B. Communications Ltd.

Q1 2021 – Quarterly Report

Chapter A – Update to Chapter A (Description of the Corporation's Business) of the Periodic Report for 2020

Chapter B – Report of the Board of Directors on the State of Affairs of the Corporation Business

Chapter C – Unaudited Financial Statements

Chapter E – Report on the Effectiveness of Internal Controls

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR Q1 2021 (THE "REPORTS"). THE HEBREW VERSION OF THE REPORTS IS THE BINDING VERSION AND THE ONLY VERSION HAVING LEGAL EFFECT. THE ENGLISH TRANSLATION HAS BEEN CREATED FOR THE PURPOSE OF CONVENIENCE ONLY. THE APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS WAS GIVEN TO THE HEBREW VERSION ONLY AND NO SUCH APPROVAL HAS BEEN GIVEN TO THE ENGLISH TRANSLATION. THIS ENGLISH TRANSLATION WAS NOT SUBMITTED TO THE ISRAELI SECURITIES AUTHORITY AND IS NOT REVIEWED BY ANY REGULATORY AUTHORITY.

Update to Chapter A (Description of the Corporation's Business) of the Periodic Report for 2020

Update of Chapter 1 (Description of the Corporation's Business)[1] to the Periodic report for the year 2020 ("the Periodic Report") of B Communications Ltd. (:the Company")

1. **Updates in the Company**

On May 4, 2021, Mr. Ajit V. Pai was appointed as a director in the Company. For more details about Mr. Pai, see Immediate Report dated May 4, 2021 (Reference No. 2021-01-077178).

2. **Description of the general development of the Group's business**

Section 1.1 - The Group's activities and a description of the development of its business

Section 1.1.6 - Mergers Acquisitions and Structural Changes

Regarding the examination of a plan for structural change in the subsidiaries - on April 25, 2021, Bezeq International and DBS submitted a request to the Ministry of Communications for approval of a structural change in their activities by way of a full and statutory merger, in the framework of which, among other things, Bezeq International's licensed activities will be assimilated within DBS. Subject to the receipt of corporate and regulatory approvals, DBS and Bezeq International intend to implement the structural change as soon as possible. It should be noted that earlier, on April 18, 2021, Bezeq submitted to the Tax Authority a request for preliminary approval for a structural change in accordance with the provisions of Articles 103 and 105 of the Income Tax Ordinance at Bezeq International and DBS.

In addition, on May 25, 2021, Bezeq's Board of Directors, following the approval of the subsidiaries' boards of directors, approved a structural change plan in the subsidiaries that includes a full and statutory merger of Bezeq International with and into DBS, following the spin-off of Bezeq International's integration into a separate corporation. The goals of the move include: adapting the activity to the structure of the industry and the changing regulation, focusing on increasing revenues and growth, and increasing operational synergy and streamlining ("**the Structural Change Plan**"). At the same time, the management of the subsidiaries was given authority to negotiate with the employees' committees and the relevant representative organizations for the purpose of signing new collective agreements.

Completion of the merger of Bezeq International with and into the said DBS is subject to the receipt of various regulatory approvals that have not yet been received. In addition, to the extent that additional approvals are required for actions derived from the Structural Change Plan, they will be brought to the approval of the Company's authorized institutions and / or subsidiaries.

Section 1.1.7 - Investigations by the Israel Securities Authority and the Israel Police

Subsection 1.1.7.2 - regarding the consideration of Bezeq's prosecution and its summons to a hearing in Case 4,000 - the hearing was scheduled for July 21, 2021.

[1] The update is in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and includes significant changes or innovations that have occurred in the Company's business in any matter that must be described in the periodic report. The update is in relation to the Company's periodic report for 2020 and refers to the item numbers in Chapter A (description of the corporation's business) in the same periodic report.

Section 1.5.4 – Summary of results and operational data

a. Bezeq Fixed Lines (Bezeq activity as NIO)

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue (NIS millions)	1,054	1,055	1,042	1,044	1,018
Operating profit (NIS millions)	593	356	446	464	439
Depreciation and amortization (NIS millions)	223	225	222	218	212
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	816	581	668	682	651
Net profit (NIS millions)	400	216	300	229	295
Cash flow from operating activities (NIS millions)	510	600	561	334	611
Payments for investments in property, plant and equipment and intangible assets and other investments (NIS millions)	312	237	272	201	200
Receipts from the sale of property, plant and equipment and intangible assets (NIS millions)	182	119	1	19	7
Lease payments	29	27	26	26	32
Free cash flow (NIS millions) (2)	351	455	264	126	386
Number of active subscriber lines at the end of the period (thousands) (3)	1,630	1,639	1,653	1,675	1,693
Average monthly revenue per telephony line (NIS) (ARPL) (4)	49	50	51	51	48
Outgoing usage minutes (millions)	965	1,004	1,019 th most com mon	1,079	883
Incoming usage minutes (millions)	1,282	1,326	1,368	1,293	1,120
Total number of Internet lines at the end of the period (thousands) (7)	1,540	1,556	1,565 th most com mon	1,571	1,566
Of these, number of Internet lines at the end of the period - wholesale (thousands) (7)	539	557	570	580	584
Of these, number of Internet lines at the end of the period - in retail (thousands) (7)	1,001	999	995	991	982
Average monthly revenue per Internet subscriber (NIS) - retail (ARPU)(8)	103	102	100	98	98
Average Internet subscriber plan rate – retail (MS) (5)	77.7	74.2	71.6	70.4	69.1
Telephony subscribers churn rate (6)	2.8%	3.2%	3.4%	2.7%	3.2%

(1) Operating profit before depreciation and amortization (EBITDA) is a financial index that is not based on generally accepted accounting principles. Bezeq presents this index as another index for evaluating its business results, since it is an accepted index in the field of Bezeq's activity, which neutralizes aspects due to differences in the capital structure, various taxation aspects and the manner and period of amortization of

property, plant and equipment and intangible assets. This index is not a substitute for indices based on generally accepted accounting principles, and is not used as a single index for assessing Bezeq's operating results or cash flow. Also, the index presented in this report may not be calculated in the same way as the corresponding indices in other companies. Bezeq's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from impairment of fixed assets and intangible assets. As of January 1, 2019, and for the purpose of adequately presenting economic activity, Bezeq presents continuous losses from impairment of fixed assets and intangible assets in DBS within the framework of depreciation and amortization, as well as ongoing losses from impairment of broadcasting rights under the operating and general expenses section (in the income statement). In this regard, see Note 11 to the financial statements and section 7 of the chapter describing the corporation's business in the periodic report for 2020, as well as Note 5 to the financial statements for the period ended March 31, 2021.

(2) Free cash flow is a financial index that is not based on generally accepted accounting principles. Free cash flow is defined as cash arising from current activities net of cash for the purchase / sale of property, plant and equipment and intangible assets, net and as of 2018, with the implementation of IFRS 16, payments for leases are also deducted. Bezeq presents free cash flow as an additional index for assessing business results and cash flows, since in Bezeq's opinion, free cash flow is an important liquidity index that reflects the cash derived by Bezeq from its current operations after investing cash in infrastructure and property, plant and equipment and other intangible assets. In this regard, see section 7 of the chapter describing the corporation's business in the periodic report for 2020.

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

(4) Calculated according to the average of the lines for the period. In this regard, see also section 7 of the chapter describing the corporation's business in the periodic report for 2020.

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

(6) Number of telephony subscribers (gross) who abandoned Bezeq Fixed Lines during the period divided by the average number of telephony subscribers registered in the period. See also section 7 of the chapter describing the corporation's business in the periodic report for 2020.

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

(8) Revenue from Internet services in retail is divided by the average number of retail customers in the period. In this regard, see also section 7 of the chapter describing the corporation's business in the periodic report for 2020.

b. Pelephone

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue from services (NIS millions)	392	396	396	394	405
Revenue from the sale of end equipment (NIS millions)	178	137	149	141	168
Total revenue (NIS millions)	570	533	545	535	573
Operating profit (loss) (NIS millions)	(3)	(36)	(27)	(8)	(13)
Depreciation and amortization (NIS millions)	142	151	147	151	150
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	139	115	120	143	137
Net profit (loss) (NIS million)	8	(12)	(12)	1	(2)
Cash flow from operating activities (NIS millions)	72	241	143	149	164
Payments for investments in Property, plant and equipment, intangible assets and other investments, net (NIS millions)	71	80	100	73	65
Lease payments	60	48	67	48	67
Free cash flow (NIS millions) (1)	(59)	113	(24)	28	32
Number of postpaid subscriptions for the end of the period (thousands) (2)	2,030	2,004	1,976	1,948	1,928
Number of prepaid subscribers for the end of the period (thousands) (2)	462	438	420	417	428
Number of subscribers at the end of the period (thousands) (2)	2,492	2,442	2,396	2,365	2,356
Average monthly revenue per subscriber (NIS) (ARPU) (3)	53	55	56	56	58
Subscriber churn rate (4)	5.8%	5.9%	7.0%	6.8%	7.2%

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

(2) Subscriber data includes Pelephone subscribers (net of other operator subscribers hosted on the Pelephone network, and without IoT subscribers) and does not include subscribers who are connected to the Pelephone service for six months or more but are not active. Inactive subscribers are subscribers who, in the last six months, did not receive at least one call, did not make at least one call / message or did not perform a browsing operation or did not pay Pelephone for services. A prepaid subscription is included in the active subscribers base from the date he made a charge and is deducted from the active subscriber status when he does not make outgoing use for six months or more. It should be noted that a customer can have more than one subscriber number ("line"). The number of subscribers includes subscribers who consume various services (such as data for in-vehicle media systems), whose average revenue is significantly lower than that of the other subscribers.

(3) The average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the monthly average of the total revenues from cellular services from both Pelephone subscribers and other communications operators, including revenues received from cellular operators using the Pelephone network, repair service and extended warranty during the period in the average active subscriber base at that time. See also section 7 of the chapter describing the corporation's business in the periodic report for 2020.

(4) The subscribers churn rate is calculated according to the ratio of the subscribers who disconnected from Pelephone services and the subscribers who became inactive during the period to the average of active subscribers during the period. See also section 7 of the chapter describing the corporation's business in the periodic report for 2020.

c. Bezeq International

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue (NIS millions)	312	325	315	314	317
Operating profit (loss) (NIS millions)	(8)	(22)	(275)	27	29
Depreciation and amortization (NIS millions)	49	26	42	38	43
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	41	4	(233)	65	72
Net profit (loss) (NIS millions)	(8)	(13)	(305)	21	22
Cash flow from operating activities (NIS millions)	61	75	47	48	60
Payments for investments in property, plant and equipment and intangible assets and other investments, net (NIS millions) (2)	30	21	28	33	34
Lease payments	8	7	7	8	8
Free cash flow (NIS millions) (1)	23	47	12	7	18
Subscriber churn rate (3)	7.9%	10.2%	7.2%	6.1%	6.7%

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

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

(3) Number of Internet subscribers who left Bezeq International during the period divided by the average of Internet subscribers registered during the period. See also section 7 of the chapter describing the corporation's business in the periodic report for 2020.

d. DBS

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Revenue (NIS millions)	315	317	313	319	338
Operating profit (loss) (NIS millions)	(6)	(11)	18	23	9
Depreciation, amortization and ongoing impairment (NIS millions)	61	59	50	50	44
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (NIS millions) (1)	55	48	68	73	53
Net profit (loss) (NIS million)	0	(24)	16	18	14
Cash flow from operating activities (NIS millions)	62	14	69	39	41
Payments for investments in property, plant and equipment, intangible assets and other investments, net (NIS millions)	43	26	38	40	37
Lease payments	6	6	6	7	7
Free cash flow (NIS millions) (1)	13	(18)	25	(8)	(3)
Number of subscribers (at the end of the period, thousands) (2)	559	557	556	557	556
Average monthly revenue per subscriber (ARPU) (NIS) (3)	187	186	187	190	195
Subscriber churn rate (4)	4.3%	4.9%	5.4%	4.8%	5.9%

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

(2) Subscriber - one household or a small business customer. In the case of a business customer who owns more than a certain number of decoders (such as a hotel, kibbutz or gym), the number of subscribers is adjusted. The number of non-small business customers is calculated as the distribution of the total payment received from all non-small business customers in the average revenue from a small business customer, which is determined once per period. As of the date of approval of the statements, the rate of DBS subscribers using Yes+ and STINGTV services transmitted via the Internet (as stated in sections 5.2.2.1 and 5.2.2.2 of the chapter describing the corporation's business in the periodic report for 2020) is approximately 29% of all DBS subscribers. This rate also includes subscribers who also use satellite services.

(3) The average monthly revenue per subscriber is calculated by dividing the total DBS revenue (excluding revenue from the sale of content to external broadcasters) by the average of customers in the period. See also section 7 of the chapter describing the corporation's business in the periodic report for 2020.

(4) Number of DBS subscribers who left DBS during the period divided by the average number of DBS subscribers registered during the period. See also section 7 of the chapter describing the corporation's business in the periodic report for 2020.

Section 1.7.2. - Marketing of a shared basket of services by Bezeq and its subsidiary and between Bezeq's subsidiaries

On May 23, 2021, the Ministry of Communications notified Bezeq of the rejection of its application of April 4, 2021 for the marketing of a shared basket of services that will enable it, among other things, to provide Bezeq Internet infrastructure services and DBS content services based on a landline broadband access. In the opinion of the Ministry, in light of the recent comprehensive competitive analysis, which is reflected in the recommendations of the inter-departmental team to examine the update of the structural separation obligations in the Bezeq and Hot groups, the time has not yet come to approve a shared basket of services as requested by Bezeq.

Section 1.7.4 - Regulatory aspects relevant to the whole Group or to a number of companies therein

Subsection 1.7.4.10 regarding a change in the regulatory format of the provision of Bezeq services - On May 19, 2021, the bill regarding a change in the regulatory format in the field of telecom was published again, and on May 24, 2021, the bill was approved on first reading in the Knesset.

Section 1.7.6 - Pandemic – Spread of the COVID-19 pandemic

As of the date of approval of the statements, the effects of the COVID-19 pandemic on the Group's activities in 2021 so far have been mainly reflected in the damage to Pelephone's revenues from roaming services, as a result of the spread of the pandemic to the international aviation and tourism segments.

Following the operation to vaccinate the population of Israel against the virus that began in early 2021, there is a moderation in the effects of the pandemic in Israel and, and the beginning of a return to the routine of economic activity in Israel to a certain extent. In this regard, see also Note 1.2 to the financial statements for the period ended March 31, 2021.

