B Communications Ltd.

Q3 2021 – Quarterly Report

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

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

Chapter C – Unaudited Financial Statements

Chapter E – Report on the Effectiveness of Internal Controls

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR Q3 2021 (THE "REPORTS"). THE HEBREW VERSION OF THE REPORTS IS THE BINDING VERSION AND THE ONLY VERSION HAVING LEGAL EFFECT. THE ENGLISH TRANSLATION HAS BEEN CREATED FOR THE PURPOSE OF CONVENIENCE ONLY. THE APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS WAS GIVEN TO THE HEBREW VERSION ONLY AND NO SUCH APPROVAL HAS BEEN GIVEN TO THE ENGLISH TRANSLATION. THIS ENGLISH TRANSLATION WAS NOT SUBMITTED TO THE ISRAELI SECURITIES AUTHORITY AND IS NOT REVIEWED BY ANY REGULATORY AUTHORITY.

November 29, 2021

B. Communications Ltd.

Quarterly Report for the Period Ended September 30, 2021

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

Report of the Board of Directors on the State of Affairs of the Corporation for the Period Ended September 30, 2021

Condensed Interim Financial Statements as of September 30, 2021

Quarterly Report on the Effectiveness of Internal Control Over Financial Reporting and Disclosure for the Period Ended September 30, 2021

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

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

1. Updates in the Company

A. 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 a full early redemption, at the Company's initiative, of the balance of the debentures (Series IV and E) of the Company was made, as well as partial early redemption of the debentures (Series C). For further details, see Immediate reports dated July 7, 2021 and July 8, 2021 (reference numbers: 2021-01-049903, 2021-01-050251 and 2021-01-050854, respectively).

B. On November 29, 2021, the Company's Board of Directors decided to adopt a plan to repurchase the Company's shares, amounting to up to NIS 30 million, effective from December 1, 2021 until: (1) the purchase of the Company's shares at the total acquisition cost; Or (2) on March 1, 2022, whichever is earlier. The acquisitions will be made, from time to time during the aforesaid period, in transactions on the stock exchange through a stock exchange member. It should be noted that the plan was adopted in writing in accordance with the rules set forth in the directive of the Securities Authority dated July 26, 2010 (Position 199-8), regarding the "safe harbor" protection in the repurchase of securities by a corporation. For further details, see the immediate report published at the same time as the publication of the quarterly report for the period ended September 30, 2021 ("**the Q3 Report**").

C. On November 29, 2021, it was decided by the Remuneration Committee and the Company's Board of Directors to approve a special grant of NIS 2,343,360 to Mr. Tomer Raved, the Company's CEO for the year 2020 and for the year 2021, out of their authority under the provisions of Article 272 (c1) (1) (c) of the Companies Law. For further details, see the immediate report published at the same time as the Q3 Report.

D. On November 29, 2021, the Company's Remuneration Committee and Board of Directors approved the Company's engagement in a Directors and Officers Liability Insurance Policy in the Company, in relation to all directors and officers in the Company, including controlling shareholders and including the Company's CEO, for the period beginning December 2, 2021 and ending December 1 2022, in accordance with Regulation 1B1 of the Companies Regulations (Facilitating Transactions with Related Parties), 5769-2000. For further details, see the immediate report published at the same time as the the Q3 Report.

E. On November 29, 2021, Mr. Michael Clare announced that as of December 8, 2021, he will cease to be a director of the Company. For further details, see the immediate report published at the same time as the Q3 Report.

F. On November 29, 2021, Mr. Tomer Raved announced that as of that date, he will cease to serve as a director of the Company. For further details, see the immediate report that was published at the same time as the report for the Q3 Report.

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

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

To Section 1.1.1 - General

Regarding the structure of holdings in Bezeq, the Israel Telecommunications Corp. Ltd. ("**Bezeq**") and control of Bezeq - as of October 11, 2020, 738,953,713 of Bezeq shares are held directly by the Company, after on the same day all the Company's shares held by B Communications (SP2) Ltd. (a company wholly owned and controlled by B Communications (SP1) Ltd. which is wholly owned and controlled by the Company) were transferred to direct holding.

To Section 1.1.4 – 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

[1] The update is in accordance with Regulation 39A of the Securities (Periodic and Immediate Reports) 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 2020 periodic report and refers to the item numbers in Chapter A (Description of the Corporation's Business) in the same periodic report.

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 given authority 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, there is a labor dispute that has been declared regarding the structural change plan and is in legal proceedings in the Regional Labor Court (see update to Section 4.8).

On July 19, 2021, the Minister of Communications approved the transfer of Bezeq International's unified general license to DBS as part of a full and statutory merger of Bezeq International into DBS, an approval 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 Bezeq to which Bezeq International's integration activities will be transferred.

Further to this, on August 11, 2021, Bezeq's Board of Directors approved, following the approval of Bezeq International's Board of Directors from the same day, to act to split Bezeq International's integration activity 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 split 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 in particular regarding the continued application of the taxation decision adopted on September 19, 2016 in connection with DBS merger with and into Bezeq (see Bezeq's immediate report dated September 18, 2016, reference number 2016-01-124486) (it should be noted that on April 18, 2021, Bezeq submitted an application to the Tax Authority 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), and subject to the completion of the structural change, including Bezeq's full and statutory merger International with and into DBS upon and immediately after the completion of the procedure for the split of the Transferred Activity. The split of the Transferred Activity will be carried out as a dividend distribution in kind to Bezeq, in accordance with the balance sheet value of the Transferred Activity, with the amount of the distribution in kind as of June 30, 2021, based on Bezeq International's financial statements as of June 30, 2021, being approximately NIS 92 million (this amount may be updated up to the date of the actual distribution) ("**Dividend Distribution in Kind**").On October 7, 2021, the Lod District Court approved the reduction of 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.

