2017 with regard to additional proceedings against the Company and its officers.

5.3 Subsequent to date of the financial statements, claims for which exposure amounted to NIS 161 million, as well as a non-financial claim, were concluded.

For further information concerning contingent liabilities see Note 8 to the Consolidated Financial Statements.

6. Dividends from investees

6.1 In May 2018, Bezeq International Ltd. paid a cash dividend to the Company, which was announced in March 2018, in the amount of NIS 58 million.

6.2 In May 2018, Pelephone paid a cash dividend to the Company, which was announced in March 2018, in the amount of NIS 45 million.

6.3 In October 2018, Pelephone paid a cash dividend to the Company, which was announced in August 2018, in the amount of NIS 16 million.

6.4 In October 2018, Bezeq International paid a cash dividend to the Company, which was announced in August 2018, in the amount of NIS 44 million.

7. Inter-company loans

7.1 On January 15, 2018, the Company received a loan from Pelephone in the amount of NIS 140 million. The loan bears annual interest of 3.48% and is repayable in four equal annual installments commencing from December 1, 2022.

7.2 On February 12, 2018, the Company provided a loan to Bezeq International in the amount of NIS 95 million. The loan bears annual interest of 2.61 % and is repayable in three equal annual installments commencing from February 12, 2019.

7.3 On May 30, 2018, the Company received a loan from Pelephone in the amount of NIS 45 million. The loan bears annual interest of 3.48% and is repayable in four equal annual installments commencing from December 1, 2022.

7.4 With regard to the loans provided to DBS as capital and a further investment by the Company in DBS share capital, see Note 4.2.6 to the consolidated statements.

8. Events during and subsequent to the Reporting Period

8.1 For further information concerning investigations by the Securities Authority and Israel Police, see Note 1.2 to the consolidated financial statements.

8.2 For information regarding engagements for the issue of debentures and receipt of a loan, see Note 15.3 to the consolidated financial statements.

8.3 For information regarding the conversion of the Company's investment in DBS debentures (Series B) into DBS share capital in February 2018, see Note 13.4 to the annual consolidated financial statements.

8.4 With regard to the second contingent consideration to Eurocom DBS based on the business results of DBS and the estimate of the fair value of the amount expected to be refunded to the Company out of the surplus advance payments made, see Note 4.2.1 to the consolidated financial statements.

8.5 For information concerning the Company's engagement in an agreement for the sale of a real estate property in the Sakia complex, see Note 7 to the consolidated financial statements.

8.6 For further information concerning employee retirement see Note 15.1 to the Consolidated Statements.

Chapter E:

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2018

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

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

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

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

For this matter, the members of Management are:

1. Dudu Mizrahi, CEO
2. Ehud Mezuman, VP Human Resources Division
3. Udi Atar, VP Private Division[1]
4. Eyal Kamil, VP Operations and Logistics Division
5. Izak Ben Eliezer, VP IT and Network Division [2]
6. Amir Nachlieli, Legal Counsel
7. Guy Hadass, VP Corporate Communications
8. Gil Rosen, VP Marketing and Innovation Division
9. Yali Rothenberg, Bezeq Group CFO
10. Yaacov Paz, VP Business Division
11. Sharon Fleischer Ben-Yehuda, VP Regulation

In addition to the said members of Management, the following serve in the Group's headquarters[3]:

1. Yehuda Porat, Head of Security Unit
2. Lior Segal, Internal Auditor
3. Shelly Bainhoren, Group Corporate Secretary and Internal Compliance Officer

Internal control over financial reporting and disclosure includes controls and procedures in the Company, which were planned by the CEO and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

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

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1 Started his tenure on October 15, 2018
2 Started his tenure on October 1, 2018

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

In the quarterly report on the effectiveness of internal controls over financial reporting and disclosure that was attached to the Quarterly Report for the period ended June 30, 2018 ("the Last Quarterly Report on Internal Control"), it was found that the internal control was ineffective on account of several significant deficiencies identified in the entity level controls, and which in the opinion of Management and the Board cumulatively represents a material weakness, as detailed below.

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

At the reporting date, based on what was stated in the Last Quarterly Report on Internal Control, there is a material weakness, and accordingly the internal control is ineffective.

Disclosure concerning the material weakness was provided by the Company for the first time in the last annual report on internal control published on March 29, 2018. Since that date the Company has not found any additional material weakness and the Company is working to correct the material weakness, as detailed below in this Chapter. The Company's Board of Directors and Management believe that, as at the publication date of this report, the Company has completed most of the activities to amend the material weakness. The Company estimates that it will complete the amendments by December 31, 2018.

Below are details of the material weakness in the internal control:

An Investigation of the Israel Securities Authority is being conducted against the Company and DBS. The Investigation involved the questioning of several senior officers and senior employees in the Bezeq Group (some of whom are not employed in the Group as at the publication date of this report).

On February 18, 2018, a new investigation was opened by the Israel Securities Authority and the Israel Police against several of the Company's senior officers.

For further details on these matters see section 1.1.6 of the Chapter, Description of Company Operations in the 2017 Periodic Report and the Company's Immediate Reports referred to in that section.

The Company does not have complete information about the Investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter. Accordingly, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any The evaluation of the effectiveness of the internal control will be completed as part of the periodic report for 2018.

Without derogating from the foregoing, a number of significant deficiencies identified in the assessment of the effectiveness of internal control over financial reporting and disclosure are deficiencies arising from or impacted by the Investigations as stated above. Among them, during the period of the Investigations as stated, conditions were set for release under restrictions of some of those under investigation who had served in key positions in the Company and DBS, which led to the extended absence of some of those under investigation, thereby constraining the Company and Group companies in their operations. As a result, and due to the large number of meetings of the Board and their committees in the Company and DBS in the period from the opening of the Investigation, there were also delays in preparation of the minutes of a significant number of meetings of the Board and their committees in these companies in 2017. In addition, there were indications of procedural deficiencies in respect of the work of the Independent Committee of the Board of Directors related to the engagements that, to the best of the Company's knowledge, are under investigation.

Moreover, it was found that a limited number of employees who took part in the change management control process in one of the Company's IT systems acted in an improper manner in contravention of the Company's procedures. In addition, suspicion arose, as part of the Company's internal review concerning the period after November 1, 2017, that the Company's Corporate Secretary (at that time) listened in on discussions to which she was prohibited from being privy to.

In addition, in some of the Group companies, a lack of procedures and a need to update certain procedures were found.

Management and the Board are implementing various actions, some of which are under the constraints arising from the Investigations, with assistance from outside consultants, to act to correct the material weakness and in order to deepen the correctness of the Company's control process and to ensure that despite there being a material weakness in the internal control, the reports are prepared in compliance with the law. All this is in addition to the various developments that have occurred in the Company from the start of the Investigations, all as detailed below.

Actions carried out by the Company and developments that occurred until the publication date of the Company's report for the third quarter of 2018:

1. The Company has retained the services of accounting support to assist in the process of preparing the financial statements of DBS for 2017.

2. In the period following the opening of the Investigation and until the publication date of the 2017 Periodic Report, there were changes in the composition of the Company's Board of Directors and Management, and, among other things, director David Granot was appointed Interim Chairman of the Board by the Company's Board of Directors (he served in this position until April 30, 2018); directors Shaul Elovitch and Or Elovitch (who have been investigated as part of the Investigations) resigned their positions and in their place two new directors were appointed by the Company's Board of Directors; Mr. Yaacov Paz, Vice President of the Business Division, was appointed temporarily as the Company's Interim CEO (until March 27, 2018).

3. During the process to identify and appoint candidates to the Company's Board of Directors, which was carried out with the support of a specialist company in the field, on April 26, 2018 the Annual General Meeting of the Company's shareholders elected a new composition of the Board including two new external directors (in addition to the three external directors serving in the Company), two independent directors and six directors who are not necessarily independent directors (including one director from among the employees), so that at reporting date there are 13 directors serving. Similarly, on April 30, 2018 the Company's Board decided to elect Mr. Shlomo Rodav as Chairman of the Company's Board of Directors.

   Further to this, new appointments were made of directors to the Company's board committees and to the boards of the subsidiaries.

4. The Company and DBS added supplementary procedures on certain subjects to enhance the internal control over financial reporting and disclosure on those subjects. These activities were performed for 2017 and for the first three quarters of 2018.

5. The employees who took part in the control process regarding changes in one of the Company's IT systems and who acted in an improper manner in contravention of the Company's procedures, have been moved to other positions that are not involved in the financial reporting and disclosure process, and supplementary procedures were implemented in respect of those employees in 2017 and 2018. In addition, the process regarding changes in IT system has been examined and updated, including implementation of changes in the organizational structure of the division responsible for the IT system. The work procedures have also been clarified and training has been carried out for employees of the Technologies and Network Division that take part in the internal control on financial reporting and disclosure.

6. The former Corporate Secretary has been transferred to another position that is not one of an officer, and later ended her employment in the Company.

7. Bezeq Group has implemented a special review of the issues of corporate governance led by the Company's Internal Auditor and supported by outside consultants. The work included deeper reviews on the issues of risk management, compliance, enforcement and internal control. The Group companies are implementing adjustments according to the multi-annual guidelines decided upon.

8. The Company carried out a special review of the appropriateness of the Company's control processes. The review was carried out by outside consultants, led by the Company's Internal Auditor and under the supervision of a special, independent committee from among the Company's Board members. The review was completed, however, it was limited in scope and did not include factual reviews in respect of matters raised in the Investigations. Further to this review, the special committee approved various amendments to the control processes and the work within the Company. Most of the amendments have been implemented.

9. Preparation of minutes of Board meetings and those of its committees of the Company and DBS held in 2017 has been completed.

10. The Group companies, assisted by outside consultants, performed a special review to identify the missing compliance and other procedures. The companies appointed parties to be responsible for the procedures who took steps to write and to update procedures as required, and to distribute them in the companies. The companies also took steps to refresh the compliance procedures on various matters, the forecast being to finish the work by November 30, 2018.

11. In June 2018 the Company's Board of Directors decided on the appointment of a new CEO for the Company, Mr. Dudu Mizrahi, who took office on September 1, 2018.

12. In July 2018 the procedure of the Board of Directors' work was modified, among other things, further to the assessment carried out by the Company assisted by outside consultants. Similarly, the Company completed its review of the effectiveness of the work of the Board of Directors. The results have been presented to the Company's Audit Committee and Board of Directors.

13. In July 2018 the Group's Chief Strategy and Corporate Development Officer, the CEO and the CFO of DBS completed their tenures. In August 2018 the CEO of Pelephone started to serve as CEO of DBS, in addition to his role as CEO of Pelephone. In addition, a new CFO has been appointed for DBS.

14. Once the constraints on carrying out reviews and controls related to issues that arose in the Investigations are lifted, the review of all matters related to subjects that arose during those Investigations will be completed as required.

2. **Declaration of Executives:**

A. Declaration of the CEO in accordance with Regulation 38C(d)(1) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970[4]:

I, Dudu Mizrahi, declare that:

1. I have reviewed the quarterly report of Bezeq - The Israel Telecommunication Corp Limited, ("the Company") for the third quarter of 2018 ("the Reports").

2. To the best of my knowledge, the reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the reporting period.

3. To the best of my knowledge, the financial statements and other financial information in the Reports fairly present in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.

4. I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:

   A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

   B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involve other employees who have a significant role in the Company's internal control over financial reporting and disclosure

5. I, alone or together with others in the Company:

   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010 is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports.

   B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.

   C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was reported to me that would change the conclusions of the Board of Directors and Management concerning the effectiveness of internal controls over the Company's financial reporting and disclosure.

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

Date: November 19, 2018

Dudu Mizrahi, CEO

4 This declaration is subject to the limitations arising from the Investigations, as stated in the preamble to this Chapter in the Company's 2017 Periodic Report.

B. Declaration of the CFO of the Company and the Group in accordance with Regulation 38C(d)(2) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970[5]:

I, Yali Rothenberg, declare that:

1. I have reviewed the interim financial statements and other financial information included in the reports for the interim period of Bezeq - The Israel Telecommunication Corp Limited, ("the Company") for the third quarter of 2018 ("the Reports" or "the Reports for the Interim Period").

2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports.

3. To the best of my knowledge, the interim financial statements and other financial information in the Reports for the Interim Period fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the dates and periods presented in the Reports:

4. I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of the internal control over financial reporting and disclosure:

   A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as they refer to the interim financial statements and other financial information included in the Reports for the Interim Period, which are reasonably likely to adversely affect the Company's ability to record, process, summarize or report financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law

   B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involve other employees who have a significant role in the Company's internal control over financial reporting and disclosure

5. I, alone or together with others in the Company:

   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under our supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports

   B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles

   C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was reported to me in respect of the interim financial statements and to any other financial information included the Reports for the Interim Period, that would change in my opinion the conclusions of the Board of Directors and Management concerning the effectiveness of the internal control over the Company's financial reporting and disclosure.

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

Date: November 19, 2018

Yali Rothenberg
Bezeq Group CFO

5 This declaration is subject to the limitations arising from the Investigations, as stated in the preamble to this Chapter in the Company's 2017 Periodic Report.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

F O R M 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2018

INTERNET GOLD-GOLDEN LINES LTD.
(Name of Registrant)

2 Dov Friedman Street, Ramat Gan 5250301, Israel
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- __________

Internet Gold-Golden Lines Ltd.

EXPLANATORY NOTE

The following exhibits are attached:

The attached exhibits pertain to the Registrant’s controlled subsidiary, Bezeq The Israel Telecommunication Corp. Ltd., (the “Company” and together with its subsidiaries, the “Group”) (translated versions, unverified):

99.1 Condensed Consolidated Interim Financial Statements (Unaudited) of the Group as at September 30, 2018.

99.2 Directors’ Report on the State of the Group’s Affairs for the period ended September 30, 2018.

99.3 Update of Chapter A (Description of Group Operations) of the Periodic Report for 2017.

99.4 Company Separate Condensed Interim Financial Information as at September 30, 2018 (Unaudited).

99.5 Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2018.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNET GOLD-GOLDEN LINES LTD.
(Registrant)

By: /s/ Doron Turgeman
Doron Turgeman
Chief Executive Officer

Date: November 29, 2018

EXHIBIT INDEX

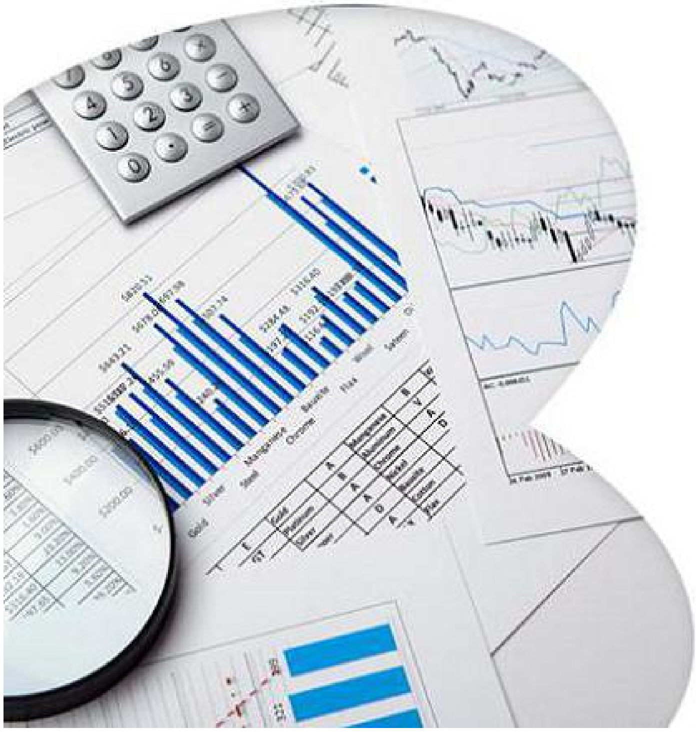
The following exhibits are attached:

The attached exhibits pertain to the Registrant's controlled subsidiary, Bezeq The Israel Telecommunication Corp. Ltd., (the "Company" and together with its subsidiaries, the "Group") (translated versions, unverified):

EXHIBIT NO.	DESCRIPTION
99.1	Condensed Consolidated Interim Financial Statements (Unaudited) of the Group as at September 30, 2018.
99.2	Directors' Report on the State of the Group's Affairs for the period ended September 30, 2018.
99.3	Update of Chapter A (Description of Group Operations) of the Periodic Report for 2017.
99.4	Company Separate Condensed Interim Financial Information as at September 30, 2018 (Unaudited).
99.5	Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2018.

Part C:

Condensed Consolidated Interim Financial Statements as at September 30, 2018 (Unaudited)



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

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Somekh Chaikin
KPMG Millennium Tower
17 Ha-Arbaa Street, PO Box 609
Tel Aviv 6100601, Israel
800068403

Review Report to the Shareholders of

“Bezeq” -The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of “Bezeq” -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of September 30, 2018 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine-month and three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “Interim Financial Reporting”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 1 % of the total consolidated assets as of September 30, 2018, and whose revenues constitute 1% of the total consolidated revenues for the nine-month and three-month periods then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report of the other auditors.

Scope of Review

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

Conclusion

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

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

Emphasis of Matter

Without qualifying our abovementioned conclusion, we draw attention to Note 1.2 which refers to Notes 1.2.1 and 1.2.2 to the annual consolidated financial statements of 2017, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and regarding the opening of a joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433. As stated in the above note, at this stage, the Company does not have complete information regarding the investigations, their matter, investigation materials and evidence held by the authorities. Thus, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 8.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 18, 2018

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Condensed Consolidated Interim Statements of Financial Position

		September 30, 2018*	September 30, 2017	December 31, 2017
		(Unaudited)	(Unaudited)	(Audited)
Assets	**Note**	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents		**1,408**	2,471	2,181
Investments		**1,517**	94	289
Trade receivables		**1,792**	1,948	1,915
Other receivables		**292**	294	270
Inventory		**86**	101	125
Eurocom DBS Ltd., related party		**20**	43	43
Total current assets		**5,115**	4,951	4,823
Trade and other receivables		**423**	520	493
Broadcasting rights, net of rights exercised		**470**	457	454
Right-of-use assets	3.1	**1,434**	-	-
Fixed assets		**6,789**	6,817	6,798
Intangible assets		**2,627**	2,894	2,768
Deferred tax assets	5	**1,041**	1,014	1,019
Deferred expenses and non-current investments		**519**	489	494
Investment property	7	**140**	-	-
Total non-current assets		**13,443**	12,191	12,026
Total assets		**18,558**	17,142	16,849

Condensed Consolidated Interim Statements of Financial Position (Contd.)

Liabilities and equity	Note	September 30, 2018* (Unaudited) NIS million	September 30, 2017 (Unaudited) NIS million	December 31, 2017 (Audited) NIS million
Debentures, loans and borrowings		**1,798**	555	1,632
Current maturities of liabilities for leases	3.1	**443**	-	-
Trade and other payables		**1,602**	1,807	1,699
Employee benefits		**330**	251	280
Provisions		**106**	94	94
Current tax liabilities		**9**	118	152
Dividend payable		**318**	708	-
Total current liabilities		**4,606**	3,533	3,857
Loans and debentures		**10,149**	10,978	10,229
Liability for leases	3.1	**1,024**	-	-
Employee benefits		**266**	260	272
Derivatives and other liabilities		**212**	292	234
Deferred tax liabilities		**91**	104	73
Provisions		**40**	48	40
Total non-current liabilities		**11,782**	11,682	10,848
Total liabilities		**16,388**	15,215	14,705
Total equity		**2,170**	1,927	2,144
Total liabilities and equity		**18,558**	17,142	16,849

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

Approval date of the financial statements: November 19, 2018

* See Note 3.1 for information about early adoption of IFRS 16 - Leases

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

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 10)	**6,995**	7,331	**2,301**	2,415	9,789
Costs of activity					
General and operating expenses(Note 11)	**2,494**	2,888	**815**	956	3,891
Salaries	**1,507**	1,500	**494**	502	2,005
Depreciation and amortization	**1,609**	1,288	**547**	436	1,715
Other operating expenses (income), net (Note 12)	**123**	(28)	**16**	(23)	68
	5,733	5,648	**1,872**	1,871	7,679
Operating profit	**1,262**	1,683	**429**	544	2,110
Finance expenses (income)					
Financing expenses	**383**	358	**127**	112	477
Financing income	**(56)**	(61)	**(18)**	(18)	(60)
Financing expenses, net	**327**	297	**109**	94	417
Profit after financing expenses, net	**935**	1,386	**320**	450	1,693
Share in losses of equity-accounted investees	**(3)**	(4)	**(1)**	-	(5)
Profit before income tax	**932**	1,382	**319**	450	1,688
Income tax	**243**	352	**85**	128	453
Profit for the period	**689**	1,030	**234**	322	1,235
Basic earnings per share (NIS)	**0.25**	0.37	**0.08**	0.12	0.45

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**689**	1,030	**234**	322	1,235
Items of other comprehensive income (loss) (net of tax)	**23**	(20)	**(3)**	(12)	(8)
Total comprehensive income for the period	**712**	1,010	**231**	310	1,227

* See Note 3.1 for information about early adoption of IFRS 16 - Leases

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Attributable to shareholders of the Company						
Nine months ended September 30, 2018 (Unaudited)*						
Balance as at January 1, 2018	**3,878**	**384**	**390**	**(85)**	**(2,423)**	**2,144**
Profit for the period	**-**	**-**	**-**	**-**	**689**	**689**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**23**	**-**	**23**
Total comprehensive income for the period	**-**	**-**	**-**	**23**	**689**	**712**
Transactions with shareholders recognized directly in equity						
Dividends to Company shareholders (see Note 9)	**-**	**-**	**-**	**-**	**(686)**	**(686)**
Balance as at September 30, 2018	**3,878**	**384**	**390**	**(62)**	**(2,420)**	**2,170**
Nine months ended September 30, 2017 (Unaudited):						
Balance as at January 1, 2017	3,878	384	390	(88)	(2,361)	2,203
Profit for the period	-	-	-	-	1,030	1,030
Other comprehensive loss for the period, net of tax	-	-	-	(20)	-	(20)
Total comprehensive income for the period	-	-	-	(20)	1,030	1,010
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(1,286)	(1,286)
Balance as at September 30, 2017	3,878	384	390	(108)	(2,617)	1,927