3. **Bezeq – Landline interior communications**

Section 2.2.6 - Other services

Section 2.2.6.1 - Regarding the hearing to determine an updated procedure for handling a licensee's complaint about another licensee - on March 25, 2021 the Ministry decided to update the procedure and stipulated, *inter alia*, that the team that handles complaints in the Ministry of Communications could recommend to the competent authority to decide that the Ministry will not prevent the affected licensees from taking steps such as cessation of service delivery, non-connection of new subscribers and more, depending on the circumstances and severity of the case.

Section 2.6.3 - The field of Internet infrastructure

According to media reports, during the months of March-April 2021, Hot announced the launch of its new fiber network.

Section 2.6.6 - Bezeq's preparations and ways of dealing with increasing competition

Section 2.6.6.5 regarding Bezeq's Be Router - as of the date of publication of the report, Bezeq's customer base using the Be Router is approximately 579,000 customers (approximately 58% of Bezeq's retail Internet customers). Bezeq also markets products for improving the reception range of the Bspot and BeMesh home Internet networks, as of the date of publication of the report, about 277,000 units of these products were marketed by Bezeq.

Section 2.7.2 - Infrastructure and equipment for landline interior communications

Subsection 2.7.2.3 regarding ultra-broadband fiber infrastructure - as of the date of publication of the report, Bezeq's fiber network covers about 480,000 households throughout Israel.

Section 2.9.6 - Officers and employees of Bezeq's senior management

As of April 26, 2021, Bezeq has another external director on the Board of Directors, so that the number of Board members as of that date is nine. In addition, as of April 15, 2020, Bezeq Group has a general CFO and Chief Financial Manager, so that the number of members of Bezeq's Management as of that date is eleven.

Regarding the capital remuneration plan - on April 6, 2021, TASE approved the listing for trading of 2,580,000 shares, which will result from the exercise of options for executives (in addition to the previous approval given to 58,735,000 shares).

On April 22, 2021, the general meeting of Bezeq's shareholders approved an amendment to Bezeq's remuneration policy, according to which the limit of liability of the officers insurance policy was limited to a maximum ceiling of USD 250 million (the limit of liability between USD 100-250 million (instead of the USD 100-250 million liability limit) and includes the possibility of renewing the insurance policy by extending or entering into a new policy at any time.

Section 2.10 - Equipment and suppliers

Regarding equipment used by Bezeq and dependence on suppliers - with the start of the provision of communication services via ultra-broadband fiber infrastructure (at the end of the first quarter of 2021), the equipment used by Bezeq also includes communication equipment for the access system MSAG and GPON, so the dependence on the supplier Nokia Solutions Networks Israel Ltd. is also in the matter of high-speed network (GPON).

Section 2.11 - Working capital

For details regarding Bezeq's working capital, see section 1.3 of the report of the Board of Directors.

Section 2.13.6 - Credit rating

On May 2, 2021, Midroog discontinued the examination of the rating of Bezeq's debentures (which had negative consequences) and confirmed the rating of Aa3.il for Bezeq's debentures with a stable rating horizon. Also, on May 12, 2021, Maalot confirmed the rating ilAA-/Stable for Bezeq and its debentures. In this regard, see also Bezeq's immediate reports dated May 2, 2021 and May 12, 2021, which are included in this report by way of reference.

Section 2.16 - Restrictions and supervision of Bezeq operations

Section 2.16.2 - Bezeq's NIO license

In respect of the draft amendment of the Bezeq license regarding the determination of deployment obligations in an advanced network - see the update to section 2.16.12.

Section 2.16.4 - Wholesale market

Subsection 2.16.4.2 - regarding the ruling in which a motion for disclosure of documents was accepted in part under Article 198A of the Companies Law regarding the financial sanction (footnote 33 in the same section of the report) - in April 2021 the applicant applied to Bezeq before submitting a motion for approval of a derivative claim and demanded Bezeq to take legal action against the officers in respect of the financial sanction. Bezeq rejected the demand to take legal action at this stage and clarified that the circumstances that led to the imposition of the financial sanction are still being examined by the Claims Committee appointed by Bezeq.

Subsection 2.16.4.4 regarding the report of supervision and financial sanction imposed on Bezeq in respect of the wholesale telephony service and the petition filed by Bezeq against the decision to impose the financial sanction ("the decision") - on April 18, 2021, a ruling dismissing Bezeq's petition was issued. It should be noted that the claim in the amount of NIS 11.2 million was already paid by Bezeq in January 2019, shortly after the date of the decision to impose the sanction.

Section 2.16.8 - Economic competition law

In respect of subsection 2.16.8.3 regarding the amendment of the terms of the Bezeq and DBS merger - on April 12, 2021, the Competition Authority published a decision by the Competition Commissioner regarding the amendment of the terms of the merger. Under the amendment, the Commissioner decided to allow Bezeq's subsidiaries: Pelephone, Bezeq International and DBS (and not Bezeq) to sell communication packages that include Internet infrastructure, Internet provider and TV services without obligation to sell the TV services at a separate price that will be uniform for plan buyers and those who do not purchase plans. In addition, the Commissioner has decided to allow greater flexibility when it comes to purchasing foreign content, so that the determining condition is the cancellation of exclusivity arrangements to which Bezeq and DBS are parties in respect of TV content that is not original productions and a prohibition on them being parties to such exclusivity arrangements will not apply to the purchase of foreign content (except sports content).

Section 2.16.12 - Fiber - Ultra-broadband landline infrastructure

Subsection 2.16.12.1 - amendment to the Communications Law for the regulation of the deployment of an "advanced network" - on April 13, 2021, a letter was sent to Bezeq by the Director General of the Ministry of Communications regarding the draft amendment to Bezeq's license regarding the determination of advanced network deployment obligations, according to which, in order to allow the amendment of the Bezeq license as soon as possible from the date of Bezeq's announcement of the statistical areas in which it seeks to deploy an advanced network and provide service (which should be received by May 31, 2021), the Ministry is seeking to publish for stakeholder comments the draft license amendment that includes a number of changes to the current provisions in Bezeq's license in aspects in which there is a distinction between its traditional network and its advanced network, as well as the addition of an appendix that will include Bezeq's advanced network deployment obligation, including provisions regarding the development of the advanced network, its maintenance and operation; Milestones for the deployment of the advanced network within the six-year period set for its deployment; Change of plans during construction and development; Providing the services of the licensee on the advanced network in statistical areas where the deployment has been completed as well as in a statistical area in the service area where the deployment has not yet been completed. On May 4, 2021, Bezeq submitted its reference to the proposed amendment, and in particular to the milestones for the deployment of the advanced network and the manner in which compliance therewith is calculated.

On May 25, 2021, Bezeq's Board of Directors approved the Company's plan for the deployment of fibers and its submission to the Ministry of Communications in accordance with Article 14B (a) of the Communications Law. As part of the plan, Bezeq is expected to deploy and operate an ultra-fast fiber network that will cover about 76% of Israel’s population (the Company estimates about 80% of households).

Section 2.18.1 - Pending proceedings

Subsection 4 - Regarding a motion for approval of a class action lawsuit filed against Bezeq regarding payment of support and / or liability services in connection with the use of Bezeq's Internet infrastructure - on March 24, 2021 the motion was denied. In the ruling rejecting the motion, the court ruled, among other things, that the applicant was not successful in proving, not even *prima facie*, the existence of violations and / or injustices on the part of Bezeq that would justify the approval of conducting the class action, even if given the circumstances there is no homogeneous group that was harmed.

Subsection F - Regarding a motion for approval of a class action lawsuit that includes allegations of unlawful charging for the Bezeq B144 service - on April 4, 2021, a judgment was rendered confirming a settlement in the case. The settlement arrangement is an insignificant cost to Bezeq, in the amount of approximately NIS 2 million, and includes partial compensation to the members of the plaintiffs' group for the collection of exit fees from the service.

Subsection K(2) regarding a joint motion for disclosure of documents before a derivative claim in respect of the determination of the Competition Commissioner dated September 4, 2019 regarding the abuse of Bezeq's position - on April 4, 2021 the applicants accepted the court's offer to delay the proceedings until after the work of the Claims Committee established by Bezeq is completed and a decision of the Bezeq Board of Directors following the Committee's recommendations.

Subsection M regarding a motion for approval of a class action lawsuit against Bezeq in which it is alleged that customers are being registered for additional Bezeq services when ordering a regular telephone line, without the customers asking for it or being aware of it - on May 18, 2021, a judgment was rendered by the court ordering the striking out of the motion for approval following the applicant's motion, after the applicant has been found unfit to serve as a representative plaintiff in the proceedings. This ended the procedure.

Subsection N regarding a motion for approval of a class action lawsuit against Bezeq in which it is alleged that Bezeq misled in connection with the B144 service - On May 8, 2021 a decision was given by the court rejecting the applicant's motion to amend the motion for approval of a class action by replacing the representative plaintiff in the application (especially after the applicant was found unfit to serve as a class action plaintiff) and thus ended the proceeding.

In April 2021, a claim was filed in the District Court with a motion for approval as a class action by Bezeq’s Internet infrastructure customer in which it was alleged that Bezeq caused pecuniary and non-pecuniary damages to members of the class who paid a higher browsing rate than was made available to them by upgrading the modem so that they can browse at this level, as well as for harassment, causing discomfort, mental distress and impairing autonomy. According to the motion, the class of plaintiffs should include anyone who used Bezeq's Internet infrastructure in the seven years prior to the date of submission of the motion for approval until the date of its approval as a class action lawsuit, and paid for a certain browsing speed level, while the infrastructure in their home is capable of providing browsing speed compatible with providing a lower speed level. The amount of the class action was written as inestimable, but it was stated in the motion that "these are damages amounting to millions of shekels, which fit within the jurisdiction of this honorable court".

4. **Radio-mobile telephone - Pelephone Communications Ltd. ("Pelephone")**

Section 3.7.1 - Infrastructure

Subsection 3.7.1.1(c) regarding the future closure of networks operating on old technologies - on May 4, 2021 the Ministry published a secondary hearing on this issue, in which it presented the possibility of postponing the decommissioning of the 2G network to December 31, 2027.

Section 3.14.4 - The Economic Competition Law

For an amendment from April 2021 to the terms of the Competition Commissioner in connection with the merger of Bezeq and DBS, see the update to the section 2.16.8.

Section 3.16.1 - Pending legal proceedings

Section C regarding a claim and a motion for approval as a class action lawsuit filed against Pelephone regarding collection for content services provided by Bezeq externally - on May 3, 2021, a ruling was issued confirming a settlement arrangement between Pelephone and the applicants in the proceedings, including benefits to relevant customers and non-profit organizations.in the value of approximately NIS 2.5 million.

5. **International Communications, Internet Services and network endpoint - Bezeq International Ltd. ("Bezeq International")**

Section 4.11 - Restrictions on the supervision of Bezeq International's activities

Regarding an amendment from April 2021 to the terms of the Competition Commissioner in connection with the merger of Bezeq and DBS, see the update to section 2.16.8.

6. **Multi-Channel TV - DBS Satellite Services (1998) Ltd. ("DBS")**

Section 5.13 - Financing

In May 2021, Bezeq approved a credit or investment framework in DBS' equity in the total amount of up to NIS 150 million, for a period of 15 months starting on April 1, 2021. This approval is instead a similar approval given in March 2021 (and not in addition to it).

Section 5.15.3 - Offer of baskets of services

Regarding an amendment from April 2021 to the terms of the Competition Commissioner in connection with the merger of Bezeq and DBS, see the update to section 2.16.8.

Section 5.18 - Objectives and Strategy

Section 5.18.1 regarding the graded transition (migration) of DBS from satellite transmissions to transmission via the Internet (OTT) - See update to footnote 2 in section 1.5.4(d).

May 26, 2021	
Date	B. Communications Ltd.

The names of the signatories and their positions:
Darren Glatt, Chairman of the Board of Directors
Tomer Raved, CEO and director

Chapter B'
Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2021

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2021

We are hereby honored to submit the report of the Board of Directors on the state of affairs of "B Communications" Ltd. (hereinafter: "the Company") and the Group companies in a consolidated manner (the Company and the subsidiaries will be collectively referred to hereinafter as: "the Group"), for the period of three months ended March 31, 2021.

The report of the Board of Directors includes a review, in a limited format, of the matters in which it deals with, and it has been prepared assuming that the reader of the report also has the report of the Board of Directors for December 31, 2020.

For an investigation by the Securities Authority and the Israel Police, see Note 1.3 to the statements.

The auditors drew attention to this in their opinion on the statements.

For the **effects of the COVID-19 crisis**, see Section 1.5 below.

Regarding the effectiveness of internal control, see Chapter E - Quarterly Report on the effectiveness of internal control over financial reporting and disclosure for the period ended March 31, 2021.

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

1. **Fixed line communication**
2. **Cellular communication**
3. **Internet, international communications and network services**
4. **Multi-channel TV**

The following are the Group's results:

	1-3.2021	1-3.2020	Increase (decrease)	
	NIS millions			%
Net profit	381	302	79	26.1
EBITDA *	**1,059**	909	150	16.5
Adjusted **EBITDA ***	**915**	906	9	0.9

* Financial indices that are not based on generally accepted accounting principles, see below.

The increase in profit was due to an increase in operating profit, mainly due to capital gains from the sale of real estate in the fixed line communications segment. For more information see Section 1.2.1 below.

<u>* Financial indices that are not based on generally accepted accounting principles, see below.</u>

As of the date of the report, the Group's Management is assisted by financial performance indices that are not based on the accepted accounting rules for examining and presenting the Group's financial performance. These indices do not constitute a substitute for the information contained in Bezeq's statements.

The following is a breakdown of the indices:

The index	Details of the method of calculation and the purposes of the index
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization**)**	Defined as profit before interest, taxes, depreciation and amortization. The EBITDA index is an accepted index in the field of group activity which neutralizes aspects due to differences in the capital structure, various aspects of taxation and the manner and period of the amortization of property, plant and equipment and intangible assets. The Group's EBITDA is calculated as operating revenue before depreciation, amortization and impairment (including ongoing losses from impairment of property, plant and equipment and intangible assets as described in Note 5 to the statements).
Adjusted EBITDA	Calculated as the EBITDA index after deducting other expenses / operating revenue, net and non-recurring losses / gains from impairment and options expenses for employees. The index allows comparisons of operating performance between different periods while neutralizing one-off effects of exceptional expenses / revenue. It should be noted that the Adjusted EBITDA index should not be compared to indices with a similar name reported by other companies due to possible differences in the way the index is calculated.

