B Communications Ltd.

Q2 2021 – Quarterly Report

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

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Update to Chapter 1 (description of the corporation's business)[1]
Of the periodic report for 2020 (the "Periodic Report")
Of B. Communications Ltd. (the "Company")

1. **Updates in the Company**

On July 7, 2021, the process of recycling public debt was completed through an issue and listing for trading according to a shelf offer report, of the debentures (Series F) and made full early redemption, at the Company's initiative, of the balance of the debentures (Series IV and E) of the Company, as well as partial early redemption of the debentures (Series C). For further details, see Immediate reports from July 7, 2021 and July 8, 2021 (reference numbers: 2021-01-049903, 2021-01-050251 and 2021-01-050854, respectively).

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 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 splitting 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 authorized to negotiate with the employees' committees and the relevant representative organizations for the purpose of signing new collective agreements. It should be noted that as of the date of publication of the report, a labor dispute has been declared regarding the Structural Change Plan and is in legal proceedings in the Regional Labor Court (see update to section 4.8).

Following the application submitted by Bezeq International and DBS on April 25, 2021 to the Ministry of Communications, the Minister of Communications' approval for the transfer of Bezeq International's unified general license to DBS was granted on July 19, 2021, as part of Bezeq International's full and statutory merger with DBS, an approval that is required for the implementation of the Structural Change Plan. The approval also stipulates that Bezeq's license will be amended in such a way that the structural separation provisions will also apply to the new company to which Bezeq International's integration activities will be transferred. In view of the receipt of the approval, Bezeq International and DBS intend to continue to implement the Structural Change Plan, subject to the completion of a number of processes, including discussions with Bezeq International and DBS employee representatives and the Court's approval to reduce capital for the purpose of distributing a dividend in kind from Bezeq International to Bezeq, which is required to complete the transfer of Bezeq International's integration activities to the new company. It should be noted that on April 18, 2021, Bezeq submitted to the Tax Authority an application 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.

Subsequently, on August 11, 2020, Bezeq's Board of Directors approved, following the approval of Bezeq International's Board of Directors from the same day, to act to spin off Bezeq International's integration activities into a separate corporation to be established and wholly owned by Bezeq and to which the activity will be transferred ("**the Transferred Activity**"), all as part of the structural change plan. The spin-off of the Transferred Activity will be done in accordance with the provisions of Article 105 (a) (1) of the Income Tax Ordinance [New Version], and subject to an appropriate taxation decision from the Tax Authority, including and in particular regarding the continued application of the taxation decision of September 15, 2016 in connection with the merger of DBS with and into Bezeq (see Bezeq's immediate report dated September 18, 2016, reference number 2016-01-124486), and subject to the completion of the structural change, which includes the completion of a full and statutory merger of Bezeq International with and into DBS with and immediately after the completion of the spin-off process in respect of the Transferred Activity. The spin-off of the Transferred Activity will be carried out as a distribution of dividend in kind in Bezeq, in accordance with the balance sheet value of the Transferred Activity, when the amount of the distribution in kind as of June 30, 2021 is approximately NIS 92 million based on Bezeq International's financial statements as of June 30, 2021. This amount may be updated up to the date of the actual distribution ("**Distribution of Dividend in Kind**").

Note that immediately upon the Distribution of Dividend in Kind, and as a condition for it, Bezeq International will merge with and into DBS, Bezeq International's Board of Directors will examine the repayment capacity of DBS, as it will be after the merger, including on the basis of an economic opinion submitted thereto, and found that the Distribution of Dividend in Kind meets the repayment ability test set forth in the law, subject, *inter alia*, to Bezeq providing a credit facility or capital to the merged Bezeq in the total amount of up to NIS 254 million ("**Credit Facility**") for withdrawal until the end of 202, when the credit facility is repaid after this date in accordance with DBS' repayment ability. Following the decision of Bezeq International's Board of Directors, Bezeq's Board approved the provision of the Credit Facility, in accordance with its terms, which will take effect upon completion of the structural change plan, and upon its completion. It was further approved in said decisions

[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.

to submit a motion for approval of a capital reduction to the competent court, noting that the Distribution of Dividend in Kind as aforesaid does not meet the profit test prescribed by law.

At the same time, the management of Pelephone and Bezeq International will continue negotiations with the employees' representatives to regulate labor relations in a new collective agreement.

Bezeq and its subsidiaries are unable to assess, at this stage, whether all the conditions required for the implementation of the structural change plan will be met, and on which date will they be met, insofar as they are met, and accordingly there is no certainty that the structural change plan will materialize, in the manner described above or at all.

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.

Section 1.5.4 - Principles of results and operating data

a. Bezeq Fixed Lines (Bezeq activity as NIO)

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q1 2021
Revenue (NIS millions)	1,039	1,054	1,055	1,042	1,044	1,018
Operating profit (NIS millions)	407	593	356	446	464	439
Depreciation and amortization (NIS millions)	231	223	225	222	218	212
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	638	816	581	668	682	651
Net profit (NIS millions)	238	400	216	300	229	295
Cash flow from current operations (NIS millions)	354	510	600	561	334	611
Payments for investments in property, plant and equipment and intangible assets and other investments (NIS millions)	285	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	24	29	27	26	26	32
Free cash flow (NIS millions) (2)	45	351	455	264	126	386
Number of active subscriber lines at the end of the period (thousands) (3)	1,615	1,630	1,639	1,653	1,675	1,693
Average monthly revenue per telephony line (NIS) (ARPL) (4)	47	49	50	51	51	48
Outgoing usage minutes (millions)	813	965	1,004	1,019	1,079	883
Incoming usage minutes (millions)	1,094	1,284	1,326	1,368	1,293	1,120
Total number of Internet lines at the end of the period (thousands) (7)	1,529	1,540	1,556	1,565	1,571	1,566
Of these, number of Internet lines at the end of the period - wholesale (thousands) (7)	520	539	557	570	580	584
Of these, number of Internet lines at the end of the period - in retail (thousands) (7)	1,009	1,001	999	995	991	982
Average monthly revenue per Internet subscriber (NIS) - retail (ARPU)(8)	106	103	102	100	98	98
Average Internet subscriber plan rate – retail (MS) (5)	87.8	77.7	74.2	71.6	70.4	69.1
Telephony subscribers churn rate (6)	2.6%	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 June 30, 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	Q1 2021
Revenue from services (NIS millions)	409	392	396	396	394	405
Revenue from the sale of end equipment (NIS millions)	167	178	137	149	141	168
Total revenue (NIS millions)	576	570	533	545	535	573
Operating profit (loss) (NIS millions)	15	(3)	(36)	(27)	(8)	(13)
Depreciation and amortization (NIS millions)	144	142	151	147	151	150
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	159	139	115	120	143	137
Net profit (loss) (NIS million)	20	8	(12)	(12)	1	(2)
Cash flow from current operations (NIS millions)	149	72	241	143	149	164
Payments for investments in Property, plant and equipment, intangible assets and other investments, net (NIS millions)	60	71	80	100	73	65
Lease payments	53	60	48	67	48	67
Free cash flow (NIS millions) (1)	36	(59)	113	(24)	28	32
Number of postpaid subscriptions for the end of the period (thousands) (2)	2,050	2,030	2,004	1,976	1,948	1,928
Number of prepaid subscribers for the end of the period (thousands) (2)	471	462	438	420	417	428
Number of subscribers at the end of the period (thousands) (2)	2,521	2,492	2,442	2,396	2,365	2,356
Average monthly revenue per subscriber (NIS) (ARPU) (3)	54	53	55	56	56	58
Subscriber churn rate (4)	5.8%	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	Q1 2021
Revenue (NIS millions)	310	312	325	315	314	317
Operating profit (loss) (NIS millions)	16	(8)	(22)	(275)	27	29
Depreciation and amortization (NIS millions)	46	49	26	42	38	43
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	62	41	4	(233)	65	72
Net profit (loss) (NIS millions)	11	(8)	(13)	(305)	21	22
Cash flow from current operations (NIS millions)	26	61	75	47	48	60
Payments for investments in property, plant and equipment and intangible assets and other investments, net (NIS millions) (2)	27	30	21	28	33	34
Lease payments	9	8	7	7	8	8
Free cash flow (NIS millions) (1)	(10)	23	47	12	7	18
Subscriber churn rate (3)	6.0%	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 2021	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Revenue (NIS millions)	315	315	317	313	319	338
Operating profit (loss) (NIS millions)	22	(6)	(11)	18	23	9
Depreciation, amortization and ongoing impairment (NIS millions)	45	61	59	50	50	44
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (NIS millions) (1)	67	55	48	68	73	53
Net profit (loss) (NIS million)	18	0	(24)	16	18	14
Cash flow from current operations (NIS millions)	56	62	14	69	39	41
Payments for investments in property, plant and equipment, intangible assets and other investments, net (NIS millions)	42	43	26	38	40	37
Lease payments	7	6	6	6	7	7
Free cash flow (NIS millions) (1)	7	13	(18)	25	(8)	(3)
Number of subscribers (at the end of the period, thousands) (2)	560	559	557	556	557	556
Average monthly revenue per subscriber (ARPU) (NIS) (3)	186	187	186	187	190	195
Subscriber churn rate (4)	3.7%	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 33% 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 joint 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 examining the update of the structural separation obligations in the Bezeq and Hot groups, it is not ripe to approve a joint basket of services as requested by Bezeq.

Section 1.7.2.2 - Regarding a hearing on the examination of the separation between broadband infrastructure service and Internet access service (ISP) - On June 20, 2021, Bezeq passed a decision by the Minister of Communications at a hearing to abolish the separation between private customers between broadband infrastructure service and Internet access service (ISP), in an outline whose main points are as follows:

- By August 20, 2021, the companies with infrastructure committed to providing wholesale access service (Bezeq and Hot Telecom), an agreement regulating major performance indices (KPI) and agreed compensation arrangements with an access seeker with an ISP license with at least 10,000 active customers in the wholesale market as of the date of decision.

- By September 20, 2021, the Ministry will announce one of the 3 alternatives: (1) approval of the agreement submitted; (2) approval of the agreement submitted subject to changes to be published by the Ministry; (3) Insofar as no agreement is submitted - the terms of a binding agreement. The agreement will become part of the "shelf offer" of the infrastructure owner and will apply in relation to anyone seeking access. If the infrastructure owner has more than one agreement - the option will be offered to all applicants for access to be included under one of the agreements without discrimination.

- Between September 20, 2021 and December 20, 2021, a "calibration period" will apply, during which the infrastructure companies and applicants for access to the office will submit the main performance indicators every month. The Ministry will be able to extend the calibration period by another 3 months. At the end of the calibration period, a "preparation period" of 3 months will apply, during which the agreed compensation mechanism will also operate.

- At the end of the preparation period, i.e., on March 20, 2022 (unless one of the periods is extended), the restriction on infrastructure providers to offer Internet access service to private customers will be lifted (“the Effective Date"). Only customers who receive service on the Effective Date in a split / semi-split configuration who wish to continue consuming the Internet services will be allowed to continue to do so.

Until the beginning of the preparation period, the licenses of the infrastructure owners will be amended and it will be determined that they will be allowed to provide an "Internet" service as a unified service to private customers starting from the Effective Date. The amendments to the license will be subject to a hearing regarding the compatibility between the proposed amendments and this decision and the hearing will be limited to claims in this matter only. In addition, until the beginning of the deployment period, the Ministry will establish provisions that will apply to service providers that have been allowed to provide ISP service in order to reflect the delivery of an Internet service that includes broadband infrastructure components to private consumers.

Bezeq estimates that the implementation of the move according to which Bezeq will be able to offer a unified Internet service from end to end is expected to have a positive effect on its business. As far as Bezeq International is concerned, the move is expected to harm its results. The total impact on the Group in the coming years is expected to be positive.

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

Section 1.7.4.4 - Response times at the call centers - On June 30, 2021, the licenses of Bezeq, Pelephone, Bezeq International and the licenses of other telecommunications operators were amended. The amendment stipulates that the call center for handling subscriber inquiries regarding the licensee's services (which are not inquiries regarding a malfunction in receiving Bezeq services and the loss of cellular equipment) will be staffed for 45 hours a week. It is also stipulated that the licensee shall operate a digital means of communication such as text message or chat, in order to receive inquiries regarding the licensee's services, which are not inquiries regarding malfunctions and loss of cellular end equipment. This amendment does not apply to 24/7 call centers (fault repair call centers etc.) that their activity continues unchanged. On July 22, 2021, the Cable and Satellite Broadcasting Council published a hearing on response times at call centers with similar characteristics to the amendment described above also with respect to DBS.

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 June 30, 2021.

3. **Bezeq - Stationary domestic 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 621k customers (approximately 61.5% 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 313k 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 835k households throughout Israel (of this volume, about 718k households are currently available for commercial connection).