* See Note 3.1 for information about early adoption of IFRS 16 - Leases

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

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Attributable to shareholders of the Company						
Three months ended September 30, 2018 (Unaudited)*						
Balance as at July 1, 2018	**3,878**	**384**	**390**	**(59)**	**(2,336)**	**2,257**
Profit for the period	**-**	**-**	**-**	**-**	**234**	**234**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Total comprehensive income for the period	**-**	**-**	**-**	**(3)**	**234**	**231**
Transactions with shareholders recognized directly in equity						
Dividends to Company shareholders (see Note 9)	**-**	**-**	**-**	**-**	**(318)**	**(318)**
Balance as at September 30, 2018	**3,878**	**384**	**390**	**(62)**	**(2,420)**	**2,170**
Three months ended September 30, 2017 (Unaudited)						
Balance as at July 1, 2017	3,878	384	390	(96)	(2,231)	2,325
Profit for the period	-	-	-	-	322	322
Other comprehensive loss for the period, net of tax	-	-	-	(12)	-	(12)
Total comprehensive income for the period	-	-	-	(12)	322	310
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(708)	(708)
Balance as at September 30, 2017	3,878	384	390	(108)	(2,617)	1,927
Year ended December 31, 2017 (Audited)						
Balance as at January 1, 2017	3,878	384	390	(88)	(2,361)	2,203
Profit in 2017	-	-	-	-	1,235	1,235
Other comprehensive income (loss) for the year, net of tax	-	-	-	3	(11)	(8)
Total comprehensive income for 2017	-	-	-	3	1,224	1,227
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(1,286)	(1,286)
Balance as at December 31, 2017	3,878	384	390	(85)	(2,423)	2,144

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

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**689**	1,030	**234**	322	1,235
Adjustments:					
Depreciation and amortization (Note 3.1)	**1,609**	1,288	**547**	436	1,715
Share in losses of equity-accounted investees	**3**	4	**1**	-	5
Financing expenses, net	**329**	321	**105**	94	426
Capital gain, net	**(7)**	(64)	**(1)**	(45)	(66)
Income tax expenses	**243**	352	**85**	128	453
Impairment loss of intangible assets	**10**	-	**10**	-	87
Change in trade and other receivables	**200**	121	**66**	105	193
Change in inventory	**6**	(10)	**(7)**	2	(35)
Change in trade and other payables	**(140)**	64	**(30)**	103	10
Change in provisions	**12**	15	**(3)**	16	15
Change in employee benefits	**44**	(62)	**(40)**	(65)	(33)
Change in other liabilities	**(18)**	(30)	**(2)**	4	(34)
Net income tax paid	**(382)**	(346)	**(82)**	(118)	(446)
Net cash from operating activities	**2,598**	2,683	**883**	982	3,525
Cash flow used for investing activities					
Purchase of fixed assets	**(889)**	(835)	**(308)**	(255)	(1,131)
Investment in intangible assets and deferred expenses	**(301)**	(304)	**(95)**	(98)	(399)
Payment of permit fees and purchase tax for the Sakia complex (Note 7)	**(121)**	-	**(9)**	-	-
Investment in deposits with banks and others	**(2,124)**	(76)	**(190)**	(76)	(276)
Proceeds from bank deposits and others	**907**	558	**344**	-	564
Proceeds from the sale of fixed assets	**43**	76	**12**	48	98
Payment of betterment tax for the sale of the Sakia complex (Note 7)	**(80)**	-	**-**	-	-
Miscellaneous	**22**	(6)	**14**	(7)	(4)
Net cash used in investing activities	**(2,543)**	(587)	**(232)**	(388)	(1,148)

Condensed Consolidated Interim Statements of Cash Flows (Contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows used in financing activities					
Issue of debentures and receipt of loans	**320**	1,917	**-**	500	2,517
Repayment of debentures and loans	**(232)**	(1,325)	**(50)**	(456)	(1,587)
Payments of principal and interest for leases (Note 3.1)	**(330)**	-	**(109)**	-	-
Dividend paid (Note 9)	**(368)**	(578)	**-**	-	(1,286)
Interest paid	**(209)**	(217)	**(5)**	(18)	(415)
Payment to Eurocom DBS for acquisition of shares and DBS loan	**-**	(61)	**-**	-	(61)
Miscellaneous	**(9)**	(9)	**(2)**	(3)	(12)
Net cash from (used in) financing activities	**(828)**	(273)	**(166)**	23	(844)
Increase (decrease) in cash and cash equivalents, net	**(773)**	1,823	**485**	617	1,533
Cash and cash equivalents at beginning of period	**2,181**	648	**923**	1,854	648
Cash and cash equivalents at end of period	**1,408**	2,471	**1,408**	2,471	2,181

* See Note 3.1 for information about early adoption of IFRS 16 - Leases

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

1. General

1.1 Reporting Entity

Bezeq – The Israel Telecommunication Corporation Limited ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company as at September 30, 2018 include those of the Company and its subsidiaries (jointly referred to as "the Group"). The Group is a principal provider of communication services in Israel (see also Note 14 – Segment Reporting).

1.2 Investigation of the Israel Securities Authority and the Police Force

For information about the investigation of the Israel Securities Authority and the Police Force, see Note 1.2.1 and 1.2.2 to the 2017 Annual Financial Statements.

The Company does not have full information about the investigations, their content, the materials and the evidence in the possession of the legal authorities.

Accordingly, the Company is unable to assess the effects of the investigations, their findings, and their results on the Company, as well as on the financial statements, and on the estimates used in the preparation of these financial statements, if any.

Following the special circumstances and the restrictions as described above and the restrictions that were specified, the Company performed compensatory actions, reviews and tests and procedures in order to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the Israel Securities Regulations (Periodic and Immediate Reports), 1970. In this respect, the Company, carried out the following actions, among others:

A. A special review of the adequacy of the control processes in the Company by outside consultants, led by the Company's Internal Auditor and under the supervision of a special, independent committee from among the Company's Board members. Further to this review, the special committee approved various amendments to the control processes and the work in the Company. Most of the amendments have been implemented.

B. A special review of the issues of corporate governance led by the Company's Internal Auditor and supported by outside consultants. The work included deeper reviews on the issues of risk management, compliance, enforcement, and internal control. The Group companies are implementing adjustments according to the multi-annual guidelines decided upon.

C. Retaining the services of professional accounting support to assist the process of preparing the financial statements of DBS for 2017.

D. The addition of supplementary procedures on specific subjects in order to enhance the internal control over financial reporting and over disclosure on those subjects.

E. Changes in the composition of the Group's senior officers

2. Basis of Preparation

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

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as at December 31, 2017 and the year then ended, and their accompanying notes ("the Annual Financial Statements"). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on November 19, 2018.

2.4 Use of estimates and judgments

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

The judgments made by management when applying the Group's accounting policy and the principal assumptions underlying assessments that involve uncertainty, are consistent with those used in the Annual Financial Statements, other than as set out below and in Note 3.1 below regarding early application of IFRS 16.

Subject	Principal assumptions	Possible effects
Determining the lease term	When determining the term of the lease, the Group takes into consideration the period in which the lease cannot be canceled, including options to extend that will probably be exercised and/or options to cancel that will probably not be exercised.	An increase or decrease in the initial measurement of a right-of-use asset and a lease liability and in depreciation and financing expenses in subsequent periods.
Discount rate for a lease liability	The Group discounts the lease payments at the incremental borrowing rate (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral).	An increase or decrease in the lease liability, right-of-use asset, capital, and amortization and financing expenses to be recognized

3. Reporting Principles and Accounting Policy

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

3.1 Initial application of IFRS 16, Leases

3.1.1 Further to Note 3.17.2 to the Annual Financial Statements as at December 31, 2017 and for the year then ended, as from January 1, 2018 ("the Initial Application Date"), the Group early adopts IFRS 16 - Leases ("IFRS 16" or "the Standard").

The main effect of early adoption of IFRS 16 is reflected in annulment of the existing requirement from lessees to classify leases as operating (off-balance sheet) or finance leases and the presentation of a unified model for the accounting treatment of all leases like the accounting treatment of finance leases in the previous accounting standard on leases, IAS 17. Accordingly, until the date of initial application, the Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all the risks and rewards from the assets.

In accordance with IFRS 16, for agreements in which the Group is the lessee, the Group applies a unified accounting model, by which it recognizes a right-of-use asset and a lease liability at the inception of the lease contract for all the leases in which the Group has a right to control identified assets for a specified period of time. Accordingly, the Group recognizes depreciation and amortization expenses in respect of a right-of-use asset, examines the right-of-use asset for impairment in accordance with IAS 36, Impairment of Assets, and recognizes financing expenses on the lease liability. Therefore, as from the date of initial application, lease expenses relating to assets leased under an operating lease, which were presented as part of general and administrative expenses in the income statement, are recognized as assets that are depreciated in the depreciation and amortization expense item.

The Group applies IFRS 16 using the cumulative effect approach without a restatement of comparative information.

In respect of all the leases, the Group has elected to apply the transitional provision of recognizing a lease liability at the initial application date according to the present value of the future lease payments discounted at the incremental interest rate of the lessee at that date and concurrently recognizing a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of IFRS 16 did not have an effect on the balance of the Group's equity and retained earnings at the date of initial application.

Upon initial application, the Group also elected to apply the following expedients, as permitted by the Standard:

A. Relying on a previous assessment of whether an arrangement is a lease or contains a lease at the application date of the Standard. Accordingly, the agreements that were previously classified as operating leases are accounted for in accordance with the new standard, and the agreements that were previously classified as service contracts continue to be accounted for as such without change.

B. Applying a single discount rate to a portfolio of leases with similar characteristics

C. Not separating non-lease components from the lease components and accounting for all the components as a single lease component

D. Relying on a previous assessment of whether a contract is onerous in accordance with IAS 37 at the transition date, as an alternative to assessing the impairment of right-of-use assets

E. Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application

F. Using hindsight in determining the lease period if the contract includes options to extend or cancel the lease

3.1.2 Presented below are the principal accounting policies for leases in which the Group is the lessee, which were applied as from January 1, 2018 following the application of the Standard:

(1) Determining whether an arrangement contains a lease

At the inception of the arrangement, the Group determines whether the arrangement is or contains a lease, and examines whether the arrangement transfers the right to control the use of an identifiable asset for a period of time in return for payment. When assessing whether the arrangement transfers control over the use of an identifiable asset, the Group estimates, over the lease term, whether it has both rights set out below:

(A) The right to essentially obtain all the economic rewards associated with the use of the identifiable asset

(B) The right to direct the use of the identifiable asset

For lease contracts that include non-lease components, such as services or maintenance, which are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

(2) Leased assets and lease liability

Contracts that award the Group the right to control the use of an identifiable asset over a period of time for a consideration are accounted for as leases. At initial recognition, the Group recognizes a liability at the present value of the future minimum lease payments (these payments do not include variable lease payments that are not linked to the CPI, or to any change in the rate of interest, or any change in the exchange rate), and concurrently, the Group recognizes a right-of-use asset at the amount of the liability, adjusted for lease payments paid in advance or accrued, plus direct costs incurred in the lease.

Since the interest rate implicit in the lease is not readily determinable, the incremental borrowing rate of the Group is used (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral).

Subsequent to initial recognition, the asset is accounted for using the cost model and it is amortized over the lease term or the useful life of the asset (whichever is earlier).

(3) The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the Group will exercise or not exercise the option.

(4) Depreciation of a right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

Type of asset	**Weighted average of depreciation period as at January 1, 2018 (years)**
Cellular communications sites	6.5
Buildings	7
Vehicles	2

3.1.3 At the date of initial application of IFRS 16, the Group recognized right-of-use assets and lease liabilities in the amount of NIS 1.5 billion.

In measurement of the lease liabilities, the Group discounted lease payments using the nominal incremental borrowing rate at January 1, 2018. The discount rates used to measure lease liabilities range between 1.3% and 3.6% (weighted average of 1.5%).

Discounted interest rates were calculated on the basis of the market value of the marketable debentures issued by the Company. To determine the discount interest for each period, the risk-free curve was adjusted according to the risk incorporated in the debentures issued by the Company. The range of interest is affected by differences in the lease term.

The difference between the Group's agreements for the minimum contractual lease payments in the amount of NIS 1,020 million, as reported in Note 18.1 to the Annual Financial Statements, and the lease liabilities recognized at the initial application date of IFRS 16, amounting to NIS 1.5 billion, is mainly due to the options for extending the lease, which will most likely be exercised, which were not included in the reporting in Note 18.1 to the Annual Financial Statements.

3.1.4 The tables below summarize the effects on the condensed consolidated interim statement of financial position as at September 30, 2018 and on the condensed consolidated interim statements of income and cash flows for the nine and three months then ended, assuming that the Group's previous policy regarding leases continued during these periods.

Effect on the condensed consolidated interim statement of financial position as at September 30, 2018

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Other receivables	341	**(49)**	**292**
Right-of-use assets	-	**1,434**	**1,434**
Trade and other payables	1,679	**(77)**	**1,602**
Current maturities of liabilities for leases	-	**443**	**443**
Long-term lease liabilities	-	**1,024**	**1,024**
Equity	2,175	**(5)**	**2,170**

Effect on the consolidated interim statement of income for the nine months ended September 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	2,803	**(309)**	**2,494**
Depreciation and amortization expenses	1,313	**296**	**1,609**
Operating profit	1,249	**13**	**1,262**
Financing expenses	308	**19**	**327**
Profit after financing expenses	941	**(6)**	**935**
Profit before income tax	938	**(6)**	**932**
Income tax	242	**1**	**243**
Profit for the period	694	**(5)**	**689**

Effect on the consolidated interim statement of income for the three months ended September 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	920	**(105)**	**815**
Depreciation and amortization expenses	446	**101**	**547**
Operating profit	425	**4**	**429**
Financing expenses	100	**9**	**109**
Profit after financing expenses	325	**(5)**	**320**
Profit before income tax	324	**(5)**	**319**
Income tax	84	**1**	**85**
Profit for the period	238	**(4)**	**234**

Effect on the consolidated interim statement of cash flow for the nine months ended September 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	2,289	**309**	**2,598**
Net cash used in investing activities	(2,564)	**21**	**(2,543)**
Net cash from financing activities	(498)	**(330)**	**(828)**

Effect on the consolidated interim statement of cash flow for the three months ended September 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	781	**102**	**883**
Net cash used in investing activities	(239)	**7**	**(232)**
Net cash from financing activities	(57)	**(109)**	**(166)**

3.2 Initial application of IFRS 9, Financial Instruments (2014)

As from January 1, 2018, the Group applies IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The new Standard includes revised guidance on the classification and measurement of financial instruments, a new ‘expected credit loss’ model for calculating impairment for most financial assets, and new guidance and requirements with respect to hedge accounting Initial application of the Standard did not have a material quantitative effect on the Group’s financial statements.

4. <u>Group entities</u>

4.1 A detailed description of the Group entities appears in Note 12 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

4.2 DBS Satellite Services (1998) Ltd. (“DBS”)

4.2.1 Further to Note 12.2.1 to the Annual Financial Statements regarding the Company’s advance payments on account of the second contingent consideration for acquisition of the shares and loans of DBS, on April 22, 2018, a liquidation order was issued for Eurocom Communications Ltd. which came into effect on May 3, 2018, and a liquidation order was issued for Eurocom DBS Ltd. As a result of the aforesaid, the Company adjusted the fair value of the amount expected to be returned to it from the surplus of advance payments that it paid, to NIS 25 million as at March 31, 2018 and NIS 20 million as at September 30, 2018. As a result, the Company recognized financing expenses in the amount of NIS 18 million in the statement of income for the first quarter of 2018 and an additional NIS 5 million in the statement of income for the third quarter of 2018.

4.2.2 Further to Note 18.2 to the Annual Financial Statements regarding the amendment to the agreement between DBS and Space Communications Ltd. (“Spacecom”) in 2018, on March 29, 2018, the amendment was signed. In April 2018, the satellite segment leased by DBS was replaced following the amendment to the 2017 agreement.

4.2.3 In April 2018, Spacecom announced that it had received a letter from a government entity, according to which “government entities intend to operate a satellite at the Israel Aerospace Industries at point 4.00 W in accordance with their requirements.” Spacecom further stated that it is unable to estimate the feasibility and likelihood of operating such a satellite.

In September 2018, Spacecom announced that the agreement for the construction of the Amos 8 satellite will not take effect and it will be canceled and that it is taking steps to optimize the Amos 8 satellite plan and assessing the feasibility of several alternatives, including possible cooperation with the Government Israel. DBS believes that cancellation of the agreement may result in a delay in the start of the Amos 8 satellite activity compared to the timetable under this agreement.

4.2.4 In April 2018, the manufacturer of the HD Zapper and 4K PVR set top boxes that DBS acquires announced that it intends to discontinue the manufacture of the set top boxes in November 2018. In July 2018, DBS signed two agreements with other suppliers for the manufacture and sale of set top boxes by an alternative manufacturer.

4.2.5 In May 2018, Cisco informed DBS that it had sold its multi-channel television services to a third party, and in October 2018, DBS was informed that the sale of the activity has been completed. DBS is assessing the significance of this matter, taking into account its agreements with Cisco and the relevant operations.

4.2.6 On July 5, 2008, the shareholders' loan to DBS (including accrued interest), the balance of which amounted to NIS 97 million on that date, was converted to capital which was recorded in the financial statements of DBS as a premium on shares, and the Company made an additional investment in the capital of DBS against a premium in the amount of NIS 100 million.

4.2.7 Following the conversion of the shareholders loans and investment in the capital in 2016 and as a result of the conversion of the Company's share in Debentures B of DBS to capital, conversion of the loan from the Company into capital and the investment in the capital of DBS in the period, the equity of DBS as at September 30, 2018 and December 31, 2017 amounted to NIS 956 million and NIS 348 million, respectively. As at September 30, 2018, the working capital deficit amounts to NIS 301 million. The management of DBS believes that the financial resources at its disposal, which include the deficit in working capital and the investment in the equity of DBS by the Company, will be sufficient for the operations of DBS for the coming year.

5. Income tax

As at September 30, 2018, the Company's assets include a deferred tax asset of NIS 1,166 million for the carry-forward losses of DBS. The approval from the Tax Authority for the utilization of the tax asset is subject to approval from the Ministry of Communications for cancellation of the structural separation at Bezeq. The Company believes that the approval of the Ministry of Communications for cancellation of the structural separation is not expected to be received in the near future.

The Company applied to the Minister of Communications for approval of a change in the Group's legal structure, such that the Company will continue the current format of its operations, and at the same time, will establish a registered wholly-owned partnership to which the assets, licenses, and activity of the subsidiaries DBS, Pelephone, and Bezeq International will be transferred. The establishment of the partnership will allow a merger of the subsidiaries in practice and, subject to the approval of the Tax Authority, the offsetting of the carryforward losses of DBS and the utilization of the tax asset.

The Company applied to the Ministry of Communications for clarification regarding the date that any of these approvals will be received. The assumption of utilization of the tax asset is based on the current assessment of the Company's management, that taking into account the measures described above, it is more likely than not that approval will be received to allow the utilization of the tax asset.

Further to Note 2.6 to the financial statements as at December 31, 2017, the tax asset is a significant estimate and the actual results may differ from this estimate, if the Company's current estimates are not realized.

6. Assessment of impairment in the cellular communications segment

In view of the intensifying competition in the cellular market, Pelephone updated its forecasts for the coming years. As a result, the Company estimated the recoverable amount of the cash-generating cellular communications unit as at June 30, 2018.

The value in use of the cellular communications cash-generating unit for Bezeq Group was calculated by discounting future cash flows (DCF) based on a four and a half year cash flow forecast as at the end of the current period with the addition of the salvage value. The cash flow forecast is based, among other things, on Pelephone's performance in recent years and assessments regarding the expected trends in the cellular market (the number of players, level of competition, price level, and regulation aspects). The main assumption underlying the forecast is that competition in the market will continue with high intensity in the short term and that market convergence and price increases will occur in the medium to long term The revenue forecast is based on assumptions regarding the number of Pelephone subscribers, the average revenue per user, and the volume of sales of terminal equipment, and the operating, selling, marketing and investment expenses were adjusted to the volume of Pelephone's activity.

The nominal capital used was 9.97% (after tax). In addition, it was assumed that the permanent growth of Pelephone will be 2.5%.

The valuation was prepared by an independent appraiser. Based on this valuation, the Group was not required to record amortization for impairment of a cellular communication cash-generating unit as at June 30, 2018. The Company believes that as at September 30, 2018, there were no changes that may have a material effect on the conclusions of the valuation.

7. Investment property

Further to Note 18.8 to the Annual Financial Statements regarding the Company's agreement for the sale of a real estate asset in the Sakia complex, as at the date of the financial statements, the buyer deposited NIS 183.3 million with a trustee on account of the consideration for the transaction.

On May 21, 2018, a demand was received from the Israel Land Authority ("ILA") for payment of a permit fee in the amount of NIS 148 million (linked to the CPI). In June 2018, the Company paid an amount of NIS 112 million on account of the demand and in July 2018, the Company deposited a bank guarantee in the amount of NIS 44 million for the balance of the demand plus VAT. The Company filed an objection for the demand on legal grounds and it also intends to file an assessor objection.

On August 5, 2018, the Company received a demand for payment from the local planning and building committee in Or Yehuda, for betterment levy in the amount of NIS 143.5 million for disposal of the property by way of a sale. The Company filed an appeal against the demand for the betterment levy, and sent a demand to the Israel Lands Authority for full payment of the betterment levy according to the undertaking of the Authority in the settlement agreement.

It should be noted that the amount for a permit fee to be determined at the end of the proceedings may also affect the amount of the betterment levy the Company will be required to pay to the Planning Committee. If the Company is required to pay the full amount of the betterment levy and the full amount of the demand for payment of the permit fee, then the capital gain to be recorded in its financial statements is expected to amount to NIS 250 million. The Company believes that the amount of the permit fee and the betterment levy that it will be required to pay is expected to be low and possibly even significantly lower than the total amount of the demands.

On September 4, 2018, the Israel Lands Authority and the Company signed a lease referring to the Sakia asset.

The Company is expected to record a capital gain on the date on which the conditions for recognition of the sale of the asset are fulfilled in accordance with accounting principles.

The real estate asset in the Sakia complex was presented as investment property. Investment property is initially measured at cost. In subsequent periods, investment property is measured at cost less accumulated depreciation.

8. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, among other things, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 99 million, where provisions are required to cover the exposure arising from such Legal Claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at September 30, 2018 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 5 billion. There is also additional exposure of NIS 4.4 billion for claims, the chances of which cannot yet be assessed.

In addition, motions for certification of class actions have been filed against the Group companies, for which the Group has additional exposure beyond the aforesaid, since the exact amount of the claim is not stated in the claim.

The amounts of the additional exposure in this note are linked to the CPI and are stated net of interest.

8.1 Following is a detailed description of the Group's contingent liabilities as at September 30, 2018, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims that cannot yet be assessed
		(Unaudited)		
		NIS million		
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	63	4,813	532
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	4	13	3,822(2)(1)
Claims of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Group in respect of various payments and recognition of various salary components as components for calculation of payments to Group employees.	1	4	3
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the Authorities (including property taxes).	31	28	-
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	-	102	1
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	-	69	-
Total legal claims against the Company and subsidiaries		99	5,029	4,358

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

(2) Two motions for certification of a class action amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers in the Group and companies in the group of the Company's controlling shareholders regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint motion is expected to be filed instead of these two motions. The proceeding was stayed due to the investigation. On August 21, 2018, the Attorney General requested to update the court again by December 31, 2018 of the possibility of advancing the proceeding. A court ruling has not yet been handed down.

8.2 Subsequent to the reporting date, claims amounting to NIS 207 million were filed against Group companies, and a claim without a monetary estimate. At the approval date of the financial statements, the chances of these claims cannot yet be assessed. In addition, claims with exposure of NIS 239 million and two claims without a monetary estimate came to an end.

8.3 See Notes 17.2 to 17.4 to the Annual Financial Statements regarding additional proceedings against the Group companies and officers.

9. Equity

9.1 On April 26, 2018, the general meeting of the Company's shareholders approved the distribution of a cash dividend of NIS 368 million to the Company's shareholders (following the recommendation of the Company's Board of Directors of March 28, 2018). The dividend was paid on May 10, 2018.

9.2 On September 13, 2018, the general meeting of the Company's shareholders approved the distribution of a cash dividend of NIS 318 million to the Company's shareholders (following the recommendation of the Company's Board of Directors of August 22, 2018). The dividend was paid on October 10, 2018.

10. Revenue

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	**2017**	**2018**	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Domestic fixed-line communication (Bezeq Fixed-Line)					
Internet - infrastructure	**1,147**	1,109	**381**	372	1,488
Fixed-line telephony	**855**	944	**275**	310	1,255
Transmission and data communication	**578**	582	**191**	190	775
Cloud and digital services*	**197**	170	**69**	57	230
Other services	**156**	164	**45**	55	205
	2,933	2,969	**961**	984	3,953
Cellular telephony - Pelephone					
Cellular services and terminal equipment	**1,286**	1,315	**438**	451	1,743
Sale of terminal equipment	**507**	544	**155**	172	757
	1,793	1,859	**593**	623	2,500
Multi-channel television - DBS	**1,117**	1,246	**367**	406	1,650
International communications, ISP, and NEP services - Bezeq International	**987**	1,097	**323**	345	1,467
Other	**165**	160	**57**	57	219
	6,995	7,331	**2,301**	2,415	9,789

* Cloud and digital services were reclassified and presented separately to reflect the change in the mix of revenues in fixed-line domestic communications.

11. General and operating expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	**2017**	**2018**	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Terminal equipment and materials	**527**	613	**167**	181	855
Interconnectivity and payments to domestic and international operators	**585**	603	**197**	201	805
Marketing and general	**426**	437	**135**	159	595
Content costs	**480**	481	**155**	158	636
Maintenance of buildings and sites*	**213**	437	**74**	152	584
Services and maintenance by sub-contractors	**207**	198	**68**	67	260
Vehicle maintenance*	**56**	119	**19**	38	156
	2,494	2,888	**815**	956	3,891

* See Note 3.1 for information about early implementation of IFRS 16 - Leases

12. Other operating expenses (income), net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	**2017**	**2018**	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Provision for severance pay in voluntary redundancy	**93**	15	**-**	3	23
Capital gains (mainly for disposal of real estate)	**(7)**	(64)	**(1)**	(45)	(66)
Others	**27**	21	**7**	19	24
Impairment loss from intangible assets	**10**	-	**10**	-	87
Total operating expenses (income), net	**123**	(28)	**16**	(23)	68

13. Financial Instruments

13.1 Fair value

13.1.1 Financial instruments at fair value for disclosure purposes only

The table below shows the differences between the carrying amount and the fair value of financial liabilities. The methods used to estimate the fair values of financial instruments are described in Note 29.8 to the Annual Financial Statements.

	September 30, 2018		September 30, 2017		December 31, 2017	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and institutions (unlinked)	**4,734**	**4,897**	4,022	4,294	4,436	4,693
Debentures issued to the public (CPI-linked)	**4,129**	**4,342**	4,135	4,355	4,088	4,338
Debentures issued to the public (unlinked)	**1,659**	**1,694**	1,680	1,758	1,649	1,745
Debentures issued to financial institutions (CPI-linked)	**15**	**15**	22	25	15	17
Debentures issued to financial institutions (unlinked)	**256**	**268**	359	388	302	326
	10,793	**11,216**	10,218	10,820	10,490	11,119

13.1.2 Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, with details of the evaluation method. The methods used to estimate the fair value are described in Note 29.7 to the Annual Financial Statements.

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: Investment in marketable securities at fair value through profit or loss	**3**	20	14
Level 2: forward contracts	**(170)**	(217)	(212)
Level 3: contingent consideration for a business combination	**20**	43	43

14. Segment Reporting

14.1 Operating segments

	Nine months ended September 30, 2018 (Unaudited):						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	**2,933**	**1,793**	**987**	**1,117**	**165**	**-**	**6,995**
Inter-segment revenues	**237**	**32**	**34**	**-**	**9**	**(312)**	**-**
Total revenues	**3,170**	**1,825**	**1,021**	**1,117**	**174**	**(312)**	**6,995**
Depreciation and amortization	**633**	**478**	**134**	**239**	**16**	**109**	**1,609**
Segment results – operating profit (loss)	**1,311**	**2**	**95**	**(17)**	**(25)**	**(104)**	**1,262**
Financing expenses	**376**	**14**	**12**	**10**	**-**	**(29)**	**383**
Financing income	**(23)**	**(42)**	**(1)**	**(17)**	**-**	**27**	**(56)**
Total financing expenses (income), net	**353**	**(28)**	**11**	**(7)**	**-**	**(2)**	**327**
Segment profit (loss) after financing expenses, net	**958**	**30**	**84**	**(10)**	**(25)**	**(102)**	**935**
Share in losses of associates	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Segment profit (loss) before income tax	**958**	**30**	**84**	**(10)**	**(28)**	**(102)**	**932**
Income tax	**236**	**8**	**20**	**1**	**-**	**(22)**	**243**
Segment results – net profit (loss)	**722**	**22**	**64**	**(11)**	**(28)**	**(80)**	**689**
Segment assets*	**9,604**	**4,081**	**1,322**	**1,613**	**154**	**437**	**17,211**
Investment in associates	**-**	**-**	**5**	**-**	**4**	**-**	**9**
Goodwill	**-**	**-**	**6**	**-**	**10**	**1,322**	**1,338**
Segment liabilities*	**14,842**	**1,385**	**571**	**657**	**83**	**(1,150)**	**16,388**

* Segment assets and liabilities include the right-of-use assets and liabilities for leases, due to early adoption of IFRS 16 - Leases, as described in Note 3.1.

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14. Segment Reporting (contd.)

14.1 Operating segments (contd.)

	Nine months ended September 30, 2017 (Unaudited):						
	Domestic fixed-line communication	**Cellular communications**	**International communications and internet services**	**Multi-channel television**	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	2,969	1,859	1,097	1,246	160	-	7,331
Inter-segment revenues	228	36	61	-	13	(338)	-
Total revenues	3,197	1,895	1,158	1,246	173	(338)	7,331
Depreciation and amortization	543	293	100	213	15	124	1,288
Segment results – operating profit (loss)	1,501	57	133	136	(18)	(126)	1,683
Financing expenses	305	3	7	73	-	(30)	358
Financing income	(24)	(40)	(1)	(15)	(6)	25	(61)
Total financing expenses (income), net	281	(37)	6	58	(6)	(5)	297
Segment profit (loss) after financing expenses, net	1,220	94	127	78	(12)	(121)	1,386
Share in losses of associates	-	-	-	-	(4)	-	(4)
Segment profit (loss) before income tax	1,220	94	127	78	(16)	(121)	1,382
Income tax	308	20	31	333	-	(340)	352
Segment results – net profit (loss)	912	74	96	(255)	(16)	219	1,030

14. Segment Reporting (contd.)

14.1 Operating segments (contd.)

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

14. Segment Reporting (contd.)

14.1 Operating segments (contd.)

	Three months ended September 30, 2017 (Unaudited):						
	Domestic fixed-line communication	**Cellular communications**	**International communications and internet services**	**Multi-channel television**	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	983	623	345	406	58	-	2,415
Inter-segment revenues	78	12	22	-	4	(116)	-
Total revenues	1,061	635	367	406	62	(116)	2,415
Depreciation and amortization	186	100	34	72	5	39	436
Segment results – operating profit (loss)	492	22	39	35	(4)	(40)	544
Financing expenses	119	3	3	1	(1)	(13)	112
Financing income	(12)	(12)	-	(2)	-	8	(18)
Total financing expenses (income), net	107	(9)	3	(1)	(1)	(5)	94
Segment profit (loss) before income tax	385	31	36	36	(3)	(35)	450
Income tax	109	7	9	159	-	(156)	128
Segment results – net profit (loss)	276	24	27	(123)	(3)	121	322

14. Segment Reporting (contd.)

14.1 Operating segments (contd.)

	Year ended December 31, 2017 (Audited)						
	Domestic fixed-line communication	**Cellular communications**	**International communications and internet services**	**Multi-channel television**	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	3,953	2,500	1,466	1,650	220	-	9,789
Inter-segment revenues	291	46	71	-	17	(425)	-
Total revenues	4,244	2,546	1,537	1,650	237	(425)	9,789
Depreciation and amortization	728	383	135	285	20	164	1,715
Segment results – operating profit (loss)	1,971	72	174	163	(20)	(250)	2,110
Financing expenses	439	3	12	81	-	(58)	477
Financing income	(36)	(54)	(4)	(10)	(5)	49	(60)
Total financing expenses (income), net	403	(51)	8	71	(5)	(9)	417
Segment profit (loss) after financing expenses, net	1,568	123	166	92	(15)	(241)	1,693
Share in profits (losses) of associates	-	-	-	-	(4)	(1)	(5)
Segment profit (loss) before income tax	1,568	123	166	92	(19)	(242)	1,688
Income tax	396	28	39	336	-	(346)	453
Segment results – net profit (loss)	1,172	95	127	(244)	(19)	104	1,235
Segment assets	9,086	3,271	1,199	1,502	174	269	15,501
Investment in associates	-	-	5	-	(6)	11	10
Goodwill	-	-	6	-	10	1,322	1,338
Segment liabilities	13,901	536	410	1,154	64	(1,360)	14,705
Investments in fixed assets and intangible assets	851	331	169	237	19	-	1,607

14.2 Adjustment of profit or loss for reporting segments

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	**2017**	**2018**	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Operating profit for reporting segments	**1,391**	1,826	**481**	587	2,380
Financing expenses, net	**(327)**	(297)	**(109)**	(94)	(417)
Amortization of surplus cost for intangible assets and others	**(104)**	(120)	**(40)**	(35)	(250)
Share in losses of associates	**(3)**	(4)	**(1)**	-	(5)
Loss for operations classified in other categories and other adjustments	**(25)**	(23)	**(12)**	(8)	(20)
Income before taxes on income	**932**	1,382	**319**	450	1,688

	September 30, 2018	December 31, 2017
	(Unaudited)	**(Audited)**
	NIS million	**NIS million**
Assets		
Assets from reporting segments	**16,631**	15,069
Assets attributable to operations in other categories	**168**	178
Goodwill not attributable to an operating segment	**1,322**	1,322
Surplus cost not attributable to an operating segment	**1,585**	1,636
Less inter-segment assets and other adjustments	**(1,148)**	(1,356)
Consolidated assets	**18,558**	16,849
Liabilities		
Liabilities from reporting segments	**17,457**	16,001
Liabilities attributable to operations in other categories	**83**	64
Less inter-segment liabilities	**(1,152)**	(1,360)
Consolidated liabilities	**16,388**	14,705

15. Additional significant events in and subsequent to the Reporting Period

15.1 The Company's Board of Directors approved an early retirement plan in 2018 at a cost of NIS 90 million. The retirement plan is for the early retirement of 75 employees, in accordance with the terms of the valid collective agreement. In 2018, the Company recognized expenses amounting to NIS 90 million in its financial statements.

15.2 Further to Note 13.3.4 to the Annual Financial Statements regarding the terms that the Company undertook for the loans and debentures, on April 22, 2018, a liquidation order was issued for Eurocom Communications Ltd. (which came into effect on May 3, 2018) and as part of the liquidation ruling, the court clarified that the ruling does not derogate from the control permit in the Company. Subsequently, on October 24, 2018, the Company received a notice from Internet Gold-Golden Lines Ltd., which is controlled by Eurocom Communications and which controls B Communications, the controlling shareholder in the Company, whereby approval was received for control (effective as from May 3, 2018) in accordance with section 4D of the Communications Law and section 3 of the Communications Order for special managers of Eurocom Communications, who were appointed as part of the liquidation process of Eurocom Communications. It should be clarified that the aforesaid has no implications on the Company's debentures and loans.

15.3 For information about the undertaking to issue Debentures (Series 9) of the Company in 2018 and the raising of debt in March 2018 in the amount of NIS 320 million, see Note 13.6 to the Annual Financial Statements.

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

16.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**948**	1,310	1,128
Non-current assets	**3,133**	2,078	2,143
Total assets	**4,081**	3,388	3,271
Current liabilities	**656**	575	442
Long-term liabilities	**729**	98	94
Total liabilities	**1,385**	673	536
Equity	**2,696**	2,715	2,735
Total liabilities and equity	**4,081**	3,388	3,271

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,318**	1,345	**449**	461	1,782
Revenues from sales of terminal equipment	**507**	550	**155**	174	764
Total revenues from services and sales	**1,825**	1,895	**604**	635	2,546
Cost of services and sales	**1,575**	1,616	**521**	534	2,171
Gross profit	**250**	279	**83**	101	375
Selling and marketing expenses	**176**	158	**58**	58	215
General and administrative expenses	**66**	64	**21**	21	88
Other operating expenses	**6**	-	**6**	-	-
	248	222	**85**	79	303
Operating profit (loss)	**2**	57	**(2)**	22	72
Financing expenses	**14**	3	**4**	3	3
Financing income	**(42)**	(40)	**(15)**	(12)	(54)
Financing income, net	**(28)**	(37)	**(11)**	(9)	(51)
Profit before income tax	**30**	94	**9**	31	123
Income tax	**8**	20	**3**	7	28
Profit for the period	**22**	74	**6**	24	95

16.2 Bezeq International Ltd.

Selected data from the statement of financial position

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**471**	517	490
Non-current assets	**862**	720	720
Total assets	**1,333**	1,237	1,210
Current liabilities	**341**	354	295
Long-term liabilities	**230**	112	115
Total liabilities	**571**	466	410
Equity	**762**	771	800
Total liabilities and equity	**1,333**	1,237	1,210

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,021**	1,158	**333**	367	1,537
Operating expenses	**685**	799	**222**	253	1,058
Gross profit	**336**	359	**111**	114	479
Selling and marketing expenses	**151**	142	**49**	48	187
General and administrative expenses	**87**	84	**29**	28	115
Other expenses (income), net	**3**	-	**2**	(1)	3
	241	226	**80**	75	305
Operating profit	**95**	133	**31**	39	174
Financing expenses	**12**	7	**4**	3	12
Financing income	**(1)**	(1)	**-**	-	(4)
Financing expenses, net	**11**	6	**4**	3	8
Profit before income tax	**84**	127	**27**	36	166
Income tax	**20**	31	**7**	9	39
Profit for the period	**64**	96	**20**	27	127

16.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**285**	358	269
Non-current assets	**1,328**	1,246	1,233
Total assets	**1,613**	1,604	1,502
Current liabilities	**586**	789	804
Long-term liabilities	**71**	478	350
Total liabilities	**657**	1,267	1,154
Equity	**956**	337	348
Total liabilities and equity	**1,613**	1,604	1,502

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,117**	1,246	**367**	406	1,650
Operating expenses	**959**	940	**310**	312	1,260
Gross profit	**158**	306	**57**	94	390
Selling and marketing expenses	**100**	98	**34**	34	131
General and administrative expenses	**75**	72	**22**	25	96
	175	170	**56**	59	227
Operating profit (loss)	**(17)**	136	**1**	35	163
Financing expenses	**10**	73	**3**	1	81
Financing income	**(17)**	(15)	**-**	(2)	(10)
Financial expenses (income), net	**(7)**	58	**3**	(1)	71
Profit (loss) before income tax	**(10)**	78	**(2)**	36	92
Income tax	**1**	333	**-**	159	336
Loss for the period	**(11)**	(255)	**(2)**	(123)	(244)

Chapter B - Board of Directors' Report on the State of the Company's Affairs for the Period Ended September 30, 2018

We hereby present the Board of Directors' report on the state of affairs of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group"), for the nine months ended September 30, 2018 ("the Period") and the three months then ended ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2017 is also available to the reader.

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

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

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

1. **Domestic Fixed-Line Communications**

2. **Cellular Communications**

3. **International Communications, Internet and NEP Services**

4. **Multi-Channel Television**

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

The Group's results were as follows:

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)	
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%
Profit	689	1,030	(341)	(33.1)	234	322	(88)	(27.3)
EBITDA (operating profit before depreciation and amortization)	2,871	2,971	(100)	(3.4)	976	980	(4)	(0.4)

The above decrease in profit was mainly due to a decrease in the Group's revenue as detailed below, and in the reporting Period was also due to expenses from termination of employment relations by way of early retirement in the Domestic Fixed-Line Communications segment.

EBITDA was significantly affected by early adoption of IFRS 16 – "Leases" starting January 1, 2018 (see Note 3.1 to the financial statements).

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

1.1 Financial position

	Sept. 30, 2018	Sept. 30, 2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Cash and current investments	**2,925**	2,565	360	14.0	The increase was due to growth in current investments in the Domestic Fixed-Line Communications segment, including through receipt of loans. For more information, see Section 1.3 - Cash Flows, below.
Current and non-current trade and other receivables	**2,507**	2,762	(255)	(9.2)	The decrease was mainly attributable to the Cellular Communications segment, due to a decrease in trade receivables following a decrease in revenues from installment-based handset sales and a decrease in trade receivables in the International Communications, Internet, and NEP Services segment.
Eurocom D.B.S.	**20**	43	(23)	(53.5)	The Company has updated, as of September 30, 2018, the fair value of the amount expected to be repaid to the Company from overpayment of advances for the second contingent consideration for the purchase of DBS's shares and loans. This amount has been updated to NIS 20 million. See Note 4.2.1 to the financial statements.
Inventory	**86**	101	(15)	(14.9)	
Broadcasting rights	**470**	457	13	2.8	
Usage right assets	**1,434**	-	1,434	-	Following early adoption of IFRS 16 - Leases ("IFRS 16"), the Group has recognized a right-of-use asset for agreements in which the Group is the lessee. See Note 3.1 to the financial statements
Property, plant and equipment	**6,789**	6,817	(28)	(0.4)	
Intangible assets	**2,627**	2,894	(267)	(9.2)	The decrease was mainly due to depreciation of excess costs for intangible assets recorded upon assuming control of DBS, and impairment of DBS's goodwill to the amount of NIS 87 million in the fourth quarter of 2017.
Deferred tax assets	**1,041**	1,014	27	2.7	See Note 5 to the financial statements.
Deferred costs and non-current investments	**519**	489	30	6.1	The increase was due to an increase in net subscriber acquisition asset balances.
Investment property	**140**	-	140	-	Mainly payment of permit fees and purchase tax for the Sakia property (see Note 7 to the financial statements).
Total assets	**18,558**	17,142	1,416	8.3	

1.1. Financial Position (Contd.)

	Sept. 30, 2018	Sept. 30, 2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Debt to financial institutions and debenture holders	**11,947**	11,533	414	3.6	The increase was mainly due to receipt of loans, offset by loan and debenture repayments in the Domestic Fixed-Line Communications segment.
Liabilities for leases	**1,467**	-	1,467	-	Following early adoption of IFRS 16, the Group recognized liabilities for leases. See Note 3.1 to the financial statements.
Trade and other payables	**1,602**	1,807	(205)	(11.3)	Timing differences in payments due to the month ending on a non-business day in the corresponding period last year, and effects of applying IFRS 16 (see Note 3.1.4 to the financial statements).
Employee benefits	**596**	511	85	16.6	The increase was mainly due to a NIS 90 million provision for an early retirement plan in 2018 in the Domestic Fixed-Line Communications segment.
Current tax liabilities	**9**	118	(109)	(92.4)	The decrease was due to an income tax payment under a final appraisal agreement for 2011-2014, and an advance on a betterment tax payment following the sale of the Sakia property.
Dividend payable	**318**	708	(390)	(55.1)	For more information, see Note 9 to the financial statements.
Other liabilities	**449**	538	(89)	(16.5)	
Total liabilities	**16,388**	15,215	1,173	7.7	
Total equity	**2,170**	1,927	243	12.6	Equity comprises 11.7% of the balance sheet total, as compared to 11.2% of the balance sheet total on September 30, 2017.