The following is a breakdown of the calculation of the indices:

	1-3.2021 **NIS millions**	**1-3.2020** **NIS millions**
Operating profit	583	**462**
Net of depreciation, amortization and impairment	476	**447**
EBITDA	1,059	**909**
Net of other operating revenue, net	(152)	**(3)**
Net of employee options expenses	8	**-**
Adjusted EBITDA	915	**906**

1. **Explanations by the Board of Directors about the state of the corporation's business, the results of its operations, equity, cash flows and other issues**

1.1. The financial position

	March 31, 2021	March 31, 2020	Increase (decrease)		Explanation
	NIS millions			%	
Cash and operating investments	**1,996**	2,298	(302)	(13.1)	The decrease was due to a decrease in Bezeq in current investment balances in the fixed line communication segment. On the other hand, there is an increase in cash balances in the Bezeq Group. For more information, see Section 1.3 below.
Operating and non-operating receivables	**2,371**	2,508	(137)	(5.4)	The decrease was mainly due to a decrease in debit balances due to the sale of real estate in the fixed line communication segment .
Inventory	**87**	109	(22)	(20.1)	
Assets held for sale	**2**	45	(43)	(95.5)	
Broadcasting rights	**62**	65	(3)	(4.6)	
Right-of-use assets	**1,735**	1,308	427	(32.6)	The increase was mainly due to the fixed line communication segment as well as the cellular communications segment as a result of the new lease agreements due to the move to new offices.
Property, plant and equipment	**6,182**	6,005	177	2.9	The increase was due to a fixed line communication segment , offset by a decrease mainly in the Internet services segment, international communications segment and the multi-channel television segment due to the recognition of losses from impairment of assets, see Note 5 to the statements.
Intangible assets	**3,277**	3,165	112	3.5	The increase was mainly due to the recording of the cost of 5G frequencies in the cellular communications segment, offsetting the recognition of losses from impairment of assets in the Internet, telecommunications and network services segment, see Note 5.2 in the statements.
Deferred tax assets	**57**	61	(4)	(6.5)	
Deferred expenses and non-operating investments	**491**	586	(95)	(16.2)	The decrease was mainly due to the recognition of losses from the impairment of long-term expenses for capacities in the Internet, telecommunications and network services segment, see Note 5.2 to the statements, offset by an increase in the fixed line communication segment due to investment in long-term shekel deposits.
Total assets	**16,260**	16,150	110	0.6	

1.1. Financial position (cont.)

	March 31, 2021	March 31, 2020	Increase (decrease)		Explanation
	NIS millions			%	
Debt to financial institutions and to bondholders	**10,274**	11,404	(1,130)	(0.9)	The decrease in debt was due to repayment (including early repayment) of loans and repayment of debentures, offsetting the issuance and expansion of Series 11 and 12 Bezeq debentures during 2020.
Lease liabilities	**1,840**	1,464	376	25.6	The increase was mainly due to the fixed line communication segment as well as the cellular communications segment due to new lease agreements as a result of the move to new offices.
Payables	**1,819**	1,918	(99)	(5.1)	
Employee benefits	**779**	901	(122)	(13.5)	The decrease was due to payments for the retirement of employees and streamlining plans in the Bezeq Group, offset by an expense for the termination of the employee-employer relationship in early retirement in the Company in the amount of NIS 65 million recorded in the fourth quarter of 2020.
Other liabilities	**710**	591	119	20.1	The increase was mainly due to a long-term liability in the cellular communications segment for winning a frequency tender.
Total liabilities	**15,422**	16,278	(856)	(5.2)	
Non-controlling interests	**855**	52	803	1,544	
Deficit in equity attributed to shareholders of the company	**(17)**	(180)	163	90.5	The decrease in the deficit in equity attributed to the shareholders is due to the cumulative net profit in the past 12 months from March 31, 2020 attributed to the Company's shareholders.
Total liabilities and equity	**16,260**	**16,150**	110	0.6	

1.2. The results of activity

1.2.1. The main results

	March 31, 2021	March 31, 2020	Increase (decrease)		Explanation
	NIS millions			%	
Revenue	**2,221**	2,187	34	1.5	The increase was due to the fixed line communication segment and the "other" segment. The increase was partially offset mainly by a decrease in multi-channel TV segment revenue.
Operating and general expenses	**833**	803	30	3.7	The increase was mainly due to the Internet, telecommunications and network services segments, offset by a decrease in DBS expenses, including a decrease in loss from impairment of broadcasting rights, see Note 5.1 to the statements.
Salaries	**481**	479	2	0.4	The increase in salaries expenses in the "other" segment and in the fixed line communication segment was offset by a decrease in expenses in the other main segments of the Group due to a decrease in the number of jobs.
Depreciation, amortization and impairment	**476**	447	29	6.4	The increase was mainly due to an increase in the loss from the impairment of property, plant and equipment and intangible assets in DBS, see Note 5.1 to the statements.
Other operating income, net	**(152)**	(3)	(149)	49.6	The increase was due to the fixed line communication segment, due to capital gains from the sale of a real estate asset and from an update to the provision for legal claims, see Note 10 to the statements.
Operating profit	**583**	462	121	26.1	
Financing expenses, net	**75**	60	15	25	The increase was due to the fixed line communication segment, see Note 11 to the statements.
Income taxes	**127**	100	27	27	
Profit for the period	**381**	302	79	26.1	

1.2.2. Operating segments

a. The following are data regarding revenues and operating profit in accordance with the operating segments of the Group:

	1-3.2021		1-3.2020	
	NIS millions	% of total revenue	NIS millions	% of total revenue
Revenue by operating segments				
Fixed line communication	**1,054**	**47.5**	1,018	46.5
Cellular communication	**570**	**25.7**	573	26.2
Internet, international communications and network services	**312**	**14**	317	14.5
Multi-channel TV	**315**	**14.2**	338	15.5
Others and adjustments	**(30)**	**(1.4)**	(59)	(2.7)
Total	**2,221**	**100**	2,187	100

	1-3.2021		1-3.2020	
	NIS millions	% of total revenue	NIS millions	% of total revenue
Operating profit (loss) by operating segments				
Fixed line communication	**593**	**56.3**	439	43.1
Cellular communication	**(3)**	**(0.5)**	(13)	(2.3)
Internet, international communications and network services	**(8)**	**(2.6)**	29	9.1
Multi-channel TV	**(18)**	**(5.7)**	(11)	(3.3)
Others and adjustments	**19**	**-**	18	-
Consolidated operating profit / % of the Group's revenue	**583**	**26.2**	462	21.1

*** The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision-maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.3 to the consolidated statements for a summary of selected data from the statements of DBS.**

1.2.2. Activity segments

b. Fixed Line communications segment

	1-3.2021	1-3.2020	Increase (decrease)		Explanation
	NIS millions			%	
Internet infrastructure	**398**	395	3	0.8	The increase was mainly due to an increase in the average revenue from a retail subscriber, mainly from complementary end equipment, and an increase in the number of Internet lines in retail. The increase was offset by a decrease in wholesale Internet service rates and a decrease in the number of wholesale Internet lines.
Fixed line telephony	**242**	248	(6)	(2.4)	The decrease was due to a decrease in the number of lines and an increase in the average revenue per telephone line, among other things due to an increase in revenue from calls due to the COVID-19 crisis.
Transmission, communication, other data	**332**	303	29	9.6	The increase was due, among other things, to an increase in revenues from transmission services to Internet providers and businesses and the sale of cellular end equipment.
Cloud and digital services	**82**	72	10	13.9	The increase was mainly due to virtual switchboard services.
Total revenue	**1,054**	1,018	36	3.5	
Operating and general expenses	**155**	142	13	9.2	The increase was mainly due to subcontractor expenses.
Salaries	**233**	229	4	1.7	The increase in salaries expenses was due, among other things, to the recognition of share-based payment expenses in the current quarter (see Note 12 to the statements), as well as a wage increase, offsetting employee retirement and an increase in salaries attributed to investment.
Depreciation and amortization	**223**	212	11	5.2	
Other operating revenue, net	**(150)**	(4)	(146)	-	The increase was due to a capital gain from the sale of a real estate property in the amount of NIS 125 million, as well as an update of the provision in respect of legal claims.

Operating profit	**593**	439	154	35.1	
Financing expenses, net	**68**	49	19	38.8	The increase in net financing expenses was mainly due to financing expenses for employee benefits in the current quarter compared to financing revenue for employee benefits recognized in the corresponding quarter, offset by a decrease in interest expenses due to repayment (including early repayment) of loans during 2020, see Note 11 to the statements.
Income taxes	**125**	95	30	31.6	
Profit from segment	**400**	295	105	35.6	

1.2.2. Operating segments

c. Cellular communications segment

	1-3.2021	1-3.2020	Increase (decrease)		
	NIS millions			%	Explanation
Services	**392**	405	(13)	(3.2)	The decrease was mainly due to the effect of the COVID-19 crisis which led to a decrease in revenue from roaming services which was partially offset by an increase in revenue from incoming airtime. In addition, there is a continuation of the transition of existing customers to cheaper plans that include a wide browsing volume and that match the current market prices. This decline was offset by growth in the number of postpaid subscribers, including subscribers to 5G plans.
End equipment sales	**178**	168		6.0	The increase was mainly due to an increase in retail sales due to the launch of the new iPhone model. The increase was partially offset by a decrease in wholesale sales.
Total revenues	**570**	573		(0.5)	

Operating and general expenses	**352**	345		2.0	The increase was mainly due to an increase in the cost of sales of end equipment in parallel with revenues and the record of the costs of implementing a cloud computing system. The increase in expenses was offset by a continued reduction and streamlining in operating expenses.
Salaries	**79**	90	(11)	(12.2)	The decrease was mainly due to a continued decrease in the number of jobs as part of an streamlining plan
Depreciation and amortization	**142**	150	(8)	(5.3)	
Other operating expenses, net	**-**	1		(100.0)	
Operating loss	**(3)**	(13)		76.9	
Financing revenue, net	**10**	10		-	
Income taxes	**(1)**	(1)	-	-	
Segment profit (loss)	**8**	(2)	10	-	

1.2.2. Operating segments

d. Internet, international communications and network services

	1-3.2021	1-3.2020	Increase (decrease)		Explanation
	NIS millions			%	
Revenue	**312**	317	(5)	(1.6)	The decrease was mainly due to a decrease in Internet revenues and a decrease in revenues from international calls. The decrease was offset by an increase in revenue from business services and the sale of equipment and licensing to businesses.
Operating and general expenses and impairments	**211**	181	30	16.6	The increase was due to an increase in equipment and licensing expenses for businesses in line with the increase in revenues, plus an increase in local capacity expenses due to a one-off credit in the corresponding quarter as a result of an update of Internet rates in the wholesale market and an increase in other operating expenses.
Salaries	**60**	64	(4)	(6.3)	The decrease was mainly due to a continued decrease in the number of Company employees as part of the streamlining plan.
Depreciation, amortization and impairment	**49**	43	6	13.9	The increase was mainly due to impairment as a result of the valuation of the exercise value of the depreciable assets as of March 31, 2021, see Note 5.2 to the statements.
Operating profit (loss)	**(8)**	29	(37)	-	
Financing expenses, net	**-**	1	(1)	(100)	
Income taxes	**-**	6	(6)	(100)	
Segment profit (loss)	**(8)**	22	(30)	-	

1.2.2. Operating segments

e. Multi-channel TV *

	1-3.2021	1-3.2020	Increase (decrease)		Explanation
	NIS millions			%	
Revenue	**315**	338	(23)	(6.8)	The decrease was mainly due to a decrease in the average revenue per subscriber, as a result of a continuing trend of subscribers switching from premium services to discount, as well as a decrease in revenue from the sale of content to external entities.
Operating and general expenses	**213**	222	(9)	(4.1)	The decrease was due to continued streamlining of operating expenses, mainly in content and marketing expenses.
Salaries	**47**	51	(4)	(7.8)	The decrease was due to a decrease in the number of jobs.
Depreciation and amortization	**75**	76	(1)	(1.3)	
Other operating revenue, net	**(2)**	-	(2)	-	
Operating loss	**(18)**	(11)	(7)	63.6	
Financing revenue, net	**(7)**	(5)	(2)	40.0	The increase was mainly due to a change in the fair value of financial assets.
Income taxes	**1**	-	1	-	
Segment loss	**(12)**	(6)	(6)	100	

*** The results of the multi-channel television segment are presented net of the overall effect of impairment recognized as of the fourth quarter of 2018 (for more information, see Notes 5.1 and 14 in the statements). This is in accordance with the way in which the Group's chief operating decision-maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.4 to the consolidated statements for a summary of selected data from DBS' statements.**

1.3. Cash Flow

	1-3.2021	1-3.2020	Change		Explanation
	NIS millions			%	
Net cash flow from operating activities	**697**	875	(178)	(20.3)	The decrease in net cash flow from operating activities was due to the fixed line communications segment due to an increase in Income Tax paid, net as well as from the cellular communications segment due to changes in working capital.
Net cash flow used for investing activities	**(290)**	(538)	248	46.09	The decrease in net cash flow used in investing activities was due to an increase in the purchase of property, plant and equipment and a decrease in the consideration from the repayment of deposits in banks, offset by an increase in return from the sale of property, plant and equipment in the lanline interior communications segment.
Net cash flow used for financing activities	**(107)**	(118)	11	(9.3)	The decrease in net cash flow used for financing activities was due to a decrease in principal payments and interest on leases.
Net increase in cash	**300**	219	81	36.9	

Average volume in the reporting quarter

Long-term liabilities (including operating liabilities) to financial institutions and bondholders: approximately NIS 10,272 million.
Credit from vendors: approximately NIS 943 million.
Short-term customer credit: approximately NIS 1,635 million. Long-term customer credit: approximately NIS 255 million.

The surplus in the Group's consolidated working capital as of March 31, 2021 amounted to approximately NIS 409 million, compared with a surplus in working capital of approximately NIS 437 million as of March 31, 2020.

The Company (according to the "Solo" statements) has a surplus in working capital as of March 31, 2020 in the amount of NIS 208 million, compared with a surplus in working capital in the amount of NIS 224 million as of March 31, 2020.

Bezeq (according to the "Solo" statements) has a surplus in working capital as of March 31, 2020 in the amount of NIS 228 million, compared with a surplus in working capital in the amount of NIS 262 million as of March 31, 2020.