Note that immediately upon the Dividend Distribution in Kind, and as a condition for it, Bezeq International will merge with and into DBS, Bezeq International's Board of Directors will examine DBS' repayment capacity, as it will be after the merger, including on the basis of an economic opinion. Submitted to it, and found that the Dividend Distribution in Kind meets the test of solvency set forth in the law, subject, *inter alia*, to Bezeq providing a credit facility or capital to the merged company in the total amount of up to NIS 254 million ("**the Credit Facility**") for withdrawal until the end of 2026, when the Credit Facility is repaid after this date in accordance with DBS' repayment capacity, following the decision of Bezeq International's Board of Directors, Bezeq's Board of Directors approved the provision of the Credit Facility, in accordance with its terms, which will take effect upon completion of the Structural Change Plan.

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. For this matter, see update to Section 4.8.

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 when they will be met, insofar as they are met, and accordingly, there is no certainty that the Structural Change Plan will materialize.

To Section 1.1.5 - Investigations by the Israel Securities Authority and the Israel Police

To Paragraph 1.1.5.2 - regarding the possible prosecution of Bezeq and being summoned to a hearing in the 4,000 Case - on July 8, 2021, Bezeq and Walla submitted a written argument for the hearing. As of the date of publication of the report, a decision has not yet been made by the State Attorney's Office and the Attorney General regarding the filing of an indictment following the allegations raised at the hearing, and the companies have not been given an expected date for obtaining the decision.

To Section 1.4.1 - Dividend Policy

As part of approving an update to the Bezeq Group's strategy (see update to section 1.8), the Group aims to maintain a high credit rating in the AA group while adjusting the debt repayment burden to self-generating cash flow and maintaining significant liquidity, and returning to distributing dividends to shareholders. It is clarified that this is at this stage only a statement of intent and that no concrete policy has yet been formulated regarding the distribution of dividends by Bezeq.

To Section 1.5.4 - Summary of **results and operational data**

a. Bezeq Fixed Lines (Bezeq's activity as NIO)

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue (NIS millions)	1,037	1,039	1,054	1,055	1,042	1,044	1,018
Operating profit (NIS millions)	390	407	593	356	446	464	439
Depreciation and amortization (NIS millions)	239	231	223	225	222	218	212
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	629	638	816	581	668	682	651
Net profit (NIS millions)	219	238	400	216	300	229	295
Cash flow from operating activities (NIS millions)	567	354	510	600	561	334	611
Payments for investments in property, plant and equipment and intangible assets and other investments (NIS millions)	314	285	312	237	272	201	200
Receipts from the sale of property, plant and equipment and intangible assets (NIS millions)	4	-	182	119	1	19	7
Lease payments	31	24	29	27	26	26	32
Free cash flow (NIS millions) (2)	226	45	351	455	264	126	386
Number of active subscriber lines at the end of the period (thousands) (3)	1,602	1,615	1,630	1,639	1,653	1,675	1,693
Average monthly revenue per telephony line (NIS) (ARPL) (4)	46	47	49	50	51	51	48
Outgoing usage minutes (millions)	781	827	965	1,004	1,019	1,079	883
Incoming usage minutes (millions)	1,151	1,095	1,284	1,326	1,368	1,293	1,120
Total number of Internet lines at the end of the period (thousands) (7)	1,524	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)	510	520	539	557	570	580	584
Of these, number of Internet lines at the end of the period - in retail (thousands) (7)	1,014	1,009	1,001	999	995	991	982
Average monthly revenue per Internet subscriber (NIS) - retail (ARPU)(8)	107	106	103	102	100	98	98
Average Internet subscriber plan rate – retail (MS) (5)	104.2	87.8	77.7	74.2	71.6	70.4	69.1
Telephony subscribers churn rate (6)	2.4%	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 item (in the income statement). In this regard, see Note 11 to the financial statements and Section 7 of the Description of the Corporation's Business chapter in the 2020 Periodic Report, 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 Description of the Corporation's Business chapter in the 2020 Periodic Report.

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

(4) Calculated according to the average of the lines for the period. In this regard, also see Section 7 of the Description of the Corporation's Business chapter in the 2020 Periodic Report.

(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 Description of the Corporation's Business chapter in the 2020 Periodic Report.

(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 providersy

(8) Revenue from Internet services in retail is divided by the average number of retail customers in the period. In this regard, also see Section 7 of the Description of the Corporation's Business chapter in the 2020 Periodic Report.

b. Pelephone

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue from services (NIS millions)	417	409	392	396	396	394	405
Revenue from the sale of end equipment (NIS millions)	124	167	178	137	149	141	168
Total revenue (NIS millions)	541	576	570	533	545	535	573
Operating profit (loss) (NIS millions)	22	15	(3)	(36)	(27)	(8)	(13)
Depreciation and amortization (NIS millions)	144	144	142	151	147	151	150
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	166	159	139	115	120	143	137
Net profit (loss) (NIS million)	23	20	8	(12)	(12)	1	(2)
Cash flow from operating activities (NIS millions)	185	149	72	241	143	149	164
Payments for investments in Property, plant and equipment, intangible assets and other investments, net (NIS millions)	68	60	71	80	100	73	65
Lease payments	52	53	60	48	67	48	67
Free cash flow (NIS millions) (1)	65	36	(59)	113	(24)	28	32
Number of postpaid subscriptions for the end of the period (thousands) (2)	2,074	2,050	2,030	2,004	1,976	1,948	1,928
Number of prepaid subscribers for the end of the period (thousands) (2)	473	471	462	438	420	417	428
Number of subscribers at the end of the period (thousands) (2)	2,547	2,521	2,492	2,442	2,396	2,365	2,356
Average monthly revenue per subscriber (NIS) (ARPU) (3)	55	54	53	55	56	56	58
Subscriber churn rate (4)	5.5%	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. Also see Section 7 of the Description of the Corporation's Business chapter in the 2020 Periodic Report.