1.2 Results of operations

1.2.1 Highlights

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	**NIS millions**	**NIS millions**	**%**	**NIS millions**	**NIS millions**	**NIS millions**	**%**	**Explanation**
Revenues	**6,995**	7,331	(336)	(4.6)	**2,301**	2,415	(114)	(4.7)	The decrease was due to lower revenues across all of the Group's primary segments.
General and operating expenses	**2,494**	2,888	(394)	(13.6)	**815**	956	(141)	(14.7)	The decrease was mainly due to early adoption of IFRS 16 - Leases, starting January 1, 2018, whereby rent expenses, associated with properties rented under operating leases, are recognized as assets. See Note 3.1 to the financial statements.
Salaries	**1,507**	1,500	7	0.5	**494**	502	(8)	(1.6)	The change was due to an increase in salary expenses in the Domestic Fixed-Line Communications segment, which was offset by lower expenses in the International Communications, Internet and NEP Services segment and the Multi-Channel Television segment.
Depreciation and amortization	**1,609**	1,288	321	24.9	**547**	436	111	25.5	The increase was mainly due to depreciation of right-of-use assets following the early adoption of IFRS 16. See Note 3.1 to the financial statements.
Other operating expenses (income), net	**123**	(28)	151	-	**16**	(23)	39	-	The change was mainly attributable to the Domestic Fixed-Line Communications segment, and in the Period was mainly due to recognition of expenses for employment termination by way of early retirement.
Operating profit	**1,262**	1,683	(421)	(25.0)	**429**	544	(115)	(21.1)	
Finance expenses, net	**327**	297	30	10.1	**109**	94	15	16.0	The increase in net finance expense in the Period was mainly attributable to the Domestic Fixed-Line Communications segment, and was offset by lower expenses in the Multi-Channel Television segment. Expenses were also affected by early adoption of IFRS 16.
Share in losses of investees	**3**	4	(1)	(25.0)	**1**	-	1	-	
Income tax	**243**	352	(109)	(31.0)	**85**	128	(43)	(33.6)	The decrease was due to a reduction in taxable income, and a reduction in the corporate tax rate from 24% to 23% starting 2018.
Profit for the period	**689**	1,030	(341)	(33.1)	**234**	322	(88)	(27.3)	

1.2.2 Operating segments

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

	1-9.2018		1-9.2017		7-9.2018		7-9.2017	
	NIS millions	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**
Revenues by operating segment								
Domestic Fixed-Line Communications	**3,170**	**45.3**	3,197	43.6	**1,043**	**45.3**	1,061	43.9
Cellular Communications	**1,825**	**26.1**	1,895	25.9	**604**	**26.3**	635	26.3
International Communications, Internet and NEP Services	**1,021**	**14.6**	1,158	15.8	**333**	**14.5**	367	15.2
Multi-Channel Television	**1,117**	**16.0**	1,246	17.0	**367**	**15.9**	406	16.8
Other and offsets	**(138)**	**(2.0)**	(165)	(2.3)	**(46)**	**(2.0)**	(54)	(2.2)
Total	**6,995**	**100.0**	7,331	100.0	**2,301**	**100.0**	2,415	100.0

	1-9.2018		1-9.2017		7-9.2018		7-9.2017	
	NIS millions	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**	**NIS millions**	**% of total revenues**
Operating profit by segment								
Domestic Fixed-Line Communications	**1,311**	**41.4**	1,501	47.0	**451**	**43.2**	492	46.4
Cellular Communications	**2**	**0.1**	57	3.0	**(2)**	**(0.3)**	22	3.5
International Communications, Internet and NEP Services	**95**	**9.3**	133	11.5	**31**	**9.3**	39	10.6
Multi-Channel Television	**(17)**	**(1.5)**	136	10.9	**1**	**0.3**	35	8.6
Other and offsets	**(129)**	**-**	(144)	-	**(52)**	**-**	(44)	-
Consolidated operating profit/ percentage of Group revenues.	**1,262**	**18.0**	1,683	23.0	**429**	**18.6**	544	22.5

1.2.2 Operating segments (contd.)

B. Domestic Fixed-Line Communications Segment

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Fixed-line telephony	**875**	972	(97)	(10.0)	**282**	318	(36)	(11.3)	The decrease was due to lower average revenues per phone line and a decrease in the number of lines.
Internet - infrastructure	**1,200**	1,149	51	4.4	**401**	386	15	3.9	The increase was mainly due to growth in the number of internet subscribers through the wholesale service and higher ARPU (retail), offset by a decline in the number of retail internet subscribers.
Transmission, data communications and others	**898**	906	(8)	(0.9)	**291**	300	(9)	(3.0)	
Digital and cloud services	**197**	170	27	15.9	**69**	57	12	21.1	The increase was mainly due to IP Centrex and cyber services.
Total revenues	**3,170**	3,197	(27)	(0.8)	**1,043**	1,061	(18)	(1.7)	
General and operating expenses	**428**	514	(86)	(16.7)	**143**	183	(40)	(21.9)	The decrease was mainly due to a decrease in vehicle and building leasing expenses recognized as an asset following early adoption of IFRS 16. Results were also affected by a decrease in advertising expenses and interconnect fees to telecom operators.
Salaries	**693**	668	25	3.7	**233**	224	9	4.0	The increase was mainly due to salary raises pursuant to collective labor agreements, partially offset by employee retirement.
Depreciation and amortization	**633**	543	90	16.6	**218**	186	32	17.2	The increase was mainly due to depreciation of right-of-use assets following early adoption of IFRS 16, starting January 1, 2018.
Other operating expenses (income), net	**105**	(29)	134	-	**(2)**	(24)	22	(91.7)	The change in the Period was attributable to a NIS 90 million expense for early retirement (see Note 15.1 to the financial statements). Furthermore, capital gains were down in the Period and Quarter, partially offset by a decrease in expenses from legal claims.
Operating profit	**1,311**	1,501	(190)	(12.7)	**451**	492	(41)	(8.3)	
Finance expenses, net	**353**	281	72	25.6	**113**	107	6	5.6	The increase in net financing expenses in the Period was mainly due to NIS 23 million in finance expenses recognized in the Period following a decrease in the fair value of the amount expected to be repaid to the Company from the overpayment of advances on the second contingent consideration for the acquisition of DBS's shares and loans (see Note 4.2.1 to the financial statements), as compared to a NIS 14 million reduction in expenses in the same period last year. There was also an increase in interest expenses on loans and currency linkage differences on debentures.
Taxes on income	**236**	308	(72)	(23.4)	**81**	109	(28)	(25.7)	The decrease was mainly due to a decrease in the taxable income and a reduction of the corporate tax rate from 24% to 23% starting 2018.
Segment profit	**722**	912	(190)	(20.8)	**257**	276	(19)	(6.9)	

1.2.2 Operating segments (contd.)

C. Cellular Communications segment

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Services	**1,318**	1,345	(27)	(2.0)	**449**	461	(12)	(2.6)	The decrease was mainly due to lower rates and migration of existing customers to cheaper plans offering greater data volumes at current market prices. This decrease in rates was partially offset by growth in the post-paid customer base.
Equipment sales	**507**	550	(43)	(7.8)	**155**	174	(19)	(10.9)	The decrease was mainly attributable to a decrease in handset sales, partially offset by higher prices. The decrease in the Period was also due to cancellation of the purchase tax on imported cellular handsets in the same period last year, which lowered prices. This decrease was offset by greater revenue per unit, following a change in the product mix sold.
Total revenues	**1,825**	1,895	(70)	(3.7)	**604**	635	(31)	(4.9)	
General and operating expenses	**1,050**	1,259	(209)	(16.6)	**345**	419	(74)	(17.7)	The decrease was mainly due to a reduction in leasing expenses following early adoption of IFRS 16, a decrease in the cost of sales for handsets, and continued downsizing and streamlining of expenses. The decrease was partially offset in the Period by an increase in call completion fees, roaming expenses, and estimate updates that resulted in lower expenses in the same period last year.
Salaries	**289**	286	3	1.0	**94**	94	-	-	
Depreciation and amortization	**478**	293	185	63.1	**161**	100	61	61.0	The increase in expenses was mainly due to an increase in expenses from depreciation of right-of-use assets following early adoption of IFRS 16 starting January 1, 2018, and an increase in expenses from depreciation of subscriber acquisition assets. On the other hand, there was a decrease in expenses from depreciation of property, plant and equipment and other assets.
Other expenses	**6**	-	6	-	**6**	-	6	-	Expenses incurred following a voluntary retirement plan rolled out during the Period.
Operating profit (loss)	**2**	57	(55)	(96.5)	**(2)**	22	(24)	-	
Finance income, net	**28**	37	(9)	(24.3)	**11**	9	2	22.2	The decrease in net finance income in the Period was mainly due to an increase in finance expenses recognized following early adoption of IFRS 16.
Income tax	**8**	20	(12)	(60.0)	**3**	7	(4)	(57.1)	
Segment profit	**22**	74	(52)	(70.3)	**6**	24	(18)	(75.0)	

1.2.2 Operating segments (contd.)

D. International Communications, Internet and NEP Services

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**1,021**	1,158	(137)	(11.8)	**333**	367	(34)	(9.3)	The decrease was mainly due to a decrease in revenue from telecom solution sales to businesses and PBXs, lower revenues from hubbing and international calls. Results were also affected by a decrease in outsourcing revenues following the sale of operations in the Period.
General and operating expenses	**561**	679	(118)	(17.4)	**184**	214	(30)	(14.0)	The decrease was mainly due to a reduction in the cost of sales for telecom solutions for businesses and PBXs, and lower hubbing and international call expenses, corresponding to revenues as aforesaid. Furthermore, leasing expenses were down, following adoption of IFRS 16.
Salaries	**228**	246	(18)	(7.3)	**70**	81	(11)	(13.6)	The decrease was due to the sale of outsourced operations during the period.
Depreciation and amortization	**134**	100	34	34.0	**46**	34	12	35.3	The increase was due to amortization of right-of-use assets following early adoption of IFRS 16 starting January 1, 2018, and an increase in the amortization of the subscriber acquisition asset.
Other finance expenses (income)	**3**	-	3	-	**2**	(1)	3	-	
Operating profit	**95**	133	(38)	(28.6)	**31**	39	(8)	(20.5)	
Finance expenses, net	**11**	6	5	83.3	**4**	3	1	33.3	The increase was due to adoption of IFRS 16, and changes in foreign currency rates.
Tax expenses	**20**	31	(11)	(35.5)	**7**	9	(2)	(22.2)	
Segment profit	**64**	96	(32)	(33.3)	**20**	27	(7)	(25.9)	

1.2.2 Operating segments (contd.)

E. Multi-Channel Television

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	1,117	1,246	(129)	(10.4)	367	406	(39)	(9.6)	The decrease was mostly due to a decrease in the subscriber base and a decrease in ARPU. These were offset by revenue from content sales.
General and operating expenses	721	717	4	0.6	229	237	(8)	(3.4)	Expenses were down, mainly due to a decrease in lease expenses in the Period and the Quarter following early adoption of IFRS 16, which was offset in the Period by an update of the provision for legal actions and an increase in miscellaneous expenses.
Salaries	174	180	(6)	(3.3)	56	62	(6)	(9.7)	The decrease was mainly attributable to a reduction in the workforce.
Depreciation and amortization	239	213	26	12.2	81	72	9	12.5	The increase was mainly due to depreciation of right-of-use assets following early adoption of IFRS 16.
Operating profit (loss)	(17)	136	(153)	-	1	35	(34)	(97.1)	
Finance expenses (income), net	(7)	58	(65)	-	3	(1)	4	-	The decrease in expenses in the Period was mostly due to a change in the fair value of financial assets and a decrease in financing expenses on debentures following repayment and conversion of the Company's share in the debentures to equity.
Tax expenses	1	333	(332)	(99.7)	-	159	(159)	(100)	The decrease in tax expenses was due to amortization of the tax asset in the same period and quarter last year, following a change in expected profitability as a result of changes in Management expectations concerning the scope and severity of competition in the television market.
Segment loss	(11)	(255)	244	(95.7)	(2)	(123)	121	(98.4)	

1.3 Cash flow

	1-9.2018	1-9.2017	Increase (decrease)		7-9.2018	7-9.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	Explanation
Net cash from operating activities	**2,598**	2,683	(85)	(3.2)	**883**	982	(99)	(10.1)	Due to reclassification of payments on leases as financing activity following early adoption of IFRS 16 (see Note 3.1 to the financial statements), net cash from operating activities grew by NIS 309 million in the Period, and by NIS 102 million in the Quarter. The bulk of this increase was attributable to the Cellular Communications segment. The increase was mainly offset by a decrease in the net profit and changes in working capital in the Cellular Communications segment, by a decrease in net cash in the Multi-Channel Television segment due to a decrease in cash profits and changes in working capital, and a decrease in the Period in net cash in the Domestic Fixed-Line Communications segment, which includes an increase in tax payments on final tax assessments despite the decrease in tax expenses.
Net cash used in investing activities	**(2,543)**	(587)	(1,956)	-	**(232)**	(388)	156	(40.2)	The increase in net cash used in investing activities in the Period (in the Quarter - a decrease in net cash flow) was mainly due to a net investment (in the Quarter - net proceeds) in bank and other deposits in the Domestic Fixed-Line Communications segment as compared to net proceeds on repayment of bank and other deposits in the same period last year (in the corresponding quarter of last year - investment). Furthermore, in the present Period, permit fees, purchase tax, and betterment tax were paid on the sale of the Sakia complex, for a total amount of NIS 201 million (see Note 7 to the financial statements).
Net cash from (used in) financing activities	**(828)**	(273)	(555)	-	**(166)**	23	(189)	-	Net cash used in financing activities was up due to a decrease in cash flows from debenture issuance and receipt of loans in the Domestic Fixed-Line Communications segment, offset by a decrease in debenture and loan repayments. Furthermore, data for the present Period and Quarter include principal and interest payments on leases classified as financing activities and not as operating activities, as aforesaid. On the other hand, overall dividend payouts decreased as compared to the same period last year, and the corresponding period of last year also included payments to Eurocom DBS for the purchase of DBS's shares and loans.
Net increase (decrease) in cash	**(773)**	1,823	(2,596)	-	**485**	617	(132)	(21.4)	

1.3. Cash Flows (contd.)

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders:

NIS 12,020 million.

Supplier credit: NIS 976 million. Short-term credit to customers: NIS 1,834 million. Long-term credit to customers: NIS 369 million.

<u>Working Capital</u>

As of September 30, 2018, the Group had a working capital surplus of NIS 509 million, as compared to a working capital surplus of NIS 1,418 million on September 30, 2017.

According to its separate financial statements, the Company had a working capital surplus of NIS 355 million as of September 30, 2018, as compared to a working capital surplus of NIS 921 million on September 30, 2017.

The decrease in the Group's working capital surplus was mainly due to an increase in current liabilities for debentures and loans in the Company, and current maturities on liabilities for leases which were recognized starting January 1, 2018, following early adoption of IFRS 16 (see Note 3.1 to the financial statements). This decrease in the working capital surplus was mitigated, among other things, by a decrease in dividends payable.

2. <u>Disclosure Concerning the Company's Financial Reporting</u>

2.1 Disclosure on the early adoption of IFRS 16 - Leases

Following publication of IFRS 16 - Leases ("the Standard"), the Company reviewed the Standard's possible impact on its financial statements, including by consultation with its auditing accountants. This review was conducted across all Group companies. As a result, the Company decided on the early adoption of the Standard, starting from January 1, 2018.

For information concerning the Standard's guidelines, its application, and adjustments to the Group's financial statements following the Standard's first-time application, see Note 3.1 to the financial statements.

Actions taken by the Group in preparation for adopting the Standard, and measures for reducing the risk for errors in its financial statements:

1. The Group studied the possible impact of the Standard on its financial statements. This process included a review of the Standard's provisions, a review of professional information issued by international accounting firms, and internal discussions with Group companies. In addition, consultations and professional meetings were held with the auditing accountants. These meetings included a thorough discussion of issues raised by the Standard's application, application of the transitional provisions, and a review of its impact on the Group's companies. Each company documented the relevant issues and their impact on the financial statements.

2. The Group has reviewed the necessary adjustments to the Group's information systems supporting the Standard's application. Following this review, specialized software was purchased which supports the accounting treatment required under the Standard, and adjustments were made to existing information systems.

3. The Group has studied the adaptation of its internal controls to the Standard, in order to achieve effective control over proper first-time application of the Standard, and the plausibility of significant judgments and estimates made in such application.

2.2 Due to legal actions brought against the Group, which cannot yet be assessed or for which the Group cannot yet estimate its exposure, the auditors drew attention to these actions in their opinion concerning the financial statements.

2.3 Disclosure of an extremely material valuation

The following table discloses an extremely material valuation pursuant to Regulation 8B to the Securities Regulations (Periodic and Immediate Reports), 1970:

The valuation is included in these reports by way of reference to the Company's financial statements as of June 30, 2018, published on August 23, 2018.

	Pelephone
Subject of valuation	Pelephone's value, in order to test for impairment of goodwill attributed to Pelephone in the Company's financial statements pursuant to IAS 36.
Date of valuation	June 30, 2018; the valuation was signed on August 21, 2018.
Value prior to the valuation	NIS 2,164 million carrying amount of Pelephone's net operating assets* (NIS 1,027 million - goodwill).
Value set in the valuation	NIS 3,907 million The Company concluded that there is no impairment requiring a write-down of goodwill recognized in the Company's books.
Assessor's identity and profile	Prometheus Financial Advisory Ltd. The study was conducted by a team headed by Eyal Shevach, who holds a bachelor's degree in electronic engineering from the Technion, and an MBA from Tel Aviv University. Mr. Shevach is an expert with extensive experience in valuation, financial statement analysis, preparing expert opinions, and performing various financial advisory studies for companies and businesses. The assessor has no dependence on the Company.
Valuation model	Discounted Cash Flow method (DCF).
Assumptions used in the valuation	Discount rate - 9.97% (post-tax). Permanent growth rate - 2.5%. Scrap value of total value set in valuation - 84%.

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

For more information, see Note 6 to the financial statements.

The period that elapsed between the valuation's effective date and the approval date of this report exceeds 90 days. The Company estimates that, as of September 30, 2018, no changes occurred which may materially affect the conclusions of the valuation.

3. Details of debt certificate series

On April 26, 2018, S&P Global Ratings Maalot Ltd. ("Maalot") affirmed the Company's ilAA rating and downgraded its rating forecast to negative due to an expected continued increase in competition and in light of the volatility in the Company's executive suite (see immediate report, ref. no. 2018-01-033573).

On April 30, 2018, Midroog Ltd. ("Midroog") maintained its Aa2.il/Stable rating for the Company's Debentures (Series 6,7,9, and 10) (see immediate report, ref. no. 2018-01-034470).

Furthermore, on November 18, 2018, Maalot (see immediate report, ref. no. 2018-01-104944) and Midroog (see immediate report, ref. no. 2018-01-104875) confirmed the above ratings, respectively, for the issue of up to NIS 550 million par value in new Debentures (Series 9), according to the letters of commitment from January 14, 2018 for a future issuance expected on December 2, 2018, or soon after that date according to the terms specified in the letters of commitment (see Note 15.3 to the financial statements).

The rating reports are included in this Board of Directors' Report by way of reference.

4. Miscellaneous

For information concerning the debt balances of the reporting corporation and those companies consolidated in its financial statements as of September 30, 2018, see the Company's reporting form on the MAGNA system, dated November 20, 2018.

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

Shlomo Rodav Chairman of the Board	Dudu Mizrahi CEO

Signed: November 19, 2018

Exhibit 99.3

November 19, 2018

Bezeq - The Israel Telecommunication Corp. Ltd.

Quarterly report for period ended September 30, 2018

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2017

Directors' Report on the State of the Company's Affairs for the period ended September 30, 2018

Interim Financial Statements as at September 30, 2018

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2018

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2017

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

Update to Chapter A (Description of Company Operations) [1]
to the Periodic Report for 2017 ("Periodic Report")
of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company")

1. General development of the Group's business

Section 1.1 - Group activities and business development

Section 1.1.1 - General, and Section 1.1.2 - Control of the Company - Eurocom Communications

On proceedings relating to the liquidation of Eurocom Communications - on April 22, 2018, an order of liquidation was issued for Eurocom Communications (which entered into force on May 3, 2018), where in the framework of the liquidation decision the Court stipulated that its ruling does not derogate from the control permit regarding the Company. Subsequently, on October 24, 2018, the Company received notice from Internet Gold-Golden Lines Ltd. ("Internet Gold"), which is controlled by Eurocom Communications and controls B Communications, the controlling shareholder in the Company, that the special managers of Eurocom Communications who were appointed in Eurocom's liquidation process,[2] were confirmed as the holders of the control permit[3] (effective from May 3, 2018), pursuant to Section 4D of the Communications Law and Section 3 of the Communications Order. It is stipulated that the foregoing has no implications for the Company's debentures and loans. On this matter, see also the update to Section 2.17.4.

As far as the Company is aware, Internet Gold is reviewing the sale of its holdings in B Communications. In accordance with an announcement made by Internet Gold on June 26, 2018, to facilitate negotiations for the sale of its holdings (all or part thereof) in B Communications and to maximize the consideration for the sale, the special administrators of Eurocom Communication acceded to Internet Gold's request that subject to court approval (which was received) and that the negotiations for the sale are underway, the special administrators will not conduct a procedure to sell the shares of Internet Gold for three months and will not take action to sell the controlling interest in Internet Gold during this period. The decision was submitted as notice to the court further to a previous proceeding on this matter. As far as the Company is aware, Internet Gold has begun the process of selling its holdings in B Communications.

On the information in this section, see also immediate reports published by the Company on June 17, 2018, June 18, 2018, June 26, 2018, October 16, 2018 and October 24, 2018, which are included in this report by way of reference.

Section 1.1.3 - Shareholders' requests and Section 1.1.4 - Organizational structure - Bezeq Group (Composition of the Company's Board of Directors)

On April 26, 2018, the Annual General Meeting of the Company's shareholders elected a new board of directors comprising 2 new external directors (in addition to three external directors already serving the Company), 2 independent directors and 6 directors who are not necessarily independent directors (including one director from among the employees), so that at the date of publication of this report 13 directors serve the Company.[4] Furthermore, on April 30, 2018, the Company's Board of Directors resolved to elect Mr. Shlomo Rodav as Chairman of the Board. For the up-to-date composition of the Company's Board of Directors, see the report on the Company's officeholders dated November 20, 2018, included in this report by way of reference.

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1 The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2017 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

2 According to the clarification received by the Company from the controlling shareholder on November 16, 2018, in view of the proceedings for the liquidation of Eurocom Communications and the resulting de-facto legal rift at the control, management, decision-making, activity, etc. level between Mr. Shaul Elovitch and Eurocom Communications and the companies it controls, then pursuant to the controlling shareholder's notice, Mr. Shaul Elovitch is no longer defined as holding joint control together with B Communications or as a principal shareholder therein or in the Company. On this matter, see also the Company's Immediate Report dated November 18, 2018, on the list of principal shareholder holdings and the senior officers, included in this report by way of reference.