1.4 Disclosure regarding the Company's projected cash flow

Pursuant to Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 5737-1970 and if the warning indicators are met - a deficit in equity in the Company's (solo) statement as well as in the consolidated statement and continuous negative cash flow from operating activities in the Company's report (Solo), the following is the cash flow forecast forecast for the Company, detailing the sources and financial uses for the period from April 1, 2021 to March 31, 2023.

	From April 1, 2021 to December 31, 2021	From January 1, 2022 December 31, 2022	From January 1, 2023 March 31, 2023
	NIS millions		
Marketable securities and deposits	299	219	139
Cash and cash equivalents at the beginning of the period	70	71	67
Total liquid balances	**369**	**290**	**206**
Sources - Company			
Cash from investing activities			
Maturity of bank deposits	80	80	-
Profits from marketable securities and interest on bank deposits	4	4	1
Total cash from investing activities	**84**	**84**	**1**
Uses - Company			
Cash for operating activity			
Operating expenses	(5)	(10)	(5)
Net cash for operating activities	**(5)**	**(10)**	**(5)**
Cash for financing activity			
Payment of interest on debentures	(78)	(78)	-
Total cash for financing activity	**(78)**	**(78)**	**-**
Closing balance			
Marketable securities and deposits	219	139	139
Cash and cash equivalents for the end of the period	**71**	**67**	**63**
Total liquidity	**290**	**206**	**202**

The assumptions underlying the cash flow forecast:

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

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

1.4.3 The Company has sufficient liquid sources for financing its liabilities through cash and cash equivalents balances, deposits and marketable securities which are convertible into cash in the short term.

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

The foregoing in the context of the disclosure of the projected cash flow is forward-looking information. The Company's assumptions and estimates regarding the projected cash flow, regarding the sources of repayment of the Company's existing and expected liabilities, and regarding the assumptions underlying the cash flow forecast, are based on the Company's data as of the reporting date, and assuming continuous operations in the normal course of business. There is no certainty that these assumptions and estimates will materialize in full or in part, since they also depend on external factors over which the Company has no control or influence, and in view of the current uncertainty in the communications market. Actual data may differ materially from the above estimate if there is a change in one of the factors taken into account in these estimates.

1.5 Pandemic – outbreak of COVID-19

Further to Note 1.4 in the annual statements regarding the outbreak of COVID-19 pandemic, it should be noted that following the operation to vaccinate the population of Israel against the virus that began in early 2021, there is a moderation in the effects of the pandemic in Israel and, to some extent, a return to economic activity.

As of the date of approval of the statements, the effects of the COVID-19 pandemic on Bezeq Group's activities in 2021 have so far been mainly reflected in the damage to Pelephone's revenues from roaming services, as a result of the pandemic's spread to the aviation international and tourism segments, without material negative impact on other areas of operation.

At the same time, it should be emphasized that this is a changing incident that is not controlled by the Bezeq Group, and therefore the continuation of the crisis or its aggravation, as they occur, may have a material adverse effect on Bezeq Group's results. These effects may be reflected, among other things, in damage to revenue from roaming services, and also in the revenue of Bezeq Group companies from the business segment, revenue from the sale of cellular end equipment, employee availability, customer service and technicians, supply chain, and collection dates from Bezeq Group customers. The consequences of the COVID-19 pandemic on Bezeq Group may vary depending on various developments, in particular the duration and extent of the crisis, the nature and extent of the economic and other restrictions that accompany it, and the intensity and duration of the economic recession that will develop as a result.

For more information, see the analysis of the results of operations in the Cellular communications segment and the fixed line communications segment In Chapter 1.2.2, Sections B and C.

2 Disclosure in connection with the corporation's financial reporting

2.1 Disclosure regarding material valuation

The following are details regarding a material valuation in accordance with Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

	DBS (*)
Identifying the subject of the valuation	Recoverable amount DBS Satellite Services (1998) Ltd. for the purpose of examining the impairment of non-operating assets.
Timing of the valuation	March 31, 2021; The valuation was signed on May 20, 2021
The value of the subject of the valuation close to the date of the valuation if generally accepted accounting rules, including depreciation and amortization, would not require a change in its value in accordance with the valuation	Negative total - NIS 61 million.
The value of the subject of the valuation determined in accordance with the assessment	Negative total - NIS 143 million.
Identifying and characterizing the valuator	The valuation was performed by Prof. Hadas Glander, Partner, Director of Valuations and Economic Models in the Economic Department of Ernst Young (Israel) Ltd.

	Prof. Glander holds a bachelor's degree in accounting from the College of Management, Rishon Lezion; A master's degree in business administration from the Hebrew University of Jerusalem; She has a doctorate with honors from the Ben-Gurion University, Beer-Sheva and is a certified public accountant in Israel. As part of her role, Prof. Glander accompanies projects with leading companies in Israel and around the world, in various fields of activity and industries such as: technology, finance, pharmaceuticals, energy, infrastructure, real estate and industry. In addition, during her role accompanying and advising companies in the areas of valuations for business needs (valuations and fair opinions) and accounting needs (allocation of acquisition costs, valuation of intangible assets, valuation of options to employees, etc.), she provided economic opinions as an expert witness on behalf of Court. The valuator is independent of Bezeq and the Company. Bezeq undertook to indemnify the valuator for damages in excess of three times his fee, unless he acted maliciously or through gross negligence.
The evaluation model	Net exercise value (NAV)
Assumptions under which the appraiser made the valuation	Assumptions regarding the net exercisable value of DBS assets.

For further information, see Note 5 to the statements.

(*) Despite the negative operating value of DBS, Bezeq supports DBS by approving credit facilities or investing in DBS' capital (see Note 4 to the statements). Bezeq's aforementioned support of DBS stems, among other things, from the current and expected contribution of the multi-channel television activity to all of the Bezeq Group's activities.

2.2 Due to lawsuits filed against Bezeq Group, the chances of which cannot yet be assessed or the exposure in respect of which cannot be estimated, the auditors drew attention to this in their opinion on the statements.

2.3 Subsequent events –

For subsequent events, see Note 4.16 to the statements.

3 Details related to a series of debentures

3.1 On May 2, 2021, Midroog Ltd. discontinued the examination of the rating of Bezeq's debentures (which had negative consequences) and approved the rating Aa3.il for Bezeq's debentures with a stable rating horizon (see Immediate Reporting Reference No. 2021-01-075951).

3.2 On May 12, 2021, S&P Global Ratings Maalot Ltd. confirmed the rating ilAA- / Stable for Bezeq and its debentures (see Immediate Reporting Reference No. 2021-01-083610).

3.3 Financial terms

In accordance with the Company's obligation in Series C, D and E to meet the condition of LTV (the first test date is according to the statements as of December 31, 2021), the LTV ratio as of March 31, 2021 was 68.7%[1].

4 Miscellaneous

For information regarding the state of liabilities of the reporting corporation and the subsidiaries in its statements as of March 31, 2021, see the report to be submitted by the Company on MAGNA on May 27, 2021.

Darren Glatt Chairman of the Board of Directors	Tomer Raved CEO

Signed on: May 26, 2021

[1] The LTV ratio shown is net of approximately 22 million nominal Series C debentures held by a partnership held by the Company. Without this neutralization, the LTV ratio is approximately 69.6%.

Chapter C
Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

Table of Contents		Page

Auditors' review report		2
Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)		
Condensed consolidated interim statements of the financial position		3
Condensed consolidated interim statements of income		5
Condensed consolidated interim statements of comprehensive income		6
Condensed consolidated interim statements of changes in equity		7
Condensed consolidated interim statements of cash flows		8
Notes to the condensed consolidated interim statements		
1	General	9
2	Basis of preparation of the statements	12
3	Reporting rules and accounting policies	12
4	Group entities	13
5	Impairment	15
6	Liabilities	17
7	Equity	**Error! Bookmark not defined.**
8	Revenue	20
9	Operating and general expenses	21
10	Other operating expenses (revenue), net	21
11	Financing expenses, net	23
12	Share-based remuneration	24
13	Financial instruments	24
14	Segment reporting	27
15	Condensed statements of Bezeq, Pelephone, Bezeq International and DBS	**Error! Bookmark not defined.**
16	Subsequent events	30

Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

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

Auditors’ Review Report to the Shareholders of "B. Communications Ltd."

Introduction

We reviewed the attached financial information of B Communications Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated financial statement as of March 31, 2021 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for a period of three months that ended on the same date. The Board and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with International Accounting Standards IAS 34 "Interim Financial Reporting", and they are also responsible for preparing financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. It is our responsibility to express a conclusion on financial information for this interim period based on our review.

Scope of the review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Conducted by the Entity's Auditor". A review of separate interim financial information consists of inquiries, primarily with persons responsible for financial and accounting matters, and the application of analytical and other review procedures. A review is considerably smaller than an audit conducted in accordance with auditing standards generally accepted in Israel and therefore does not allow us to obtain assurance that we will be aware of all the significant matters that could have been identified in the audit. Accordingly, we do not provide an audit opinion.

Conclusion

Based on our review, we did not become aware of anything that causes us to believe that the above financial information has not been prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

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

Emphasis or matter paragraph (drawing attention)

Without limiting our above conclusion, we draw attention to the mentions of Note 1.3 which refers to Note 1.3 in the consolidated statements, regarding the Securities Authority's investigation into suspicions of offenses committed under the Securities Law and the Penal Code concerning transactions related to the former controlling shareholder in Bezeq and the notice by the Tel Aviv District Attorney’s Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing on suspicion of bribery and reporting with an intent to mislead a reasonable investor, as well as what is stated in this note regarding the filing of indictments against the former controlling shareholder in Bezeq and former senior executives in Bezeq Group, which attribute to the defendants offenses of aggravated fraudulent obtainment, fraud and breach of trust in a corporation, and reporting offenses under the Securities Law. In addition, following the initiation of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq’s former controlling group, including requests for approval of class actions. As stated in the above note, Bezeq is unable to assess the effects of the investigations, their findings and results on Bezeq, as well as the statements and estimates used in the preparation of these statements, if any.

In addition, without limiting our above conclusion, we draw attention to what is stated in Note 6 regarding claims filed against the Group and for which at this stage the exposure cannot be assessed or calculated.

Somekh Chaikin

Certified Public Accountants

May 26, 2021

Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

Condensed consolidated interim statements as of

Assets	March 31, 2021 (unaudited) NIS millions	March 31, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Cash and cash equivalents	**1,194**	1,033	894
Investments	**802**	1,265	881
Receivables	**1,648**	1,674	1,621
Other receivables	**211**	358	180
Inventory	**87**	109	73
Assets held for sale	**2**	45	10
Total operating assets	**3,944**	4,484	3,659
Receivebles	**512**	476	514
Broadcasting rights – net of rights exercised	**62**	65	67
Right-of-use assets	**1,735**	1,308	1,804
Property, plant and equipment	**6,182**	6,005	6,131
Intangible assets	**3,277**	3,165	3,268
Deferred expenses and non-operating investments	**491**	586	402
Deferred tax assets	**57**	61	108
Total non-operating assets	**12,316**	11,666	12,294
Total assets	**16,260**	16,150	15,953

Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

Condensed consolidated interim statements as of (cont.)

Liabilities and equity (deficit in equity)	March 31, 2021 (unaudited) NIS millions	March 31, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Debentures, loans and credit	**785**	1,002	785
Operating maturities of lease liabilities	**402**	415	415
Trade and other payables	**1,819**	1,918	1,766
Employee benefits	**442**	587	482
Provisions	**87**	125	117
Total operating liabilities	**3,535**	4,047	3,565
Loans and debentures	**9,489**	10,402	9,485
Lease liabilities	**1,438**	1,049	1,492
Employee benefits	**337**	314	335
Derivatives and other liabilities	**282**	164	307
Provisions	**49**	50	52
Deferred tax liabilities	**292**	252	290
Total non-operating liabilities	**11,887**	12,231	11,961
Total liabilities	**15,422**	16,278	15,526
Equity (equity deficit) attributable to:			
Non-controlling interests	855	52	534
Shareholders of the company	(17)	(180)	(107)
Total equity (deficit in equity)	**838**	(128)	427
Total liabilities and equity (deficit in equity)	**16,260**	16,150	15,953

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

Date of approval of the statements: May 26, 2021

The notes attached to the condensed consolidated interim statements form an integral part thereof.

Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

Condensed consolidated interim statements of income

	Note	For the period of three months ended March 31		For the year ended December 31
		2021	2020	2020
		(unaudited)	(unaudited)	(audited)
		NIS millions	NIS millions	NIS millions
Revenue	8	**2,221**	2,187	8,723
Operating expenses				
Operating and general expenses *	9	**833**	803	3,182
Salaries		**481**	479	1,894
Depreciation, amortization and impairment *		**476**	447	1,858
Other operating expenses (revenue), net	10	**(152)**	(3)	73
Impairment loss		**-**	-	8
Total operating expenses		**1,638**	1,725	7,015
Operating profit		**583**	462	1,708
Financing expenses (revenue)				
Financing expenses		**104**	111	525
Financing revenue		**(29)**	(51)	(51)
Financing expenses, net	11	**75**	60	474
Profit before taxes on income		**508**	402	1,234
Income taxes		**127**	100	334
Net profit for the period		**381**	302	900
Net profit attributable to:				
Sharehlders of the company		**82**	59	157
Non-controlling interests		**299**	243	743
Net profit for the period		**381**	302	900
Profit per share (NIS)				
Basic and diluted profit per share		**0.71**	0.51	1.38

* See Note 5 regarding impairment loss recognized by DBS and Bezeq International in the reporting period.

Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

Condensed consolidated interim statements of comprehensive income

	For the period of three months ended March 31		For the year ended December 31
	2021	**2020**	**2020**
	(unaudited)	**(unaudited)**	**(unaudited)**
	NIS millions	**NIS millions**	**NIS millions**
Net profit for the period	**381**	302	900
Other profit (loss) items, net of tax	**22**	(11)	(5)
Remeasurement of a defined benefit plan, net of tax	**-**	19	(9)
Total comprehensive income for the period	**403**	310	886
Attributable to:			
Shareholders of the company	**88**	61	154
Non-cotnrolling interests	**315**	249	732
Total comprehensive income for the period	**403**	310	886

The notes attached to the condensed consolidated interim statements form an integral part thereof.

Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

Condensed consolidated interim statements of changes in equity

	Share capital	Share Premium	Treasury shares	Other reserves	Retained earnings (Deficit)	Total	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the period of three months ended March 31, 2021 (unaudited)								
Balance as of January 1, 2021	12	1,495	(*)	(39)	(1,575)	(107)	534	427
Profit for the period	**-**	**-**	**-**	**-**	**82**	**82**	**299**	**381**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**6**	**6**	**16**	**22**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**88**	**88**	**315**	**403**
Transactions imputed directly to equity								
Share-based payments (Note 12)	**-**	**-**	**-**	**2**	**-**	**2**	**6**	**8**
Balance as of March 31, 2021	12	1,495	(*)	**(37)**	**(1,487)**	**(17)**	**855**	**838**
For the period of three months ended March 31, 2021 (unaudited)								
Balance as of January 1, 2020	12	1,495	(*)	(38)	(1,710)	(241)	(197)	(438)
Profit for the period	-	-	-	-	59	59	243	302
Other comprehensive income for the period, net of tax	-	-	-	-	2	2	6	8
Total comprehensive income for the period	-	-	-	-	61	61	249	310
Balance as of March 31, 2020	12	1,495	(*)	(38)	(1,649)	(180)	52	(128)
For the year ended December 31, 2020 (audited)								
Balance as of January 1, 2020	12	1,495	(*)	(38)	(1,710)	(241)	(197)	(438)
Purchase of non-controlling interests	-	-	-	-	(39)	(39)	(1)	(40)
Net compensation in respect of the Horev claim	-	-	-	-	19	19	-	19
Profit for 2020	-	-	-	-	157	157	743	900
Other comprehensive loss for the year, net of tax	-	-	-	(1)	(2)	(3)	(11)	(14)
Total comprehensive income for 2020	-	-	-	(1)	155	154	732	886

Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

Balance as of December 31, 2020	12	1,495	(*)	(39)	(1,575)	(107)	534	427

* Represents an amount less than NIS 1 million

The notes attached to the condensed consolidated interim statements form an integral part thereof.

Condensed consolidated interim reports of cash flows

	For the period of three months ended March 31		For the year ended December 31
	2021	2020	2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Cash flows from operating activities			
Profit for the period	**381**	302	900
Adjustments:			
Depreciation, amortization and impairment loss	**476**	447	1,858
Loss from impairment of assets	**-**	-	8
Capital gain, net	**(125)**	(9)	(40)
Financing expenses, net	**82**	94	507
Share-based remuneration	**8**	-	-
Income Tax expenses	**127**	100	334
Change in trade and other receivables	**(61)**	(45)	56
Change in inventory	**(18)**	(17)	13
Change in trade and other payables	**26**	98	17
Change in provisions	**(29)**	-	(8)
Change in employee benefits	**(37)**	(88)	(192)
Change in other liabilities	**2**	(7)	(1)
Income Tax paid, net	**(135)**	-	(243)
Net cash generated from operating activities	**697**	875	3,209
Cash flows from investing activities			
Purchase of property, plant and equipment	**(356)**	(244)	(1,133)
Investment in intangible assets and deferred expenses	**(102)**	(94)	(366)
Investment in bank deposits and secirities, net	**(19)**	(214)	222
Proceeds from the sale of property, plant and equipment	**183**	8	148
Sale of Walla, net	**-**	-	44
Miscellaneous	**4**	6	18
Net cash used for investing activities	**(290)**	(538)	(1,067)
Cash flows from financing activities			
Issuance of debentures and receipt of loans	**-**	-	718
Acquisition of non-controlling interests	**-**	-	(40)
Repayment of debentures and loans	**-**	-	(1,828)
Fund payments and interest on leases	**(102)**	(113)	(391)
Net compensation for a Horev claim	**-**	-	(3)
Interest paid	**(5)**	(5)	(392)
Costs for early repayment of loans and debentures	**-**	-	(65)
Payment for expired hedging transactions	**-**	-	(57)
Miscellaneous	**-**	-	(4)
Net cash used for financing activity	**(107)**	(118)	(2,062)
Increase in cash and cash equivalents	**300**	219	80
Cash and cash equivalents for the beginning of the period	**894**	814	814
Cash and cash equivalents for the end of the period	**1,194**	1,033	894

The notes attached to the condensed consolidated interim statements form an integral part thereof.

1. General

1.1. The reporting entity

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

The condensed consolidated statements of the Company as of March 31, 2021 include those of the Company and its subsidiaries (hereinafter collectively - "the Group"), (see also Note 14 - Segment reporting).

1.2. Pandemic - effects of the outbreak of COVID-19

Further to Note 1.4 in the annual statements regarding the outbreak of the COVID-19 pandemic, it should be noted that following the campaign to vaccinate the population of Israel against the virus that began in early 2021, there is a moderation in the effects of the pandemic in Israel and a return to economic activity to some extent.

As of the date of approval of the statements, the effects of the COVID-19 pandemic on Bezeq Group's activities in 2021 have so far been mainly reflected in the damage to Pelephone's revenues from roaming services, as a result of the pandemic's spread on international aviation and tourism, without significant adverse effects in other areas of activity.

At the same time, it should be emphasized that this is a changing event that is not controlled by Bezeq Group, and therefore the continuation of the crisis or its aggravation, as they occur, may have a material adverse effect on Bezeq Group's results. These effects may be reflected, among other things, in the damage to revenue from roaming services, and also in the revenue of Bezeq Group companies from the business segment, revenue from the sale of cellular end equipment, employee availability, customer service and technicians, supply chain, and collection dates from Bezeq Group customers. The consequences of the COVID-19 pandemic on Bezeq Group may vary depending on various developments, in particular the duration and extent of the crisis, the nature and extent of the economic and other restrictions that accompany it, as well as the intensity and duration of the economic slowdown that will develop as a result.

No effect is expected on the Company's ability to meet its debt service requirements.

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

In respect of investigations by the Israel Securities Authority and the Israel Police regarding suspicions of committing offenses under the Securities Law and the Penal Law concerning, *inter alia*, transactions related to the former controlling shareholder and the announcement of the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing, see Note 1.3 to the annual statements..

As stated in Note 1.3.3 to the annual statements, Bezeq does not yet have complete information regarding the investigations, plans, materials and evidence in the law authorities' possession (although in January 2021 Bezeq received the core of the investigation material in connection with Case 4000, following Bezeq's summons to a hearing on this matter). Accordingly, Bezeq is not yet able to assess the effects of the investigations, their findings and results on Bezeq, as well as the statements and estimates used in the preparation of its reports, if any. Upon removal of the impediment to conducting inspections and controls related to issues that arose in the course of the investigations, the inspections will be completed as necessary with regard to matters that arose in the framework of those investigations.

2. Basis of preparation of the statements

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

2.2. The condensed consolidated interim statements do not include all the information required in full annual statements and these reports should be read in the context of the annual statements of the Company and its subsidiaries as of December 31, 2020 and the year that ended on the same date and its accompanying notes (hereinafter - the annual statements). The Group presents in the notes to the consolidated interim statements only the material changes that occurred from the date of the last annual statements until the date of these interim statements.

2.3. These condensed consolidated interim statements were approved by the Company's Board of Directors on May 26, 2021.

2.4. **Use of estimates and judgment**

When preparing the condensed consolidated interim statements in accordance with IFRS, Management is required to exercise discretion and be assisted by estimates, assessments and assumptions that affect the implementation of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from the established estimates.

Management's discretion, when implementing the Group's accounting policies and the main assumptions used in the estimates involving uncertainty, are consistent with those used in the annual statements.

3. Reporting rules and accounting policies

3.1. The Group's accounting policies summarized in these consolidated interim statements are the policies applied in the annual statements.

3.2. **Accounting policies for new incidents**

The following is a description of accounting policies applied by the Bezeq Group in connection with share-based remuneration described in Note 12:

The fair value at the date of the grant of options for the purchase of shares of companies in the Group is imputed as a salaries expense in parallel with an increase in equity over the period in which the employees' entitlement to the options is achieved. Bezeq Group chose to present the increase in equity as part of a equity fund in respect of share options for employees.

For share-based payment grants conditional on performance conditions that constitute market conditions, the Group takes these conditions into account when estimating the fair value of the equity instruments granted, and therefore the Group recognizes an expense for these grants regardless of the existence of these conditions.

The amount imputed as an expense is adjusted to reflect the number of stock options that are expected to mature.

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

3.3.1. Amendment to the IAS1 standard "Presentation of Statements: Classification of Liabilities as Operating or Non-Operating"

The amendment replaces certain classification requirement of liabilities as operating or non-operating. The amendment will take effect during reporting periods beginning on January 1, 2023. Earlier application is possible. The amendment will be applied retrospectively, including an amendment to comparative figures. The Group is examining the implications of applying the amendment to the statements.

3.3.2. <u>Amendment to Standard IAS 37 "Provisions, contingent liabilities and contingent assets" in respect of onerous contracts</u>

The amendment stipulates that in examining the costs of exercise of a contract, it is necessary to also consider indirect costs in addition to additional costs (see also Note 3.12.3 to the annual statements).

The date of first application of the amendment is set for January 1, 2022, and it will be carried out by adjusting the surplus balance in respect of the cumulative effect to this date. The amendment may have effects on the identification and measurement of onerous contracts in the Group, which may even be reflected in the creation of material provisions, which the Group cannot assess at this stage. The Group is studying the amendment and is preparing to implement it on time.

4. <u>Group entities</u>

A detailed description of the Group's entities appears in Note 13 to the annual statements. The following is a breakdown of the material changes that have taken place in connection with Bezeq Group's entities since the publication of the annual statements.

4.1. Examining a plan for a structural change in the subsidiaries.

Further to Note 13.1.2 to the annual statements, on May 25, 2021, Bezeq's Board of Directors approved, following the approval of Bezeq's subsidiaries, a plan for a structural change in Bezeq's subsidiaries, including a full and statutory merger of Bezeq International with and into DBS following the spin-off of Bezeq International's integration activities into a separate corporation in the Group. The goals of the move include: adapting the activity to the structure of the industry and the changing regulation, focusing on increasing revenues and growth, and increasing operational synergy and streamlining ("the Structural Change Plan"). At the same time, the management of Bezeq's subsidiaries was authorized to negotiate with the relevant employees' committees and representative organizations for the purpose of signing new collective agreements.

Completion of the merger of Bezeq International with and into DBS as aforementioned is subject to the receipt of various regulatory approvals that have not yet been received. In addition, to the extent that additional approvals are required for actions derived from the structural change plan, they will be brought to the approval of Bezeq's authorized institutions and / or its subsidiaries.

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

4.2.1. As of March 31, 2021, DBS has a deficit in equity in the amount of NIS 80 million, as well as a deficit in working capital in the amount of NIS 243 million. In accordance with DBS' forecasts, it expects to continue to accumulate operating losses in the coming years and therefore will not be able to meet its obligations and continue to operate as a going concern without Bezeq's support.

In May 2021, Bezeq's Board of Directors approved the issuance of an irrevocable commitment by Bezeq to DBS to provide a credit facility or investment in equity in the amount of NIS 150 million, for a period of 15 months, from April 1, 2020 until June 30, 2022, instead of a similar undertaking from March 2021. It should be noted that so far during 2021, no use has been made by DBS of any of the credit facilities provided by Bezeq.

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

4.2.2. See Note 5.1 below regarding impairment of assets recognized by DBS in the statements as of March 31, 2021.

4.3. **Bezeq International Ltd.**

4.3.1. See Note 13.3.2 to the annual statements regarding a hearing to examine the separation between infrastructure service and access service (ISP) published by the Ministry of Communications on October 4, 2020 and regarding a secondary hearing published on February 24, 2021.

4.3.2. See Note 5.2 below regarding impairment of assets recognized by Bezeq International in the statements as of March 31, 2021.

5. Impairment

5.1. Impairment of the multi-channel television segment (DBS)

Following Note 11.5 to the annual statements regarding impairment recognized in the years 2019-2020 in respect of a multi-channel television cash-generating unit, in light of the examination of DBS' performance in the first quarter of 2021 and the changes that occurred in DBS' expectations in relation to the business results, and taking into account the low gap recorded on December 31, 2020 between the value of DBS' activity and the book value of its net operating assets, DBS updated its forecasts for 2021 and subsequent years and estimated the recoverable amount as of March 31, 2021.

The valuation was conducted by an external appraiser. Based on the valuation, the value of DBS' activity is negative in the amount of NIS 283 million, compared with a negative book value of NIS 61 million.

In light of the negative value of the activity, as of March 31, 2121, the value of DBS' non-operating assets was determined to be higher than the fair value less costs of sale and zero, similar to the end of 2020. Therefore, the Group recognized an impairment loss of approximately 82 million The impairment loss was mainly attributable to property, plant and equipment, broadcasting rights and intangible assets items, as detailed below, and is included in the depreciation and amortization expenses item as well as in the operating and general expenses item in the statement of income.

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

	For the period of three months ended March 31		For the year ended December 31
	2021	**2020**	**2020**
	(unaudited)	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**
Broadcasting rights *	**37**	49	170
Property, plant and equipment **	**28**	18	112
Intangible assets **	**14**	11	29
Advance expenses **	**3**	-	13
Total impairment recognized	**82**	78	324

* The expense was presented as operating and general expenses

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

For information regarding the manner in which DBS determined the fair value (at level 3) of the assets net of exercise costs, see Note 11.5 in the annual statements.

5.2. **Impairment in the Internet, international communications and network services segment (Bezeq International)**

Further to Note 11.6 to the annual statements regarding impairment in the Internet, International communications and network services cash-generating unit in 2020, the valuation as of December 31, 2020 presented a value in use significantly lower than Bezeq International’s book value. In accordance with an examination conducted by an external valuator on March 31, 2021 and in accordance with the assessment of Bezeq International's Management, it was found that there were no changes in Bezeq International's financial results, no significant changes in market expectations and no regulatory changes that could materially affect the results. Therefore, in light of the negative value of the activity as determined in the valuation as of December 31, 2020, Bezeq International reduced its assets as of March 31, 2020, up to the amount of the net exercisable value.

Based on the fair valuation of Bezeq International's assets, which was performed by an external valuator as of March 31, 2021, the book value of the depreciable assets is approximately NIS 29 million higher than the fair value less exercise costs. Therefore, in the period of three months, which ended on March 31, 2021, the Group recognized a loss due to impairment in the amount of approximately NIS 29 million.

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

	For the period of three months ended March 31		For the year ended December 31
	2021	2020	2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Property, plant and equipment and intangible assets **	**23 ****	-	148
Long-term advance expenses for capacities *	**5 ****	-	110
Additional advance expenses *	**1***	-	18
Rights-of-use of leased assets	**-**	-	3
Total impairment recognized	**29**	-	279 ***

* The expense was presented as operating and general expenses

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

*** Presented as part of the item "Impairment loss" in the CPA report for 2020

For information regarding the manner in which Bezeq International determined the fair value (at level 3) of the assets net of exercise costs, see Note 11.6 in the annual statements.