Section 2.7.4 - Realization of real estate

Subsection 2.7.4.4 regarding the property in Sakia and a demand for payment of a permit fee in the amount of NIS 148 million plus VAT from the Israel Land Authority in respect of the property improvement plan, and a demand for payment of an improvement levy in the amount of NIS 143.5 million from the Or Yehuda local planning and construction committee for the realization of the property by way of sale - On June 27, 2021, Bezeq filed a lawsuit in the Tel Aviv District Court against the Israel Land Authority for the full refund of the permit fee and improvement levy in the total amount of NIS 217 million and for declaratory relief under which the Israel Land Authority will pay Bezeq any amount that will be forfeited, insofar as any is forfeited, from the bank guarantee in the amount of NIS 75 million provided by Bezeq to the Or Yehuda Local Planning and Construction Committee to secure the balance of the improvement levy.

As part of the lawsuit, Bezeq claimed that it was not liable to pay the permit fee and improvement levy because in accordance with the provisions of the settlement agreement signed between Bezeq and the Israel Land Authority and the State of Israel, it was entitled to receive the lease contract relating to the property in Sakia when it is improved in accordance with the plan and without payment of a permit fee to the Israel Land Authority, and that the liability to pay an improvement levy in respect of the plan applies in accordance with the provisions of the Israel Land Authority.

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.

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.

Regarding the plan for capital remuneration - see Note 14 to the statements for the period ended June 30, 2021.

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, as well as Section 3 of the Board of Directors' Report.

Section 2.16 - Restrictions and supervision of Bezeq operations

Section 2.16.1 - Supervision of Bezeq tariffs

Subsection 2.16.1.2 - Regarding rates set forth in the regulations - on June 1, 2021 a temporary order was published according to which the rates will not be updated on June 1, 2021, and the details in the formula have been updated to the date of the next update that will apply on June 1, 2022.

Subsection 2.16.1.6. - Regarding a hearing on the determination of maximum rates for Bezeq's retail telephony services - Following the submission of Bezeq's written reference to the hearing, on July 11, 2021 and August 5, 2021, an oral hearing was also held on the matter.

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

To paragraph 2.16.12.1 - Amendment to the Communications Law to regulate the deployment of "advanced network" -

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), and on May 31, 2021, Bezeq submitted to the Ministry of Communications the list of statistical areas where it chose to deploy as aforesaid.

On June 15, 2021, following a hearing on April 13, 2021, Bezeq received an amendment to the Bezeq license regarding the determination of advanced network deployment obligations (the "**Amendment to the License**"). The Amendment to the License includes changes to the existing provisions in the license in aspects in which there is a distinction between Bezeq's traditional network and its advanced network, and the addition of an appendix that includes Bezeq's advanced network deployment obligation, which also includes the list of statistical areas chosen for deployment by Bezeq, as well as milestones to the completion of the advanced network deployment as follows:

A. Completion of deployment in buildings in which the cumulative rate of households is 60% of the total number of households In the service area (all statistical areas chosen by Bezeq) - no later than the end of two years from the Effective Date (March 14, 2021);

B. Completion of deployment in buildings in which the cumulative rate of households is 80% of the total number of households In the service area - no later than the end of three years from the Effective Date;

C. Completion of deployment in buildings in which the cumulative rate of households is 95% of the total number of households In the service area - no later than the end of five years from the Effective Date;

D. Completion of deployment in all buildings in the service area no later than the end of six years from the Effective Date.

Following this, the Ministry of Communications also issued a "public appeal for the principles of a tender that encourages the deployment of advanced fixed-line communications networks".

Section 2.16.12.3 - Deployment in new residential buildings - On June 8, 2021, the said amendment to the Planning and Building Regulations regarding the installation of communications infrastructure in new buildings was published. The correction includes the possibility of a licensing authority exempting from the obligation to install communication facilities (except in the case of a socket for telephony services) if it is convinced that most apartment owners will not use the communication facilities.

Section 2.17.3 - Material agreements - employment agreements

Regarding Bezeq's agreement with Menora to regulate pension payments in respect of early retirement of Bezeq employees as well as the differences in old-age pension and survivors' payments to employees retiring from Bezeq - in July 2021, the agreement period was extended until the end of 2024.

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.

Section E - Regarding a motion for approval of a class action lawsuit regarding Bezeq's antivirus service - On May 26, 2021, a judgment was rendered confirming a settlement agreement in the proceedings between the parties. The settlement agreement includes compensation for service customers in the amount of NIS 30 million (this amount includes the applicant’s remuneration and fees), as well as benefits for service subscribers at an estimated cost of an additional NIS 5 million. Bezeq’s books already include a full provision for the costs of said a settlement agreement.

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. Subsequently, in May 2021, a new motion for approval of a class action lawsuit was filed in the same matter by another applicant with the Tel Aviv District Court. The new motion alleges that Bezeq misled customers who joined an online business advertising service through the B144 website (“**the Service**”) into thinking that the cost of the service depends on actual usage up to a billing maximum, while in fact Bezeq charged its customers the máximum billing amount even if less was used in practice. Accordingly, the new motion is requested to include in the definition of the group of plaintiffs, in whose name the class action will be conducted, all Bezeq customers and / or subscribers who have registered and joined the service packages of all kinds since Bezeq began marketing the service and charged in excess by it. According to the motion, the amount of the claim is " NIS 8,112 per applicant and any future amount to be formed for all members of the group." The motion does not specify a total claim amount for all members of the group, however, it is noted that for the purpose of determining jurisdiction, the general rate of damage of the "collection differences" type is assessed by the applicant as being within the substantive jurisdiction of the Court.

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 3.4 - Customers

Pelephone markets packages with an increased volume of use that are also adapted to the needs of 5G, and as of the date of publication of the report, Pelephone has over 400k subscribers in packages of this type.

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.

On June 27, 2021, a decision was made by the Ministry of Communications at a hearing according to which the 2G and 3G networks will be closed on December 31, 2025 (or earlier at the request of Pelephone while meeting the conditions determined) as well as setting schedules for discontinuing the import and network connection of devices that do not support new technology.

As stated in section 3.7.1.1 (c) above, Pelephone closed the 2G network several years ago. Pelephone will be prepared in accordance with decision 1 above to close its 3G network, according to the schedules set out in the decision.

Section 3.8.2 - Right of use of frequencies

Subsection 3.8.2.3 regarding the replacement of frequencies in the range of the first giga - on June 27, 2021, a decision was made by the Ministry of Communications regarding an extension of the allocation of frequencies in the range of 850 MHz and 2100 MHz available in Pelephone, until December 31, 2030 (It is clarified that the extension of the 850 MHz frequency as aforesaid is made subject to the description contained in the aforesaid section 3.8.2.3, regarding the replacement of frequencies in the first giga range).

Section 3.9.5 - Labor disputes

Regarding an announcement dated June 23, 2021 on behalf of the New Histadrut - the Internet and High-Tech Cellular Workers' Union on the declaration of a labor dispute, among other things, regarding the refusal of the joint management of Pelephone, Bezeq International and DBS to negotiate on various matters. See update to section 4.8. On August 2, 2021, the employees' representations at Pelephone and Bezeq International began initiating a variety of organizational sanctions, which according to the employees' representations have a direct connection to the synergies between Pelephone, Bezeq International and DBS, and they may also be extended to the disabling of joint activities. Pelephone is examining the scope and significance of the sanctions and the continuation of its treatment of the issue.

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 4.8 - Human capital

Regarding the declaration of a labor dispute at Bezeq International Ltd. following the intention to make organizational and structural changes at Bezeq International ("**the Structural Change**") - On June 10, 2021, Bezeq International wsa serviced a motion as a party to a collective dispute and an urgent request for temporary relief with the Tel Aviv Regional Labor Court filed by the New General Histadrut - the Internet and High-Tech Cellular Workers' Union and the Bezeq International Emlpoyees' Committee ("**the Motion**"). It is alleged in the Motion that Bezeq International unlawfully refuses to provide the employees' representatives with material documents related to the structural change requested thereby for the purpose of conducting the collective negotiations, thereby violating the duties of consultation and disclosure in negotiations. The Histadrut and the Employees' Committee requested the Court to oblige Bezeq International to provide the employees' representatives with documents and that after the hearing, the Court will accept the motion as a party and issue a permanent injunction instructing Bezeq International to refrain from taking unilateral measures prior to consultations and negotiations, and a permanent order to hold consultations and negotiations with the employees' representatives regarding the structural change. In a hearing held in the Court on June 13, 2021 it was agreed that an external party would be appointed to examine some of the requested documents, and decide whether they contain information relevant to collective labor relations or consultation duties. On July 11, 2021, the opinion of the external party was received, according to which the documents do not contain information relevant to the collective labor relations system or to the obligation to consult. In view of the Histadrut's appeal to the Bezeq International Employees' Committee for the opinion of the external party, it was agreed at a hearing held in the court on July 27, 2021 that the documents will be submitted to the Court for review and decisión on the question, and on August 8, 2021, the Court rejected the motion to transfer the documents to the employees' representative after determining that the documents are not relevant to the consultation obligation and that a structural or functional change, by its very nature, is a matter for the employer and does not require the consent of the employees' representatives.

On June 23, 2021, the Bezeq International offices received a notice from the New General Histadrut - the Internet and High-Tech Cellular Workers' Union declaring a labor dispute in Bezeq International and Pelephone in accordance with the Labor Disputes Resolution Law, 5717-1957 and a strike starting from July 7, 2021 onwards. The matters in dispute, according to what is stated in the notice, include: the refusal of the joint management of Pelephone, Bezeq International and DBS ("**the Joint Management**") to conduct negotiations regarding the change in the bargaining unit, in connection with the change in the corporate structure; The refusal of the Joint Management to enter into negotiations to regulate the rights of Bezeq International's employees and their job security due to the said change in corporate structure, and an action in bad faith on the part of the Joint Management including the involvement of foreign and improper considerations in the corporate and structural change plan. 2021 Bezeq International filed a motion as a party to a collective dispute with the Tel Aviv Regional Labor Court, as well as an urgent motion for remedies for the prevention of organizational measures, regarding the notice. The motion states that the notice is invalid because it was submitted in a combined and unified manner in Bezeq International and Pelephone, in a motion to prevent actions for unilateral and unanimous change of collective bargaining units and the establishment of a joint employees' committee known as the "Alpha Committee" for the subsidiaries, including DBS. At a hearing held on July 4, 2021, it was agreed that (1) Pelephone and DBS, which were formal respondents in the proceeding, will be attached as petitioners in the proceeding; (2) Each of Bezeq International and Pelephone will negotiate with its employees' committee regarding the sale of control of the Company; Pending another decision, the respondents (the General Histadrut and the employees' committees at Pelephone and Bezeq International) will not strike in respect of the dispute over the sale of control. Regarding the bargaining unit, it was determined that the Court will render a decision, after submitting all the responses and providing an opportunity to investigate the declarants.

On July 7, 2021, the Court's decision was made to unite the hearing in the two disputes (the sale of control and the bargaining unit). In a hearing held in the Court on July 27, 2021, it was agreed that Bezeq International would withdraw its motion for temporary relief, and that negotiations between the parties would continue under the limited auspices of the Court. Clarification of the main procedure will continue and the applicants are expected to submit a reply to the response of the employees' representatives..

On August 2, 2021, the employee representations of Pelephone and Bezeq International began initiating a variety of organizational sanctions which, according to the employee representatives' notice, have a direct connection to the synergies between Pelephone Bezeq International and DBS, and they may also be extended to the disabling of joint activities. Bezeq International is examining the scope and significance of the sanctions and the continuation of its treatment of the issue

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.

Section 4.11.5 - Key Regulatory Developments

Section 4.11.5.4 regarding the publication of a hearing to examine the separation between the broadband infrastructure service and the Internet access service (ISP) - Regarding the decision of the Ministry of Communications at the hearing dated June 20, 2021, see the update to section 1.7.2.2.

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

Section 5.1.2 - Restrictions, legislation and special constraints in the field of activity

Regarding the appointment of the Committee for the Examination of the Super-Regulation in the Field of Broadcasting (“**the Committee**") - on July 27, 2021, the report of the Committee's recommendations was published on the Ministry of Communications' website. The Committee's report includes, among other things, recommendations on the following issues:

- Abolition of the Cable and Satellite Broadcasting Council and the Second Authority Council, and the establishment of the Commercial Broadcasting Authority in their place.

- Applying regulation to all audiovisual content providers (whose main activity is the transfer of content to subscribers), including the various OTT providers. In relation to local content providers - applying regulation in accordance with the ranking to be determined according to the scope of their activity, on the basis of their total annual revenue. In relation to international content providers - application of limited and partially voluntary regulation.

- Determining provisions regarding the promotion of original productions of the elite genre only and determining a tiered investment duty that will apply to the various content providers, while reducing the existing provisions in relation to the obligation to invest in original productions.