3 Notably, the confirmation does not state explicitly that it is a "control permit", but that it is "confirmation under Section 4D of the Communications Law and Section 3 of the Communications Order". These clauses relate to restrictions on control and holding (control, significant influence and holding 5% or more of the means of control), and not necessarily control.

4 On April 18, 2018, in the Company's response to a request from Entropy Corporate Governance Consulting Ltd. in the name of various shareholders, the Company's Board of Directors made it clear that it intends to operate to reduce the number of directors, and this no later than the next annual general meeting of the Company's shareholders. On this matter, see the Company's Immediate Report dated April 18, 2018, included here by way of reference.

Section 1.1.5 - Mergers and acquisitions

On a debt of Eurocom DBS to the Company for advances paid by the Company on account of the Second Contingent Payment and a motion on this matter filed by the Company for the liquidation of Eurocom DBS - on April 22, 2018, the court issued an order of liquidation for Eurocom DBS and the Company's attorneys were appointed the liquidator of Eurocom DBS.

Section 1.1.6 - Investigations by the Securities Authority and Israel Police

On the absence of complete information for the Company regarding the investigations and their impact on the Company, see Note 1.2 to the Company's consolidated financial statements for the period ended September 30, 2018.

Section 1.4 - Dividend distribution

For information about a dividend distribution in the amount of NIS 368 million in respect of profits in the second half of 2017 that was approved by the general meeting of the Company's shareholders on April 26, 2018, and distributed on May 10, 2018, and in connection with a dividend distribution in the amount of NIS 318 million in respect of profits in the first half of 2018 that was approved by the general meeting of the Company's shareholders on September 13, 2018 and distributed on October 10, 2018, see Note 9 to the Company's Financial Statements for the period ended September 30, 2018.

Outstanding, distributable profits at the date of the report - NIS 529 million (surpluses accumulated over the last two years, after subtracting previous distributions).

Section 1.5.4 - Highlights of the operating results and figures

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

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	1,043	1,064	1,063	1,047	1,061	1,058	1,078
Operating profit (NIS million)	451	387	473	470	492	496	513
Depreciation and amortization (NIS million)	218	211	204	185	186	177	180
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	669	598	677	655	678	673	693
Net profit (NIS million)	257	202	263	260	276	317	319
Cash flow from current activities (NIS million)(1)	583	507	516	587	573	465	600
Payments for investments in property, plant & equipment, intangible assets and other investments (NIS million)	233	393*	205	226	170	219	210
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	8	22	7	22	46	16	10
Free cash flow (NIS million)(2)	330	107*	285	383	449	262	400
Number of active subscriber lines at the end of the period (in thousands)(3)	1,843	1,865	1,889	1,916	1,942	1,961	1,986
Average monthly revenue per line (NIS) (ARPL)(4)	51	52	53	53	54	54	56
Number of outgoing use minutes (millions)	959	1,010	1,055	1,068	1,132	1,098	1,177
Number of incoming use minutes (millions)	1,133	1,151	1,191	1,205	1,266	1,220	1,281
Total number of internet lines at the end of the period (thousands)(7)	1,663	1,662	1,653	1,635	1,608	1,593	1,580
The number of which provided as wholesale internet lines at the end of the period (in thousands)(7)	617	600	574	532	484	444	414
Average monthly revenue per Internet subscriber (NIS) - retail	93	93	92	92	90	90	90
Average bundle speed per Internet subscriber - retail (Mbps) (5)	57.4	55.4	53.5	51.5	49.5	47.2	45.1
Telephony churn rate(6)	2.7%	2.8%	3.0%	2.4%	2.3%	2.4%	2.7%

(1) EBITDA (Earnings before income taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations which counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices which are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies. Commencing January 1, 2018, the Company has early adopted IFRS 16 - Leases. The effect of applying this standard to EBITDA and to the cash flow from current activities was an increase of NIS 23 million and NIS 26 million, respectively, in Q1 2018, an increase of NIS 23 million and NIS 29 million, respectively, in Q2 2018, and an increase of NIS 23 million and NIS 21 million, respectively, in Q3 2018.

(2) Free cash flow is a financial index which is not based on GAAP. Free cash flow is defined as cash from current activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net and as of 2018, with the application of IFRS 16, as described in par. (1) above, payments for leases are also deducted. The Company presents free cash flow as an additional index for assessing its business results and cash flows because the Company believes that free cash flow is an important liquidity index that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets.

(3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (except for a subscriber during (roughly) the first three months of the collection process).

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

(5) For bundles with a range of speeds, the maximum speed per bundle is taken into account.

(6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the quarter divided by the average number of registered telephony subscribers in the quarter.

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

(*) Including permit fee payments in the amount of NIS 112 million (75% of the requirement) and land appreciation tax of NIS 80 million for the sale of the Sakia property (on this matter, see also the update to Section 2.7.4).

B. Pelephone

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue from services (NIS million)	449	438	431	437	461	449	435
Revenue from sale of terminal equipment (NIS million)	155	164	188	214	174	183	193
Total revenue (NIS million)	604	602	619	651	635	632	628
Operating profit (loss) (NIS million)	(2)	2	2	15	22	30	5
Depreciation and amortization (NIS million)	161	159	158	90	100	99	94
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	159	161	160	105	122	129	99
Net profit (NIS million)	6	7	9	21	24	34	16
Cash flow from current activities (NIS million)(1)	194	181	239	86	209	193	117
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	69	90	69	76	78	82	73
Free cash flow (NIS million)(1)	61	41	95	10	131	111	44
Number of postpaid subscribers for the period (thousands)(2) (6)	1,817	1,800	1,760	1,755	1,723	1,689	1,686
Number of prepaid subscribers for the period (thousands)(2) (6)	368	801	786	770	752	721	744
Number of subscribers at the end of the period (thousands) (2) (5)	2,185	2,601	2,546	2,525	2,475	2,410	2,430
Average monthly revenue per subscriber (NIS) (ARPU) (3)	68	57	57	58	63	61	60
Churn rate(4)	9.1%	7.3%	8.0%	6.9%	7.1%	6.3%	7.9%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table. Commencing January 1, 2018, the Company has early adopted IFRS 16 - *Leases*. The effect of applying this standard to EBITDA and to the cash flow from current activities was an increase of NIS 62 million and NIS 75 million, respectively, in Q1 2018, an increase of NIS 63 million and NIS 50 million, respectively, in Q2 2018, and an increase of NIS 63 million and NIS 64 million, respectively, in Q3 2018.

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers from Q3 2018), and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, or has performed no surfing activity on his phone or has not paid for Pelephone services. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. Notably, a customer may have more than one subscriber number ("line"). On the change in the definition of subscribers from Q3 2018, see the update to Section 3.4 and Note 6 below.

(3) Average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. On the effect of the change in the definition of a subscriber from Q3 2018 on the ARPU index, see the update to Section 3.4 and Note 6 below.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the quarter, to the average number of active subscribers during the quarter. The churn rate in Q2 2017 does not include the effect of the disconnection of 83,000 CDMA subscribers when the network was closed down. On the effect of the change in the definition of a subscriber from Q3 2018 on the churn rate, see the update to Section 3.4 and Note 6 below.

(5) On June 28, 2017, Pelephone discontinued operation of the CDMA network, as a result of which 83,000 subscribers ceased to receive service and were written off the subscriber listings.

(6) On the change in the definition of a subscriber from Q3 2018, see the update to Section 3.4 and Note 2 below. At the beginning of Q3 2018, approximately 426,000 prepaid subscribers and about 2,000 IOT subscribers were removed from the list of subscribers. This led to an increase of NIS 11 in the ARPU index and an increase of 1.5% in the churn rate in Q3 2018.

C. Bezeq International

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	333	336	352	379	367	407	384
Operating profit (NIS million)	31	30	34	41	39	45	49
Depreciation and amortization (NIS million)	46	45	43	35	34	33	33
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	77	75	77	76	73	78	82
Net profit (NIS million)	20	20	24	31	27	33	36
Cash flow from current activities (NIS million)(1)	73	54	67	82	74	69	52
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million) (2)	26	44	31	35	29	46	29
Free cash flow (NIS million)(1)	38	1	27	47	45	23	23
Churn rate(3)	5.8%	6.0%	6.0%	6.8%	6.3%	5.0%	5.3%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table. Commencing January 1, 2018, the Company has early adopted IFRS 16 - *Leases*. The effect of applying this standard to EBITDA and to the cash flow from current activities in Q1, Q2 and Q3 2018 is an increase of NIS 9 million each in each quarter.

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

(3) The number of Internet subscribers who left Bezeq International during the quarter, divided by the average number of registered Internet subscribers in the quarter.

D. DBS

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	367	375	375	404	406	416	424
Operating profit (loss) (NIS million)	1	(17)	(1)	27	35	49	52
Depreciation and amortization (NIS million)	81	79	79	72	72	71	70
EBITDA (Earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	82	62	78	99	107	120	122
Net profit (loss) (NIS million)	(2)	(10)	1	11	(123)	(151)	19
Cash flow from current activities (NIS million)(1)	34	60	86	95	115	169	51
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	79	75	62	53	69	52	60
Free cash flow (NIS million)(1)	(54)	(23)	16	42	46	117	(9)
Number of subscribers (at the end of the period, in thousands)(2)	584	582	580	587	597	603	608
Average monthly revenue per subscriber (ARPU) (NIS)(3)	210	215	214	226	226	229	232
Churn rate(4)	5.1%	4.7%	6.1%	5.9%	4.8%	3.8%	4.3%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table. Commencing January 1, 2018, the Company has early adopted IFRS 16 - *Leases*. The effect of applying this standard to EBITDA and to the cash flow from current activities in Q1 and Q2 2018 is an increase of NIS 8 million each in each quarter. The effect on Q3 2018 is NIS 9 million each.

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

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

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

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

Section 1.7.2 - Activities of Bezeq Group as a communications group and the structural separation restriction

Pursuant to a preliminary HQ work, which included an initial review of certain synergies between the Company's subsidiaries and as part of a review of Bezeq Group's strategy and the alternatives available to it in light of changes in the communications market, regulatory requirements, technology developments and customer preferences, on May 23, 2018, the Company's Board of Directors resolved to review certain issues aimed at focusing on the Group's future core operations, including synergies between the activities of the Company's subsidiaries, the sale of the subsidiaries Bezeq Online Ltd. and Walla!,[5] enhancing the independence of the Company's wholesale activity and establishing an innovation unit which will work to position the Company at the center of the future communications world. All this without derogating from the Company's continuing activity to eliminate the structural separation between it and each of the subsidiaries, as specified in Section 1.7.2.1 (B) in the Description of Company Operations chapter in the 2017 periodic report. This entails a review of various topics where certain alternatives are now being examined with the ministry of Communications, and the presence or absence of regulatory certainty could affect the preferred alternatives. Subsequently, the Company's Board of Directors is moving ahead in the formulation of a new, comprehensive strategic plan for the Group, parts of which are contingent on various regulatory approvals, and the Group has already begun to implement parts of it.

In this context, on August 22, 2018, the Board of Directors approved a request to obtain approval in principle from the Minister of Communications, to advance a move to change the Group's legal structure. This will enable the Company to continue to operate in its current format as a public company providing fixed-line, domestic carrier telecommunications services, and in parallel to establish a fully owned registered partnership to which the assets, licenses and activity of the subsidiaries, DBS, Pelephone and Bezeq International will be transferred and which will be fully separated, structurally, from the Company. The purpose of the change is to adapt the structure of the subsidiaries to prevailing technological, economic and competitive conditions in the telecoms market for the purpose of advancing the communications market in Israel and to allow Bezeq group to maintain a proper economic raison d'etre for the benefit of its employees and the investors in its shares. Subject to the approval of the tax authority, this change will also enable losses to be offset from the entire Group's profits. This request does not imply any change in the Company's position with respect to its demand to cancel the structural separation. At the time of publication of the report, the MOC's response to the request had not yet been received.

Notably, on November 12, 2018, the subsidiaries DBS, Pelephone and Bezeq International announced the entry into negotiations with the union representatives in each of the companies regarding streamlining processes and organizational changes in their operations. On this matter, see also the update to Sections 3.9.5, 4.8 and 5.11.3. Furthermore, in connection with the streamlining processes, some of the subsidiaries are working share their management resources.

Section 1.7.2.1(B) - Cancellation of structural separation - further to discussions between the Company and the Ministry of Communications and in view of the resulting reservations raised by the Company regarding the Ministry's intention to advance cancellation of the structural separation, on November 7, 2018, a clarification notice was received from the Ministry stating that it was discussing the structural separation in relation to Bezeq and HOT, and that all options are being discussed by the ministerial committee. The Company is assessing the notice of the Ministry of Communications, taking into account, among other things, the deferred tax asset in the amount of NIS 1.166 billion that was recorded in respect of carry-forward losses for tax purposes in DBS, as described in Note 5 to the Company's financial statements for the period ended September 30, 2018. Furthermore, on November 15, 2018, the Company asked the Ministry of Communications for additional clarifications further to the aforementioned MOC announcement.

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5 Regarding the subsidiary Walla - it is noted that on September 12, 2018, the Board of Directors of Walla approved its engagement in a collective labor agreement, signed on September 6, 2018, between the Union of Journalists in Israel - New Histadrut Labor Federation and the Walla Journalists Committee. The agreement is in force from the date on which it was signed through September 5, 2021. After this date, the agreement will be extended automatically for 24-month periods, unless one of the parties gives written notice of its intention to terminate or amend the Agreement The agreement will apply to employees defined in the agreement as "journalists" employed by Walla (except for the management, talents and other employees that the parties have agreed to be excluded).

<u>Section 1.7.3 - Regulatory oversight and changes in the regulatory environment - wholesale market</u>

Section 1.7.3.1 - Policy Document (tariffs) - On November 11, 2018, the Company received a Ministry of Communications hearing document on the subject of extending the validity of the payments for wholesale services of infrastructure owners (the Company and HOT), set out in the Communications (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network) Regulations, 2014 ("the Use Regulations"), that were originally set to be valid until the end of 2018. The hearing document states that the Ministry of Communications believes price supervision will still be necessary after the end of 2018 and that the key market trends, including demand and declining equipment prices, indicate that the cost of providing the wholesale services is decreasing over time. The Ministry has initiated a regulatory process to determine the maximum tariffs for wholesale services in 2019-2022, and it intends, shortly, to publish a hearing regulating the updated maximum payments on the Company's network. Until this process is complete, the hearing proposes extending application of the maximum payments for the wholesale services for 2018 currently set in the Use Regulations so as to continue to apply from 2018 onwards. The Company submitted its comments on the hearing whereby, under the circumstances, it does not object to the actual extension of the application, but regarding future updates of the tariffs, it believes that the cost of providing the wholesale services has increased, contrary to the statement in the hearing that the cost of providing the wholesale services is decreasing over time, and that in any event, the update in relation to the prices of the Company and HOT must be made at the same time.

Section 1.7.3.3 - Wholesale service use of physical infrastructures - on April 16, 2018, the Ministry of Communications announced that after reviewing the comments of the Company and an ISP (Partner), the Ministry has formulated its decision and it instructed, inter alia, that the Company must allow the service providers, through parties with the relevant security authorization, to insert communications cables through the Company's telecom manhole which is located at the opening of the conduit leading to private land, and to perform any necessary works in the manhole for this purpose, all this without derogating from the service providers' responsibility to obtain the landowner's permission. On August 9, 2018, the Ministry of Communications published a hearing concerning a "service portfolio allowing service providers to make mutual use of each other's passive infrastructures". The purpose of this service portfolio is to regulate implementation of the obligation to allow the use of passive infrastructures belonging to one domestic carrier by another domestic carrier (including infrastructure owners). This service portfolio will replace the service portfolio for the use of physical infrastructures which will be revised to include the dark fiber and optical wave services only (which are not subject to the obligation of mutual use). The draft service portfolio contains revised instructions, including with respect to the design stages, execution of the works, use of infrastructures on private land and deployment to buildings. In this context, the instruction stipulating that the connecting points will be in the passive infrastructure facilities belonging to the infrastructure owner, and that in order to connect the infrastructure of one domestic carrier to the infrastructure of another domestic carrier, it will set up a passive infrastructure facility (such as a telecom manhole) near the infrastructure owner's passive infrastructure facility, is replaced by an instruction that the connecting points between the infrastructures will be inside the infrastructure owner's passive infrastructure facility or in a facility belonging to another domestic carrier, as it chooses, and that the other domestic carrier will be able to install its communications components inside the infrastructure owner's passive infrastructure facility for the purpose of connecting the two infrastructures. This irrespective of whether it refers to the last manhole before the building or to a passive infrastructure component belonging to the infrastructure owner on private land. The draft portfolio also states that the infrastructure owner will allow another domestic carrier to insert cables through its last manhole before the building and conduits to the building, as far as the communications cabinet in the building or to any other physical infrastructure facility. The draft also includes an instruction according to which when new underground infrastructure is set up, an infrastructure owner that is obligated to provide universal deployment will offer the other domestic carries to share its investments in advance, and for three years it will not be obligated to provide right of use to another infrastructure owner who is obligated to provide universal deployment but refused to do so. On August 9, 2018, annexes to the service portfolios of the Company and Hot were also amended, stipulating that other domestic carriers, infrastructure owners and contracting companies whose employees meet certain security requirements will be able to carry out work on the passive infrastructure of other domestic carriers and infrastructure owners. The draft portfolio further stipulates that access to information for design purposes must be available both in designated information rooms and by remote access. On October 15, 2018, the Company submitted its comments on the service portfolio hearing in which it clarified, among other things, that the proposed regulation is unsustainable since it is inconsistent with developments in the market and it must be fundamentally reconsidered and adjusted, and also because its provisions deviate from the Ministry's powers and are disproportionate (for example, they make no distinction between operators with infrastructures and those that do not own infrastructures). It was also argued that the service portfolio was written from the perspective of maximizing the convenience and free access for users of the Company's infrastructures, at the expense of maintaining standards and the Company's ability to manage its affairs and future development. The Company emphasized that it is essential for the MOC to hold individual work meetings with the Company's professional entities in order to create structured and implementable processes.

Section 1.7.3.4 - Use of the Company's physical infrastructure by infrastructure owners - see 1.7.3.3 above. Additionally, on August 13, 2018, a hearing and draft regulations were published on determining the maximum payments for mutual use by infrastructure owners of access service to passive infrastructure so that based on the recommendations of the Economics Department from July 30, 2018, the Minister is considering determining that the tariff will be the same as for the payments currently defined in the Use Regulations for a domestic carrier which is a special general license holder. Notably, a letter attached to the hearing dated August 9, 2018, concerning the service portfolio described in the update to Section 1.7.3.3 states that the Ministry is considering not setting a maximum or minimum payment for service to be provided by other domestic carriers for which no payment was defined. On September 9, 2018, the Company submitted its comments on the hearing to determine the payments (together with an expert economic opinion), in which it stipulated, among other things, that the distinction must be maintained between operators that do not own infrastructures and infrastructure owners, and certainly those governed by the obligation of universal service.

Section 1.7.3.5 - Wholesale telephony service - On June 5, 2018, the Ministry of Communications informed the Company that it will not extend the temporary arrangement relating to telephony service in resale format and that accordingly, as of August 1, 2018, the Company must provide wholesale telephony service in the format defined in the BSA + Telephony service portfolio ("the Service Portfolio") and that the Company must provide this service both as a stand-alone service and as a supplementary service to the BSA service.

Upon receiving this notice, the Company stipulated that it does not expect to meet the deadline specified in the notice, further to its previous clarifications that the service format in the service portfolio cannot be implemented technologically and that it requires the replacement of a switch which is a prolonged, complex process, and that it intends to ask the Ministry to find a solution for this problem.

After discussions with the Ministry, the Company offered, commencing August 1, 2018, telephony call minutes service and associated wholesale services in the wholesale market on the basis of the service portfolio in a technology format which is similar to the resale arrangement and with wholesale market tariffs. In parallel, the Company began the process of replacing the switch which will also enable compliance with the service portfolio requirements.

The Company believes that the implementation of wholesale telephony will adversely affect its financial results. However, at this time the Company is unable to estimate the extent of the impact, which could be significant, given that it depends on different variables, including the volume of demand for the service, the price levels of substitute products currently available on the market (such as VoB), etc.

Further to the Ministry of Communication's announcement dated October 19, 2017, that it intends to apply financial sanctions to the Company, on August 8, 2018 the Company received a "Supplementary Supervisory Report to the Final Supervisory Report Concerning Non-implementation of the Wholesale Telephony Service" as well as an "Updated Notice of its intention to apply financial sanctions concerning implementation of the broadband reform" ("the Updated Notice") in which the Ministry of Communications announced its intention to apply financial sanctions to the Company of NIS 11,327,540 (a similar amount to that stated in the Notice described in Section 1.7.3.5 to the 2017 Periodic Report). The notice further states that the Ministry intends to take additional enforcement measures if the breach continues. On October 4, 2018, the Company submitted its position on the hearing whereby financial sanctions should not be imposed on it.

On October 18, 2018, the Company's license was amended so that "telephony service in resale format" was eliminated from the list of basic services, in accordance with Appendix J, and "telephony service in voluntary resale format" was added, and the comments noted that the service does not detract from the obligation to provide wholesale telephony service according to the Use Regulations.

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

Section 1.7.4.4(A) - Hearing about call center waiting times - on May 21, 2018, the Company, Pelephone and Bezeq International received an amendment to their licenses which will be effective on March 21, 2019. The amendment to the licenses prescribes, among other things, provisions concerning the obligation to route calls on certain matters to a professional human response, call waiting times as well as provisions concerning call center work hours, the recording and documenting of calls and reporting obligations. Notably, on October 21, 2018, the Ministry of Communications published a secondary hearing on an amendment to the license pertaining, among other things, to postponement of the date on which the license amendment will enter into force (May 19, 2019 instead of March 21, 2019). On November 11, 2018, the Company submitted its response to the hearing in which it requested, among other things, an adjustment the date on which the amendment will enter into force so that it corresponds with the definition in the law (as specified below), modifications to the measurement of call waiting times, and also clarifying exclusion of the business call centers from the scope of the amendment to the license.