6. Pending liabilities

6.1. During the day-to-day business, legal claims have been filed against the Group companies, or various legal proceedings are pending against it (hereinafter in this section: "legal claims").

In the opinion of the managements of Bezeq Group companies, which is based, among other things, on legal opinions regarding the likelihood of the materialization of the claims, the statements included adequate provisions in the amount of NIS 84 million, where provisions were required to cover the exposure as a result of such claims.

In the opinion of the managements of the Group companies, the amount of the additional exposure (beyond the aforesaid provisions), as of March 31, 2021, due to claims filed against the Group companies on various issues and whose likelihood of materialization is unexpected, amounted to a total of NIS 4.5 billion. In addition, there is exposure in the amount of NIS 2.7 billion in respect of claims whose chances have not yet been assessed at this stage. Additionally, requests were filed against the Group companies to recognize the claims as class actions that did not specify the exact amount of the claim, for which the Group has additional exposure beyond the above.

The amounts of additional exposure in this note are nominal.

For updates regarding changes after the date of the report, see section 6.3 below.

6.2. The following is a description of Bezeq Group's contingent liabilities that were in effect as of March 31, 2021 are classified according to groups with similar characteristics:

Claims group	Essence of the claims	The balance of the provision	The amount of additional exposure	The amount of exposure in respect of claims whose chances cannot yet be assessed
		NIS millions		
Customer claims	Mainly requests for approval as class actions (and claims by virtue thereof) that concern allegations of illegal collection of funds and damage to the provision of services provided by Bezeq Group companies.	82	3,776	815
Claims by enterprises and companies	Claims in which Bezeq Group companies are claimed liable in connection with their operations and / or their investments.	-	687	1.873 *
Claims by employees and former employees of Bezeq Group companies	Mainly individual clains filed by employees and former employees of Bezeq Group concerning various payments.	-	10	-
State and authority claims	Various legal proceedings by the State of Israel, various governmental entities and state authorities (hereinafter: "the Authorities"). These are mainly procedures in the field of regulation applied to Bezeq Group companies and various financial disputes regarding funds paid by Bezeq Group companies to the authorities (including property tax payments). See also Note 6.6 to the annual statements.	2	6	7
Various	Other legal claims, including tort claims (except for claims in which there is no dispute as to the existence of insurance coverage), real estate, infrastructure, etc.	-	22	-
Total claims against the Company and its subsidiaries		84	4,501	2,695

* The total includes two motions for approval of a class action in the total amount of NIS 1.8 billion filed in June 2017 against the Company, Bezeq, officers in Bezeq Group and companies from the group that controlled Bezeq at the time regarding the purchase of DBS shares by Bezeq from Eurocom DBS Ltd. In accordance with a court decision, the filing of a consolidated motion is expected to replace these two motions. The procedure is delayed in light of the investigation (as described in Note 1.3) and at the request of the Attorney General until September 2, 2021.

6.3. After the date of the statements, a motion was submitted against Bezeq Group companies for approval of a class action without specifying an exact amount, and another claim was filed in the amount of NIS 20 million. As of the date of approval of the statements, it is not yet possible to assess the chances of said claims. Also, after the date of the statements, claims for which the exposure was approximately NIS 1 billion (which are included in the additional exposure amount shown in the table above), as well as a claim without a monetary valuation, were terminated.

7. Equity

	As of March 31, 2021	As of March 31, 2020	As of December 31, 2020
	Number of shares	Number of shares	Number of shares
	(unaudited)	(unaudited)	(audited)
Registered share capital	**300,000,000**	150,000,000	150,000,000
Share capital is issued and repaid *	**116,316,563**	116,316,563	116,316,563

* 19,230 of the Company's shares are held as treasury shares.

On March 31, 2021, the General Meeting of the Company approved the increase of the registered share capital of the Company so that after the aforesaid increase of registered equity, the registered equity of the Company will be NIS 30,000,000, divided into 300,000,000 ordinary shares of NIS 0.1 each, and the amendment of the Company's Articles of Association was approved accordingly.

8. Revenue

	For the period of three months ended March 31		For the period ended December 31
	2021	2020	2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Fixed line communication - Bezeq Fixed Lines			
Internet - infrastructure	**381**	382	1,537
Landline telephony	**236**	242	981
Transmission and data communication	**208**	181	785
Cloud and digital	**82**	72	288
Other services	**62**	57	222
	969	934	3,813

Mobile radio telephone - Pelephone			
Cellular and end equipment services	**383**	396	1,550
End equipment sales	**177**	158	577
	560	554	2,127
Multi-channel TV - DBS	**315**	338	1,286
Internet Services (ISP), International Communications, and Network liabiliti- Bezeq International	**299**	301	1,217
Other	**78**	60	280
	2,221	2,187	8,723

9. Operating and general expenses

	For the period of three months ended March 31		For the period ended December 31
	2021	**2020**	**2020**
	(unaudited)	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**
End equipment and materials	**221**	188	747
Connectivity and payments to communications operators in Israel and abroad	**182**	185	776
Content costs (including depreciation of content)	**144**	164	589
Marketing and general	**126**	119	471
Services and maintenance by subcontractors	**86**	68	303
Maintenance of buildings and sites	**60**	65	246
Vehicle maintenance	**14**	14	50
	833	803	3,182

10. Other operating expenses (revenue), net

	For the period of three months ended March 31		For the period ended December 31
	2021	**2020**	**2021**
	(unaudited)	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**
Capital gain (mainly real estate exercise, see Note 32.2. to the annual statements)	**(125)**	(9)	(18)

Creation (cancelation) of provision for claims	**(30)**	1	11
Expenses in respect of the termination of employee-employer relationship in early retirement in the Company	**2**	5	64
Profit from the sale of an investee	**-**	-	(22)
Receipts from a settlement agreement	**-**	-	(9)
Provision for collective agreement signing bonus	**-**	-	40
Expenses in respect of the termination of employee-employer relationship in early retirement and streamlining agreement with Pelephone, Bezeq International and DBS	**-**	-	9
Other expenses (revenue)	**1**	-	(2)
	(152)	**(3)**	**73**

11. Financing expenses, net

	For the period of three months ended March 31		For the period ended December 31
	2021	2020	2021
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial liabilities	**86**	100	351
Financing expenses for lease liabilities	**9**	7	30
Linkage differences and exchange rate	**4**	2	23
Financing expenses in respect of benefits to employees	**3**	-	8
Other financing expenses	**2**	2	6
Costs of early repayment of loans and debentures	**-**	-	96
Change in the fair value of financial assets measured at fair value through income	**-**	-	11
Total financing expenses	**104**	111	525
Revenue from grossing credit in sales	**8**	8	30
Change in the fair value of financial assets measured at fair value through income	**7**	7	-
Other financing revenue	**14**	7	21
Financing revenue in respect of benefits to employees	**-**	29	-
Total financing revenue	**29**	51	51
Financing expenses, net	**75**	60	474

12. Share-based remuneration

12.1. Further to Note 32.1 to the annual statements regarding Bezeq's Capital Remuneration Plan, during the first quarter of 2021, 59,305,000 options were allocated to Bezeq's officers, executives and senior employees in Bezeq and its subsidiaries, including the allocation of 12,000,000 options to the Chairman of Bezeq's Board of Directors and granting 9,000,000 options to the CEOs of Pelephone, DBS and Bezeq International.

12.2. The options were allocated to each offeree in three grants, each grant at a rate of one-third of the total options allocated to the offeree. Each grant will become vested in four annual installments, with a different exercise price set for each grant. Exercise of each option is subject to the condition that after the vesting of the option, the price exercise conditions of the option existed (the average closing price of the Company's share in a period of at least thirty 30 consecutive trading days before the test is equal to the exercise condition or higher). The following is a list of exercise prices and share price targets for exercise:

	Exercise price	Stock price exercise conditions
Grant 1	NIS 3.72	NIS 5
Grant 2	NIS 4.46	NIS 5.75
Grant 3	NIS 5.35	NIS 7

12.3. The fair value of the options granted, which is estimated by an external valuator while applying the Monte Carlo model, is approximately NIS 45 million, in accordance with the vesting period and the exercise conditions as specified above. The Bezeq Board of Directors is approximately NIS 9.3 million. The fair value of the options at the date of the grant to the CEO of Bezeq and the CEO of Pelephone, DBS and Bezeq International is approximately NIS 6.9 million each.

12.4. **The following is a list of the main parameters used for valuation:**

Share price	NIS 3.43
Predicted volatility	29.82%
Risk-free interest rate	0.54%
Dividend yield	A zero dividend yield was assumed
Predicted early exercise coefficient	2.2 - 2.8
Options duration	6.9 Years
Churn rate after vesting	0%

12.5. During the first quarter of 2021, Bezeq Group recognized salaries expenses in respect of a share-based payment in the amount of approximately NIS 8 million.

13. Financial instruments

Fair value

a. Financial instruments measured at fair value for disclosure purposes only

The table below lists the differences between the book value and the fair value of financial liabilities. The methods by which the fair value of financial instruments is determined are explained in Note 30.8 to the annual statements.

	As of March 31, 2021		As of March 31, 2020		As of December 31, 2020	
	Book value (including accrued interest)	Fair value	Book value (including accrued interest)	Fair value	Book value (including accrued interest)	Fair value
	(unaudited)		(unaudited)		(audited)	
	NIS millions		NIS millions		NIS millions	
Loans from banks and institutional entities (unlinked)	**2,131**	**2,250**	3,425	3,426	2,118	2,252
Debentures issued to the public (index-linked)	**3,218**	**3,472**	2,510	2,491	3,199	3,394
Debentures issued to the public (unlinked)	**4,963**	**5,313**	4,115	3,907	4,913	5,187
Debentures issued to financial institutions (CPI-linked)	**-**	**-**	768	770	-	-
Debentures issued to financial institutions (unlinked)	**-**	**-**	611	605	-	-
	10,312	**11,035**	11,429	11,199	10,230	10,833

b. Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, detailing the valuation method. The methods by which the fair value is determined are detailed in Note 30.7 to the annual statements.

	March 31, 2021	**March 31, 2020**	**December 31, 2020**
	(unaudited)	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**
Level 1 - Investment in marketable securities measured at fair value through income	**99**	312	77
Level 2 – Forward contracts	**(79)**	(143)	(117)

14. Segment reporting

14.1. Operating segments

For the period of three months ended March 31, 2021 (unaudited)							
	Fixed line communi cation	Cellular communi cation	Internet and internatio nal communi cation services	Multi-channel TV *	Others	Adjustme nts	Consolida ted
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	**969**	**560**	**299**	**315**	**78**	**-**	**2,221**
Inter-segmental revenue	**85**	**10**	**13**	**-**	**1**	**(109)**	**-**
Total revenue	**1,054**	**570**	**312**	**315**	**79**	**(109)**	**2,221**
Depreciation, amortization and impairment	**223**	**142**	**49**	**75**	**1**	**(14)**	**476**
Segment results - operating profit (loss)	**593**	**(3)**	**(8)**	**(18)**	**10**	**9**	**583**
Financial expenses	**80**	**6**	**2**	**1**	**-**	**15**	**104**
Financing revenue	**(12)**	**(16)**	**(2)**	**(8)**	**-**	**9**	**(29)**
Total financing expenses (revenue), net	**68**	**(10)**	**-**	**(7)**	**-**	**24**	**75**
Segment profit (loss) before income taxes	**525**	**7**	**(8)**	**(11)**	**10**	**(15)**	**508**
Income taxes expenses (revenue)	**125**	**(1)**	**-**	**1**	**2**	**-**	**127**
Segment results - net profit (loss)	**400**	**8**	**(8)**	**(12)**	**8**	**(15)**	**381**

For the period of three months ended March 31, 2020 (unaudited)							
	Fixed line communi cation	Cellular communi cation	Internet and internatio nal communi cation services	Multi-channel TV *	Others	Adjustme nts	Consolida ted
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	935	554	301	338	59	-	2,187
Inter-segmental revenue	83	19	16	-	1	(119)	-
Total revenue	1,018	573	317	338	60	(119)	2,187
Depreciation, amortization and impairment	212	150	43	76	3	(37)	447
Segment results - operating profit (loss)	439	(13)	29	(11)	3	15	462
Financial expenses	85	6	2	3	-	15	111
Financing revenue	(36)	(16)	(1)	(8)	-	10	(51)
Total financing expenses (revenue), net	49	(10)	1	(5)	-	25	60
Segment profit (loss) before income taxes	390	(3)	28	(6)	3	(10)	402
Income taxes expenses	95	(1)	6	-	-	-	100

(revenue)							
Segment results - net profit (loss)	**295**	**(2)**	**22**	**(6)**	**3**	**(10)**	**302**

* The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized as of 2018. This is in line with the way the Group's chief operating decision-maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.3 regarding a summary of selected data from the statements of DBS.

	For the year ended December 31, 2020						
	Fixed line communication	Cellular communication	Internet and international communication services	Multi-channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	3,813	2,127	1,217	1,286	280	-	8,723
Inter-segmental revenue	346	59	54	1	6	(466)	-
Total revenue	4,159	2,186	1,271	1,287	286	(466)	8,723
Depreciation, amortization and impairment	877	599	149	310	14	(91)	1,858
Segment results - operating profit (loss)	1,705	(84)	(241)	(42)	44	326	1,708
Financial expenses	419	18	5	15	1	67	525
Financing revenue	(16)	(66)	(3)	(2)	-	36	(51)
Total financing expenses (revenue), net	403	(48)	2	13	1	103	474
Segment profit (loss) before income taxes	1,302	(36)	(243)	(55)	43	223	1,234
Income taxes expenses (revenue)	262	(11)	32	2	4	45	334
Segment results - net profit (loss)	1,040	(25)	(275)	(57)	39	178	900

* The results of the multi-channel TV segment are presented net the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision-maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 16.3 regarding a summary of selected data from the statements of DBS.