(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 Description of the Corporation's Business chapter in the 2020 Periodic Report

c. Bezeq International

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue (NIS millions)	287	310	312	325	315	314	317
Operating profit (loss) (NIS millions)	13	16	(8)	(22)	(275)	27	29
Depreciation and amortization (NIS millions)	38	46	49	26	42	38	43
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	51	62	41	4	(233)	65	72
Net profit (loss) (NIS millions)	10	11	(8)	(13)	(305)	21	22
Cash flow from operating activities (NIS millions)	96	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	27	30	21	28	33	34
Lease payments	9	9	8	7	7	8	8
Free cash flow (NIS millions) (1)	60	(10)	23	47	12	7	18
Subscriber churn rate (3)	5.5%	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 Description of the Corporation's Business chapter in the 2020 Periodic Report.

d. DBS

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Revenue (NIS millions)	318	315	315	317	313	319	338
Operating profit (loss) (NIS millions)	30	22	(6)	(11)	18	23	9
Depreciation, amortization and ongoing impairment (NIS millions)	45	45	61	59	50	50	44
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (NIS millions) (1)	75	67	55	48	68	73	53
Net profit (loss) (NIS million)	29	18	0	(24)	16	18	14
Cash flow from operating activities (NIS millions)	73	56	62	14	69	39	41
Payments for investments in property, plant and equipment, intangible assets and other investments, net (NIS millions)	38	42	43	26	38	40	37
Lease payments	6	7	6	6	6	7	7
Free cash flow (NIS millions) (1)	29	7	13	(18)	25	(8)	(3)
Number of subscribers (at the end of the period, thousands) (2)	560	560	559	557	556	557	556
Average monthly revenue per subscriber (ARPU) (NIS) (3)	188	186	187	186	187	190	195
Subscriber churn rate (4)	3.7%	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 38% 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 Description of the Corporation's Business chapter in the 2020 Periodic Report.

(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 Description of the Corporation's Business chapter in the 2020 Periodic Report.

<u>To Section 1.6 - Forecast in relation to the Group</u>

On November 16, 2021, Bezeq updated the Group's forecast for 2021 based on the information currently available to it, as follows:

- Adjusted net profit[2] for shareholders is expected to be approximately NIS 1.1 billion (compared with approximately NIS 1 billion in the original forecast).
- Adjusted EBITDA[3] is expected to be approximately NIS 3.65 billion (compared with approximately NIS 3.5 billion in the original forecast).
- CAPEX[4] is expected to be about NIS 1.8 billion (compared to about NIS 1.7 billion in the original forecast)

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

The forecasts are based, among other things, on the Group's assessments in relation to the structure of competition in the communications market and the regulatory regulation of the segment, on the current economic situation in the economy, and accordingly the Group's ability to continue implementing its plans for 2021, and having regard to the changes that will apply to the above in the business conditions and the effects of regulatory decisions, technological changes, developments in the structure of the communications market, etc., or insofar as one or more of the risk factors listed in the periodic report materializes. Also, there is no certainty that the forecast will be fully or partially materialized, *inter alia,* in light of the COVID pandemic and the great uncertainty as a result of it.

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

[2] Adjusted net profit and adjusted EBITDA - excluding the items Other operating expenses / revenue, net and One-off losses / profits from impairment / increase in value, and expenses on options for employees.

[3] See footnote 1.

[4] CAPEX - Payments (gross) for investment in property, plant and equipment and intangible assets.

To Section 1.7.2 - Marketing of a basket of services shared with Bezeq and its subsidiary and between Bezeq 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.

To 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.

Subsequently, on September 19, 2021, the Director General of the Ministry of Communications decided that the agreement regulating major performance indicators (KPIs) passed by Bezeq would constitute a "shelf offer" according to the Minister's decision and would apply to anyone who wants access, without discrimination. Accordingly, on September 20, 2021, the "calibration period" began, which will end on December 20, 2021 and during which the data transfer mechanism required to examine compliance with the agreement will be activated. It should be noted that in accordance with the Minister's decision, at the end of a preparation period of 3 months, i.e., on March 20, 2022, the restriction on Bezeq to offer Internet access service to private customers will be lifted (unless any of the periods are extended).

To Section 1.7.4 - Regulatory aspects relevant to the whole group or to a number of its companies

To Paragraph 1.7.4.1 - Regarding interconnectivity rates - On September 13, 2021, the Ministry of Communications published a hearing regarding the change in the rates regime regarding payments for interconnectivity between the communication networks according to which there is an intention to transfer the completion segment in calls that end in the networks to an alternative regime, according to which each party will bear its own costs and no more interconnectivity payments will be transferred between the operators regarding call minutes,, and that there will be no change in interconnectivity rates for notices SMS. In order to prevent a shock in the affected markets, as is customary in the world and in Israel during a significant change in interconnectivity rates and in order to give affected companies sufficient preparation time, the Ministry is considering making the change in the rates regime after a three-year gradual reduction. With regard to the international call market – the creation segment of outgoing calls abroad will be linked to the reduction plan as stated in accordance with the network in which the call was made (NIO or cellular), and with regard to incoming international calls from abroad, supervision of the completion segment in Israel will be removed upon the entry into force of the amendment of relevant regulations. On November 7, 2021 Bezeq submitted its response to the hearing according to which in order to allow fair competition in the market, it is required to immediately cancel the interconnectivity rates to the cellular operator for forwarding a short message which is currently stands at 0.14 Agorot. The change in the interconnectivity rates regime, as detailed in the hearing, is not expected to have a material effect on the Group.

To Paragraph 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.), and their activity continues unchanged. On September 2, 2021 DBS' license was similarly amended.

To Paragraph 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

On August 11, 2021, the Ministry of Communications issued a hearing regarding the amendment of the licenses of communications companies (including Group companies' licenses and determination of provisions regarding preparation for cyber defense management. The main points of the proposed amendment deal, among other things, with the protection of the communications network; Maintaining the relevance and up-to-dateness of systems; The licensee's handling of cyber incidents; And situations in which the licensee is required to report and share information. Bezeq, Pelephone and Bezeq International submitted their position as part of the hearing procedure.

To 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, a moderation in the effects of the pandemic in Israel was expected in 2021 (although changes in the pandemic trend, including as a result of mutations in the virus, may lead to exacerbation of the pandemic and its effects on Group companies). It should be noted that the global shortages of chips and disruptions in the supply chain cause, among other things, shortages and difficulties in the supply of equipment from the Group's main suppliers. the Group companies are taking various steps which are designed to mitigate the damage to their operations. For this matter, see also Note 1.2 to the Statements for the period ended September 30, 2021.