On July 25, 2018, an amendment to the Consumer Protection Law was published which will become applicable one year from its publication. According to the amendment, the Company, Bezeq International, Pelephone and DBS are required, among other things, to route customers' calls to a professional, human response within six minutes when dealing with calls about malfunctions, clarifying bills and terminating contracts. The amendment prescribes an instruction whereby if the license or other legislation prescribe instructions relating to the call response time, the regulator may instruct that a business is entitled to deviate from the defined call response time of six minutes. The Company is studying the implications of the amendments which could lead to an increase in the costs of operating the call centers of the Group's companies, and it is preparing to implement them.

Internet access - on October 16, 2018, the Ministry of Communications published a hearing which includes a draft amendment to the operators' licenses, including those of the Group companies, to which comments must be submitted by November 29, 2018, in connection with a transition to IPv6 protocol. IPv6 defines the number of possible legal addresses on the Internet, in view of the fact that current protocol has a limited number of addresses, and its purpose is also to support future growth, development and competition in the global market, based on trends in Internet use such as: portability, smart devices, smart traffic, remote monitoring, etc. According to the draft license amendment, the Company will be required to operate the network and its components so that it fully supports IPv6 and to provide end user access to the Internet service on IPv6 from any terminal equipment, and also to voluntarily transfer existing and new subscribers to addresses on IPv6 so that whenever a technician visits a subscriber's home, the software version of the terminal equipment that the Company provided that is connected to the network will be upgraded to support IPv6. The transition to IPv6 might entail costs arising, among other things, from the need to replace equipment and the subject will be assessed by the Group companies.

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

Section 2.6.3 - Internet infrastructure segment

As far as the Company is aware, in July 2018, Partner began to sell services as part of the BSA wholesale service over the HOT network.

Section 2.6.5 – Other competing infrastructures

With respect to the obligation for universal deployment by IBC - on February 27, 2018, the Ministry of Communications published a hearing concerning: "Changes in the obligation for nationwide deployment applicable to IBC", according to which the Ministry is considering amending IBC's license and changing the deployment obligation applicable to it. The Company submitted its opposition and stated that the reasons given by the Ministry for the change are erroneous and in any event do not justify granting the far-reaching relief being considered by the Ministry, and that the decisions considered in the hearing have ramifications for the Company and the structure of the domestic carrier market, and it therefore requested an opportunity to present its arguments orally as well.

On August 8, 2018, the Minister of Communications decision on the hearing was received. This followed a decision made by the government on August 5, 2018, granting the Minister of Communications discretion to determine the scope of IBC's deployment obligation in its license. Pursuant to this decision of the Minister of Communications, regulations will be drawn up for the activity of a special, general license holder (infrastructure) as a type of special, general license and wholesale operator that provides its services exclusively to license holders (or permit holders), similar to the domestic carrier infrastructure license ("the New License"). These regulations will allow IBC to apply for such a license, and subject to IBC's compliance with the conditions, will facilitate limiting the deployment obligation applicable to IBC so that it gradually reaches at least 40% of households in Israel within 10 years and only after the Cherry Picking period (which will last three years), will the New License holder be required to provide accessibility for at least one household in the periphery for every household provided with access in the center of the country.

Furthermore, on August 8, 2018, Cellcom reported that it had signed a Memorandum of Understanding (MOU) to acquire 70% of IBC's share capital. On this, see also an Immediate Report of Cellcom dated August 8, 2018.

The foregoing is expected to adversely affect the Company, however at this time it is unable to assess the impact of the foregoing on it and on its business, given that it is dependent on different variables and factors.

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

In April 2018, the Company launched its new router - Be. This is an advanced router with an innovative design and cutting-edge capabilities including, among others, smart Wi Fi which provides quality, continuous browsing on home Internet, cyber protection and preparation for a smart home. The router and services are managed by a dedicated application

Section 2.7.4 – Real estate

Section 2.7.4.4 (sale of real estate) - on the entering into an agreement by the Company for the sale of the Sakia property to Naimi Towers Ltd. - on May 21, 2018, the Company received a demand for permit fees from the Israel Land Authority with respect to the property improvement plan approved prior to signing the agreement, in which the Company was required to pay NIS 148 million plus VAT ("the Demand"). The Company filed an objection to the Demand on legal grounds and it also intends to submit an appeal on the assessment. On August 5, 2018, the Company received from the Or Yehuda Local Planning Committee a demand for payment of a betterment levy of NIS 143.5 million for the sale of the Property ("Demand for Betterment Levy"). On September 17, 2018, the Company filed an appeal on the Demand for Betterment Levy, and it sent the ILA a demand for payment of the full amount of the betterment levy according to the Authority's undertaking in the compromise settlement. Notably, the amount of the permit fee to be determined at the end of the proceedings could also affect the amount of the betterment levy that the Company will be required to pay the planning committee. If in the final outcome the Company is required to pay the full amount of the Demand for the Betterment Levy and the full sum of the Demand, then the capital gain to be recorded in its financial statements is expected to be NIS 250 million. The Company estimates that the permit fees and the betterment levy it will be required to pay will be lower and possibly even substantially lower than the total amount of the demands. On September 4, 2018, the ILA and the Company signed a lease agreement relating to the Sakia property.

The information contained in this section relating to the Company's estimates and the capital gain resulting from the sale of the property is forward-looking information as this term is defined in the Securities Law, and it is based, *inter alia*, on the foregoing and on the Company's estimates of the costs of the transaction, various expenses of the Company in connection with the property and regarding the Company's arguments pertaining to payment of the Demand, while at this stage the Company is not in possession of all the arguments of the Israel Land Authority on these matters. The information may not fully materialize insofar as the Company's aforementioned estimates materialize differently than expected.

Section 2.9.3 - Early retirement plans

On May 23, 2018, the Company's Board of Directors approved an early retirement plan in 2018 at a cost of NIS 80 million, following a previous decision of the Board of Directors in March 2018, which approved early retirement at a cost of NIS 10 million in respect of the first quarter of 2018 (hereinafter together "the Retirement Plan"). The Retirement Plan is in consistent with terms of the collective agreement between the Company and the Labor Union and the Histadrut from December 2006, as last amended in August 2015. At the date of publication of the report, 71 employees retired within the framework of the Retirement Plan at a cost of NIS 92 million. On this matter, see also Note 15.1 to the Company's consolidated financial statements for the period ended September 30, 2018.

Section 2.9.5 - Officers and senior management in the Company

On changes in the composition of the Company's Board of Directors, see the update to sections 1.1.3 and 1.1.4.

On the service of the Company's CEO - on September 1, 2018, Mr. David Mizrahi began to serve as the Company's CEO, replacing Ms. Stella Handler, who stepped down on August 31, 2018.

On May 21, 2018, the general meeting of the Company's shareholders approved an amendment to the Company's compensation policy whereby the annual premium for insuring Directors and Officers (D&O) of the Company will not exceed USD 1 million, with a deductible of up to USD 1 million. Additionally, on September 17, 2018, the special general meeting of the Company's shareholders approved a further amendment to the Company's compensation policy whereby the possibility of compensating the chairman of the Company's Board of Directors through a management company will be added, and the possibility of providing compensation for directors who are not external directors and are not independent directors will be added up to the maximum amount of compensation payable to an expert external director, as defined in the Fourth Schedule to the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000. The same general meeting also approved the entering into agreement between the Company and Mr. David Mizrahi, CEO, and an agreement with a management company for Board of Directors services. On these matters, see the Company's Immediate Reports dated August 12, 2018, and September 17, 2018, concerning the convening and results of the meeting, included here by way of reference.

Section 2.11 – Working capital

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

Section 2.13.6 - Credit rating

On April 26, 2018, S&P Global Rating Maalot Ltd. ("Maalot") affirmed the Company's ilAA rating and downgraded the rating outlook to negative and on April 30, 2018, Midroog Ltd. ("Midroog") affirmed the current Aa2.il rating for the Company's debentures (Series 6, 7, 9 and 10) with a stable outlook. Additionally, on November 18, 2018, on November 18, 2018, Maalot and Midroog affirmed the aforementioned ratings, respectively, for the issuance of new Series 9 debentures in the amount of NIS 550 million par value, in accordance with letters of undertaking dated January 14, 2018, for a future issuance which is expected to take place on December 2, 2018, or immediately after this date, consistent with the letters of undertaking (as detailed in Section 2.13.5 in the Description of Company Operations in the Periodic Report for 2017).

On these and on the aforementioned rating reports, see Immediate Reports of the Company dated April 26, 2018 (Maalot) and April 30, 2018 (Midroog), and November 18, 2018 (Maalot and Midroog), included here by way of reference.

Section 2.14 - Taxation

For information about the deferred tax asset with respect to carry-forward losses for tax purposes in DBS, see Note 5 to the Company's financial statements for the period ended September 30, 2018.

Section 2.16.1 - Control of Company tariffs

On May 23, 2018, the Ministry of Communications announced an update of the Company's tariffs stipulated in the regulations, effective from June 1, 2018, based on the update formula set out in the Communications (Telecommunications and Broadcasts) (Calculation and Linkage of Payments for Telecommunications Services), 2007, so that the tariffs for the services provided by the Company which are stipulated in the regulations will be reduced by 11.88%, except for the fixed monthly payment for the telephone line, which will remain unchanged. According to the Ministry's announcement and in the Company's estimate, the implications of this tariff change are an annual decline of NIS 16 million in the Company's revenues.

Section 2.16.3 - The Communications Order

On October 15, 2018, the Knesset approved the government's announcement under Section 31(B) of the Basic Law: The Government, to transfer to the Minister of Communications powers invested in the prime minister under Sections 4D through 4E2 of the Communications Law, including powers exercised by virtue of the Communications Order, as well as Section 13 of the Communications Law, which must be exercised in connection with one of the following: matters pertaining to Mr. Shaul Elovitch, matters pertaining to Eurocom Holdings Ltd. and the companies it owns, and matters that materially influence them. According to the announcement, the transfer of powers in connection with the matters listed in this paragraph will remain in force as long as Mr. Shaul Elovitch is a principal shareholder in Eurocom Holdings Ltd. and the companies it owns. Regarding approval by the Minister of Communications of the special administrators of Eurocom Communications under Section 4D of the Communications Law and Section 3 of the Communications Order, see the update to Section 1.1.1.

Section 2.16.7 – Antitrust Laws

Section 2.16.7.8 - On notice from the Antitrust Authority that it is considering determining that the Company abused its position and imposing sanctions on the Company and its CEO - on August 5, 2018, an oral hearing took place at the Antitrust Authority prior to which the Company and its CEO submitted their position in writing. The position submitted to the hearing included arguments and evidence that there had been no fault in the Company's actions and it had not breached the Antitrust Law, and there is therefore no reason to apply any enforcement powers by virtue of the law (including sanctions) and that the determination being considered should not be published. In this context, the Company and CEO pointed out, among other things, factual errors that were included in the Antitrust Authority's notice with respect to the methods of inserting cables in the conduits. Since the hearing commenced, the Company has received additional requests for information from the Antitrust Authority, and the Company submits the requested information.

Section 2.16.10 – Consumer legislation

On the Consumer Protection Authority's requirement to provide documents on the description of the Company's cyber service in various advertisements - on May 10, 2018 the Company received notice of an intention to impose financial sanctions of NIS 243,000. The Company has the right to submit its arguments requesting cancellation of the intention to impose these sanctions. On August 6, 2018, the Company submitted its arguments in a request to cancel the Antitrust Authority's intention of imposing the financial sanctions in which it argued that the content of the publications is correct and that the Consumer Protection Authority's conclusions were erroneous. On November 11, 2018, the Consumer Protection Authority resolved to reject the Company's arguments.

Section 2.17.4 - Management agreement

On July 26, 2018, the Company's Board of Directors decided that the provision of all components of the services under the management agreement was discontinued de facto on April 25, 2018, the date that the Board of Directors in its new composition was appointed by the annual general meeting of the Company's shareholders; the amount due to Eurocom Communications from the Company by virtue of the management agreement for the period between January 1, 2018 and April 25, 2018, based on actual performance, was NIS 800,000; the amount based on the above calculation will not be paid to Eurocom Communications in practice, but will be offset against the debt of Eurocom Communications to the Company, similar to the other payments under the management agreement that were offset in the past. Accordingly, the Company informed the special administrators of Eurocom Communications of this decision. In response, they rejected the information in the Company's statement and in particular dismissed the existence of any debt towards the Company, the amount of the Company's debt towards Eurocom Communications and that the Company has any grounds for offsetting amounts. The Company rejected these arguments.

Section 2.18 – Legal proceedings

In April 2018, a motion was filed against the Company in the Tel Aviv District Court to certify a claim as a class action. The motion alleges that the Company is in breach of the prohibition prescribed in the Communications Law on sending advertisements ("spam"), in part by means of text messages to customers who contact it, which include a link to Bezeq's website. The petitioners estimate the amount of the class action at NIS 85 million, consisting of monetary loss (estimate of the loss for time wasted in dealing with the spam messages) and non-monetary loss due to mental anguish, causing a nuisance and so forth. Notably, a similar motion for the same matter (but for a later period) and in the amount of NIS 52 million was filed in March 2015 in the same court ("the Previous Motion") and on January 9, 2018 it was certified as a class action. The Company filed a motion for leave to appeal the decision and it is scheduled for a court hearing, with a stay of implementation. The present motion for certification was filed in respect of text messages sent by the Company after the Previous Motion was filed. Concurrently with the filing of the present motion, the petitioners also filed a motion to consolidate the hearing on the current motion with that of the Previous Motion.

In June 2018, a motion to disclose and inspect documents under Section 198(a) of the Companies Law was filed in the Tel Aviv District Court (Economics Department). In this motion, the court is asked to instruct the Company, DBS, the indirect controlling shareholder in the Company, Mr. Shaul Elovitch, and his son Mr. Or Elovitch (hereinafter together: "Messrs. Elovitch"), to submit to the petitioner, as a shareholder in the Company, various documents for the purpose of examining the possibility of filing a motion to certify a derivative claim on behalf of Bezeq. According to the petitioner, the controlling shareholder of Bezeq, B Com, and Messrs. Elovitch breached their duties of loyalty and fairness towards the Company in that the sale of 115 million Bezeq shares on February 2, 2016 by B Com while B Com and Messrs. Elovitch used inside information about the Company, and at a value significantly higher than the real value of the shares. The petitioner argues that this sale produced unlawful profits for B Com in the amount of NIS 313 million. The alleged inside information is that the financial statements of DBS and the Company supposedly did not reflect the Company's de facto financial position, but rather a "free cash flow" that was allegedly inflated in order to increase the consideration in the transaction in which the Company acquired the shares of Eurocom Communications Ltd. (a company indirectly controlled by Mr. Shaul Elovitch) in DBS ("Yes Transaction"). Notably, there is another motion pending against the Company to certify a derivative claim in connection with the Yes Transaction (see Section 2.18(B) in the chapter Description of Company Operations in the 2017 Financial Statements and an update to the motion in this section), which is stayed due to the ISA's investigation ("the Investigation"). In this current motion, the petitioner argues that despite the fact that its motion is based in part on the same factual background, it is different from the existing proceedings in this matter. In view of the Investigation, the proceeding was stayed, at this stage until January 2, 2019.

Subsection A - On a motion to certify a class action alleging that the Company's shareholders sustained losses due to the Company failing to submit reports to the TASE and concealing material information from the investor public regarding two significant issues: lowering the interconnect fees and reform of the wholesale market - on August 27, 2018, the Economics Department of the Tel Aviv District Court issued a ruling certifying the action as a class action ("the Certification Decision"). Regarding the cause in the wholesale market reform, the class action group was defined as anyone who purchased Bezeq's shares starting on June 9, 2013 and held all or some of the shares until the filing of the class action lawsuit In this matter, the Court held that the plaintiff proved the existence of alleged damage, by virtue of the fact that during the period of disclosure, Bezeq's stock price fell by 10%, but the actual damage will be calculated during the hearing of the main case. With respect to the cause of the lowering of the interconnect fees, the class action group was defined as anyone who purchased Bezeq's shares from February 28, 2013 and held them up to May 29, 2014. In this regard, the Court ruled that no impairment was recorded that could be attributed to the discovery of the alleged misleading information, but the plaintiff should be allowed to prove that during the hearing of the main case. On October 28, 2018, the Company and the senior officers who are being sued, filed a motion in the Economics Department in the Tel Aviv District Court for a re-hearing on the Certification Decision. In the motion for a re-hearing before a panel of three judges, the court is moved to cancel the Certification Decision and to dismiss the motion to certify a class action. Notably, in accordance with the motion filed by the Company and the senior officers who are being sued, the court ruled to stay the proceedings in the class action until a decision has been made on the motion for a re-hearing.

Subsection B - On a motion to certify a derivative claim in connection with the transaction to purchase all the holdings and owners' loans of Eurocom DBS in DBS - a process that was stayed until November 11, 2018 due to the Investigation. On November 11, 2018, the Securities Authority requested that the court should receive a further update by December 31, 2018,, with respect to the possibility of advancing the process. No ruling has yet been given on the matter.

Subsection G - On two motions to certify class actions alleging unlawful charges in payment for support services and/or responsibility in the context of the use of Internet infrastructure, striking out of one of the motions in view of another, similar earlier motion, and filing of an appeal in respect of that striking out - on October 10, 2018, the appeal was dismissed after the appellant withdrew the motion.

Subsection I - On two motions to certify class actions in relation to the Company's B144 service - on July 19, 2018, the Supreme Court resolved to dismiss the appeal that was filed against the decision to dismiss, *in limine*, the first motion (motion in the amount of NIS 1.11 billion), in view of the fact that no guarantee was deposited.

Subsection J - On two motions to certify a class action in connection with the agreement to purchase DBS - further to a motion filed by the Attorney General to extend the stay of proceedings in view of the Investigation, on May 2, 2018 the court approved a further stay of proceedings of four months. On August 21, 2018, the Attorney General requested that the court should receive another update by December 31, 2018, with respect to the possibility of advancing the process. At the court's request, the parties announced that they would not to oppose the motion. No ruling has yet been given on the matter.

Subsection K - par. (b) - Motions to disclose documents in connection with the DBS - Spacecom transaction - on April 15, 2018, the court resolved to consolidate the four motions that had been filed on this matter. Subsequently, on June 24, 2018, the plaintiffs filed a consolidated and amended motion. Notably, on August 16, 2018, the motion for permission to appeal the decision on consolidation that was filed by one of the applicants in which the court was asked to cancel the consolidation decision and instruct that the other motions should be struck out, was dismissed. Additionally, further to a request by the Securities Authority, the proceeding was stayed until August 12, 2018. On August 21, 2018, the Securities Authority requested that the court should receive a further update by December 31, 2018, with respect to the possibility of advancing the process. The court has not yet issued its ruling on this matter.

Subsection K - par. (c) - An additional motion to disclose documents in connection with the agreement for the purchase of DBS and in connection with the DBS - Spacecom transaction - pursuant to the court's decisions from April 15, 2018 and April 24, 2018, the motion was struck out in view of the similarity with other existing motions on the same matter (motion to certify a derivative claim from March 2015, described in Section 2.18 B in the Chapter on the Description of Company Operations in the 2017 Financials, and four motions that were consolidated as detailed above with respect to par. (b)).

Subsection K - par. (d) - On a motion to disclose documents with respect to advance payments on account of the Second Contingent Consideration in the YES transaction - on April 17, 2018, the motion was struck out with the petitioner's agreement in view of the similarity with another motion on the same matter (motion to certify a derivative claim from March 2015, detailed in Section 2.18 B in the chapter on Description of Company Operations in the 2017 Financial Statements).

Subsection L - On a motion to certify a class action that was filed in the USA in the name of shareholders in B Communications, among others against officeholders (past and present) in the Company and DBS - in July 2018, the respondents filed motions to dismiss the motion and claim in limine. As far as the Company is aware, the motion to dismiss in limine that was filed by B Communications, was partially accepted on September 27, 2018, after the court held that the arguments relating to reports of the statements about the control and reporting mechanisms and the ethical code of B Communications do not establish grounds for a claim. The court refrained from dismissing outright the grounds pertaining to reports about the special Board of Directors Committee and those relating to the consolidated cash flow of B Communications. The court also dismissed B Communications' motion to stay the proceedings in view of the Investigation. To the best of the Company's knowledge, no decisions have not yet been issued on the motions to dismiss in limine that were filed by officers (past and present) of the Company and DBS.

Subsection M - On a motion to certify a derivative claim against directors and the controlling shareholders in the Company in connection with a tax assessment agreement - at the request of the ISA, the proceeding was stayed until August 20, 2018 in view of the investigation. On August 21, 2018, the Securities Authority requested that the court should receive a further update by December 31, 2018, with respect to the possibility of advancing the process. At the court's request, the parties announced that they would not to oppose the motion.

A new legal proceeding against an investee company which is not a key operating segment (Walla) - in May 2018 an action was filed in the court against Walla, together with a motion for its certification as a class action. The motion alleges that on its website, Walla publishes “advertising-related articles” without due disclosure of the fact that they contain marketing content, and that the publication of marketing content without proper disclosure, as alleged, is, among other things, a breach of the provisions of the Consumer Protection Law, violation of the Rules of Journalism Ethics, a tort and unjust enrichment. The petitioner estimates that the value of the loss caused to the class members is NIS 60 million.

Section 2.20 – Risk factors

Section 2.20.5 – Restriction on relations between the Company and companies in Bezeq Group

The Company’s assets include a deferred tax asset of NIS 1.166 billion for carry-forward losses for tax purposes of DBS (“the Tax Asset”). Utilization of the Tax Asset is contingent on receiving Ministry of Communications approval to cancel the structural separation in Bezeq, or alternatively on Ministry of Communications approval to change the Group’s legal structure[6] and obtain approval from the Tax Authority to offset the past losses of DBS in this legal structure. On this matter, see the update to Section 1.7.2.1 (B) and Note 5 to the Company’s financial statements for the period ended September 30, 2018. The Company is working to obtain these approvals. Nevertheless, there is no certainty as to if and when the approvals will be received. Accordingly, there is a risk that the Company’s current assessment (as specified in the aforementioned Note 5) will change and result in the writing off of all or part of the Tax Asset, recording of the loss and a decrease in the Company’s equity. The extent of the risk factor’s impact on the Company if it materializes is high.