- Determining provisions regarding the prohibition of exclusivity in the field of sports broadcasts that will apply to all local content providers, and additional provisions regarding the broadcasting and purchase of sports content.

- A mechanism for determining provisions regarding consumerism in the field of broadcasting, as well as recommendations regarding the cancellation of basic packages in cable and satellite.

According to the Committee's report, there are issues on which the Committee has not reached a final conclusion, including the issue of the economic models of the broadcasting market (for which the Committee recommends gradually abolishing the existing separations and restrictions, including the obligation to transmit the commercial channels for free, the obligation to allocate channels, and the prohibition of broadcasting advertisements on the traditional platforms of DBS, while offering two outlines for the implementation of this recommendation) as well as the possibility of multi-channel platforms to hold news entities. Therefore, the Committee requested, among other things, to receive a reference to the recommendations for further examination by the Ministry of Communications together with other relevant parties, by September 30, 2021.

The Committee's recommendations require the approval of the Minister of Communications and various procedures for the purpose of their implementation (including legislation) and their application. Bezeq and DBS are studying the Committee's report, and at this stage they cannot assess the impact of the report on the DBS business, *inter alia*, in view of the dependence on the manner in which the recommendations are adopted and how they are implemented, insofar as they are, and since, as stated, no final recommendations have been given regarding some of the issues.

Section 5.11.3 - Benefits and nature of employment agreements

Regarding the notice from June 2021 on behalf of the New General Histadrut - the Internet and High-Tech Cellular Workers' Union declaring a labor dispute, among other things, regarding the refusal of the Joint Management of Pelephone, Bezeq International and DBS to negotiate various matters, which was also received at the offBS, and a legal proceeding initiated by Bezeq International in July 2021 following the announcement, which is being conducted in the Tel Aviv Regional Labor Court - see update to section 4.8.

Section 5.13 - Financing

In August 2021, Bezeq approved a credit facility or investment in DBS’ capital in a total amount of up to NIS 70 million, for a period of 15 months starting from July 1, 2021. This approval replaces a similar approval given in May 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 5.16 - Material agreements

In July 2021, an amendment was signed to the contract agreement between DBS and Space in connection with the space segments leased by DBS from space ("**the Amendment to the Space Agreement**" and "**the Agreement**", respectively). According to the Amendment to the Agreement, among other things, the lease period for the space segments on Amos 7 satellite has been extended until February 2024, with DBS being allowed to extend it for another six months. The Amendment to the Space Agreement extends the period during which, according to the Agreement, space segments on two satellites will be leased to DBS until 2024, so that in the event of unavailability of one of the satellites, DBS will have backup, under the terms set out in the Agreement, on the other satellite. The engagement in the Amendment to the Space Agreement does not involve a material additional cost in relation to the Group. The entry into force of the Amendment to the Space Agreement was conditional on receipt of a space notice regarding the fulfillment of the conditions precedent set forth in the Agreement signed between Space and the rights holder on Amos 7. On July 27, 2021, Space announced that the aforementioned conditions were met, and in accordance with the entry into force of the Amendment to the Agreement.

Section 5.17.1 - Pending legal proceedings

In June 2021, a lawsuit was filed against DBS together with a motion for approval as a class action with the Central District Court. According to the motion, among other things, DBS' customers who order a paid channel near the closing date of the invoice, and cancel it shortly thereafter (so that they are supposed to pay at a daily rate), are allegedly overcharged, due to a system malfunction. The definition of the group according to the motion is all DBS customers who were overcharged for ordering a paid channel as a result of a fault that exists in the DBS system, during the 7 years prior to the filing of the motion for approval and until its approval. The amount of the personal damage claimed is NIS 126.9 (26.9 NIS for overcharging and NIS 100 for non-pecuniary damage). Please note that at this stage the applicant does not have the data required to assess the damage to the group members, however, this damage was estimated in the motion at more than NIS 2.5 million.

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).

Section 5.19.3 - Special risks for DBS

Section 5.19.3.4 - Failure, damage, unavailability or termination of satellite services - the Amendment to the Space Agreement, as stated in the update to section 5.16, extends the period during which, according to the Agreement, space segments on two satellites will be leased to DBS until 2024, so that in the event of unavailability of one of the satellites, DBS will have backup, under the conditions set out in the Agreement, on the other satellite.

Section 5.19.3.8 - Risk of failure in DBS' computer systems

In June 2021, DBS completed the expansion of the functional capabilities of the DBS remote backup site, so that in the event of a failure of the computer systems at DBS site in Kfar Saba, it will be possible to reactivate the main systems through the backup site.

________________	________________________________
Date	B. Communications Ltd.

The names of the signatories and their functions:
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 June 30, 2021

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended June 30, 2021

General

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 a period of six months ended June 30, 2021 (hereinafter: "half") and for a period of three months ending on the same date (hereinafter: "quarter").

The report of the Board of Directors includes a review, in a limited format, of the matters in which it deals and has been prepared, taking into account 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 police, see Note 1.3 in the financial statements. The auditors drew attention to this in their opinion on the financial statements.

For the effects of the COVID-19 crisis, see Section 1.4 below

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

1. **Landline interior communication**
2. **Cellular communication**
3. **Internet, international communications and network endpoint services**
4. **Multi-channel TV**

Group results

The following are the Group's results for the reporting period:

	1-6 / 2021	1-6 / 2020	Change		4-6 / 2021	4-6 / 2020	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Net profit	646	538	108	20.07	265	236	29	12.28
EBITDA *	1,990	1,867	123	6.5	931	959	(28)	(2.9)
Adjusted EBITDA *	1,856	1,845	11	0.5	941	940	1	0.1

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

The increase in net profit in the first half of 2021 was due to an increase in operating profit, mainly due to a capital gain from the sale of a real estate property and, in addition, a decrease in financing expenses in the landline domestic communications segment.

The decrease in EBITDA in the second quarter of 2021 is due to a decrease in operating profit, which was offset by a decrease in financing expenses in the landline interior communications segment.

For more information see Section 1.2.1 below

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

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:

	1-6 / 2021	**1-6 / 2020**	**4-6 / 2021**	**4-6 / 2020**
	NIS millions		**NIS millions**	
Operating profit	**1,049**	966	**466**	504
Net of depreciation, amortization and impairment	**941**	901	**465**	455
EBITDA	**1,990**	1,867	**931**	959
Net of other operating revenue, net	**(150)**	(22)	**2**	(19)
Net of employee options expenses	**16**	-	**8**	-
Adjusted EBITDA	**1,856**	1,845	**941**	940

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

Item	30/6/2021	30/6/2020	Increase / decrease		Explanation
	NIS millions		NIS millions	%	
Cash and current investments	1,858	2,183	(325)	(14.8)	The decrease was due to a decrease in current investment balances in the landline interior communications segment. On the other hand, there is an increase in cash balances in the Group. In BCOM, the decline is due to the payment of accrued interest in respect of the debentures. For more information see Chapter 1.3 below.
Current and non-current trade receivables	2,371	2,494	(123)	(4.9)	The decrease was mainly due to a decrease in credit balances due to the sale of real estate in the landline interior communications segment. The decrease in customer balances in the cellular communications segment was offset by the record of an expected government grant for winning the frequency tender.
Inventory	82	110	(28)	(25.5)	
Assets held for sale	-	46	(46)	(100)	
Broadcasting rights	60	65	(5)	(7.7)	
Right-of-use assets	1,786	1,245	541	43.4	The increase was mainly due to the landline interior communications segment as well as the cellular communications segment due to new lease agreements due to the move to new offices.
Property, plant and equipment	6,267	6,013	254	4.2	The change was due to a landline donestinc communications segment, offset by a decrease mainly in the Internet services segment, the above-mentioned 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	3,180	97	3	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 to the statements.
Deferred tax assets	42	57	(15)	(26.3)	
Deferred expenses and non-current investments	443	539	(96)	(17.9)	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 during 2020, see Note 5.2 to the statements, offset by an increase in the landline interior communications segment due to long-term shekel investment.
Total assets	16,186	15,932	254	1.6	

1.1. Financial postion (Cont.)

Item	30/6/2021	30/6/2020	Increase / decrease		Explanation
	NIS millions		NIS millions	%	
Debt to financial institutions and to bondholders	10,199	11,347	(1,148)	(10.1)	The decrease in debt was due to repayment (including early repayment) of loans and repayment of debentures.
Liabilities in respect of leases	1,909	1,416	493	34.8	The increase was mainly due to the landline interior communications segment as well as the cellular communications segment due to new lease agreements as a result of the move to new offices.
Trade payables	1,574	1,641	(67)	(4)	
Employee benefits	688	830	(142)	(17.1)	The decrease was due to payments for the retirement of employees and streamlining programs in the 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.
Provisions	133	172	(39)	(22.7)	The decrease was due to a decrease in provisions for claims in the landline interior communications segment.
Deferred tax liabilities	298	252	46	18.3	The increase was mainly due to a long-term commitment in the cellular communications segment for winning a frequency tender.
Other liabilities	273	176	97	55.1	
Total liabilities	15,074	15,834	(760)	(4.8)	
Non-controlling interests	1,077	242	835	345	
Deficit in equity attributed to the shareholders of the company	35	(144)	179	-	
Total equity	1,112	98	1,014	1,034.7	
Total liabilties and equity	16,186	15,932	254	1.6	

1.2. The results of operations

1.2.1. The main results

	1-6 / 2021	1-6 / 2020	Increase (decrease)		4-6 / 2021	4-6 / 2020	Increase (decrease)		
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue	4,421	4,342	79	1.8	2,200	2,155	45	2.1	The increase was due to the cellular communications segment and the "others" segment, and in the half also to the landline interior communications segment. The increase was partially offset mainly by a decrease in the revenue from the multi-channel TV segment and the Internet, international communication and network services segment.
Operating and general expenses	1,632	1,565	67	4.3	799	762	37	4.9	The increase was due to all the main segments of the Group, except for a decrease in the TV segment expenses.
Salaries	949	924	25	2.7	468	445	23	5.2	The increase was due to the "others" segment, the landline interior communications segment, and in the quarter also to the cellular communications segment. The increase was offset by a decrease in expenses in the Internet, international communications and network services segment and the multi-channel television segment due to a decrease in the number of jobs.
Impairment loss	-	8	(8)	-	-	8	(8)	-	During the corresponding period, an impairment loss was recorded in respect of the cellular communications segment.
Depreciation, amortization and impairment	941	901	40	4.4	465	455	10	2.2	The increase was due to the landline interior communications segment and the Internet, international communications and network services segment, as well as an increase in the loss from impairment of assets in DBS, see Note 5.1 to the statements. The increase was partially offset by a decrease in the expenses of the cellular communications segment and the landline interior communication segment.
Other operating expenses (reveue), net	(150)	(22)	(128)	-	2	(19)	21	-	The increase in net revenue in the half was due to a landline interior communications segment due to capital gains from the sale of real estate as well as an update of the provision in respect of legal claims, see Note 12 to the statements. The change in the quarter was mainly due to the multi-channel TV segment.
Operating profit	1,049	966	83	8.6	466	504	(38)	(7.5)	
Financing expenses, net	185	246	(61)	(24.7)	110	186	(76)	(40.8)	The decrease was due to a landline interior communications segment, mainly due to an early repayment fee of a loan included in the corresponding quarter (See Note 13 to the statements).
Income taxes	218	182	36	19.8	91	82	9	11	
Profit for the period	646	538	108	20	265	236	29	2.3	

1.2.2. Operating segments

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

	1-6 / 2021		1-6 / 2020		4-6 / 2021		4-6 / 2020	
Revenue by operating segments	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**
Landline interior communication	2,093	47.3	2,062	47.5	1,039	47.2	1,044	48.5
Cellular communication	1,146	26	1,108	25.5	576	26.2	535	24.8
Internet, international communications and network services	622	14	631	14.5	310	14.1	314	14.6
Multi-channel TV	630	14.3	657	15.1	315	14.3	319	14.8
Others and adjustments	(70)	(1.6)	(116(	(2.6)	(40)	(1.8)	(57)	(2.7)
Total revenue	4,421	100	4,342	100	2,200	100	2,155	100

	1-6 / 2021		1-6 / 2020		4-6 / 2021		4-6 / 2020	
Operating profit (loss) by operating segments	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**	**NIS millions**	**% of total revenue**
Landline interior communication	1,000	47.8	903	43.8	407	39.2	464	44.4
Cellular communication	12	1.0	(21)	(1.9)	15	2.6	(8)	(1.5)
Internet, international communications and network endpoint services	8	1.3	56	8.9	16	5.2	27	8.6
Multi-channel TV	(21)	(3.3)	(17)	(2.6)	(3)	(1.0)	(6)	(1.8)
Others and adjustments	50	-	45	-	31	-	27	-
Consolidated operating profit / % of the Group's revenue	1,049	23.7	966	22.3	466	21.2	504	23.4

*** The results of the multi-channel television segment are presented in neutralizing the overall effect of impairment recognized as of the fourth quarter of 2018 (for further information, see Notes 5 and 16 to 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 17.3 regarding a summary of selected data from the DBS' statements.