To Section 1.8 - Bezeq Group business strategy

On November 29, 2021, Bezeq's Board of Directors approved an update to the Group's vision and strategy as follows:

The Group's vision
Bezeq Group - the largest and leading communications group in Israel, will lead and promote the digital revolution in Israel, through advanced infrastructure and services for the private and business segments, while striving for operational excellence and continuous improvement in business results

The Group’s strategy
A. Strategic focus - focus on building infrastructure and growth engines
(1) Accelerated deployment of fiber optics and the transition to a unified Internet package - will constitute a growth engine in Bezeq Fixed Lines
(2) Internet activity for Bezeq International's private segment will be merged with DBS, which will become the "triple" sales arm that combines fiber and TV
(3) Pelephone will leverage the transition to 5G to increase revenue and ARPU
(4) Bezeq International's Business Integration Division will become a new growth-focused ICT company

B. Focusing growth strategy by arenas
(1) Communication, information and content services for households - investment and focus of efforts in growth and strengthening the competitive status in the arena, by offering as wide a basket of services as possible and deepening the penetration into households
(2) Communication services for businesses - maintaining and strengthening the leading position in the arena through offering added value to customers, based on quality service and advanced products
(3) Cellular services - maintaining and strengthening the competitive status, while striving to increase revenues and improve profits
(4) ICT services for businesses - investment in building capabilities that will enable significant growth.

C. Additional strategic moves
The Group will work to locate investments in areas that are tangent and complementary to the Group's activities and its competitive capabilities. Initiated investment and acquisition activities will enable shareholders to increase their returns by entering areas of high-growth activity from the Group's traditional core areas. Diversifying the portfolio will allow for risk diversification, and reduced dependence on regulatory risks.

D. Beyond the strategic moves, the Group strives to strengthen the foundations that will enable continued growth in the medium term - striving for operational excellence through expanding the digital transformation, streamlining the cost base, improving market response times and flexibility for changes, realizing synergies in subsidiaries and striving to eliminate segregation.

E. Optimal cash flow and equity management - unlocking value for shareholders, while maintaining a credit rating in the AA group - The Group aims to maintain a high credit rating in the AA group while adjusting the debt repayment burden to self-generating cash flow and maintaining significant liquidity, while returning to distributing dividends to shareholders .

F. In addition, Bezeq Group strives to be one of the leading companies in the field of ESG.

Simultaneously with the publication of this report, Bezeq publishes in an immediate report a presentation of the main principles of Bezeq Group’s strategy, which also includes Bezeq's ambitions (“**the Presentation**"). The latter report is included in this report by way of reference.

This section includes forward-looking information, within the meaning thereof under the Securities Law, including forecasts, targets, business strategy, assessments, ambitions and estimates, both regarding the activities of Bezeq and its subsidiaries, the markets in which they operate, as well as any other information relating to future events or matters whose realization is uncertain and not controlled by Bezeq ("**forward-looking information**"). Although Bezeq believes that the forward-looking information that is included in the Presentation is based on reasonable estimates, the said information is subject to certain risks and uncertainties. forward-looking information is inherently subject to risks of non-realization and is uncertain and Bezeq does not in any way guarantee that its assessments, expectations, aspirations and objectives will be realized in practice. Accordingly, forward-looking information should not be construed as a promise that it will actually materialize. Implementation and / or other changes in forward-looking information depend on factors that are not necessarily possible to know in advance, and are not necessarily under Bezeq's control, including risk factors and the nature of its activities, developments in the general environment and external factors and regulation affecting its activities and other factors. The results and achievements of Bezeq Group in the future may differ materially from those presented in the forward-looking information presented in this section.

Attention is also drawn to the reservations specified in the Presentation in relation to the information contained therein and to the fact that Bezeq does not undertake to update or change the forecast, assessment, ambition or other information contained in the presentation, and does not undertake to update the presentation to the extent it is not required by law.

Landline Interior Communications - Bezeq

To Section 2.2.6 - Other services

Power supply license - On September 1, 2021, Bezeq received a license from the Electricity Authority to supply power without means of production. Bezeq intends to examine in the first pase, as a pilot supply and sale of electricity to various consumers in accordance with the terms of the license.

To 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.

To 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.

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

To Paragraph 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 656k customers (approximately 63.5% of Bezeq's retail Internet customers). It should be noted that in July 2021, Bezeq launched a new Be router (Be2) specially adapted for connection to the fiber network. Bezeq also markets products for improving the reception range of home Internet networks, Bspot and BeMesh, as of the date of publication of the report, about 347k units of these products were marketed by Bezeq.

To Section 2.7.2 - Infrastructure and equipment for landline interior communications

To paragraph 2.7.2.3 - regarding ultra-broadband fiber infrastructure - as of the date of publication of the report, Bezeq's fiber network covers about 1.040 million households throughout Israel (of this volume, about 1.001 million households are currently available for commercial connection).

Following the decision regarding structural changes in the discussions of the economic plan, a draft memorandum of government law was published to amend Article 25 of the Communications Law regarding the transfer of infrastructure, which allows, *inter alia*, the State, infrastructure companies (government company or government subsidiary who deal with infrastructure) or anyone on their behalf to relocate passive infrastructure themselves in certain circumstances.

To Section 2.7.4 - Realization of real estate

To Paragraph 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.

To Section 2.9.3 - Early retirement plans for employees

On November 29, 2021, as parto f the exercise of the streamlining plan, and according to the collective agreement, Bezeq's Board of Directors approved the retirement of Bezeq's 50 veteran permanent employees in the early retirement plan in 2022, at a total cost of approximately NIS 71 million (the cost includes a reserve of 5% of the estimated retirement costs). In light of the above, Bezeq is expected to record an expense of approximately NIS 67.5 million in its financial statements for the fourth quarter of 2021.

To 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 September 30, 2021.

To 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).

To Section 2.11 - Working capital

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

To 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.