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

Section 3.1 - General information about the area of operations

Section 3.1.8.1 - in April 2018, Marathon 018 (Xfone) began to operate in this sector (thus increasing the number of cellular telephony operators to six), further intensifying competition in this sector.

Section 3.4 - Trade receivables

As noted in the Periodic Report, Pelephone has prepaid subscribers where the volume of revenues from these subscribers is not material to the Company’s total revenue. From Q3 2018, further to its decision, Pelephone updated the definition of an active subscriber so that its subscriber listing will no longer include IOT subscribers, and it added a separate comment for prepaid subscribers so that a prepaid subscriber will be included in the list of active subscribers from the date on which the subscriber loaded his device, and it will be removed from the list of active subscribers if no outgoing calls were made for six months or more. As a result of this change, at the beginning of the third quarter 426,000 prepaid subscribers and about two thousand IOT subscribers were written off Pelephone’s subscriber listings. This led to an increase of NIS 11 in the ARPU index and an increase of 1.5% in the churn rate in Q3 2018.

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6 Establishment of a registered partnership wholly owned by the Company to which the assets, licenses and operations of the subsidiaries DBS, Pelephone and Bezeq International will be transferred, which in practice will be merged into a single entity or other possibilities.

Section 3.8.2 - Frequency usage rights, and Section 3.19.3 G - Pelephone's risk factors - Frequency spectrums

On July 3, 2018, Pelephone received notice from the Ministry of Communications that the 850 MHz frequency allocation used by Pelephone will expire on September 9, 2022. Instead Pelephone will receive the same bandwidth on frequencies in the 900 MHz spectrum, no later than March 22, 2021. The Ministry explained its decision by the need to designate use of the first giga spectrum to the region in which the State of Israel is located. The notice further stipulates that the format and timetable for making the replacement will be formulated by a joint professional team with representatives from the Ministry of Communications, the Ministry of Finance Budget Division and where necessary, also representatives of the relevant companies, including Pelephone. Pelephone will wait for the format and timetable to be formulated and it will work to exercise its rights in accordance with the law, respectively.

Furthermore, on July 12, 2018, the Ministry of Communications granted a temporary allocation of two bandwidths, each of 5 MHz, on the 700 MHz spectrum, to Partner and Hot Mobile. According to the Ministry's notice dated May 17, 2018, the purpose of these temporary allocations is to facilitate technological deployment for the supply of advanced services and to streamline the integration of the relevant technologies using this frequency. This temporary allocation will be cancelled depending on the results of the tender to allocate additional frequency spectrums to the cellular companies, which is due to be published at the end of this year. Pelephone decided, for reasons of its own, not to request a temporary allocation on this frequency spectrum at this time.

Section 3.9.5 - Announcement of a labor dispute

On June 6, 2018, Pelephone received notice from the New General Federation of Labor - Cellular, Internet and High-Tech Workers Union ("Histradrut"), of a labor dispute in accordance with the Settlement of Labor Disputes Law, 1957 and a strike/stoppage commencing on June 21, 2018 onwards. According to the notice, the matters in the dispute are the intention to make organizational and structural changes in Pelephone, including a merger and consolidation of activities etc. with the Company and/or its subsidiaries, a demand by the employees' representatives to provide details and data on the planned organizational and structural changes and to hold the necessary consultations, and a demand to conduct negotiations for the signing of a collective labor agreement for the regulation of the rights of Pelephone's employees, including the subject of a safety net, following the aforementioned organizational and structural changes. At this stage, the Company and/or Pelephone are unable to assess the implications deriving from this Notice.

Notably, on June 27, 2018, Pelephone received notice from the Histadrut that the additional notice concerning a labor dispute dated January 31, 2018 regarding organizational and structural changes and regarding an expansion of services and outsourcing, is cancelled in view of agreements that were reached and that the announcement of other labor disputes in Pelephone remain in force.

On this matter, see also the update to Section 1.7.2.

Section 3.14.3 – Site construction licensing

On October 24, 2018, the Planning and Building (Installation of Cellular Wireless Communication Access Installation) Regulations, 2018, were published. The regulations restrict and introduce additional conditions for the erection of a wireless access installation which is exempt from a building permit. Among other things, the additional regulations stipulate that the horizontal safety range for public health purposes will not be more than 4 meters, or 6 meters for a combination of wireless access installations belonging to more than one license holder or for a combination of wireless access installations for the same license holder, that broadcast on two different technologies one of which is New Generation technology. Among other things, the regulations also allow modifications to be made in an existing installation, to replace an existing installation with another installation or to relocate an existing installation, provided that after all these the same installation remains on the same building roof, or that replacement of the installation does not lead to a change in the number of installations on that roof, as applicable. The regulations also enable, in an expedited licensing process, the relocation of up to two existing installations to the roof of another building, and the erection of up to ten new installations by the same license holder in one calendar year. Moreover, the regulations stipulate that an installation will not be moved to the roof of a building on which there are already seven or more broadcasting installations, and a new installation will not be erected on a roof that has several broadcasting installations, unless the roof of the building is more than 500 sq.m. The regulations as they have been published significantly limit the possibility of making use of the building permit exemption track to position cellular access installations.

Section 3.16 – Legal proceedings

In April 2018, an action was filed against Pelephone in the Tel Aviv District Court together with a motion for its certification as a class action. The main subject of the action is the allegation that Pelephone markets and sells repair services while requiring customers to commit to unreasonable periods of time and without the possibility in the agreement of canceling the transaction during the commitment period and/or of transferring the service to another cellular device. The petitioners do not explicitly state the amount of the action against the respondent, but estimate that the value of the loss caused to each class member by the inability to cancel the repair service before the end of the commitment period is hundreds of shekels each year for each class member.

In November 2018, an action was filed against Pelephone in the Tel Aviv District Court together with a motion for its certification as a class action. The subject of the action is the allegation that Pelephone allegedly breached its obligation to compensate its customers for a large-scale malfunction that occurred on its network on September 11-12, 2018, and in a manner that prevented most of the customers from receiving any appropriate compensation. The petitioner estimates the value of the damage caused to members of the class at NIS 200 million. Notably, a claim together with a certification motion for approximately NIS 43 million is pending against Pelephone, with respect to a malfunction on September 2, 2018. On these malfunctions, see also the update to Section 3.20.

Section 3.16.1 H - on a claim and motion for its certification as a class action which was filed against Pelephone in the Nazareth District Court, alleging that Pelephone fails to block access to foreign internet browsing services for its subscribers who did not purchase a package for web-browsing abroad or who asked for voluntary access to the surfing services, and that it charges these subscribers retroactively when they purchase a web-browsing package and after accumulating a debt for the surfing services. The plaintiff argues that Pelephone therefore practices unjust enrichment. On June 6, 2018, the court approved the plaintiff's abandonment of the motion for certification as a class action, struck out the motion, dismissed the plaintiffs' personal claim and instructed that the proceeding be closed without an order for legal costs.

Section 3.20 - Event or matter deviating from the normal course of the corporation's business

Due to a malfunction that occurred while work was underway to upgrade and service the HLR system (which contains a dynamic database of the network subscribers), in September 2018 there were disruptions to the cellular network, that intermittently affected incoming and outgoing calls, text messages and Internet browsing for some Pelephone subscribers. These disruptions recurred several more times in September 2018 and Pelephone therefore restored use of the HLR system that preceded the upgrade and offered its customers a choice of various bonus alternatives.

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

Section 4.8 – Human resources

On a collective labor agreement dated January 12, 2016 between Bezeq International and the New Histadrut Labor Federation and the workers committee of Bezeq International - on May 15, 2018, the validity of the agreement was extended for an additional year, until December 31, 2019.

Further to reports in relation to announcements in January 2018 regarding labor disputes in the Company and Pelephone with respect to the possible transfer of control in the Company (Sections 2.9 and 3.9 in the Periodic Report for 2017), it is noted that on that date, Bezeq International received similar notice.

On May 31, 2018, Bezeq International received notice from the New General Federation of Labor ("Histradrut") - Cellular, Internet and Hitech Workers' Union, of a labor dispute in accordance with the Settlement of Labor Disputes Law, 1957 and a strike commencing on June 15, 2018. According to the notice, the matters in the dispute are the intention to make organizational and structural changes in Bezeq International, including a merger and consolidation of activities, etc. with the Company and/or the Company's subsidiaries, a demand by the employees' representatives to provide details and data on the planned organizational and structural changes and to hold the necessary consultations, and a demand to conduct negotiations for the signing of a collective labor agreement for regulation of the rights of Bezeq International's employees, including the subject of a safety net, following the aforementioned organizational and structural changes.

On this matter, see also the update to Section 1.7.2.

Section 4.13 – Legal proceedings

Subsection B - on a claim and motion for its recognition as a class action with respect to content filtering services - in April 2018, the court approved part of the action as a class action (the part relating to additional compensation of NIS 1,000 for each of the students using the website filtering software was struck out). Additionally, Bezeq International's service provider was removed from the proceeding.

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

Section 5.1.2 - Legislation, restrictions and special constraints in the segment of operations

Bill for the regulation of content providers - in July 2018, a Memorandum of the Communications (Telecommunications and Services) (Regulation of Content Providers) Law, (Amendment no. __), 2018, ("the Memorandum"), was published. According to the Memorandum, the purpose of and need for the Bill are changes in the format of regulations in the multi-channel television market and adapting it to technological developments so that they will apply to the providers of audio-visual content that transmit content to the Israeli public, from a certain volume of revenues, unrelated to the type of technology used for transmitting the content, while encouraging competition and reducing the regulatory burden. At this initial stage, DBS is unable to estimate the overall ramifications stemming from the Memorandum. It is stipulated that the legislative process is still in its early stages and there is no certainty that the Memorandum will develop into binding legislation in its proposed version or at all.

Section 5.8.2 - Terminal satellite equipment

In April 2018, Altech, the manufacturer of Zapper HD decoders and 4K PVR decoders which DBS purchases from Draco and OSI, announced its intention of discontinuing its decoder manufacturing activity in November 2018, and in May 2018 it announced that it will not supply some of the existing orders of decoders to Draco and OSI.

In July 2018, an agreement was signed between DBS, Altech, Draco and OSI (to which a corporation that indirectly controls Altech added a "backup" undertaking for the obligations of Altech) which includes, among other things, regulation of the transfer of intellectual property rights in connection with the Zapper HD decoders and 4K PVR decoders to DBS and substitute manufacturer/s as well as an additional undertaking by Altech in connection with the aforementioned decoder orders and the commencement of the manufacture of these decoders by the substitute manufacturer/s. The agreement also cancels the previous supply agreements for decoders of these models and includes a general and reciprocal waiver by the parties of arguments and claims in connection with the two aforementioned decoder models and their supply agreements.

Additionally, in July 2018, DBS signed two supply agreements between DBS, an alternative set-top box (STB) manufacturer (Skardin Industrial Corp. - "Skardin"), and OSI. Under these agreements, Skardin will manufacture and OSI will import, sell and supply to DBS, Zapper HD decoders and 4K PVR decoders as a substitute for Altech's production.

The deployment in this section concerning the expected discontinuation of Altech's manufacturing activity with respect to DBS's requirements until decoders can be obtained from a substitute manufacturer and with respect to the losses that DBS might sustain, if and to the extent that there is no continuous supply of the decoders, is forward-looking information according to its definition in the Securities Law, which is based, inter alia, on the information provided to DBS by Altech, Skardin, Draco and OSI, and on DBS's assessments with respect to its requirements and the feasibility of Skardin actually manufacturing the decoders, as well as with respect to the estimated timing of the sale and supply of these alternative decoders to DBS by Draco and OSI. Consequently, these estimates may not materialize, or may materialize differently than expected, in part depending on conditions relating to Altech (including its ability to meet its undertakings in connection with the assistance for the substitute manufacturer and transfer of the intellectual property), Skardin and OSI, and the conditions that could affect the materialization and timing of the chain of supply and manufacture of the decoders, as well as the needs of the market in which DBS operates.

Section 5.8.5 - Operating and encryption systems

In May 2018, Cisco informed DBS of the sale of its activity for serving multi-channel providers to a third party, and in October 2018 DBS received notice that the sale of this activity had been completed. DBS is reviewing the significance of this matter, taking note of its agreements with Cisco and the relevant activity.

Section 5.10.2

On August 7, 2018, DBS signed a long-term agreement with the Sports Channel Ltd. ("Sports Channel") in which the Sports Channel will provide DBS with National channels produced by it as well as other channels that it will produce in the future, including for broadcasting on OTT platforms.

The consideration to which the Sports Channel will be entitled is based mainly on a fixed monthly payment in accordance with the number of subscribers to DBS broadcasts.

Notably, DBS also has a long-term agreement with Charlton Ltd. ("Charlton") in which Charlton will provide DBS with the sports channels that it produces, including for broadcasting on OTT platforms. The consideration to which Charlton is entitled is fixed payment based on the number of subscribers to the channels, but will not be less than a defined amount.

Section 5.11 – Human resources

On August 1, 2018, the CEO of Pelephone, Mr. Ran Guron, took up office as the CEO of DBS (in addition to his position as the CEO of Pelephone), replacing Mr. Ron Eilon.

Section 5.11.3 - Benefits and the nature of employment agreements

In June 2018, the National Labor Federation declared a labor dispute. According to the Federation's announcement, the issues in dispute are the intention to make organizational and structural changes in DBS, including a merger and consolidation of operations with the Company or with its subsidiaries, a lack of good faith reflected by not providing information and actually implementing structural changes without conducting the required consultation and negotiations as required by law within the framework of the collective labor dialog.

On this matter, see also the update to Section 1.7.2.

Section 5.15.10 - Regulation of the transmission of video content via the Internet

On a memorandum relating to the application of regulations to the providers of audio-visual content in Israel, see the update to Section 5.1.2.

Sections 5.16.2 and 5.16.4 - Space segment leasing agreement

In April 2018, a space segment leased by DBS was replaced following an amendment to the 2017 agreement, where the replacement period was extended to September 2019.

In April 2018, Spacecom announced that it had received a letter from a government entity whereby "government entities intend to take action to launch and operate a communications satellite through Israel Aerospace Industries to a point in the sky at 4^0W (Israel's national air space), consistent with their requirements". Spacecom further noted that it is unable to estimate the feasibility and chances of launching this satellite. In July 2018, Spacecom announced that it is continuing to examine several options for building Amos 8, including possible cooperation with the Israeli government. Any delay in positioning the Amos 8 satellite will have repercussions for DBS with respect to the number of space segments available to it and in view of the fact that beyond the period in which it was agreed that the space segments would be leased from just one satellite, there will be an additional period.

In September 2018, Spacecom announced that the agreement in which it engaged to manufacture the Amos 8 satellite (mentioned in footnote no. 71) will not take effect and will be cancelled, and that it is working to advance the Amos 8 satellite in the best possible manner, and is reviewing the feasibility of several options open to it, including cooperation with the Israeli government. DBS estimates that cancellation of this agreement could lead to a delay in the commencement of activity by the Amos 8 satellite as against the date specified in this agreement.

Further to Spacecom's notice to DBS and its announcement that it is examining various options with respect to the construction of Amos 8, that may require changes in the agreement between DBS and Spacecom, a special independent committee of Bezeq's Board of Directors was appointed to review the various options open to DBS, as part of the existing agreement or its amendment. The committee was authorized to be actively involved in negotiating independently with Spacecom regarding an amendment to the existing agreement, and also to formulate and submit its recommendations with respect to amending the agreement, if at all, to the Audit Committee and Board of Directors of Bezeq.

Section 5.17 – Pending legal proceedings

Subsection A - motion to certify a class action relating to electricity consumption by the broadcasting equipment on apartment buildings that belongs to DBS - on July 31, 2018, the court approved conducting the action as a class action and it determined that there are ostensible grounds for representatives of the apartments in the buildings in which the representatives signed any forms in which there is no explicit agreement, to pay the cost of a monthly charge for communal electricity consumption by the broadcasting equipment. Further to the parties' request, on September 26, 2018, the Supreme Court approved deferring the date for filing motions for permission to appeal the decision to January 1, 2019.

Subsection C - Allegation regarding discrimination of DBS customers - in its decision dated March 27, 2018, on motions to approve procedural arrangements, the court ruled that proceedings against all the communications companies, including the television companies and the motions against DBS, will be heard jointly and it established court proceedings for clarifying the motions for certification. Furthermore, and after the parties to the proceeding submitted their summaries to the court, on July 11, 2018, a hearing took place on all the motions for certification against all the communications companies, in which the court recommended that the plaintiffs should consider withdrawing from the motions for certification with compensation, and it ruled that to the extent that no recommendation is received by September 2018, the court will rule on the motions for certification. The plaintiffs did not file notice by the appointed time, and the court is therefore expected to make a decision on the motions for certification.

Subsection D - claim concerning the automatic renewal of fixed-period transactions while charging customers unilaterally and without their consent - in May 2018, in accordance with a court ruling, the compromise settlement reached by the parties and the motion for its certification were published in the press and on the Internet. According to the main points of the settlement, DBS will open a designated channel for those entitled to the benefit for three months.

Subsection F - class action on the discontinuation of broadcasts of the Children's Channel - on April 11, 2018, the Council informed the applicant in response to her request that it rejects her arguments whereby there is a period in which no worthy alternative was provided for the discontinued Children's Channel. On May 28, 2018, the applicant's attorney filed an "agreed motion to strike out the motion for certification" and on that same day the court issued its ruling in which it determined that the applicant must file a motion for abandonment in accordance with Section 16 of the Class Actions Law. Subsequently, on July 13, 2018, a court ruling was issued in which, if the applicant does not file a motion for abandonment by July 31, 2018, the court will consider setting a date for a hearing and charging the applicant costs. On August 19, 2018, the court issued its ruling in which the applicant failed to act in accordance with the court's decision of May 28, 2018, and a hearing was scheduled for December 31, 2018. On October 4, 2018, the court approved the plaintiff's abandonment of the action.

Subsection H - On a motion to certify a class action in connection with a transaction between the Company and Eurocom DBS Ltd. - see the update to Section 2.18 J.

Subsection I - On various motions to disclose documents prior to filing a motion for certification of a derivative claim under Section 198(a) of the Companies Law, which was filed subsequent to the ISA investigation, see the update to Section 2.18 K.

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

November 19, 2018	
Date	Bezeq – The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:

Shlomo Rodav, Chairman of the Board of Directors

Dudu Mizrahi, CEO

Exhibit 99.4

Condensed Separate Interim Financial Information
as at September 30, 2018

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

Contents	**Page**

Somekh Chaikin
KPMG Millennium Tower
17 Ha-Arbaa Street, PO Box 609
Tel Aviv 6100601, Israel
800068403

To:
The Shareholders of "Bezeq"- The Israel Telecommunication Corporation Ltd.

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of "Bezeq"- The Israel Telecommunication Corporation Ltd. (hereinafter – "the Company") as of September 30, 2018 and for the nine-month and three-month period then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 45 million as of September 30, 2018, and the loss from this investee company amounted to NIS 33 million and NIS 15 million for the nine-month and three-month periods then ended, respectively. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report of the other auditors.

Scope of Review

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

Conclusion

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

Emphasis of Matter paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 8.1, which refers to Notes 1.2.1 and 1.2.2 to the annual consolidated financial statements of 2017, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and regarding the opening of a joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433. As stated in the above note, at this stage, the Company does not have complete information regarding the investigations, their matter, investigation materials and evidence held by the authorities. Thus, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

November 18, 2018

Condensed Interim Information of Financial Position

	September 30, 2018*	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**975**	1,802	1,769
Investments	**1,520**	75	275
Trade receivables	**707**	707	685
Other receivables	**233**	177	172
Eurocom DBS Ltd, an affiliate	**20**	43	43
Loans granted to investees	**100**	69	69
Investment in DBS debentures	**-**	202	202
Dividends receivable	**60**	152	-
Total current assets	**3,615**	3,227	3,215
Trade and other receivables	**100**	141	121
Property, plant and equipment	**4,978**	4,917	4,933
Intangible assets	**226**	220	224
Investment in investees	**7,408**	7,017	6,958
Loans granted to investees	**90**	101	196
Right of use assets - see Note 1.3	**321**	-	-
Investment in DBS debentures	**-**	455	257
Non-current and other investments	**134**	140	141
Investment property - see Note 8.5	**140**	-	-
Total non-current assets	**13,397**	12,991	12,830
Total assets	**17,012**	16,218	16,045

Condensed Interim Information of Financial Position (contd.)

	September 30, 2018*	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,776**	526	1,589
Loan from an investee	**-**	15	-
Trade and other payables	**712**	690	604
Current tax liabilities	**-**	111	148
Employee benefits	**272**	193	223
Current maturities for lease liabilities - see Note 1.3	**112**	-	-
Provisions (Note 5)	**70**	63	59
Dividend payable	**318**	708	-
Total current liabilities	**3,260**	2,306	2,623
Debentures and loans	**10,128**	10,943	10,223
Loans from a subsidiary	**755**	475	570
Employee benefits	**225**	222	229
Lease liabilities - see Note 1.3	**223**	-	-
Derivatives and other liabilities	**199**	276	220
Deferred tax liabilities	**52**	69	36
Total non-current liabilities	**11,582**	11,985	11,278
Total liabilities	**14,842**	14,291	13,901
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	383	384
Reserves	**328**	283	305
Deficit	**(2,420)**	(2,617)	(2,423)
Total equity attributable to equity holders of the Company	**2,170**	1,927	2,144
Total liabilities and equity	**17,012**	16,218	16,045

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

Date of approval of the financial statements: November 19, 2018

* See Note 1.3 concerning early application of IFRS 16 - Leases

The attached notes are an integral part of these condensed separate interim financial information.