1.2.3. Operating segments

b. Fixed line communications segment

	1-6 / 2021	1-6 / 2020	Increase (decrease)		4-6 / 2021	4-6 / 2020	Growth (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Internet revenue - infrastructure	801	797	4	0.5	403	402	1	0.2	The increase was mainly due to an increase in average revenue from retail subscriptions, mainly from auxiliary end equipment, an increase in the number of Internet lines in retail and the launch of customer services on the fiber network starting in March 2021. The increase was offset by a decrease in wholesale Internet service rates and a decrease in wholesale Internet lines.
Landline telephony revenue	471	506	(35)	(6.9)	229	258	(29)	(11.2)	The decrease was due to a decrease in the average revenue per telephone line, against the background of a moderation in the effect of the COVID-19 pandemic, as well as a decrease in the number of lines.
Transmission, communication, other data revenue	663	617	46	7.5	331	314	17	5.4	The increase was due, among other things, to an increase in revenues from transmission services to Internet providers and businesses.
Cloud and digital services revenue	158	142	16	11.6	76	70	6	8.6	The increase was mainly due to the services of virtual exchanges and the business directory.
Total revenue	2,093	2,062	31	1.5	1,039	1,044	(5)	(0.5)	
Operating and general expenses	317	282	35	12.4	162	140	22	15.7	The increase was mainly due to the recognition of the expense for the incentive fund as part of the amendment of the Company's license regarding the deployment of the fiber optic network, see Notes 6 and 8.1 to the statements, increase in subcontractor expenses, end equipment costs and building maintenance expenses due to property tax credits in the corresponding quarter.
Salaries	466	453	13	2.9	233	224	9	4.0	The increase was mainly due to the onboarding of employees, recognition of share-based payment expenses in the current half and quarter (see Note 14 to the statements) and an increase in salaries, offsetting employee retirement and an increase in salaries attributed to investment..
Depreciation and amortization	454	430	24	5.6	231	218	13	6.0	
Other operating revenue, net	(144)	(6)	(138)	-	6	(2)	8	-	The increase in net revenue in the half 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	1,000	903	97	10.7	407	464	(57)	(12.3)	
Financing expenses, net	158	212	(54)	(25.5)	90	163	(73)	(44.8)	The decrease in net financing expenses was mainly due to the fact that the corresponding quarter included an early repayment fee for a loan of NIS 51 million as well as financing expenses for employee benefits as a result of a change in the discount interest (which are offset by the corresponding half) (See Note 13 to the statements).
Income taxes	204	167	37	22.2	79	72	7	9.7	
Segment profit	638	524	114	21.8	238	229	9	3.9	

1.2.2 Operating segments (Cont.)

b. Cellular communications segment

	1-6 / 2021	1-6 / 2020	Increase (decrease)		4-6 / 2021	4-6 / 2020	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue from services	801	799	2	0.3	409	394	15	3.8	The increase in the quarter was mainly due to some recovery from the impact of the COVID-19 crisis which was reflected in an increase in roaming revenue and was partially offset by a decrease in revenue from incoming airtime. In addition, there is growth in the number of postpaid subscribers, including subscribers to 5G packages.
Revenue from the sale of end equipment	345	309	36	11.7	167	141	26	18.4	The increase was mainly due to an increase in retail sales due to the launch of the new model iPhone.
Total revenue	1,146	1,108	38	3.4	576	535	41	7.7	
Operating and general expenses	693	671	22	3.3	341	326	15	4.6	The increase was mainly due to an increase in the cost of sales of end equipment in parallel with revenues and the registration of costs of implementing a cloud computing system. The increase in expenses was offset by a decrease in call completion fees in parallel with revenues due to a certain recovery from the impact of the corona crisis and a continued reduction and streamlining of operating expenses.
Salaries	158	160	(2)	(1.3)	79	70	9	12.9	The decrease in half was due to a decrease in the number of jobs, which was offset in full mainly due to workers' expenses for concentrated and concentrated vacations in the corresponding half.
Depreciation and amortization	286	301	(15)	(5)	144	151	(7)	(4.6)	
Other operating expenses, net	(3)	(3)	-	-	(3)	(4)	1	(25.0)	
Operating loss	12	(21)	33	-	15	(8)	23	-	
Financing revenue, net	21	21	-	-	11	11	-	-	
Income taxes	5	1	4	400	6	2	4	200	
Segment profit (loss)	28	(1)	29	-	20	1	19	-	

1.2.2 Operating segments (Cont.)

c. Internet, international communications and network services

	1-6 / 2021	1-6 / 2020	Increase (decrease)		4-6 / 2020	4-6 / 2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue	622	631	(9)	(1.4)	310	314	(4)	(1.3)	The decrease in half was mainly due to a decrease in Internet revenues. The decrease was offset by an increase in revenue from business services and the sale of equipment and licensing to businesses. The decline in the quarter was mainly due to a decrease in Internet revenues. The decline was partially offset by an increase in revenue from business services and international calls.
Operating and general expenses and impairments	402	368	34	9.2	191	187	4	2.1	The increase in half was mainly due to an increase in equipment and licensing expenses for businesses plus an increase in local capacity expenses, partly due to a one-off credit received in the first quarter of 2020 as a result of an update of Internet rates in the wholesale market. The increase in the quarter was due to an increase in business services expenses and international calls, which was partially offset by a decrease in loan-loss.
Salaries	118	126	(8)	(6.3)	58	62	(4)	(6.5)	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	95	81	14	17.3	46	38	8	21.1	The increase was mainly due to an impairment as a result of the assessment of the value in use of the depreciable assets as of June 30, 2021, see Note 5.2 to the statements. The increase was offset by a decrease in current depreciation expenses..
Other operating expenses, net	(1)	-	(1)	-	(1)	-	(1)	-	
Operating profit	8	56	(48)	(85.7)	16	27	(11)	(40.7)	
Financing expenses (revenue), net	1	-	1	-	1	(1)	2	-	
Income taxes	4	13	(9)	(69.2)	4	7	(3)	(42.8)	
Segment profit	3	43	(40)	(93)	11	21	(10)	(47.6)	

1.2.2. Operating segments (Cont.)

d. Multi-channel TV *

	1-6 / 2021	1-6 / 2020	Increase (decrease)		4-6 / 2021	4-6 / 2020	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue	630	657	(27)	(4.1)	315	319	(4)	(1.3)	The decrease was mainly due to a change in the customer mix that led to a decrease in the average revenue per subscriber, and there is a decrease in revenue from the sale of content in the reporting half.
Operating and general expenses	412	434	(22)	(5.0)	199	212	(13)	(6.1)	The decrease was mainly due to a decrease in content consumption expenses, among other things as a result of a change in the method of consuming content acquisition made in 2020.
Salaries	91	98	(7)	(7.1)	44	47	(3)	(6.4)	The decrease was due to a continued decrease in the number of jobs as part of the streamlining plan.
Depreciation and amortization	150	154	(4)	(2.6)	75	78	(3)	(3.8)	
Other operating (revenue), net	(2)	(12)	10	(83.3)	-	(12)	12	(100)	The corresponding quarter included revenue in respect of a settlement agreement with a vendor and a reduction in expenses in respect of an arrangement for the retirement of employees..
Operating loss	(21)	(17)	(4)	23.5	(3)	(6)	3	(50)	
Financing expenses (revenue), net	(3)	(1)	(2)	-	4	4	-	-	The change in half was mainly due to a change in the fair value of financial assets.
Income taxes	1	1	-	-	-	1	(1)	(100)	
Segment loss	(19)	(17)	(2)	11.8	(7)	(11)	4	(36.4)	

*** The results of the multi-channel television segment are presented in neutralizing the overall effect of impairment recognized as of the fourth quarter of 2018 (for further information, see Notes 5 and 16 to 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 17.3 regarding a summary of selected data from the DBS' statements.

1.3. Cash Flow

	1-6 / 2021	1-6 / 2020	Growth (decrease)		4-6 / 2021	4-6 / 2020	Growth (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Net cash flow from current operations	1,289	1,435	(146)	(10.1)	592	558	34	6	The decrease in net cash flow from operating activities was mainly due to an increase in Income Tax paid in the landline interior communications segment and due to changes in working capital. In the cellular communications segment, the increase in the quarter was due to changes in working capital.
Net cash flow used for investing activities	(792)	(1,000)	208	20.8	(501)	(462)	(39)	(8.5)	The increase in net cash flow used for investing activities was mainly due to the landline interior communications segment due to an increase in the purchase of property, plant and equipment in connection with the fiber network deployment project, and there was a net decrease in net repayment of bank deposits and exercise of securities offsetting an increase in return from the sale of property, plant and equipment in the half.
Net cash flow used for financing activities	(463)	(499)	35	7	(357)	(381)	24	6.3	The decrease in the net cash flow used for financing activities was due to a decrease in the repayment of loans, the interest paid and the costs for early repayment, offset by the issuance of debentures included in the corresponding quarter.
Net increase (ecrease) in cash	34	(64)	97	-	(266)	(285)	19	6.6	

<u>Average volume in the reporting half</u>

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approximately NIS 10,234 million.

Credit from vendors: approximately NIS 933 million.

Short-term customer credit: approximately NIS 1,645 million.

Long-term customer credit: approximately NIS 254 million.

<u>Working capital</u>

The surplus in the Group's consolidated working capital as of June 30, 2020 amounted to approximately NIS 503 million, compared with a surplus in working capital of approximately NIS 776 million as of June 30, 2020.

The surplus in the working capital of the Company (according to the "Solo" financial statements) as of June 30, 2021 amounted to approximately NIS 228 million, compared with a surplus in working capital of approximately NIS 242 million as of June 30, 2020.

The surplus in Bezeq's working capital (according to the "Solo" financial statements) as of June 30, 2021 amounted to approximately NIS 258 million, compared with a surplus in working capital of approximately NIS 519 million as of June 30, 2020.

The decrease in the Group's working capital surplus was due to a decrease in current assets, mainly due to a decrease in current investment balances and debtors in respect of the sale of real estate, offsetting a decrease in current liabilities mainly due to repayment of loans (including early repayment) and debentures.

1.4. Disclosure regarding the Company's projected cash flow

The Company's Board of Directors reviewed the Company's consolidated financial statements and separate financial statements (Solo) as of June 30, 2021, including sources for repayment of the Company's liabilities, including the Company's debentures (Series C and F). In addition, the Company's Board of Directors examined the warning signs set forth in Regulation 10 (b) (14) (a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and determined that despite the existence of a continuing negative cash flow from current activities in the separate financial statements (Solo) of the Company, in the opinion of the Company's Board of Directors, after receiving explanations for its opinion from the Company's Management, the continuing negative cash flow from current activities in the Company's separate reports (Solo) does not indicate a liquidity problem in the Company, and the Company has sufficient financial resources to continue its operations and meet its obligations, *inter alia*, taking into account the corporation's cash balances in the solo report.

1.5. Effects 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 financial 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 pandemic’s spread to the aviation and international tourism sectors. Although the spread of the vaccine and the reduction of restrictions on travel abroad have supported a certain recovery in Pelephone's revenues from roaming services in recent months, these have not yet returned to the level of activity that characterized them before COVID-19.

It should be emphasized that this is a changing event which is not under the control of the Group, and therefore the continuation or exacerbation of the crisis, as they occur, may materially adversely affect the Group's results. These effects may be reflected, among other things, in the damage to roaming services revenues, and also in the Group companies' revenues from the business segment, in revenues from the sale of cellular end equipment, employee availability, customer service and technician activity, supply chain, and collection dates and dates. The consequences of the corona plague on the 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 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 landline interior 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 valuations

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

	Bezeq International - Material valuation	**DBS Company - Very material valuation (*)**
Identifying the subject of the valuation	Recoverable amount Bezeq International Ltd. for the purpose of examining the impairment of non-current assets.	Recoverable amount DBS Satellite Services (1998) Ltd. for the purpose of examining the impairment of non- current assets.
Timing of the valuation	June 30, 2021; The valuation was signed on August 5, 2021.	June 30, 2021; The valuation was signed on August 11, 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	NIS 65 million.	Negative total - NIS (72) million.
The value of the subject of the valuation determined in accordance with the assessment	About NIS 37 million.	Negative total - NIS (128) 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 Ernest Young (Israel) Ltd. Hadas 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; And a doctorate with honors from Ben-Gurion University, Beer-Sheva, and is also a certified public accountant in Israel. As part of her role, Prof. Hadas 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 as an advisor and advisor to 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 an economic opinion as an expert witness on behalf of the court. The valuator has no dependence on Bezeq or on 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 asset value (NAV)	Net asset value (NAV)
Assumptions under which the valuator made the valuation	Assumptions regarding the net realization value of Bezeq International's assets.	Assumptions regarding the net exercisable value of DBS assets.