To Section 2.16 - Restrictions and supervision of Bezeq operations

To Section 2.16.1 - Supervision of Bezeq rates

To Paragraph 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.

To Paragraph 2.16.1.6 - regarding the 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. A decision has not yet been made in the hearing.

To Section 2.16.2 - Bezeq's NIO license

Regarding 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.

To Section 2.16.4 - Wholesale market

To Section 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. Subsequently, on October 13, 2021, Bezeq's Board of Directors decided to adopt the Claims Committee's recommendation of October 7, 2021, according to which in the circumstances Bezeq does not have a good cause of action against officers and other officials who served during the relevant periods, and that conducting legal proceedings will not be beneficial to Bezeq. In this regard, see also update to Section 2.18(k)(2).

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

To Section 2.16.8 - Economic Competition Law

In respect of Paragraph 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).

To 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 landline communications networks".

To Paragraph 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. At the same time, on October 31, 2021, a draft amendment to the regulations was published, in the framework of which it is proposed to repeal the said exemption provision so that it will not be possible to exempt from the obligation to install the fiber-optic infrastructure and all its components in every residential building.

To Section 2.16.12 (General)

A part of the Economic Plan Law (Amendments to Legislation for the Implementation of Economic Policy for Budget Years 2021 and 2022) (5721-2021), approved on November 4, 2021 ("the Arrangements **Law**"), the provisions of the Communications Law were amended regarding the conditions for deploying an advanced network in a shared residential building, even in the absence of the consent of the majority of the apartment owners.

On October 30, 2021 a hearing was published to amend the arrangement for mutual use of passive infrastructure. In the proposed amendment, the Ministry of Communications is considering allowing holders of broadband infrastructure special licenses to use the passive infrastructure of a general NIO (including Bezeq) only in the incentive areas (areas where Bezeq chose not to deploy an advanced network and for which funds will be allocated from the incentive fund), under terms to be determined. It should be kept in mind that holders of general licenses may use Bezeq's passive infrastructure outside the incentive areas as well. This hearing is a continuation of the decision of the Minister of Communications dated October 13, 2020, in which the threshold requirements for obtaining a license enabling the provision of broadband infrastructure services were reduced, following which the Ministry began granting special licenses for broadband infrastructure. For this matter, see also Section 2.6.3.6 of Description of the Corporation's Business chapter in Bezeq's 2020 Periodic Report). Allowing broadband infrastructure special license holders to make use of Bezeq's passive infrastructure may increase the rate of deployment of broadband infrastructure by special license holders and the transfer of customers to them in the incentive areas. On the other hand, the use of Bezeq's passive infrastructure by the special licensees will involve a payment to Bezeq.

Accordingly, Bezeq is unable at this stage to assess the overall effect of amending the said arrangement, insofar as it is implemented. On October 25, 2021, Bezeq submitted its response to the hearing, according to which, among other things, it opposes the said extension, which exceeds authorizations under Article 5J of the Communications Law, which stipulates that only general licensees can use Bezeq's network. Bezeq warned of the dangers involved in expanding the use by a large number of special licensees, especially in light of the accumulated experience and the lack of necessary enforcement tools to ensure reports of access to infrastructure and the execution of works, lawful use and payments.

Also, on October 13, 2021 a hearing was published to amend the BSA and telephony wholesale service portfolio. The draft letter was accompanied by a draft service file that includes the addition of a chapter on the provision of BSA service based on an advanced network, as well as a draft license amendments for unified general license holders and special licensees for providing Internet access service and broadband infrastructure. On November 1, 2021, Bezeq submitted its response to the hearing, according to which, among other things, additional requested adjustments must be made, which are a necessity of reality.

On October 13, 2021, the Ministry of Communications issued a tender "for the extension of a license to deploy an advanced network and to receive financial grants to encourage the deployment of advanced landline networks in areas with no economic viability", i.e., in the incentive areas.

Also, on October 12, 2021, a hearing was published according to which the Minister of Communications is considering stipulating in the regulations the obligation to provide service as well as maximum supervised rates for the BSA service on fiber to be given in the incentive areas by the tender winner (which are the same rates as for BSA service), and the difference between the retail prices and the maximum BSA rate to be determined will be required to meet the margin reduction test in a manner that will allow a retail margin of 20% of its national retail price.

<u>To Section 2.17.3 - Material agreements - employment agreements</u>

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.

<u>To Section 2.18.1 - Pending proceedings</u>

To Paragraphs B, C (application from March 2018), G, H, I, J - regarding the continued delay of the proceedings in these cases in light of the Securities Authority's investigation and proceedings derived therefrom - in view of the Securities Authority's position regarding the continued delay in the proceedings, the handling of these cases has been delayed, at this stage, until July 10, 2021.

To Paragraph C (application from November 2015) - regarding a class action in which it was alleged that Bezeq abused its monopolistic position, *inter alia*, by acting to thwart the wholesale market reform - on November 1, 2021, the Attorney General announced his involvement in this proceeding and asked for an order of stay of proceedings in this proceeding as well, until July 20, 2022 then the Attorney General will update on the need of further stay of the proceeding, in view of the conduct of criminal proceedings ("4,000 Case") related to this proceeding.

To Paragraph D - 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.

To Paragraph 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.

To Paragraph 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.

To Paragraph 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. Subsequently, on October 13, 2021, Bezeq's Board of Directors decided to adopt the Claims Committee's recommendation of October 7, 2021, according to which in the circumstances Bezeq does not have a good cause of action against officers and other officials who served during the relevant periods, and that conducting legal proceedings will not be beneficial to Bezeq. The Committee came to this conclusion after examining the implications, benefits, damages, costs and profits involved in conducting such legal proceedings, and came to the conclusion that their management would harm Bezeq. Bezeq filed a notice on this matter to the Court.

Paragraph 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.

Paragraph 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 the 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 class 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 class members 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".