14.2 Adjustments in respect of income-reporting segments

	For the period of three months ending on 31 March		For the year ended December 31, 2020
	2021	2020	
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Operating profit in respect of reporting segments	564	444	1,338
Financing expenses, net	(75)	(60)	(475)
Adjustments for the multi-channel television segment	12	20	81
Loss due to activities classified under the Other and other adjustments category	7	(7)	26
Elimination of loss from impairment of assets	-	-	286
Amortization of surplus costs	-	5	(22)
Consolidated profit before taxes on income	508	402	1,234

15. Condensed statements of Bezeq, Pelephone, Bezeq International and DBS

15.1 Bezeq the Israel Telecommunications Corp. Ltd.

Data from the statement of financial position:

	March 31, 2021	March 31, 2020	December 31, 2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Operating assets	**2,345**	2,729	2,014
Non-operating assets	**9,739**	9,312	9,600
Total assets	**12,084**	12,041	11,614
Operating liabilities	**2,117**	2,467	2,096
Long-term liabilities	**9,679**	10,171	9,668
Total liabilities	**11,796**	12,638	11,764
Equity (deficit in equity)	**288**	(597)	(150)
Total liabilities and equity deficit	**12,084**	12,041	11,614

Data from the statement of income:

	For the period of three Months ended in a day March 31st		For the year ended December 31
	2021	2020	2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Revenue	**1,054**	1,018	4,159
Operating expenses			
Operating and general expenses	**155**	142	590
Salaries	**233**	229	919
Depreciation and amortization	**223**	212	877
Other expenses, net	**(150)**	(4)	68
Total operating expenses	**461**	579	2,454
Operating profit	**593**	439	1,705
Financing expenses (revenue)			
Financial expenses	**80**	85	419
Financing revenue	**(12)**	(36)	(16)
Financing expenses, net	**68**	49	403
Profit after financing expenses, net	**525**	390	1,302
Share of profits (losses) of equity accounted	**8**	32	(244)

investees, net			
Profit before income taxes	**533**	422	1,058
Income taxes expenses	**125**	95	262
Net profit for the period	**408**	327	796

15.1. **Pelephone Communications Ltd.**

Data from the statement of financial position:

	March 31, 2021	**March 31, 2020**	**December 31, 2020**
	(unaudited)	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**
Operaitng assets	**866**	888	899
Non-operating property	**3,478**	3,293	3,472
Total assets	**4,344**	4,181	4,371
Operating liabilities	**703**	728	720
Long-term liabilities	**1,003**	801	1,022
Total liabilities	**1,706**	1,529	1,742
Equity	**2,638**	2,652	2,629
Total liabilities and equity	**4,344**	4,181	4,371

Data from the statement of income:

	For the period of three Months ended in a day March 31st		**For the year ended December 31**
	2021	**2020**	**2020**
	(unaudited)	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**
Revenue from services	**392**	405	1,591
Revenue from the sale of end equipment	**178**	168	595
Total revenue from services and sales	**570**	573	2,186
Operating expenses			
Operating and general expenses	**352**	345	1,329
Salaries	**79**	90	324
Depreciation and amortization	**142**	150	599
Total operating expenses	**573**	585	2,252

Condensed Consolidated Interim Statements as of March 31, 2021 (Unaudited)

Other operating expenses, net	**-**	1	18
Operating loss	**(3)**	(13)	(84)
Financing expenses (revenue)			
Financing expenses	**6**	6	18
Financing revenue	**(16)**	(16)	(66)
Financing revenue , net	**(10)**	(10)	(48)
Profit (loss) before income taxes	**7**	(3)	(36)
Income taxes expenses (revenue)	**(1)**	(1)	(11)
Profit (loss) for the period	**8**	(2)	(25)

15.2. **Bezeq International Ltd.**

Data from the statement of financial position:

	March 31, 2021 (unaudited) NIS millions	March 31, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Operating assets	**429**	458	443
Non-operating assets	**310**	604	342
Total assets	**739**	1,062	785
Operating liabilities	**407**	456	432
Long-term liabilities	**135**	104	148
Total liabilities	**542**	560	580
Equity	**197**	502	205
Total liabilities and equity	**739**	1,062	785

Data from the statement of income:

	For the period ended March 31		For the year ended December 31
	2021	2020	2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Revenue	**312**	317	1,271
Operating expenses			
Operating and general expenses	**211**	181	802
Salaries	**60**	64	248
Depreciation and amortization	**49**	43	149
Other expenses, net	**-**	-	313
Total operating expenses	**320**	288	1,512
Operating profit (loss)	**(8)**	29	(241)
Financing expenses (revenue)			
Financing expenses	**2**	2	5
Financing revenue	**(2)**	(1)	(3)
Financing expenses, net	**-**	1	2
Profit (loss) before income taxes	**(8)**	28	(243)
Income taxes expenses	**-**	6	32
Profit (loss) for the period	**(8)**	22	(275)

15.3. **DBS Satellite Services (1998) Ltd.**

Data from the statement of financial position:

	March 31, 2021	March 31, 2020	December 31, 2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Operatingassets	**188**	211	176
Non-operating assets	**231**	269	248
Total assets	**419**	480	424
Operating liabilities	**431**	489	436
Long-term liabilities	**68**	82	sixty nine
Total liabilities	**499**	571	505
Deficit in equity	**(80)**	(91)	(81)
Total liabilities and equity	**419**	480	424

Data from the statement of income:

	For the period ended March 31		For the year ended December 31
	2021	2020	2021
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Revenue	**315**	338	1,287
Operating expenses			
Operating, general and impairment expenses	**212**	231	857
Salaries	**50**	54	203
Depreciation, amortization and impairment	**61**	44	203
Other operating revenue, net	**(2)**	-	(15)
Total operating expenses	**321**	329	1,248
Operating profit (loss)	**(6)**	9	39
Financing expenses (revenue)			
Financial expenses	**1**	3	15
Financing revenue	**(8)**	(8)	(2)
Financing expenses (revenue), net	**(7)**	(5)	13
Profit (loss) before income taxes	**1**	14	26
Income tax expenses	**1**	-	2
Profit (loss) for the period	**-**	14	24

16. Subsequent events

16.1. See Note 4.1 regarding the decision of Bezeq's Board of Directors dated May 25, 2021 regarding a plan for a structural change in Bezeq's subsidiaries.

16.2. Further to Note 10.4 to the annual statements regarding the deployment of a fiber optic network by Bezeq, on May 25, 2021, Bezeq's Board of Directors approved Bezeq's fiber deployment plan and its submission to the Ministry of Communications in accordance with Article 14B (a) of the Communications Law. As part of the plan, Bezeq is expected to deploy and operate an ultra-fast fiber network that will cover about 76% of Israel's population (the Company estimates about 80% of households).

Condensed Separate Interim Financial Information
As of March 31, 2021

Page	Table of Contents

2	**Auditors' review report**
	Condensed Separate Interim Financial Information as of March 31, 2021 (Unaudited)
3	Condensed interim statements of the financial position
4	Condensed interim statements of income
4	Condensed interim statements of comprehensive income
5	Condensed interim statements of cash flows
6	Notes to condensed separate interim financial information

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

To
Shareholders of B Communications Ltd.

Re: Special report by the auditors on separate interim financial information pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Introduction

We reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B Communications Ltd. (hereinafter - the Company) as of March 31, 2021 and for a period of three months ending on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. It is our responsibility to provide our conclusion on the separate interim financial information for these interim periods based on our review.

Scope of the review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Conducted by the Entity's Auditor". A review of separate interim financial information consists of inquiries, primarily with persons responsible for financial and accounting matters, and the application of analytical and other review procedures. A review is considerably smaller than an audit conducted in accordance with auditing standards generally accepted in Israel and therefore does not allow us to obtain assurance that we will be aware of all the significant matters that could have been identified in the audit. Accordingly, we do not provide an audit opinion.

Conclusion

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

Emphasis of matter paragraph (drawing attention)

Without limiting our above conclusion, we draw attention to the mentions of Note 4 which refers to Note 1.3 in the annual consolidated statements, regarding the Securities Authority's investigation into suspicions of offenses committed under the Securities Law and the Penal Code concerning transactions related to the former controlling shareholder in Bezeq and the notice by the Tel Aviv District Attorney’s Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing on suspicion of bribery and reporting with an intent to mislead a reasonable investor, as well as what is stated in this note regarding the filing of indictments against the former controlling shareholder in Bezeq for various offenses, including offenses of bribery and causing misleading information in an immediate report, as well as in filing an indictment against the former controlling shareholder in Bezeq and former senior executives in Bezeq Group, which attribute to the defendants offenses of aggravated fraudulent obtainment, fraud and breach of trust in a corporation, and reporting offenses under the Securities Law. In addition, following the initiation of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq’s former controlling group, including requests for approval of class actions. As stated in the above note, Bezeq is unable to assess the effects of the investigations, their findings and results on Bezeq, as well as the statements and estimates used in the preparation of these statements, if any.

In addition, without limiting our above conclusion, we draw attention to what is stated in Note 3 regarding claims filed against the Company and the exposure for which cannot be assessed or calculated at this stage.

Somekh Chaikin

Certified Public Accountants

May 26, 2021

Condensed Separate Interim Financial Information as of March 31, 2021 (unaudited)

Condensed interim data on the financial position as of

	March 31, 2021	March 31, 2020	December 31, 2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**70**	106	55
Short-term investments and bank deposits	**139**	150	157
Other receivables	**25**	1	23
Total operating assets	**234**	257	235
Long-term bank deposits	**161**	240	160
Investment in an affiliate	**1,515**	1,224	1,398
Total non-operating assets	**1,676**	1,464	1,558
Total assets	**1,910**	1,721	1,793
Liabilities			
Other payables	**26**	33	7
Total operating liabilities	**26**	33	7
Debentures	**1,901**	1,868	1,893
Total non-operating liabilities	**1,901**	1,868	1,893
Total liabilities	**1,927**	1,901	1,900
Equity deficit	**(17)**	(180)	(107)
Total liabilities and equity deficit	**1,910**	1,721	1,793

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

Date of approval of the statements: May 25, 2021

The notes attached to the condensed separate interim financial information form an integral part thereof.

Condensed Separate Interim Financial Information as of March 31, 2021 (unaudited)

Condensed interim data on income

	For the period of three months ended March 31		For the year ended March December 31
	2021	2020	2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Operating expenses			
Salaries	**1**	1	3
Operating and general expenses	**2**	1	8
Total operating expenses	**3**	2	11
Operating expenses	**(3)**	(2)	(11)
Financing expenses (see Note 2)			
Financing expenses	**27**	27	110
Financing revenue	**(3)**	(1)	(6)
Financing expenses, net	**24**	26	104
Loss after financing expenses, net	**(27)**	(28)	(115)
Share of profit of equity accounted investee, net	**109**	87	265
Profit before taxes on income	**82**	59	150
Tax revenue	**-**	-	7
Profit for the period	**82**	59	157

Condensed interim data on comprehensive profit

	For the period of nine months ended March 31		For the year ended March December 31
	2021	2020	2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Profit for the period	**82**	59	157
Profit (loss) items including other, net of tax	**6**	2	(3)
Total comprehensive profit for the period	**88**	61	154

The notes attached to the condensed separate interim financial information form an integral part thereof.

Condensed data on interim cash flows

	For the period of nine months ended March 31		For the year ended March December 31
	2021	**2020**	**2020**
	(unaudited)	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cash flows from operating activity			
Net profit for the period	**82**	59	157
Adjustments:			
Share of profit of equity accounted investee, net	**(109)**	(87)	(265)
Financing expenses, net	**26**	26	106
Change in payables and credit	**-**	-	(7)
Change in other receivables	**(2)**	(1)	(1)
Net cash used for operating activity	**(3)**	(3)	(10)
Cash flow from investment activity			
Investment in subsidiary	**-**	-	(40)
Change in deposits and investments, net	**18**	(304)	(229)
Others	**-**	-	2
Cash flows from financing activity	**18**	(304)	(267)
Cash flows from financing activity			
Interest paid	**-**	-	(78)
Net compensation in respect of the Horev claim	**-**	-	(3)
Net cash used for investment activities	**-**	-	(81)
Net increase (decrease) in cash and cash equivalents	**15**	(307)	(358)
Cash and cash equivalents at the beginning of the period	**55**	413	413
Cash and cash equivalents at the end of the period	**70**	106	55

The notes attached to the condensed separate interim financial information form an integral part thereof.

Notes to condensed separate interim financial information

1. Method of preparation of the financial data

1.1. Definitions

"The Company" – "B Communications" Ltd.

"Affiliate", "Group", "Holding Company": as these terms are defined in the Company's consolidated statements for 2020.

1.2. Main points of the method of compiling the financial data

The condensed interim financial information is presented in accordance with the provisions of Regulation 38D (hereinafter - "the Regulation") and the Schedule 10 to the Securities Regulations (Periodic and Immediate Reports) 5770-1970 (hereinafter – "Schedule 10") regarding the condensed Interim Financial Information of the Corporation.

It should be read together with the separate financial information for the day and year ended December 31, 2020 and together with the condensed consolidated interim statements as of March 31, 2021 (hereinafter: "the Consolidated Statements").

The accounting policy in this condensed separate interim financial information is in accordance with the rules of accounting policy which are specified in the separate financial information for the day and year ended December 31, 2020, except as stated in Note 3.2 in the Consolidated Statements.

For new standards and interpretations that have not yet been adopted, see Note 3.3 to the consolidated financial statements.

2. Financing revenue / expenses

	For the period of three months ended March 31		For the year ended March December 31
	2021	2020	2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Interest expenses	**27**	27	109
Exchange rate changes	**-**	-	1
Total financing expenses	**27**	27	110
Total marketable securities	**3**	1	6
Total financing revenue	**3**	1	6

Financing expenses, net	**24**	26	104

3. Pending liabilities

For information regarding claims against the Company, see Note 7.1 to the Consolidated Statements.

4. Events during and after the reporting period

4.1. Regarding the investigation of the Securities Authority and the Israel Police, see Note 1.3 to the Consolidated Statements.

4.2. Regarding loss from impairment in respect of Bezeq International and DBS, see Note 5 to the Consolidated Statements.

4.3. For information on the effects of the outbreak of COVID-19, see Note 1.2 to the Consolidated Statements.

4.4. For information regarding a structural change plan in the subsidiaries, see Note 4.1 to the Consolidated Statements.

Chapter E

Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period ended March 31, 2021

(1) Report on internal control over financial reporting and disclosure:

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

Management, under the supervision of the Board of Directors of B. Communications Ltd. (hereinafter - "the Corporation" or "the Company"), is responsible for determining and maintaining adequate internal control over the financial reporting and disclosure in the corporation.