For further information, see Note 5 to the statements.

(*) Despite the negative value of operations of DBS, the Company supports DBS by approving credit facilities or investing in DBS' capital (see Note 4 to the statements). The Company'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. For **subsequent events** see Note 18 in the condensed consolidated interim financial statements.

3. Details related to a series of debentures

3.1. On July 6, 2021, the Company held a tender for the purchase of Series F bonds, in the framework of which approximately NIS 394 million par value was issued to institutional entities and the public for NIS 394 million. Early repayments of its existing debentures for the same date as detailed below. For further details regarding the terms of the Series F debentures, see Note 18.3 to the consolidated financial statements.

3.2. On July 19, 2021, the Company made a full early repayment of the Series D debentures fund (plus accrued interest for the maturity date) and a full early repayment of the Series E debentures fund (plus accrued interest for the maturity date and an early repayment penalty as defined in the Series E debentures). In addition, the Company made a partial early repayment of approximately NIS 226 million in respect of the Series C debentures (plus accrued interest as of the due date).

3.3. Financial terms

In accordance with the Company's commitment in the debentures series C, D and E to meet the LTV condition (the date of the first inspection is according to the financial statements as of December 31, 2021), the LTV ratio as of June 30, 2021 was 64.6%.[1]

3.4. 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.

3.5. On May 12, 2021, S&P Global Ratings Maalot Ltd. confirmed the rating ilAA- / Stable for Bezeq and its debentures.

4 Miscellaneous

For information regarding the state of liabilities of the reporting corporation and the subsidiaries in its statements as of June 30, 2021, see the report to be submitted by the Company on MAGNA on August 12, 2021

Darren Glatt Chairman of the Board of Directors	Tomer Raved CEO

Signature date: August 12, 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 65.5%.

Chapter C

Condensed Consolidated Interim Statements as of June 30, 2021 (Unaudited)

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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 June 30, 2021 and the consolidated statements of income, comprehensive profit, 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 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 action lawsuits. 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

August 12, 2021

Condensed Consolidated Interim Statements as of June 30, 2021 (Unaudited)

Condensed consolidated interim statements as of

		June 30, 2021	June 30, 2020	December 31, 2020
		(unaudited)	(unaudited)	(audited)
Assets	**Note**	**NIS millions**	**NIS millions**	**NIS millions**
Cash and cash equivalents		**928**	749	894
Investments		**930**	1,434	881
Trade receivables		**1,661**	1,698	1,621
Other receivables		**197**	342	180
Inventory		**82**	110	73
Assets held for sale		**-**	46	10
Total current assets		**3,798**	4,379	3,659
Trade receivables		**513**	454	514
Broadcasting rights – net of rights exercised		**60**	65	67
Right-of-use assets		**1,786**	1,245	1,804
Property, plant and equipment	6	**6,267**	6,013	6,131
Intangible assets		**3,277**	3,180	3,268
Deferred expenses and non-current investments		**443**	539	402
Deferred tax assets		**42**	57	108
Total non-current assets		**12,388**	11,553	12,294
Total assets		**16,168**	15,932	15,953

* Including long-term limited deposits.

Condensed Consolidated Interim Statements as of June 30, 2021 (Unaudited)

Condensed consolidated interim statements as of (cont.)

Liabilities and equity	**Note**	**June 30, 2021 (unaudited) NIS millions**	**June 30, 2020 (unaudited) NIS millions**	**December 31, 2020 (audited) NIS millions**
Debentures, loans and credit		**743**	955	785
Current maturities of lease liabilities		**432**	399	415
Trade and other payables		**1,574**	1,641	1,766
Employee benefits		**462**	486	482
Provisions	7	**84**	122	117
Total current liabilities		**3,295**	3,603	3,565
Loans and debentures		**9,456**	10,392	9,485
Lease liabilities		**1,477**	1,017	1,492
Employee benefits		**226**	344	335
Derivatives and other liabilities		**273**	176	307
Provisions		**49**	50	52
Deferred tax liabilities		**298**	252	290
Total non-current liabilities		**11,779**	12,231	11,961
Total liabilities		**15,074**	15,834	15,526
Equity (deficit)	9			
Non-controlling interests		**1,077**	242	534
Attributed to shareholders of the company		**35**	(144)	(107)
Total equity		**1,112**	98	427
Total liabilities and equity		**16,186**	15,932	15,953

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

Date of approval of the statements: August 12, 2021

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

Condensed Consolidated Interim Statements as of June 30, 2021 (Unaudited)

Condensed consolidated interim statements of income

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Revenue (Note 10)	**4,421**	4,342	**2,200**	2,155	8,723
Operating expenses					
Depreciation, amortization and impairment *	**941**	901	**465**	455	1,858
Salaries	**949**	924	**468**	445	1,894
Operating and general expenses (Note 11)	**1,632**	1,565	**799**	762	3,182
Impairment loss	**-**	8	**-**	8	8
Other operating revenue, net (Note 12)	**(150)**	(22)	**2**	(19)	73
Total operating expenses	**3,372**	3,376	**1,734**	1,651	7,015
Operating profit	**1,049**	966	**466**	504	1,708
Financing expenses (revenue)					
Financing expenses	221	274	120	196	525
Financing revenue	(36)	(28)	(10)	(10)	(51)
Financing expenses, net (Note 13)	**185**	246	**110**	186	474
Profit before taxes on income	**864**	720	**356**	318	1,234
Income taxes	**218**	182	**91**	82	334
Net profit for the period	**646**	538	**265**	236	900
Net profit attributed to the company shareholders	**132**	98	**50**	39	157
Net profit attributed to the non-controlling interests	**514**	440	**215**	197	743
Profit per for the period	**646**	538	**265**	236	900
Basic and diluted profit per share	**1.14**	0.86	**0.43**	0.34	1.38

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

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

Condensed Consolidated Interim Statements as of June 30, 2021 (Unaudited)

Condensed consolidated interim statements of comprehensive profit

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021	2020	2021	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Net profit for the period	**646**	538	**265**	236	900
Remeasurement of a defined benefit plan, net of tax (items that will not be reclassified as income)	**-**	11	**-**	(8)	(9)
Additional profit (loss) items including other, net of tax	**23**	(13)	**1**	(2)	(5)
Total comprehensive profit for the period	**669**	536	**266**	226	886
Attributable to:					
Shareholders of the company	**138**	97	**50**	36	154
Non-controlling interests	**531**	439	**216**	190	732
Total comprehensive profit for the period	**669**	536	**266**	226	886

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

Condensed Consolidated Interim Statements as of June 30, 2021 (Unaudited)

Condensed consolidated interim statements of changes in equity (deficit)								
	Share capital	Share Premium	Treasury shares	Other reserves	Balance loss	Equity (deficit) attributed to the company shareholders	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the period of six months ended June 30, 2021 (unaudited)								
Balance as of January 1, 2021	12	1,495	(*)	(39)	(1,575)	(107)	534	427
Profit for the period	**-**	**-**	**-**	**-**	**132**	**132**	**514**	**646**
Other comprehensive profit for the period, net of tax	**-**	**-**	**-**	**6**	**6**	**6**	**17**	**23**
Total comprehensive profit for the period	**-**	**-**	**-**	**6**	**132**	**138**	**531**	**669**
Share-based payment	**-**	**-**	**-**	**4**	**-**	**4**	**12**	**16**
Balance as of June 30, 2021	**12**	**1,443**	(*)	**(29)**	**(1,447)**	**35**	**1,077**	**1,112**
For the period of six months ended June 30, 2021 (unaudited)								
Balance as of January 1, 2021	12	1,495	(*)	(38)	(1,710)	(241)	(197)	(438)
Profit for the period	-	-	-	-	98	98	440	538
Other comprehensive profit for the period, net of tax	-	-	-	(3)	2	(1)	(1)	(2)
Total comprehensive profit for the period	-	-	-	(3)	100	97	439	536
Balance as of June 30, 2020	12	1,495	(*)	(41)	(1,610)	(144)	242	98
For the period of three months ended June 30, 2021 (unaudited)								
Balance as of April 1, 2021	12	1,495	(*)	(31)	(1,493)	(17)	855	838
Profit for the period	**-**	**-**	**-**	**-**	**50**	**50**	**215**	**265**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	*****	**-**	**-**	**1**	**1**
Total comprehensive profit for the period	**-**	**-**	**-**	*****	**50**	**50**	**216**	**266**
Share-based payment	**-**	**-**	**-**	**2**	**-**	**2**	**6**	**8**
Balance as of June 30, 2020	**12**	**1,495**	**(*)**	**(29)**	**(1,443)**	**35**	**1,077**	**1,112**
For the period of three months ended June 30, 2021 (unaudited)								
Balance as of April 1, 2021	12	1,495	(*)	(38)	(1,649)	(180)	52	(128)
Profit for the period	-	-	-	-	39	39	197	236
Other comprehensive profit for the period, net of tax	-	-	-	(3)	-	(3)	(7)	(10)
Total comprehensive profit for the period	-	-	-	(3)	39	36	190	226
Balance as of June 30, 2020	12	1,495	(*)	(41)	(1,610)	(144)	242	98

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 profit for 2020	-	-	-	(1)	155	154	732	886
Balance as of December 31, 2020	12	1,495	(*)	(39)	(1,575)	(107)	534	427

* Represents an amount less than NIS 1 million

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

Condensed Consolidated Interim Statements as of June 30, 2021 (Unaudited)

Condensed consolidated interim statements on cash flows

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021	2020	2021	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from current activities					
Profit for the period	**646**	538	**265**	236	900
Adjustments:					
Depreciation, amortization and impairment loss	**941**	901	**465**	455	1,858
Loss from impairment of assets	**-**	8	**-**	8	8
Capital gain, net	**(127)**	(5)	**(2)**	4	(40)
Financing expenses, net	**192**	264	**110**	168	507
Share-based payment	**16**	-	**8**	-	-
Income Tax expenses	**218**	182	**91**	82	334
Change in trade and other receivables	**(48)**	(46)	**9**	(1)	56
Change in inventory	**(15)**	(20)	**3**	(3)	13
Change in trade and other payables	**(158)**	(125)	**(184)**	(223)	17
Change in provisions	**(32)**	(3)	**(3)**	(3)	(8)
Change in employee benefits	**(130)**	(166)	**(93)**	(78)	(192)
Change in other liabilities	**4**	(7)	**4**	-	(1)
Income Tax paid, net	**(218)**	(86)	**(83)**	(87)	(243)
Net cash derived from current activities	**1,289**	1,435	**592**	558	3,209
Cash flows from investing activities					
Purchase of property, plant and equipment	**(679)**	(482)	**(323)**	(238)	(1,133)
Investment in intangible assets and deferred expenses	**(197)**	(207)	**(95)**	(113)	(366)
Investment transactions, net	**(106)**	(349)	**(87)**	(135)	222
Proceeds from the sale of property, plant and equipment	**184**	28	**1**	19	148
Sale of Walla, net	**-**	-	**-**	-	44
Miscellaneous	**6**	10	**3**	5	18
Net cash used for investing activities	**(792)**	(1,000)	**(501)**	(462)	(1,067)

Condensed Consolidated Interim Statements as of June 30, 2021 (Unaudited)

Condensed consolidated interim statements on cash flows (Cont.)

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (audited) NIS millions
Cash flows from financing activity					
Issuance of debentures and receipt of loans	**-**	718	**-**	718	718
Acquisition of non-controlling interests	**-**	-	**-**	-	(40)
Repayment of debentures and loans	**(103)**	(769)	**(103)**	(769)	(1,828)
Principal and interest payments on leases	**(194)**	(199)	**(92)**	(86)	(391)
Net compensation in respect of the Horev claim	**-**	-	**-**	-	(3)
Interest paid	**(166)**	(198)	**(162)**	(193)	(392)
Costs for early repayment of loans and debentures	**-**	(51)	**-**	(51)	(65)
Payment for expired hedging transactions	**-**	-	**-**	-	(57)
Miscellaneous	**-**	-	**-**	-	(4)
Net cash used for financing activity	**(463)**	(499)	**(357)**	(381)	(2,062)
Net increase (decrease) in cash and cash equivalents	**34**	(64)	**(266)**	(285)	80
Cash and cash equivalents for the beginning of the period	**894**	813	**1,194**	1,034	814
Cash and cash equivalents for the end of the period	**928**	749	**928**	749	894

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

1. General

1.1. The reporting entity

1.1.1. 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 June 30, 2021 include those of the Company and its subsidiaries (hereinafter collectively – "the Group"), (see also Note 16 - Segment reporting).