In August 2021, a lawsuit was filed with the Tel Aviv District Court with a motion for approval as a class action by a Bezeq customer, claiming that during the COVID crisis, Bezeq charged its telephony customers in excess of the amounts determined and approved by the Ministry of Communications as part of the arrangements made in light of the increase in the use of the landline telephone during the COVID crisis, which were valid for two periods (March 1, 2020 to June 14, 2020 and September 21, 2020 to June 30,. 2021). According to the request, the group of plaintiffs must include "all Bezeq customers in landline telephony who were charged in excess amounts in violation of the binding arrangements during the COVID period as determined by the Minister of Communications." The applicant estimates that the size of the group is more than one million Bezeq subscribers in landline telephony (subscribers who use exchange payment baskets) and the amount of aggregate damage caused to all group members is not estimated, but is estimated at more than NIS 2.5 million.

3. Radio-mobile telephone - Pelephone Communications Ltd. ("Pelephone")

To Section 3.4 – Trdae receivables

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 500k subscribers in packages of this type.

To Section 3.7.1 - Infrastructure

To Paragraph 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.

To Section 3.8.2 - Right of use of frequencies

To Paragraph 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).

To Paragraph 3.8.2.4 regarding a tender for advanced broadband services - on October 27, 2021, the Ministry of Communications announced that Pelephone is entitled to a grant for the deployment of 5G sites in the amount of NIS 74 million..

To 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. For information on disabling Magen on Pelephone and Bezeq International, see the update to Section 4.8. On November 1, 2021, the subsidiaries reached agreements in principle with the General Histadrut and the employees' representatives on the cessation of sanctions and entry into negotiations. For more information on this matter, see the update to Section 4.8.

To Section 3.10.1 - End equipment suppliers

It should be noted that a global shortage of chips caused, among other things, a shortage and difficulties in the supply of end equipment from Bezeq's main suppliers.

To Section 3.14 – Pelephone's radio-mobile telephone license

To paragraph 3.14.2.1 - regarding Pelephone's general license - on November 18, 2021 the license was renewed for an additional ten years until September 9, 2032.

To Section 3.14.3 - Site licensing

Under the Arrangements Law, an amendment to the Planning and Building Law was accepted, that includes the removal of regulatory barriers regarding the construction of sites, most of which are exempt from licensing procedures for facilities up to 6 meters in size. These facilities will continue to meet the conditions of National Outline Plan 36 and regional guidelines of local committees, where the actual meaning of the amendment is the transition to "self-licensing" - that is, submission of documents to the Planning and Construction Committee will be made retrospectively (after construction). At this stage, the expected future consequences as a result of the amendment cannot be estimated.

On November 14, 2021, Pelephone signed a framework agreement to expand the point collaboration in the establishment of passive infrastructure on shared mobile sites together with Cellcom Ltd. and H.A.Networks (2015) Limited Partnership. This agreement, subject to the approval of the Competition Authority and the Ministry of Communications, may assist in the establishment of shared mobile sites, Pelephone does not have the ability to assess whether the regulatory approvals necessary for the entry into force of this agreement will be granted.

To 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.

To Section 3.16.1 - Pending legal proceedings

To Paragraph A - regarding a claim and a motion for approval as a class action lawsuit filed against Pelephone, alleging that Pelephone illegally collected VAT from its customers who consume cellular services during their stay outside Israel - on August 22, 2020, a ruling was issued that approves a compromise arrangement between Pelephone and the applicants and between the State, under which Pelephone will be charged an amount of NIS 300,000 (including VAT) for partial expenses of making the settlement, and will not bear additional expenses

To Paragraph 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.

4. International Communications, Internet and network services - Bezeq International Ltd. ("Bezeq International")

To 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 consolidate 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 response 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. In view of the continuation of the sanctions, on October 19, 2021, Pelephone and Bezeq International (each separately) (in this section: "**the Subsidiaries**") submitted to the Chief Supervisor of Labor Relations in the Ministry of Economy a notice of deactivation of a shield under Article 5A of the Labor Disputes Settlement Law, 5717-1957. The announcements explained that the continued sanctions in the Subsidiaries may result in no economic reason and / or operational possibility for certain processes to take place in the Subsidiaries. The date of commencement of the protective strike and the number of employees whose work will be suspended as part of the said strike, insofar as it is taken in each of the subsidiaries, depends on the organizational measures and sanctions to be taken by the employees.

On November 1, 2021, the subsidiaries, as part of a mediation procedure conducted in parallel between the parties, reached agreements in principle with the Histadrut and the employees’ representatives, subject to the signing of collective agreements, as well as an agreement that all organizational measures (including all sanctions) will cease immediately, and intensive negotiations will commence to sign collective agreements to regulate the employees’ rights as part of the implementation of the planned structural change in Bezeq International and DBS. The following are the main principles of the outline that was formulated:

- A collective agreement will be signed between the new integration company to be established and the Histadrut.
- Bezeq International activities that are not transferred to the new integration company will be merged into DBS and the employees will be absorbed as DBS employees under a collective agreement that will be signed with the Histadrut for three years. The Histadrut and the Chairman of the Bezeq International Employees’ Committee will continue to represent the employees who transfer to DBS and the integration company, for the period of the agreement, including for the purpose of signing collective agreements.
- Permanent employees of Bezeq International who are not interested in transferring to DBS will be offered retirement conditions as agreed between the Histadrut and Bezeq International's Management.
- An agreement was reached with a representative of Pelephone employees to maintain the cellular network owned by Pelephone for the period of the agreement.

- Employees of the Subsidiaries will be entitled to a special bonus to be paid to them at the beginning of 2022 in a total amount that is not material at the group level. This section is not subject to the signing of collective agreements. In parallel with this agreement, the Histadrut and the employees' representatives of the Subsidiaries waive their economic demands in the context of the labor dispute declared regarding the sale of Bezeq's controlling shares to the new owners.

The collective agreements reached following the agreements in principle will be brought for approval by the boards of directors of the Subsidiaries. Bezeq cannot assess at this stage whether, at the end of the negotiations, the collective agreements will be signed as expected, as well as the total cost that will be involved.

To 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.

To Section 4.11.5 - Key regulatory developments

To Paragraph 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.

5. 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.