For this purpose, the members of Management are:

1. Tomer Raved, CEO;
2. Itzik Tadmor, CFO;

In addition to said members of Management, the following persons also serve in the Company:

1. Ilan Chaikin, Internal Auditor;
2. Yuval Snir, CPA;

Internal control over financial reporting and disclosure includes current controls and procedures in the Corporation, designed by or under the supervision of the CFO and the most senior financial officer, or by the person actually performing the said functions, supervised by the Corporation's Board of Directors which are intended to provide a reasonable degree of assurance regarding the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in the reports it publishes under the provisions of law is collected, processed, summarized and reported on the date and format prescribed by law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information that the Corporation is required to disclose is accumulated and passed on to the Corporation's Management, including the CEO and the most senior financial officer or to those actually performing the said functions, which is done in order to enable decisions to be made at the appropriate time, with regard to the disclosure requirement.

Due to its structural limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance that misrepresentation or omission of information in the reports will be avoided or discovered.

In the annual report on the effectiveness of the internal control over financial reporting and disclosure which was attached to the periodic report for the period ended December 31, 2020 (hereinafter - the most recent annual report on the internal control), the Board of Directors and Management evaluated the internal control in the Corporation; Based on this evaluation, the Corporation's Board of Directors and Management have concluded that the aforesaid internal control, as of December 31, 2020, is ineffective due to material vulnerabilities identified in the controls at the organization level and in the process of preparing and closing the reports, which resulted in a failure to adequately recognize expenses, as detailed below.

Until the date of the report[1], the Board of Directors and Management became aware of an event or matter that may change the assessment of the effectiveness of the internal control as presented in the framework of the annual report regarding the last internal control, as detailed below.

As of the date of the report[2], based on the assessment of the effectiveness of the internal control in the annual report on the most recent internal control, and based on information brought to the attention of Management and the Board of Directors as stated above, the internal control is effective.

<u>The material vulnerabilities in internal control that were disclosed in the most recent annual report on internal control have been corrected by the date of the report. The following is a list of these material vulnerabilities, including the date on which they were first reported and their effect on the financial reporting and disclosure</u>:

As part of the preparation of the quarterly report for September 30, 2020 and as part of the process of preparing and closing the financial statements, Bezeq International found that there are discrepancies between the assets and liabilities listed in its books and the actual assets and liabilities, due, among other things, non-imputation of costs and loss, as well as improper recognition of advance expenses.

Bezeq International's Management began an immediate investigation into the matter, including through Bezeq International's Internal Auditor.

[1] In accordance with Regulation 38C (b) (4) of the Securities Regulations (Periodic and Immediate Reports), 1970 - as of the date of publication of the report

[2] In accordance with Regulation 38C (b) (4) of the Securities Regulations (Periodic and Immediate Reports), 1970 - as of the date of publication of the report

In November 2020, Bezeq's Board of Directors was updated on preliminary interim findings of Bezeq International's Internal Auditor, which was conducted in collaboration with Bezeq International's Security Division and accompanied by an independent external expert. The interim findings revealed, among other things, that over the years there have been professional errors (incorrect handling and accounting and failures in the manner in which the controls are performed) as well as poor and possibly even deliberate conduct of Bezeq International employees.

The total impact of the correction of discrepancies discovered in Bezeq International as part of the tests for December 31, 2019 was the reduction of the Group’s equity as detailed below:

1. Errors that arose up to 2010 affected the balance of goodwill recognized at the time of gaining control of Bezeq. The correction of the goodwill balance affected subsequent impairments of cash-generating units recognized by the Group

2. Reduction of the Group's equity as of January 1, 2018 in the amount of approximately NIS 103 million in respect of past balances from the years 2002-2017, with most of the amount (approximately NIS 80 million) originating in the years 2002-2003.

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

4. Following the findings of the examination, Bezeq International updated its forecasts for the coming years and performed an updated valuation as of December 31, 2019, following which an additional impairment loss of NIS 54 million (NIS 43 million net of tax) was recognized as a result of updating the value of operations and Bezeq International's book value as of December 31, 2019.

In light of the findings of the aforementioned tests, the Company restated, on December 23, 2020, its financial statements for 2019 (including the comparative data contained therein), in order to retroactively reflect therein the effect of correcting such discrepancies.

On November 23, 2020, Bezeq's Board of Directors appointed an independent external examiner (hereinafter: "the External Examiner") for the purpose of an in-depth investigation of the issue, including the circumstances that led to the discrepancies and the processes and controls that were supposed to prevent their occurrence.

On February 4, 2021, the External Examiner presented his findings to Bezeq's Board of Directors, as part of the examination report prepared thereby (hereinafter: "the Examination

Report"). The following are the main findings and conclusions as they emerged in the test report:

1. Debit vendor balances that were created as a result of direct debit payments that were not recorded as expenses in the years 2001-2003 but accumulated to the debit of a general accounting card. Most of the outstanding vendor balances found are with the parent company "Bezeq" as a related party.

   Due to the non-record of expenses as aforesaid, expenses were recorded during the accounting cross-section period based on an estimated and partial cumulative calculation, which did not necessarily correspond to the actual payments made. This record was made with a payroll card which also served as a kind of general accounting card.

   As part of the examination, it was found that during all the years that were subject of the examination, the manner of presentation and manner of analysis of the vendors item by Bezeq International's Finance Division was in net terms, thus making it difficult for Bezeq's control system to identify said debit vendor balances.

   In addition, it was found that some of the employees of the Finance Division at Bezeq International were aware of the existence of the unexplained debit balances but did not act to find out their source and deal with them in real time. In addition, these employees did not notify Bezeq International's Management and the Auditor of the issue.

2. Lack of recognition of expenses in parallel to revenue in service agreements with customers between the years 2018-2019: Incomplete record of expenses due to errors made in distinguishing between the components of the agreements and in the manner of recording the expenses.

3. Disruption of data presented to the Auditor: For a number of years, the composition of the vendors item was presented to the Auditor in net terms, without detailing any of the balances created in the accounts in the general ledger that made up the net vendors item. In this way, the unexplained debit balances were disrupted to the Auditor. In addition, over a number of years, there was a deliberate omission of rows (reflecting invoices) on one of the vendor accounting cards to reflect an apparent adjustment to the vendor balance, net item presented.

   As part of the investigation, it was found that some of the employees of the Finance Division at Bezeq International knew and took part in disrupting the data to the Auditor.

Disclosure regarding the material gaps between the assets and liabilities listed in Bezeq International's books and the actual assets and liabilities was provided for the first time by the Company in an immediate report by Bezeq dated November 9, 2020. The Company continued to update on the subject as part of additional immediate reports released in November and December 2020 and February 2021.

The Bezeq Board of Directors authorized the Bezeq Audit Committee to continue to discuss the findings of the Examination Report and its recommendations, including monitoring the implementation of the recommendations, discussing the implications of audit and control issues and examining the need to draw conclusions and take further steps. Accordingly, at the request of Bezeq's Audit Committee, the External Examiner presented to the Audit Committee complementary work findings, and subsequently, Bezeq's Board of Directors accepted the recommendations of the Audit Committee, which are mainly based on the implementation of periodic controls and analyzes that Bezeq International must perform as part of the process of closing the financial statements (in addition to the current controls); Adoption of a professional standard for executives engaged in audits, and for their actions, in Bezeq and in each of its material subsidiaries, as well as conferring supervisory and control powers on Bezeq Accounting Division over the work of finance and accounting employees in each subsidiary in respect of each subsidiary's financial statements; Adoption of certain tests for the purpose of increasing the effectiveness of Entity Level Controls at Bezeq, as well as at each of its significant subsidiaries; As well as recommendations regarding the examination and improvement of Bezeq and Bezeq International's contracts with external service providers.

It should also be noted that the Examination Report and the samples prepared by the External Examiner did not identify any indications of suspicion of embezzlement in the period under review and in particular the incident that occurred between 2001-2003 and clarified by the External Examiner that in relation to the incident between 2017-2019 there was no concrete suspicion of embezzlement. - Therefore, it was decided not to extend the examination of the suspicions of an embezzlement incident beyond the actions performed and the findings and conclusions that emerged from them by the External Examiner.

<u>The following is a detail regarding the correction of the material vulnerabilities</u>:
During the period up to the date of the report, Bezeq International's Management, Bezeq International's Board of Directors and Bezeq's Board of Directors performed various operations, inspections and compensatory procedures, investing considerable efforts and resources, as detailed below, to correct significant vulnerabilities and strengthen Bezeq's internal control. The deficiency correction plan, which was adopted by Bezeq's Board of Directors and Bezeq International's Board of Directors, also includes the recommendations of the External Examiner. The correction took several months, with some companies using the services of various professional consultants.

The correction plan and the status of the progress of the plan were frequently reported to Bezeq International’s Board of Directors, Bezeq’s Board of Directors and the Bezeq Board of Directors’ Audit Committee. At the same time, Bezeq reported in its periodic reports on the various actions it took to correct the vulnerabilities, noting the completion status of each of them.

It is clarified that as of the date of publication of the report, Bezeq International has completed an examination of all controls.

The main points of the plan to correct the deficiencies and the corrective actions taken up to date of publishing the report:

1. <u>Control environment:</u>
    - The Board of Directors of Bezeq International has decided to act in accordance with the law to terminate the employment of a number of employees in the Finance Division at Bezeq International who were involved in the incidents subject to the investigation (who are not officers therein). Until the date of the report, all employees have been notified of the termination of their employment, when the employment of one employee has in fact ended and the employment of the other employees is expected to end in the near future.
    - In addition to the aforesaid employees, new employees were recruited who began their work at Bezeq International as of the date of the report.
    - As part of the preparation of Bezeq International's financial statements for 2020 and for the first quarter of 2021, all controls performed by employees and managers of Bezeq International who were found to be involved in the incidents subject to the investigation were mapped. Such controls were examined by employees and managers of subsidiaries in Bezeq Group who are not involved in the incidents that are the subject of the examination, as well as by independent parties who have relevant professional skills, including various external professional consultants.
    - Bezeq International’s Management performed Changes in the organizational structure of the Finance Division.
    - Bezeq International conducted dedicated refresher training on the subject of the Code of Ethics for employees who take part in the preparation of financial statements, and in particular for employees of the Finance Division. Bezeq International will continue to conduct periodic refresher training as aforesaid.
    - Bezeq International has formulated a professional training program for employees of the Finance Division.
    - Bezeq International has worked to improve the communication of its anonymous reporting mechanism.

2. <u>Processes:</u>
    - The work processes at Bezeq International in which the deficiencies were identified were mapped.

- Bezeq International updated the work processes in which the deficiencies were identified, strengthened and expanded existing controls, and designed new controls. Among other things, the following issues were examined and addressed in the process of preparing and closing the reports: expenses payable, deferred expenses, advances to vendors, related party adjustments, analyzes and material financial ratios, adjustments between the general ledger and reference ledgers.
- Bezeq International has developed new system reports and has made developments in existing reports in order to support the updated work processes.
- General accounting cards at Bezeq International were canceled and, at the same time, dedicated accounting cards were opened. In addition, Bezeq International provided an accounting index and accounting cards.
- Bezeq International updated the main working methods of Bezeq's accounting system on issues in which deficiencies were found.

It should be noted that Bezeq International will continue to strengthen its internal control, *inter alia*, by improving the automation of work procedures in which deficiencies have been identified, as well as performing actions in accordance with the recommendations of the External Examiner. Improving the automation of work procedures will be carried out as part of a multi-year plan, part of which is accompanied by external professional consultants. These actions do not change the assessment that as of the date of the internal control report, it is effective.

****

Regarding investigations by the Israel Securities Authority and the Israel Police regarding Bezeq, as detailed in section 1.1.7 of the chapter describing the Corporation's business in the periodic report for 2020, the Corporation does not have complete information regarding these investigations, their content, and the materials and evidence in the possession of the authorities in the matter (although in January 2021, Bezeq received the core of the investigation material in connection with the 4000 Case, following Bezeq's summons to a hearing on this matter). Accordingly, the Corporation is still unable to assess the effects of the investigations, their findings and their results on Bezeq and the Corporation as well as the financial statements and estimates used in the preparation of these reports, if any. Upon removal of the impediment to conducting examinations and controls related to issues that arose in the course of the investigations, the examinations will be completed as necessary with regard to matters that arose in the framework of those investigations.

(1) Executive statements:

a) Statement of CEO under Regulation 38g(d)(1) of the regulations Securities (Periodic and Immediate Reports), 5730-1970:

I, Tomer Raved, declare as follows:

(1) I examined the quarterly report of B Communications Ltd. (hereinafter - the Corporation) for the first quarter of 2021 (hereinafter - "the Reports");

(2) To the best of my knowledge, the statements do not include any misrepresentation of a material fact and do not lack a representation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, are not misleading with respect to the reporting period;

(3) To the best of my knowledge, the financial statements and other financial information contained in the Reports adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate;

(4) I disclosed to the Corporation's Auditor, to the Board of Directors and to the audit committees and the committees for the examination of the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabilities in the determination or exercise of internal control over financial reporting and disclosure that are likely to adversely affect a Corporation's ability to collect, process, compile or report financial information in a manner that casts doubt on the financial reporting reliability and the lawful preparation of the financial statements; also-

(B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or together with others in the Corporation:

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5760-2010, is brought to my attention by others in the Corporation and in the subsidiaries, in particular during the period of preparation of the Reports;

(B) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(C) Have evaluated the effectiveness of the internal control over the financial reporting and disclosure, and have presented in this report the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control as stated as of the date of the Reports.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

Date: May 26, 2021

Tomer Raved, CEO

b) Statement of the most senior financial officer pursuant to Regulation 38C(d)(2) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

I, Itzik Tadmor, declare that:

(1) I examined the quarterly report of B Communications Ltd. (hereinafter - the Corporation) for the first quarter of 2021 (hereinafter - "the Reports");

(2) To the best of my knowledge, the statements do not include any misrepresentation of a material fact and do not lack a representation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, are not misleading with respect to the reporting period;

(3) To the best of my knowledge, the financial statements and other financial information contained in the Reports adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate;

(4) I disclosed to the Corporation's Auditor, to the Board of Directors and to the audit committees and the committees for the examination of the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabilities in the determination or exercise of internal control over financial reporting and disclosure that are likely to adversely affect a Corporation's ability to collect, process, compile or report financial information in a manner that casts doubt on the financial reporting reliability and the lawful preparation of the financial statements; also-

(B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or together with others in the Corporation:

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5760-2010, is brought to my attention by others in the Corporation and in the subsidiaries, in particular during the period of preparation of the Reports;

(B) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(C) Have evaluated the effectiveness of the internal control over the financial reporting and disclosure, and have presented in this report the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control as stated as of the date of the Reports.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

Date: May 26, 2021

____

Itzik Tadmor, CFO