1.1.2. See Note 4.1 below regarding a plan for structural change in the Group's companies and Note 4.3.1 regarding the Minister of Communications' decision according to which the separation between broadband infrastructure service and Internet access service in relation to private customers will be abolished.

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 operation to vaccinate the population in Israel against the virus that began in early 2021, the first half of 2021 marked a moderation in the effects of the pandemic in Israel.

As of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's activities in 2021 so far have been mainly reflected in the decline in Pelephone's revenue from roaming services, as a result of the pandemic's spread to the aviation and international tourism sectors, without material negative effects on other areas of activity. Although the distribution of the vaccine and the reduction of travel restrictions have supported a certain recovery in Pelephone's revenues from roaming services in recent months, these have not yet returned to the level of activity that characterized them before COVID-19.

It should be emphasized that this is a changing event that is not under the control of the Bezeq Group, and therefore the continuation or exacerbation of the crisis, insofar 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 roaming services revenues, and also in the Bezeq Group's revenues from the business sector, revenues from the sale of end cellular equipment, employee availability, customer service and technician activity, supply chain, and collection dates. 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.

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 in Bezeq 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 payment described in Note 14:

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 Current or Non-current"

The amendment replaces certain classification requirement of liabilities as current or non-current. 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. Amendment to Standard IAS 37 "Provisions, contingent liabilities and contingent assets" in respect of onerous contracts

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. Group entities

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. It should be noted that as of the date of approval of the statements, a labor dispute has been declared regarding the change in the corporate structure and is under legal proceedings with the Regional Labor Court.

Following the application submitted to Bezeq International and DBS on April 25, 2021 by the Ministry of Communications, the Minister of Communications' approval to transfer Bezeq International's unified general license to DBS was granted on July 19, 2021, as part of Bezeq International's full and statutory merger with DBS, an approval required for the implementation of the plan for structural change. The approval also stipulates that the Company's license will be amended in such a way that the structural separation provisions will also apply to the new company to which Bezeq International's integration activities will be transferred. In view of receiving the approval, Bezeq International and DBS intend to continue to implement the structural change plan, subject to the completion of a number of processes and approvals, including agreements with Bezeq International and DBS employee representatives and obtaining the Court’s approval to make a capital reduction for the purpose of distributing a dividend in kind from Bezeq International to Bezeq, which is required to complete the transfer of Bezeq International's integration activities to the new company.

Subsequently, on August 11, 2020, Bezeq's Board of Directors approved, following the approval of Bezeq International's Board of Directors from the same day, to act to spin off Bezeq International's integration activities into a separate corporation to be established and wholly owned by Bezeq and to which the activity will be transferred (“**the Transferred Activity**”), all as part of the structural change plan.

The spin-off of the Transferred Activity will be done in accordance with the provisions of Article 105 (a) (1) of the Income Tax Ordinance [New Version], and subject to an appropriate taxation decision from the Tax Authority, including and in particular regarding the continued application of the taxation decision of September 15, 2016 in connection with the merger of DBS with and into Bezeq (see Bezeq's immediate report dated September 18, 2016, reference number 2016-01-124486), and subject to the completion of the structural change, which includes the completion of a full and statutory merger of Bezeq International with and into DBS with and immediately after the completion of the spin-off process in respect of the Transferred Activity.

The spin-off of the Transferred Activity will be carried out as a distribution of dividend in kind in Bezeq, in accordance with the balance sheet value of the Transferred Activity, when the amount of the distribution in kind as of June 30, 2021 is approximately NIS 92 million based on Bezeq International's financial statements as of June 30, 2021. This amount may be updated up to the date of the actual distribution ("**Distribution of Dividend in Kind**").

Note that immediately upon the Distribution of Dividend in Kind, and as a condition for it, Bezeq International will merge with and into DBS, Bezeq International’s Board of Directors will examine the repayment capacity of DBS, as it will be after the merger, including on the basis of an economic opinion submitted thereto, and found that the Distribution of Dividend in Kind meets the repayment ability test set forth in the law, subject, *inter alia*, to Bezeq providing a credit facility or capital to the merged Bezeq in the total amount of up to NIS 254 million ("**Credit Facility**") for withdrawal until the end of 202, when the credit facility is repaid after this date in accordance with DBS' repayment ability. Following the decision of Bezeq International's Board of Directors, Bezeq's Board approved the provision of the Credit Facility, in accordance with its terms, which will take effect upon completion of the structural change plan, and upon its completion. It was further approved in said decisions to submit a motion for approval of a capital reduction to the competent court, noting that the Distribution of Dividend in Kind as aforesaid does not meet the profit test prescribed by law.

At the same time, the management of Pelephone and Bezeq International will continue negotiations with the employees’ representatives to regulate labor relations in a new collective agreement.

Bezeq and its subsidiaries are unable to assess, at this stage, whether all the conditions required for the implementation of the structural change plan will be met, and on which date will they be met, insofar as they are met, and accordingly there is no certainty that the structural change plan will materialize, in the manner described above or at all

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

4.2.1. As of June 30, 2021, DBS has a deficit in equity in the amount of NIS 77 million, as well as a working capital deficit in the amount of NIS 227 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 August 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 capital in the amount of NIS 70 million, for a period of 15 months, from July 1, 2021 until September 30, 2022, instead of the previous commitments, the latest of which was given in May 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 working capital deficit and the credit and investment framework in such capital from 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 financial statements as of June 30, 2021.

4.3. Bezeq International Ltd

4.3.1. Further to what is stated in Note 13.3.2 to the annual reports regarding a hearing to examine the separation between a broadband infrastructure service and an Internet access service (ISP), on June 20, 2021 Bezeq received the decision of the Minister of Communications through a hearing according to which the separation in relation to private customers between broadband infrastructure service and Internet access service (ISP) will be abolished in the outline specified in the decision. At the end of the deployment period in March 2022, the ban on infrastructure providers offering Internet access service to private customers will be lifted. Only customers who receive service at this time in a split / semi-split configuration who wish to continue consuming the Internet services will be allowed to continue to do so.

4.3.2. See Note 5.2 below regarding impairment of assets recognized by Bezeq International in the financial statements as of June 30, 2021.

5. Impairment

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

Further to Note 11.5 to the annual statements on the impairment recognized in 2019-2020 in respect of a multi-channel television cash-generating unit, in light of a review of DBS' performance for the first quarter of 2021 and the changes that occurred in DBS' expectations in relation to business results, DBS updated its forecasts for 2021 and subsequent years. Due to the aforesaid, DBS estimated the repayable amount as of March 31, 2021 and found that the value of operations is negative in the amount of NIS 283 million and is substantially lower than its book value.

In accordance with an examination conducted by an external valuer on June 30, 2121 and in accordance with the assessment of DBS' Management, it was found that during the three months that have passed since the previous valuation, there have been no significant changes in the market and no regulatory changes that could materially affect DBS' forecasts for the following years.

Therefore, in light of the negative value of the activity as determined in the valuation as of March 3, 2021, DBS reduced its non-current assets as of June 30, 2021 to the amount of the net exercisable value of these assets. Based on the valuation as of June 30, 2021, the fair value of DBS' assets net of exercise costs is negative in the amount of NIS 128 million.

Therefore, the Group recognized in the periods of six and three months that ended on June 30, 2021, a loss due to impairment in the amount of approximately NIS 138 million and approximately NIS 56 million, respectively. The impairment loss was attributed to the items of property, plant and equipment, broadcasting rights and intangible assets, as detailed below, and is included in the depreciation, amortization and impairment 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 six months ended June 30		**For the period of three months ended June 30**		**For the year ended December 31**
	2021 (unaudited) NIS millions	**2020 (unaudited) NIS millions**	**2021 (unaudited) NIS millions**	**2021 (unaudited) NIS millions**	**2020 (audited) NIS millions**
Broadcasting rights*	66	**87**	29	**38**	170
Property, plant and equipment **	40	**38**	12	**20**	112
Intangible assets **	27	**25**	13	**14**	29
Other receivables (advance expenses) *	5	**-**	2	**-**	13
Total impairment recognized	138	**150**	56	**72**	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.

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

Further to Note 11.6 to the annual financial 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 substantially lower than the book value of Bezeq International. In accordance with an examination conducted by an external valuator on June 30, 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 to June 30, 2021 up to the net amount of the exercise value of these assets. Based on the fair valuation of Bezeq International's assets, which was performed by an external valuer as of June 30, 2021, the book value of Bezeq International's depreciation assets is approximately NIS 57 million higher than the fair value net of exercise costs.

Therefore, the Group recognized in the periods of six and three months that ended on June 30, 2021, a loss due to impairment in the amount of approximately NIS 57 million and approximately NIS 28 million, respectively.

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

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (audited) NIS millions
Property, plant and equipment and intangible assets	**48 ****	**-**	**25 ****	**-**	148
Long-term advance expenses for capacities	**8 ****	**-**	**3 ****	**-**	110
Additional advance expenses	**1***	**-**	**-**	**-**	18
Rights-of-use of leased assets	**-**	**-**	**-**	**-**	3
Total impairment recognized	**57**	**-**	**28**	**-**	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. Property, plant and equipment

Further to Note 10.4 to Bezeq's annual financial statements regarding the deployment of a fiber optic network, 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 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 (Bezeq estimates about 80% of households). On May 30, 2021, Bezeq submitted to the Ministry of Communications the list of statistical areas in which it chose to deploy, and on June 15, 2021, Bezeq received an amendment to the Bezeq license regarding the determination of advanced network deployment obligations ("the License Amendment"). The License Amendment includes, among other things, the milestones for completing the deployment of the network within six years from the effective date (March 14, 2021). On this matter, see also Note 8.1 regarding Bezeq's and its subsidiaries' obligation to make payments to the incentive fund.

7. Pending liabilities

7.1. 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 81 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 June 30, 2021, due to lawsuits filed against the Group companies on various issues and whose probability of materialization is unexpected, amounted to a total of NIS 3.5 billion. In the amount of approximately NIS 2.6 billion in respect of claims whose chances cannot yet be assessed at this stage. In addition, requests were filed against the Group companies to recognize the claims as class actions that did not specify an exact amount for the claim in the lawsuit, for which the Group has additional exposure beyond the above. The amounts of additional exposure in this note are nominal.

7.2. The following is a description of the Bezeq Group's contingent liabilities that were in effect as of June 30, 2021, 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.	**79**	**2,816**	**720**
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 claims filed by employees and former employees of Bezeq Group concerning various payments.	**-**	**11**	**-**
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.	**-**	**21**	**24**
Total claims against the Company and its subsidiaries		**81**	**3,541**	**2,624**

* 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 the Bezeq Group and companies from the then controlling group in Bezeq 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 at this point in light of the investigation (as described in Note 1.3) and at the request of the Attorney General until September 6, 2021.

7.3. **Further to Note 6.6 to the annual financial statements regarding the Sakia property and the authorities' demand for payment of permit fees and improvement levies, on June 27, 2021, Bezeq filed a lawsuit with the Tel Aviv District Court against the Israel Land Authority for full payment of permits and improvement levies totaling NIS 217 million, as well as declaratory relief according to which the Israel Land Authority must pay Bezeq any amount that is forfeited, insofar as it is forfeited, from the bank guarantee in the amount of NIS 75 million provided by Bezeq to the Or Yehuda local planning and construction committee to secure the balance of the improvement levy.**

8. Engagements

8.1. Commitment to make payments to the incentive fund

Further to Note 6 above regarding the deployment of a fiber optic network by Bezeq, in accordance with the provisions of Article 14C of the Communications Law, upon the amendment of Bezeq's license, the communication companies, including Bezeq and its subsidiaries, Pelephone, DBS and Bezeq International, will be charged 0.5% of their annual revenue to the incentive fund during the deployment period. The incentive fund will be managed by the Accountant General in the Ministry of Finance, in order to encourage the deployment of fiber while participating in its financing in statistical areas that are not included in the deployment areas chosen by Bezeq. The Minister of Communications, with the consent of the Minister of Finance and with the approval of the Economy Committee, can change this rate.

8.2. Space segment lease agreement

Further to Note 19.2 to the annual financial statements regarding the DBS agreement with Space Communications Ltd., in July 2021, an amendment was signed to the contract agreement between DBS and Space in connection with the space segments leased by DBS from Space (according to the amendment to the agreement, among other things, the lease period for the space segments on Amos 7 satellite has been extended until February 2024, while DBS may extend it for another six months. The engagement in the amendment to the Space Agreement involves an additional cost of approximately USD 14 million. The engagement in the amendment to the agreement extends the period during which, according to the agreement, space segments on two satellites will be leased to DBS so that DBS will have backup on the other satellite under the conditions set out in the agreement in the event of one satellite being unavailable.

9. Equity

	As of June 30, 2021 Number of shares (Uncontrolled)	**As of June 30, 2020 Number of shares (Uncontrolled)**	**As of December 31, 2020 Number of shares (controlled)**
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 in such a manner so that after the increase in the registered capital as aforesaid, the registered capital 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 has been approved accordingly.