In September 2021, a decision was issued by the Minister of Communications regarding the reform of the broadcasting market. In the decision, among other things, the Minister announced the adoption in principle of the Committee's recommendations subject to changes and adjustments as specified in the decision, and ordered staff work in relation to some of the recommendations. Regarding the issue of the economic models of the broadcasting market, and after receiving public comments and recommendations from the professional staff, the Minister will make decisions on the subject. In addition, the Minister instructed the professional personnel in the Ministry of Communications to begin staff work to anchor the recommendations in legislation and guidelines, while completing staff work on the issues detailed in the letter. The Minister further stated that he intends to act to complete the reform within a period of about a year at most. Bezeq and DBS are studying the Minister's decision, and at this stage they are unable to assess the impact of the decision on DBS' business, *inter alia*, because in relation to some of the issues the Minister has not yet made a final decision; Since this is an economic decision and staff work is required regarding the recommendations contained therein; And since legislative proceedings are still required for the purpose of implementing the Committee's recommendations and their implementation

To 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 DBS' offices, 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.

Regarding the collective agreements (including the collective arrangement) with the employees' representation and the National Histadrut and the labor dispute declared in December 2019 by the New Histadrut - on August 11, 2020, DBS signed a collective agreement with the Histadrut and the Employees' representatives which includes amendments to the aforesaid collective agreements. The new collective agreement will be valid from January 1, 2022 until December 31, 2024. Under the new collective agreement, among other things, salary increases and bonuses will be provided, salary conditions will be improved, a retirement plan will be agreed and the said labor dispute declared by the National Histadrut will be removed, while clarifying the DBS Management's intention to merge Bezeq International, and it was agreed that the parties would maintain industrial peace during the period of validity of the agreement in all matters regulated therein. DBS estimates the additional cost under the new collective agreement at NIS 55 million for the entire cumulative period of the agreement.

DBS's estimates of the additional cost of the collective agreement are forward-looking information, as defined in the Securities Law, based, *inter alia*, on its assumptions regarding the manner and scope of implementation of the retirement plan and additional conditions set forth in the agreement. These assessments may not materialize, or materialize differently than expected, *inter alia*, depending on the manner and scope of actual implementation of the agreement and the retirement plan, taking into account the needs of DBS and its ability to implement its plans and meet additional conditions set forth in the agreement.

To Section 5.13 - Financing

In November 2021, Bezeq approved a credit facility or investment in DBS' equity in a total amount of up to NIS 40 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).

To 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.

To 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, the entry into force of the amendment to the agreement.

To 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 class 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.

In October 2021, a lawsuit was filed against DBS with the Jerusalem District Court, together with a motion for approval as a class action. The request concerns the fact that DBS is acting unlawfully in that when a customer orders a more advanced (new) converter from it, it provides the customer with the new converter without removing the old converter while continuing to charge the customer monthly for the old converters in his home. The applicant claims that in doing so, DBS is acting, among other things, in bad faith, by deception and with a misleading presentation of invoices. The definition of the class according to the application is all DBS customers who were charged monthly payments for old, inactive standard converters and which were not removed by DBS during the seven years prior to the submission of the motion and until the date of its approval. The amount of personal damage claimed is NIS 193 (NIS 183 for overcharging and NIS 10 for violation of autonomy). Please note that at this stage it is not possible to quantify the damage to the Group companies.

To 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).

To Section 5.19.3 - Special risks to DBS

To Paragraph 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.

November 29, 2021

Date	B Communications Ltd.

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

Chapter B
Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended Septembert 30, 2021

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 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 jointly referred to hereinafter as: "the Group"), for the period of nine months ended ended September 30, 2021. Hereinafter: "median") and for a period of three months ending on the same date (hereinafter: "quarter").

The report of the Board of Directors includes an overview, in a limited format, of the matters in which it deals with 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 in the matter of Bezeq, 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 Chapter 1.5 below.

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

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

Group results

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

	1-9 / 2021	1-9 / 2020	Change		7-9 / 2021	7-9 / 2020	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Net profit	882	544	338	62.1	236	6	230	3,833
EBITDA*	2,913	2,547	366	14.4	923	680	243	35.74
Adjusted EBITDA*	2,792	2,766	26	0.94	936	913	23	2.52

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

The increase in net profit and EBITDA in the nine and three months ended September 30, 2021 was mainly due to a registration of impairment in respect of the international communications, Internet and network services segment in the 3rd quarter of 2020, as well as capital gains from the sale of real estate.

For more information see Section 1.2.1 below.

* **Financial indices that are not based on generally accepted accounting principles**

As of the date of the report, the Group's Management is assisted by financial performance indices that are not based on the 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 list 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:

	1-9 / 2021	**1-9 / 2020**	**7-9 / 2021**	**7-9 / 2020**
	NIS millions		**NIS millions**	
Operating profit	**1,506**	1,186	**457**	220
Net of depreciation, amortization and impairment	**1,407**	1,361	**466**	460
EBITDA	2,913	2,547	923	680
Other operating income, net	**(143)**	(30)	**7**	(7)
Impairment losses	**-**	249	**-**	240
Employee options expenses	**22**	-	**6**	-
Adjusted EBITDA	**2,792**	2,766	**936**	913

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

1.1. Financial position

Section	9/30/2021	30.9.2020	Increase / decrease		Explanation
	NIS millions		NIS millions	%	
Cash and investments	**2,004**	2,455	(451)	(18.37)	The decrease was due to a decrease in Bezeq in current investment balances in the fixed line communication segment. On the other hand, there is an increase in cash balances in the Bezeq Group. For more information, see Section 1.3 below.
Current and non-current trade receivables	**2,361**	2,550	(189)	(7.41)	The decrease was mainly due to a decrease in receivables balances due to the sale of real estate in the national interior communications segment, as well as a decrease in customer balances in the cellular communications segment and in the Internet, telecommunications and netowerk services segment.
Inventory	**70**	96	(26)	(27.08)	The decrease was mainly due to the cellular communications segment, mainly due to difficulties in supplying end equipment from the segment's main suppliers due to the global chip crisis and the reduction in equipment for the launch of a new model iPhone device..
Assets held for sale	**36**	46	(10)	(21.74)	
Broadcasting rights	**57**	67	(10)	(14.93)	
Right-of-use assets	**1,763**	1,197	566	47.28	The increase was mainly due to the fixed line communication segment as well as the cellular communications segment as a result of the new lease agreements due to the move to new offices.
Property, plant and equipment	**6.266**	6,035	231	3.83	The increase was due to the fixed line communication segment, due in part to the fiber network deployment project.
Intangible assets	**3,266**	3,172 *	94	2.96	The increase was mainly due to the cancellation of the provision for impairment in respect of the cellular communications segment.
Deferred tax assets	**37**	53	(16)	(30.19)	
Deferred expenses and non-current investments	**347**	435 *	(88)	(20.23)	
Total assets	**16,207**	16,106	101	0.63	