Condensed Interim Information of Profit or Loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	**2017**	**2018***	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues (Note 2)	**3,170**	3,197	**1,043**	1,061	4,244
Costs of activity					
Salaries	**693**	668	**233**	224	891
Depreciation and amortization	**633**	543	**218**	186	728
Operating and general expenses (Note 3)	**428**	514	**143**	183	677
Other operating expenses (income), net (Note 4)	**105**	(29)	**(2)**	(24)	(23)
Cost of activity	**1,859**	1,696	**592**	569	2,273
Operating profit	**1,311**	1,501	**451**	492	1,971
Financing expenses (income)					
Financing expenses	**376**	305	**122**	119	439
Financing income	**(23)**	(24)	**(9)**	(12)	(36)
Financing expenses, net	**353**	281	**113**	107	403
Profit after financing expenses, net	**958**	1,220	**338**	385	1,568
Company's share in (losses) earnings of investees, net	**(33)**	118	**(23)**	46	63
Profit before income tax	**925**	1,338	**315**	431	1,631
Income tax	**236**	308	**81**	109	396
Profit for the period attributable to the owners of the Company	**689**	1,030	**234**	322	1,235

Condensed Interim Information of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	**2017**	**2018**	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Profit for the period	**689**	1,030	**234**	322	1,235
Items of other comprehensive income (loss), net of tax	**23**	(20)	**(3)**	(12)	(8)
Total comprehensive income for the period attributable to equity holders of the Company	**712**	1,010	**231**	310	1,227

* See Note 1.3 concerning early application of IFRS 16 - Leases

The attached notes are an integral part of these condensed separate interim financial information.

Condensed Interim Information on Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**689**	1,030	**234**	322	1,235
Adjustments:					
Depreciation and amortization	**633**	543	**218**	186	728
Company's share in (earnings) losses of investees, net	**33**	(118)	**23**	(46)	(63)
Financing expenses, net	**332**	264	**100**	99	358
Capital gain, net	**(5)**	(64)	**(1)**	(45)	(65)
Income tax expenses	**236**	308	**81**	109	396
Change in trade and other receivables	**(40)**	27	**10**	17	61
Change in trade and other payables	**20**	22	**38**	84	2
Change in provisions	**11**	15	**(4)**	15	11
Change in employee benefits	**44**	(67)	**(34)**	(61)	(37)
Miscellaneous	**(2)**	4	**(2)**	3	6
Net cash (used in) from operating activities due to transactions with subsidiaries	**8**	(43)	**-**	(10)	(39)
Net income tax paid	**(353)**	(283)	**(80)**	(100)	(368)
Net cash from operating activities	**1,606**	1,638	**583**	573	2,225
Cash flows from investment activities					
Investment in intangible assets and other investments	**(84)**	(78)	**(25)**	(27)	(110)
Proceeds from the sale of property, plant and equipment	**37**	72	**8**	46	94
Investment in bank deposits and others	**(2,124)**	(76)	**(190)**	(76)	(276)
Proceeds from bank deposits and others	**896**	547	**338**	-	547
Payment of permit fees and purchase tax for the Sakia complex	**(121)**	-	**(9)**	-	-
Payment of betterment tax for the sale of the Sakia complex	**(80)**	-	**-**	-	-
Investment in DBS debentures	**-**	-	**-**	-	(20)
Proceeds from investment in DBS debentures	**-**	-	**-**	-	194
Purchase of property, plant and equipment	**(547)**	(521)	**(199)**	(143)	(715)
Investments in a subsidiary	**(100)**	-	**(100)**	-	-
Miscellaneous	**23**	(34)	**14**	(7)	(12)
Net cash from investment activities due to transactions with subsidiaries	**86**	(70)	**6**	28	5
Net cash flows from (used in) investment activities	**(2,014)**	(160)	**(157)**	(179)	(293)

Condensed Interim Information of Cash Flows (contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018*	**2017**	**2018***	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Cash flow from finance activities					
Issue of debentures and receipt of loans	**320**	1,918	**-**	500	2,517
Repayment of debentures and loans	**(225)**	(1,116)	**(50)**	(274)	(1,363)
Dividends paid	**(368)**	(578)	**-**	-	(1,286)
Payment to Eurocom DBS for acquisition of DBS shares and loans	**-**	(61)	**-**	-	(61)
Interest paid	**(208)**	(186)	**(5)**	(12)	(397)
Payment of principal and interest for lease	**(90)**	-	**(28)**	-	-
Net cash from financing activities due to transactions with subsidiaries	**185**	165	**-**	(90)	245
Net cash from (used for) financing operations	**(386)**	142	**(83)**	124	(345)
Net increase (decrease) in cash and cash equivalents	**(794)**	1,620	**343**	518	1,587
Cash and cash equivalents at beginning of period	**1,769**	182	**632**	1,284	182
Cash and cash equivalents at the end of the period	**975**	1,802	**975**	1,802	1,769

* See Note 1.3 concerning early application of IFRS 16 - Leases

The attached notes are an integral part of these condensed separate interim financial information

Notes to the Condensed Separate Interim Financial Information

1. Manner of preparing financial information

1.1 Definitions

"The Company": Bezeq - The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2017.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial information for the year ended December 31, 2017 and in conjunction with the condensed interim consolidated financial statements as at September 30, 2018 ("the Consolidated Financial Statements").

The accounting policies used in preparing this condensed separate interim financial information are in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2017.

1.3 First-time Application of Accounting Standards

As of January 1, 2018, the Company implements early adoption of the international financial reporting standard IFRS 16 (the "Standard").

For further information concerning the first-time adoption of IFRS 16 see Note 3.1 to the Consolidated Financial Statements.

The tables below present a breakdown of the effects on the condensed interim statement of financial position as at September 30, 2018 and on the condensed statement of income and interim statement of cash flows for the nine and three months then ended, assuming that the Company's previous policy regarding leasing activities would have continued during this period.

Effect on the condensed interim information on financial position as at September 30, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Other receivables	233	**-**	**233**
Right of use assets	-	**321**	**321**
Trade and other payables	724	**(12)**	**712**
Current maturities of lease liabilities	-	**112**	**112**
Non-current lease liabilities	-	**223**	**223**
Capital	2,172	**(2)**	**2,170**

Effect on the interim statement of income for the nine months ended September 30, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	497	**(69)**	**428**
Depreciation and amortization costs	566	**67**	**633**
Operating profit	1,309	**2**	**1,311**
Financing expenses, net	349	**4**	**353**
Profit after financing expenses	960	**(2)**	**958**
Profit for the period	691	**(2)**	**689**

Effect on the interim statement of income for the three months ended September 30, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	166	**(23)**	**143**
Depreciation and amortization costs	195	**23**	**218**
Operating profit	451	**-**	**451**
Financing expenses, net	111	**2**	**113**
Profit after financing expenses	340	**(2)**	**338**
Profit for the period	236	**(2)**	**234**

Effect on the interim statement of cash flows for the Nine months ended September 30, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	1,537	**69**	**1,606**
Net cash used for investing activities	(2,035)	**21**	**(2,014)**
Net cash used for financing activities	(296)	**(90)**	**(386)**

Effect on the interim statement of cash flows for the three months ended September 30, 2018

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	562	**21**	**583**
Net cash used for investing activities	(164)	**7**	**(157)**
Net cash used for financing activities	(55)	**(28)**	**(83)**

For information regarding the first time application of additional accounting standards see Note 3.2 to the Consolidated Financial Statements

2. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017*	2018	2017*	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Internet - infrastructure	**1,200**	1,149	**401**	386	1,544
Fixed-line telephony	**875**	972	**282**	318	1,281
Transmission and data communication	**734**	738	**243**	244	975
Cloud and digital services	**197**	170	**69**	57	230
Other services	**164**	168	**48**	56	214
	3,170	3,197	**1,043**	1,061	4,244

* Cloud and digital services were reclassified and presented separately to reflect the changes in revenue mix.

3. Operating and General Expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites*	**103**	141	**38**	49	185
Marketing and general	**131**	140	**42**	54	188
Interconnectivity and payments to communications operators	**80**	91	**25**	31	118
Services and maintenance by sub-contractors	**60**	55	**20**	19	73
Vehicle maintenance*	**24**	53	**9**	18	69
Terminal equipment and materials	**30**	34	**9**	12	44
	428	514	**143**	183	677

* See Note 1.3 concerning early application of IFRS 16 - Leases

4. Other operating expenses (income), net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Provision for severance pay in voluntary redundancy	**93**	15	**-**	3	23
Capital gain from the sale of property, plant and equipment (mainly real estate)	**(5)**	(64)	**(1)**	(45)	(65)
Others	**17**	20	**(1)**	18	19
Total operating income, net	**105**	(29)	**(2)**	(24)	(23)

5. Contingent Liabilities

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

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of these litigations, the financial statements include appropriate provisions in the amount of NIS 70 million, where provisions are required to cover the exposure arising from such litigation.

At September 30, 2018:

Provision	* Amount of additional exposure for which probability of realization cannot be foreseen	* Exposure for claims that cannot as yet be assessed
	NIS million	
70	**1,403**	**4,186(1) (2)**

* CPI-linked, before interest

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

(1) Including exposure of NIS 2 billion for a motion to certify a class action filed by a shareholder against the Company and officers in the Company, claiming Company reporting failures concerning the wholesale market and decrease in interconnect fees, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method to be determined for calculating the damage). On August 27, 2018, the court certified the claim as a class action. On October 28, 2018, the Company filed a motion for a rehearing of the decision to certify. Subsequently, the court decided to stay proceedings until after a decision is handed on the motion for a rehearing.

(2) Including two motions to certify class action suits, amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group that is the controlling shareholder of the Company, concerning the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. Pursuant to the court's decision, a consolidated motion is expected to be filed, replacing these two motions. The proceedings were postponed due to the investigation. On August 21, 20189, the Attorney General requested to update the court by December 31, 2018 regarding the possibility of the proceedings moving forward. A decision has not yet been handed on this matter.

5.2 See Notes 11.2 through 11.4 to the annual financial statements for 2017 with regard to additional proceedings against the Company and its officers.

5.3 Subsequent to date of the financial statements, claims for which exposure amounted to NIS 161 million, as well as a non-financial claim, were concluded.

For further information concerning contingent liabilities see Note 8 to the Consolidated Financial Statements.

6. Dividends from investees

6.1 In May 2018, Bezeq International Ltd. paid a cash dividend to the Company, which was announced in March 2018, in the amount of NIS 58 million.

6.2 In May 2018, Pelephone paid a cash dividend to the Company, which was announced in March 2018, in the amount of NIS 45 million.

6.3 In October 2018, Pelephone paid a cash dividend to the Company, which was announced in August 2018, in the amount of NIS 16 million.

6.4 In October 2018, Bezeq International paid a cash dividend to the Company, which was announced in August 2018, in the amount of NIS 44 million.

7. Inter-company loans

7.1 On January 15, 2018, the Company received a loan from Pelephone in the amount of NIS 140 million. The loan bears annual interest of 3.48% and is repayable in four equal annual installments commencing from December 1, 2022.

7.2 On February 12, 2018, the Company provided a loan to Bezeq International in the amount of NIS 95 million. The loan bears annual interest of 2.61 % and is repayable in three equal annual installments commencing from February 12, 2019.

7.3 On May 30, 2018, the Company received a loan from Pelephone in the amount of NIS 45 million. The loan bears annual interest of 3.48% and is repayable in four equal annual installments commencing from December 1, 2022.

7.4 With regard to the loans provided to DBS as capital and a further investment by the Company in DBS share capital, see Note 4.2.6 to the consolidated statements.

8. Events during and subsequent to the Reporting Period

8.1 For further information concerning investigations by the Securities Authority and Israel Police, see Note 1.2 to the consolidated financial statements.

8.2 For information regarding engagements for the issue of debentures and receipt of a loan, see Note 15.3 to the consolidated financial statements.

8.3 For information regarding the conversion of the Company's investment in DBS debentures (Series B) into DBS share capital in February 2018, see Note 13.4 to the annual consolidated financial statements.

8.4 With regard to the second contingent consideration to Eurocom DBS based on the business results of DBS and the estimate of the fair value of the amount expected to be refunded to the Company out of the surplus advance payments made, see Note 4.2.1 to the consolidated financial statements.

8.5 For information concerning the Company's engagement in an agreement for the sale of a real estate property in the Sakia complex, see Note 7 to the consolidated financial statements.

8.6 For further information concerning employee retirement see Note 15.1 to the Consolidated Statements.

Exhibit 99.5

Chapter E:

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended September 30, 2018

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

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

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

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

For this matter, the members of Management are:

1. Dudu Mizrahi, CEO
2. Ehud Mezuman, VP Human Resources Division
3. Udi Atar, VP Private Division[1]
4. Eyal Kamil, VP Operations and Logistics Division
5. Izak Ben Eliezer, VP IT and Network Division [2]
6. Amir Nachlieli, Legal Counsel
7. Guy Hadass, VP Corporate Communications
8. Gil Rosen, VP Marketing and Innovation Division
9. Yali Rothenberg, Bezeq Group CFO
10. Yaacov Paz, VP Business Division
11. Sharon Fleischer Ben-Yehuda, VP Regulation

In addition to the said members of Management, the following serve in the Group’s headquarters[3]:

1. Yehuda Porat, Head of Security Unit
2. Lior Segal, Internal Auditor
3. Shelly Bainhoren, Group Corporate Secretary and Internal Compliance Officer

Internal control over financial reporting and disclosure includes controls and procedures in the Company, which were planned by the CEO and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

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

[1] Started his tenure on October 15, 2018
[2] Started his tenure on October 1, 2018

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

In the quarterly report on the effectiveness of internal controls over financial reporting and disclosure that was attached to the Quarterly Report for the period ended June 30, 2018 (“the Last Quarterly Report on Internal Control”), it was found that the internal control was ineffective on account of several significant deficiencies identified in the entity level controls, and which in the opinion of Management and the Board cumulatively represents a material weakness, as detailed below.

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

At the reporting date, based on what was stated in the Last Quarterly Report on Internal Control, there is a material weakness, and accordingly the internal control is ineffective.

Disclosure concerning the material weakness was provided by the Company for the first time in the last annual report on internal control published on March 29, 2018. Since that date the Company has not found any additional material weakness and the Company is working to correct the material weakness, as detailed below in this Chapter. The Company’s Board of Directors and Management believe that, as at the publication date of this report, the Company has completed most of the activities to amend the material weakness. The Company estimates that it will complete the amendments by December 31, 2018.

Below are details of the material weakness in the internal control:

An Investigation of the Israel Securities Authority is being conducted against the Company and DBS. The Investigation involved the questioning of several senior officers and senior employees in the Bezeq Group (some of whom are not employed in the Group as at the publication date of this report).

On February 18, 2018, a new investigation was opened by the Israel Securities Authority and the Israel Police against several of the Company’s senior officers.

For further details on these matters see section 1.1.6 of the Chapter, Description of Company Operations in the 2017 Periodic Report and the Company’s Immediate Reports referred to in that section.

The Company does not have complete information about the Investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter. Accordingly, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any The evaluation of the effectiveness of the internal control will be completed as part of the periodic report for 2018.

Without derogating from the foregoing, a number of significant deficiencies identified in the assessment of the effectiveness of internal control over financial reporting and disclosure are deficiencies arising from or impacted by the Investigations as stated above. Among them, during the period of the Investigations as stated, conditions were set for release under restrictions of some of those under investigation who had served in key positions in the Company and DBS, which led to the extended absence of some of those under investigation, thereby constraining the Company and Group companies in their operations. As a result, and due to the large number of meetings of the Board and their committees in the Company and DBS in the period from the opening of the Investigation, there were also delays in preparation of the minutes of a significant number of meetings of the Board and their committees in these companies in 2017. In addition, there were indications of procedural deficiencies in respect of the work of the Independent Committee of the Board of Directors related to the engagements that, to the best of the Company’s knowledge, are under investigation.

Moreover, it was found that a limited number of employees who took part in the change management control process in one of the Company’s IT systems acted in an improper manner in contravention of the Company’s procedures. In addition, suspicion arose, as part of the Company’s internal review concerning the period after November 1, 2017, that the Company’s Corporate Secretary (at that time) listened in on discussions to which she was prohibited from being privy to.

In addition, in some of the Group companies, a lack of procedures and a need to update certain procedures were found.

Management and the Board are implementing various actions, some of which are under the constraints arising from the Investigations, with assistance from outside consultants, to act to correct the material weakness and in order to deepen the correctness of the Company's control process and to ensure that despite there being a material weakness in the internal control, the reports are prepared in compliance with the law. All this is in addition to the various developments that have occurred in the Company from the start of the Investigations, all as detailed below.

Actions carried out by the Company and developments that occurred until the publication date of the Company's report for the third quarter of 2018:

1. The Company has retained the services of accounting support to assist in the process of preparing the financial statements of DBS for 2017.

2. In the period following the opening of the Investigation and until the publication date of the 2017 Periodic Report, there were changes in the composition of the Company's Board of Directors and Management, and, among other things, director David Granot was appointed Interim Chairman of the Board by the Company's Board of Directors (he served in this position until April 30, 2018); directors Shaul Elovitch and Or Elovitch (who have been investigated as part of the Investigations) resigned their positions and in their place two new directors were appointed by the Company's Board of Directors; Mr. Yaacov Paz, Vice President of the Business Division, was appointed temporarily as the Company's Interim CEO (until March 27, 2018).

3. During the process to identify and appoint candidates to the Company's Board of Directors, which was carried out with the support of a specialist company in the field, on April 26, 2018 the Annual General Meeting of the Company's shareholders elected a new composition of the Board including two new external directors (in addition to the three external directors serving in the Company), two independent directors and six directors who are not necessarily independent directors (including one director from among the employees), so that at reporting date there are 13 directors serving. Similarly, on April 30, 2018 the Company's Board decided to elect Mr. Shlomo Rodav as Chairman of the Company's Board of Directors.

   Further to this, new appointments were made of directors to the Company's board committees and to the boards of the subsidiaries.

4. The Company and DBS added supplementary procedures on certain subjects to enhance the internal control over financial reporting and disclosure on those subjects. These activities were performed for 2017 and for the first three quarters of 2018.

5. The employees who took part in the control process regarding changes in one of the Company's IT systems and who acted in an improper manner in contravention of the Company's procedures, have been moved to other positions that are not involved in the financial reporting and disclosure process, and supplementary procedures were implemented in respect of those employees in 2017 and 2018. In addition, the process regarding changes in IT system has been examined and updated, including implementation of changes in the organizational structure of the division responsible for the IT system. The work procedures have also been clarified and training has been carried out for employees of the Technologies and Network Division that take part in the internal control on financial reporting and disclosure.

6. The former Corporate Secretary has been transferred to another position that is not one of an officer, and later ended her employment in the Company.

7. Bezeq Group has implemented a special review of the issues of corporate governance led by the Company's Internal Auditor and supported by outside consultants. The work included deeper reviews on the issues of risk management, compliance, enforcement and internal control. The Group companies are implementing adjustments according to the multi-annual guidelines decided upon.

8. The Company carried out a special review of the appropriateness of the Company's control processes. The review was carried out by outside consultants, led by the Company's Internal Auditor and under the supervision of a special, independent committee from among the Company's Board members. The review was completed, however, it was limited in scope and did not include factual reviews in respect of matters raised in the Investigations. Further to this review, the special committee approved various amendments to the control processes and the work within the Company. Most of the amendments have been implemented.

9. Preparation of minutes of Board meetings and those of its committees of the Company and DBS held in 2017 has been completed.

10. The Group companies, assisted by outside consultants, performed a special review to identify the missing compliance and other procedures. The companies appointed parties to be responsible for the procedures who took steps to write and to update procedures as required, and to distribute them in the companies. The companies also took steps to refresh the compliance procedures on various matters, the forecast being to finish the work by November 30, 2018.

11. In June 2018 the Company's Board of Directors decided on the appointment of a new CEO for the Company, Mr. Dudu Mizrahi, who took office on September 1, 2018.

12. In July 2018 the procedure of the Board of Directors' work was modified, among other things, further to the assessment carried out by the Company assisted by outside consultants. Similarly, the Company completed its review of the effectiveness of the work of the Board of Directors. The results have been presented to the Company's Audit Committee and Board of Directors.

13. In July 2018 the Group's Chief Strategy and Corporate Development Officer, the CEO and the CFO of DBS completed their tenures. In August 2018 the CEO of Pelephone started to serve as CEO of DBS, in addition to his role as CEO of Pelephone. In addition, a new CFO has been appointed for DBS.

14. Once the constraints on carrying out reviews and controls related to issues that arose in the Investigations are lifted, the review of all matters related to subjects that arose during those Investigations will be completed as required.

2. **Declaration of Executives:**

A. Declaration of the CEO in accordance with Regulation 38C(d)(1) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970[4]:

I, Dudu Mizrahi, declare that:

1. I have reviewed the quarterly report of Bezeq - The Israel Telecommunication Corp Limited, ("the Company") for the third quarter of 2018 ("the Reports").

2. To the best of my knowledge, the reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the reporting period.

3. To the best of my knowledge, the financial statements and other financial information in the Reports fairly present in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.

4. I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:

   A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

   B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involve other employees who have a significant role in the Company's internal control over financial reporting and disclosure

5. I, alone or together with others in the Company:

   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010 is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports.

   B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.

   C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was reported to me that would change the conclusions of the Board of Directors and Management concerning the effectiveness of internal controls over the Company's financial reporting and disclosure.

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

Date: November 19, 2018

Dudu Mizrahi, CEO

[4] This declaration is subject to the limitations arising from the Investigations, as stated in the preamble to this Chapter in the Company's 2017 Periodic Report.

B. Declaration of the CFO of the Company and the Group in accordance with Regulation 38C(d)(2) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970[5]:

I, Yali Rothenberg, declare that:

1. I have reviewed the interim financial statements and other financial information included in the reports for the interim period of Bezeq - The Israel Telecommunication Corp Limited, ("the Company") for the third quarter of 2018 ("the Reports" or "the Reports for the Interim Period").

2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports.

3. To the best of my knowledge, the interim financial statements and other financial information in the Reports for the Interim Period fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the dates and periods presented in the Reports:

4. I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of the internal control over financial reporting and disclosure:

    A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as they refer to the interim financial statements and other financial information included in the Reports for the Interim Period, which are reasonably likely to adversely affect the Company's ability to record, process, summarize or report financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law

    B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involve other employees who have a significant role in the Company's internal control over financial reporting and disclosure

5. I, alone or together with others in the Company:

    A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under our supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports

    B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles

    C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was reported to me in respect of the interim financial statements and to any other financial information included the Reports for the Interim Period, that would change in my opinion the conclusions of the Board of Directors and Management concerning the effectiveness of the internal control over the Company's financial reporting and disclosure.

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

Date: November 19, 2018

Yali Rothenberg
Bezeq Group CFO

5 This declaration is subject to the limitations arising from the Investigations, as stated in the preamble to this Chapter in the Company's 2017 Periodic Report.