10. Revenues

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Landline interior communication - Bezeq Fixed Lines					
Internet - infrastructure	**769**	754	**388**	372	1,537
Landline telephony	**458**	494	**222**	252	981
Transmission and data	**422**	385	**214**	204	785
Cloud and digital services	**158**	142	**76**	70	288
Other services	**115**	117	**53**	60	222
	1,922	1,892	**953**	958	3,813
Mobile radio telephone - Pelephone					
Cellular services and end equipment	**783**	779	**400**	383	1,550
Sale of end equipment	**341**	295	**164**	137	577
	1,124	1,074	**564**	520	2,127
Multi-channel TV - DBS	**629**	656	**314**	318	1,286
Internet (ISP), International Communications, and network services - Bezeq International	**598**	603	**299**	302	1,217
Others	**148**	117	**70**	57	280
Total revenues	**4,421**	4,342	**2,200**	2,155	8,723

11. Operating and general expenses

	For the period of six months ended 30 June		For the period of three months ended 30 June		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
End equipment and materials	**421**	364	**200**	176	747
Connectivity and payments to communications operators in Israel and abroad	**362**	386	**180**	201	776
Content costs (including depreciation of content)	**277**	307	**133**	143	589
Marketing and general	**255**	235	**129**	116	471
Services and maintenance by subcontractors	**168**	139	**82**	71	303
Maintenance of buildings and sites	**119**	111	**59**	46	246
Vehicle maintenance	**30**	23	**16**	9	50
Total operating and general expenses	**1,632**	1,565	**799**	762	3,182

12. Other operating expenses (revenue), net

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Capital gain (mainly real estate exercise)	**(127)**	5	**(2)**	(4)	(18)
Creation (cancelation) of provision for claims	**(28)**	2	**2**	3	11
Expenses in respect of the termination of employee-employer relationship in early retirement in the Company	**8**	-	**6**	5	64
Profit from the sale of an investee	**-**	-	**-**	-	(22)
Receipts from a settlement agreement	**-**	9	**-**	9	(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	**-**	5	**-**	5	9
Other expenses (revenue)	**(3)**	1	**(4)**	1	(2)
Total other operating expenses (revenue), net	**(150)**	22	**2**	19	**73**

13. Financing expenses, net

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Interest expenses in respect of financial liabilities	**174**	199	**88**	99	351
Financing expenses for lease liabilities	**19**	14	**10**	7	30
Linkage differences and exchange rate	**20**	6	**16**	4	23
Financing expenses for benefits to employees	**5**	-	**2**	29	8
Other financing expenses	**3**	4	**1**	2	6
Costs of early repayment of loans and debentures	**-**	51	**-**	51	96
Change in the fair value of financial assets measured at fair value through income	**-**	-	**3**	4	11
Total financing expenses	**221**	274	**120**	196	525
Revenue from grossing credit in sales	**15**	15	**7**	7	30
Change in the fair value of financial assets measured at fair value through income	**4**	3	**-**	-	-
Other financing revenue	**17**	10	**3**	3	21
Financing revenue for benefits to employees	**36**	28	**10**	10	51
Financing expenses, net	**185**	246	**110**	186	474

14. Share-based payment

14.1. Further to Note 32.1 to the annual statements regarding Bezeq's Capital Remuneration Plan, during the half quarter of 2021, 60,000,654 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, granting 9,000,000 options to the CEO of Bezeq, and granting 9,000,000 options to the CEOs of Pelephone, DBS and Bezeq International.

14.2. 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 Bezeq'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

14.3. The fair value of the options granted, which is estimated by an external valuator while applying the Monte Carlo model, is approximately NIS 46 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.

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 Risk	0.54%
Dividend yield	A zero dividend yield was assumed
Predicted early exercise	2.2 - 2.8
Options duration	6.9 Years
Churn rate after vesting	0%

14.4. The following is a breakdown of salary expenses recognized by the Bezeq Group in respect of share-based payment:

	For the period of six months ended June 30		**For the period of three months ended June 30**		**For the year ended December 31**
	2021 (unaudited)	**2020 (unaudited)**	**2021 (unaudited)**	**2021 (unaudited)**	**2020 (audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Salary expenses	**16**	-	**8**	-	-

15. 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 June 30, 2021		As of June 30, 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)	**2,015**	**2,137**	2,631	2,755	2,118	2,252
Debentures issued to the public (index-linked)	**3,222**	**3,492**	3,724	3,831	3,199	3,394
Debentures issued to the public (unlinked)	**4,917**	**5,295**	3,042	3,216	4,913	5,187
	10,154	**10,924**	9,397	9,802	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.

	June 30, 2021 (unaudited) NIS millions	June 30, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Level 1 - Investment in marketable securities measured at fair value through income	**110**	74	77
Level 2 – Forward contracts	**(68)**	(160)	(117)

16. Segment reporting

16.1. Operating segments

	For the period of three months ended June 30, 2021 (unaudited)						
	Landline interior communication	Cellular communication	Internet and international communication services	Multi-channel Television *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	1,923	1,124	598	630	146	-	4,421
Inter-segmental revenue	170	22	24	-	3	(219)	-
Total revenue	2,093	1,146	622	630	149	(219)	4,421
Depreciation and amortization	454	286	95	150	2	(46)	941
Segment results - operating profit (loss)	1,000	12	8	(21)	19	31	1,049
Financial expenses	171	11	3	2	-	34	221
Financing revenue	(13)	(32)	(2)	(5)	-	16	(36)
Total financing expenses (revenue), net	158	(21)	1	(3)	-	50	185
Segment profit (loss) before income taxes, net	842	33	7	(18)	19	(19)	864
Income taxes	204	5	4	1	4	-	218
Segment results - net profit (loss)	638	28	3	(19)	15	(19)	646

	For the period of six months ended June 30, 2021 (unaudited)						
	Landline interior communication	Cellular communication	Internet and international communication services	Multi-channel Television *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	1,892	1,074	607	657	112	-	4,342
Inter-segmental revenue	170	34	24	-	3	(231)	-
Total revenue	2,062	1,108	631	657	115	(231)	4,342
Depreciation and amortization	430	301	81	154	7	(72)	901
Segment results - operating profit (loss)	903	(21)	56	(17)	10	35	966
Financial expenses	222	12	2	3	1	34	274
Financing revenue	(10)	(33)	(2)	(4)	-	21	(28)
Total financing expenses (revenue), net	212	(21)	-	(1)	1	55	246
Segment profit (loss) before income taxes, net	691	-	56	(16)	9	(20)	720
Income taxes	167	1	13	1	2	(2)	182
Segment results - net	524	(1)	43	(17)	7	(18)	538

* 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 17.3 regarding a summary of selected data from the statements of DBS.

	For the period of three months ended June 30, 2021 (unaudited)						
	Landline interior communication	Cellular communication	Internet and international communication services	Multi-channel Television *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	954	564	299	315	68	-	2,200
Inter-segmental revenue	85	12	11	-	2	(110)	-
Total revenue	1,039	576	310	315	70	(110)	2,200
Depreciation and amortization	231	144	46	75	1	(32)	465
Segment results - operating profit (loss)	407	15	16	(3)	9	22	466
Financial expenses	91	5	1	7	-	16	120
Financing revenue	(1)	(16)	-	(3)	-	10	(10)
Total financing expenses (revenue), net	90	(11)	1	4	-	26	110
Segment profit (loss) before income taxes, net	317	26	15	(7)	9	(4)	356
Income taxes	79	6	4	-	2	-	91
Segment results - net profit (loss)	238	20	11	(7)	7	(4)	265

	For the period of three months ended June 30, 2021 (unaudited)						
	Landline interior communication	Cellular communication	Internet and international communication services	Multi-channel Televison *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	957	520	306	319	53	-	2,155
Inter-segmental revenue	87	15	8	-	2	(112)	-
Total revenue	1,044	535	314	319	55	(112)	2,155
Depreciation and amortization	218	151	38	78	4	(34)	455
Segment results - operating profit (loss)	464	(8)	27	(6)	7	20	504
Financial expenses	166	6	-	5	1	18	196
Financing revenue	(3)	(17)	(1)	(1)	-	12	(10)
Total financing expenses (revenue), net	163	(11)	(1)	4	1	30	186
Segment profit (loss) before income taxes, net	301	3	28	(10)	6	(10)	318
Income taxes	72	2	7	1	2	(2)	82
Segment results - net profit (loss)	229	1	21	(11)	4	(8)	236

* 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 17.3 regarding a summary of selected data from the statements of DBS.

For the year ended December 31, 2020 (audited)							
	Landline interior communication	Cellular communication	Internet and international communication services	Multi-channel Television *	Others	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
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, net	1,302	(36)	(243)	(55)	43	223	1,234
Income taxes	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 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 17.3 regarding a summary of selected data from the statements of DBS.

14.1 Adjustments in respect of income-reporting segments

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Operating profit in reporting segments	**999**	921	**435**	477	1,338
Financing expenses, net	**(185)**	(246)	**(110)**	(185)	(475)
Adjustments for the multi-channel television segment	**37**	49	**25**	37	81
Loss due to activities classified under the Other and other adjustments category	**13**	-	**6**	(3)	26
Elimination of loss from impairment of assets	**-**	(8)	**-**	(8)	286
Amortization of surplus costs	**-**	4	**-**	-	(22)
Consolidated profit before taxes on income	**864**	720	**356**	318	1,234

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

17.1. Bezeq the Israel Telecommunications Corp. Ltd.

Data from the statement of financial position:

	June 30, 2021 (unaudited) NIS millions	June 30, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Current assets	**2,209**	2,666	2,014
Non-current assets	**9,924**	9,353	9,600
Total assets	**12,133**	12,019	11,614
Current liabilities	**1,951**	2,147	2,096
Long-term liabilities	**9,591**	10,210	9,668
Total liabilities	**11,542**	12,357	11,764
Equity (deficit)	**591**	(338)	(150)
Total liabilities and deficit	**12,133**	12,019	11,614

Data from the statement of income:

	For the period of six months ended 30 June		For the period of three months ended 30 June		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Revenue	**2,093**	2,062	**1,039**	1,044	4,159
Operating expenses					
Operating and general expenses	**466**	453	**233**	224	919
Salaries	**454**	430	**231**	218	877
Depreciation and amortization	**317**	282	**162**	140	590
Other expenses, net	**(144)**	(6)	**6**	(2)	68
Total operating expenses	**1,093**	1,159	**632**	580	2,454
Operating profit	**1,000**	903	**407**	464	1,705
Financing expenses (revenue)					
Financial expenses	**171**	222	**91**	166	419
Financing revenue	**(13)**	(10)	**(1)**	(3)	(16)
Financing expenses, net	**158**	212	**90**	163	403
Profit after financing expenses, net	**842**	691	**317**	301	1,302
Share of profits (losses) of equity accounted investees, net	**64**	72	**56**	40	(244)
Profit before income taxes	**906**	763	**373**	341	1,058
Income taxes expenses	**204**	167	**79**	72	262
Net profit for the period	**702**	596	**294**	269	796

17.2. Pelephone Communications Ltd.

Data from the statement of financial position:

	June 30, 2021 (unaudited) NIS millions	June 30, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Operating assets	**830**	874	899
Non-operating property	**3,526**	3,261	3,472
Total assets	**4,356**	4,135	4,371
Operating liabilities	**662**	694	720
Long-term liabilities	**1,034**	788	1,022
Total liabilities	**1,696**	1,482	1,742
Equity	**2,660**	2,653	2,629
Total liabilities and equity	**4,356**	4,135	4,371

Data from the statement of income:

	For the period of six months ended 30 June		For the period of three months ended 30 June		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Revenue from services	**801**	799	**409**	394	1,591
Revenue from the sale of end equipment	**345**	309	**167**	141	595
Total revenue from services and sales	**1,146**	1,108	**576**	535	2,186
Operating expenses					
Operating and general expenses	**693**	671	**341**	326	1,329
Salaries	**158**	160	**79**	70	324
Depreciation and amortization	**286**	301	**144**	151	599
Total operating expenses	**1,137**	1,132	**564**	547	2,252
Other operating expenses, net	**(3)**	(3)	**(3)**	(4)	18
Operating loss	**12**	(21)	**15**	(8)	(84)
Financing expenses (revenue)					
Financing expenses	**11**	12	**5**	6	18
Financing revenue	**(32)**	(33)	**(16)**	(17)	(66)
Financing revenue , net	**(21)**	(21)	**(11)**	(11)	(48)
Profit (loss) before income taxes	**33**	-	**26**	3	(36)
Income taxes expenses (revenue)	**5**	1	**6**	2	(11)
Profit (loss) for the period	**28**	(1)	**20**	1	(25)

17.3. Bezeq International Ltd

Data from the statement of financial position:

	June 30, 2021 (unaudited) NIS millions	June 30, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Operating assets	**429**	475	443
Non-operating assets	**292**	592	342
Total assets	**721**	1,067	785
Operating liabilities	**397**	444	432
Long-term liabilities	**115**	100	148
Total liabilities	**512**	544	580
Equity	**209**	523	205
Total liabilities and equity	**721**	1,067	785

Data from the statement of income:

	For the period of six months ended 30 June		For the period of three months ended 30 June		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Revenue	**622**	631	**310**	314	1,271
Operating expenses					
Operating and general expenses	**402**	368	**191**	187	802
Salaries	**118**	126	**58**	62	248
Depreciation and amortization	**95**	81	**46**	38	149
Other expenses, net	**(1)**	-	**(1)**	-	313
Total operating expenses	**614**	575	**294**	287	1,512
Operating profit (loss)	**8**	56	**16**	27	(241)
Financing expenses (revenue)					
Financing expenses	**3**	2	**1**	-	5
Financing revenue	**(2)**	(2)	**-**	(1)	(3)
Financing expenses, net	**1**	-	**1**	(1)	2
Profit (loss) before income taxes	**7**	56	**15**	28	(243)
Income taxes expenses	**4**	13	**4**	7	32
Profit (loss) for the period	**3**	43	**11**	21	(275)

17.4. DBS Satellite Services (1998) Ltd.

Data from the statement on the financial position:

	June 30, 2021 (unaudited) NIS millions	June 30, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Operating assets	**192**	189	176
Non-operating assets	**231**	260	248
Total assets	**423**	449	424
Operating liabilities	**419**	444	436
Long-term liabilities	**65**	78	69
Total liabilities	**484**	522	505
Deficit	**(61)**	(73)	(81)
Total liabilities and equity	**423**	449	424

Data from the statement of income:

	For the period of six months ended 30 June		For the period of three months ended 30 June		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Revenue	**630**	657	**315**	319	1,287
Operating expenses					
Operating, general and impairment expenses	**415**	441	**203**	210	857
Salaries	**106**	94	**45**	50	203
Depreciation, amortization and impairment	**95**	102	**45**	48	203
Other operating revenue, net	**(2)**	(12)	**-**	(12)	(15)
Total operating expenses	**614**	625	**293**	296	1,248
Operating profit (loss)	**16**	32	**22**	23	39
Financing expenses (revenue)					
Financial expenses	**2**	3	**7**	5	15
Financing revenue	**(5)**	(4)	**(3)**	(1)	(2)
Financing expenses (revenue), net	**(3)**	(1)	**4**	4	13
Profit (loss) before income taxes	**19**	33	**18**	19	26
Income tax expenses	**1**	1	**-**	1	2
Profit (loss) for the period	**18**	32	**18**	18	24

18. Subsequent events

18.1 See Note 4.1 above for details regarding the approval of the Minister of Communications to transfer Bezeq International's unified general license to DBS as part of a full and statutory merger of Bezeq International into DBS, as well as regarding the decisions of Bezeq's Board of Directors regarding a plan for structural change.

18.2 See Note 8.2 above regarding an amendment to the DBS agreement in the lease of space segments.

18.3 On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in which approximately NIS 394 million par value was issued to institutional entities and the public for NIS 394 million from Series F. The annual (unlinked) interest rate determined in the tender is 3.65%. The interest in the Series F debentures will be paid in two semi-annual installments, on May 31 and November 30 of each year from November 2021 to November 2026. The debenture principal will be repaid in one installment on November 30, 2026. The net proceeds from the offering of the Series F debentures, were used by the Company to make early repayments of its existing debentures for the same date as detailed below.

18.4 On July 19, 2021, the Company made a full early repayment of the Series D debentures principal (plus accrued interest for the due date) and a full early repayment of the Series E debentures principal (plus accrued interest for the maturity date and an early repayment penalty as defined in the Series E debentures trust deed). In addition, the Company made a partial early repayment of approximately NIS 226 million in respect of the Series C debentures (plus accrued interest as of the date of repayment). Following the early repayments, Series D and E were repaid in full and delisted from trading on the Tel Aviv Stock Exchange. The Company is expected to record financing expenses in connection with the early repayment of Series C, D and E series debentures in the amount of approximately NIS 22 million in the third quarter of 2021, of which NIS 3.5 million in respect of the early repayment penalty for Series E debentures. Cash flows and the balance (non-cash flow) in respect of the reduction of a proportionate share of the discount balance of Series C that was repaid in partial repayment and Series D that was repaid in full.

Condensed Separate Interim Financial Information As of June 30, 2021

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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 June 30, 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 or 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 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 action lawsuits. 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 7 regarding claims filed against the Company, and the exposure for which cannot be assessed or calculated at this stage.

Somekh Chaikin

Certified Public Accountants

August 12, 2021

Condensed Separate Interim Financial Information as of June 30, 2021 (Unaudited)

Condensed interim statement on the financial position as of

	June 30, 2021 (unaudited) NIS millions	June 30, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Assets			
Cash and cash equivalents	**20**	41	55
Short-term investments and deposits	**191**	213	157
Other trade receivables	**24**	2	23
Total current assets	**235**	256	235
Long-term deposits	**120**	200	160
Investment in affiliate	**1,596**	1,291	1,398
Total non-current assets	**1,716**	1,491	1,558
Total assets	**1,951**	1,747	1,793
Liabilities			
Trade payables and accounts payable	**7**	14	7
Total current liabilities	**7**	14	7
Bonds	**1,909**	1,877	1,893
Total non-current liabilities	**1,909**	1,877	1,893
Total liabilities	**1,916**	1,891	1,900
Equity (deficit)	**35**	(144)	(107)
Total liabilities and equity (deficit)	**1,951**	1,747	1,793

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

Date of approval of the statements: August 12, 2021

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

Condensed Separate Interim Financial Information as of June 30, 2021 (Unaudited)

Condensed interim statement on income

	For the period of six months ended June 30		For the period of three months ended June 30		For year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Operating expenses					
Salaries	**2**	2	**1**	2	3
Operating and general expenses	**4**	4	**2**	2	8
Total current expenses	**6**	6	**3**	4	11
current expenses	**(6)**	(6)	**(3)**	(4)	(11)
Financing expenses (see Note 2)					
Financing expenses	**55**	51	**28**	27	110
Financing revenue	**(5)**	(1)	**(2)**	-	(6)
Financing expenses, net	**50**	53	**26**	27	104
Loss after financing expenses, net	**(56)**	(59)	**(29)**	(31)	(115)
Share of profit of equity accounted investee, net	**188**	157	**79**	70	265
Profit before taxes on income	**132**	98	**50**	39	150
Tax revenue	**-**	-	**-**	-	7
Profit for the period	**132**	98	**50**	39	157

Condensed interim statement on comprehensive income

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Profit for the period	**132**	98	**50**	39	157
Profit (loss) items including other, net of tax	**6**	(1)	-	(3)	(3)
Total comprehensive profit for the period	**138**	97	50	36	154

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

Condensed interim statement on cash flows

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Cash flows from operating					
Net profit for the period	**132**	98	**50**	39	157
Adjustments:					
Share of profit of equity accounted investee, net	**(188)**	(157)	**(79)**	(70)	(265)
Financing expenses, net	**52**	55	**26**	29	106
Change in trade payables and credit	-		-	-	(7)
Change in other trade receivables	**(1)**	(2)	**1**	-	(1)
Net cash used for operating activity	**(5)**	(6)	**(2)**	(2)	(10)
Cash flow from investment activity					
Investment in subsidiary	**-**	-	**-**	-	(40)
Change in deposits and investments, net	**8**	(327)	**(10)**	(24)	(229)
Others	**1**	-	**1**	-	2
Net cash generated from (used for) investment activities	**9**	(327)	**(9)**	(24)	(267)
Cash flows from financing activity					
Interest paid	**(39)**	(39)	**(39)**	(39)	(78)
Net compensation in respect of the Horev claim	**-**	-	**-**	-	(3)
Net cash used for financing activities	**(39)**	(39)	**(39)**	(39)	(81)
Net decrease in cash and cash equivalents	**(35)**	(372)	**(50)**	(65)	(358)
Cash and cash equivalents at the beginning of the period	**55**	413	**70**	106	413
Cash and cash equivalents for the end of the period	**20**	41	**20**	41	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 following is a summary of the financial data from the condensed consolidated interim financial statements of the Group as of June 30, 2021 (hereinafter: "the Consolidated Statements"), attributed to the Company itself (hereinafter: "Condensed Separate Interim Financial Information"), which are presented in accordance with Regulation 38D (hereinafter - "the Regulation") and the Tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (hereinafter -"the Tenth Schedule") regarding the Condensed Separate Interim Financial Information of the Corporation. Condensed Separate Interim Financial Information should be read together with the Condensed Consolidated Statements for the day and year ended December 31, 2020 and together with the Condensed Consolidated Statements as of June 30, 2020 (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.

2. Financing income / expenses

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2021 (unaudited) NIS millions	2020 (unaudited) NIS millions	2020 (audited) NIS millions
Interest expenses	**55**	54	**28**	27	110
Total financing expenses	**55**	54	**28**	27	110
Total marketable securities	**5**	1	**2**	-	6
Total financing income	**5**	1	**2**	-	6
Financing expenses, net	**50**	53	**26**	27	104

3. Contingent liabilities

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

4. Subsequent events

4.1. On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in which approximately NIS 394 million par value was issued to institutional entities and the public for NIS 394 million from Series F. The annual (unlinked) interest rate determined in the tender is 3.65%. The interest in the Series F debentures will be paid in two semi-annual installments, on May 31 and November 30 of each year from November 2021 to November 2026. The debenture principal will be repaid in one installment on November 30, 2026. The net proceeds from the offering of the Series F debentures, were used by the Company to make early repayments of its existing debentures for the same date as detailed below.

4.2. On July 19, 2021, the Company made a full early repayment of the Series D debentures principal (plus accrued interest for the due date) and a full early repayment of the Series E debentures principal (plus accrued interest for the maturity date and an early repayment penalty as defined in the Series E debentures trust deed). In addition, the Company made a partial early repayment of approximately NIS 226 million in respect of the Series C debentures (plus accrued interest as of the date of repayment). Following the early repayments, Series D and E were repaid in full and delisted from trading on the Tel Aviv Stock Exchange. The Company is expected to record financing expenses in connection with the early repayment of Series C, D and E series debentures in the amount of approximately NIS 22 million in the third quarter of 2021, of which NIS 3.5 million in respect of the early repayment penalty for Series E debentures. Cash flows and the balance (non-cash flow) in respect of the reduction of a proportionate share of the discount balance of Series C that was repaid in partial repayment and Series D that was repaid in full.

4.3. Regarding the investigation of the Securities Authority and the Police, see Note 1.3 in the consolidated reports.

4.4. Regarding impairment losses in respect of Bezeq International and DBS, see Note 5 to the consolidated statements.

4.5. For information on the effects of COVID-19, see Note 1.2 to the consolidated statements.

4.6. For an update on share-based payment in the Bezeq Group, see Note 14 to the consolidated statements.

4.7. For information regarding a plan for a structural change in Bezeq's subsidiaries, see Note 4.1 in the consolidated statements.

4.8. For information regarding the deployment of a fiber optic network by Bezeq and the obligation to pay into the incentive fund, see Notes 6 and 8 in the consolidated statements.

4.9. For information regarding other material events after the period of the financial statements, see Note 18 to the consolidated statements.

Chapter E

Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period ended June 30, 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 quarterly report on the effectiveness of the internal control over financial reporting and disclosure which was attached to the quarterly report for the period ended March 31, 2021 (hereinafter - the Latest Quarterly Report on Internal Control), the internal control was found to be effective.

Until the date of the report, the Board of Directors and the Management have not been informed of any event or matter that may change the assessment of the effectiveness of the internal control as it appears in the Latest Quarterly Report on Internal Control;

As of the date of the report, based on what is stated in the Latest Quarterly Report on Internal Control, and based on information brought to the attention of the Management and the Board of Directors as stated above, the internal control is effective.

Regarding the investigations of the Israel Securities Authority and the Israel Police, as detailed in section 1.1.5 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, materials and evidence in the possession of the law authorities (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 not yet able to assess the effects of the investigations, their findings and their results on the Corporation as well as the financial statements and estimates used in the preparation of these statements, if any. Upon removal of the impediment to conducting tests and inspections related to issues that arose in the course of the investigations, the tests will be completed as necessary with regard to matters that arose in the framework of those investigations.

(2) 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; and -

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

(5) I, alone or 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 not been informed of any event or matter that occurred during the period between the date of the last report (quarterly or periodic, as the case may be) and the date of this report, which may change the conclusion of the Board of Directors and Management regarding the effectiveness of internal control over financial reporting and disclosure of the corporation.

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

Date: August 12, 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: August 12, 2021

____

Itzik Tadmor, CFO