* Reclassified

1.1. Financial position (Cont.)

Section	9/30/2021	30.9.2020	Increase / decrease		Explanation
	NIS millions		NIS millions	%	
Debt to financial institutions and debentures	**9,944**	11,326	(1,382)	(12.20)	The decrease in debt was due to repayment (including early repayment) of loans and repayment of debentures in the fixed line communications segment.
Lease liabilities	**1,897**	1,358	539	39.69	The increase was mainly due to the fixed linecommunications segment, as well as the cellular communications segment ,due to new lease agreements due to the move to new offices.
Trade and other Payables	**1,723**	1,749	(26)	(1.49)	The decrease in carrier balances was offset mainly due to the classification of a payable liability for the cost of 5G frequencies in the cellular communications segment as a current liability..
Employee benefits	**667**	775	(108)	(13.94)	The decrease was due to payments for the retirement of employees and streamlining plans in the Bezeq Group, offset by an expense for the termination of the employee-employer relationship in early retirement in the Company in the amount of NIS 65 million recorded in the fourth quarter of 2020.
Provisions	**132**	167	(35)	(20.96)	The decrease was mainly due to a decrease in provisions for claims in the fixed line communications segment.
Deferred tax liabilities	**302**	279 *	23	8.24	
Derivatives and other non-currrent liabilities	**178**	342	(164)	(47.95)	The decrease was mainly due to the classification of a payable liability for the cost of 5G frequencies in the cellular communications segment as a current liability, as well as a decrease in derivatives in the fixed line communications segment.
Total liabilities	**14,843**	15,996	(1,153)	(7.21)	
Non-contrrrolling interests	**1,297**	256	1,041	406.6	
Equity (deficit) attributed to the shareholders of the Company	**67**	(146)	1,213	-	
Total equity	**1,364**	110	1,254	1,140	Equity constitutes approximately 8.4% of the total balance sheet, compared with approximately 0.7% of the total balance sheet as of September 30, 2020.
Total liabilities and equity	**16,207**	16,106	101	0.63	

* Reclassified

1.2. Results of operations

1.2.1. The main results

	1-9 / 2021	1-9 / 2020	Increase (decrease)		7-9 / 2021	7-9 / 2020	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue	**6,563**	6,520	43	0.66	**2,142**	2,178	(36)	(1.65)	The increase in revenues in the period was due to the cellular communications segment, the fixed line communications segment and the "other" segment, offset by the decrease in revenues in the Internet services segment, telecommunications and network, and the multi-channel television segment. The decline in the quarter was mainly due to the Internet services segment, the above-mentioned communications and network.
General and operating expenses	**2,376**	2,355	21	0.89	**744**	790	(46)	(5.82)	The increase in the period was mainly due to the the fixed line communications segment as well as the international communications, Internet and network segment, offset by a decrease in expenses in the cellular communications segment and in DBS. There is an increase in the Group's expenses, among other things, due to the recognition of an expense for the incentive fund regarding the deployment of the fiber optic network (see Note 12 to the Satements). The decline in the quarter was due to the cellular communications segment and the Internet services, telecommunications and network segments.
Salaries	**1,417**	1,399	18	1.29	**468**	475	(7)	(1.47)	During the current period and quarter, the Group recognized salary expenses in respect of share-based payment, see Note 15 to the Statements. The change was due to an increase in salary expenses in the fixed line communications segment and in the period also in the

									"other" segment, offset by a decrease in the other main group segments due to a decrease in the number of jobs.
Depreciation, amortization and impairment	**1,407**	1,361	46	3.38	**466**	460	6	1.3	The increase in the period was mainly due to the fixed line communications segment.
Impairment loss	**-**	249 *	(249)	(100)	**-**	240 *	(240)	(100)	During the corresponding period, an impairment loss was recorded in respect of the cellular communications segment..
Other operating expenses (income), net	**(143)**	(30)	(113)	376.67	**7**	(7)	14	-	The increase in net revenue during the period was due to the fixed line 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 13 to the Statements).
Operating Profit	**1,506**	1,186	320	26.98	**457**	220	237	107.73	
Financing expenses, net	**331**	352	(21)	(5.97)	**146**	106	40	37.74	In the corresponding period, costs were included for early repayment of loans and higher debentures in the landlline interior communications segment (see Note 14 to the Statements). In the current quarter, the increase was due to early repayments of debentures and loans both in the landlline interior communications segment and in Bezeq.
Income taxes	**293**	290 *	3	1.03	**75**	108	(33)	(30.56)	
Net profit for the period	**882**	544	330	62.13	**236**	6	230	3,833	

* Reclassified

1.2.2. Operating segments

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

Revenue by operating segments	1-9 / 2021		1-9 / 2020		7-9 / 2021		7-9 / 2020	
	NIS millions	% of total revenue	NIS millions	% of total revenue	NIS millions	% of total revenue	NIS millions	% of total revenue
Fixed line communications	**3,130**	47.7	3,104	47.6	**1,037**	48.4	1,042	47.8
Cellular communications	**1,687**	25.7	1,653	25.4	**541**	25.3	545	25
Internet services, International Communications and network services	**909**	13.9	946	14.5	**287**	13.4	315	14.5
Multi-channel TV	**948**	14.4	970	14.9	**318**	14.8	313	14.4
Others and adjustments	**(111)**	(1.7)	(153)	(2.4)	**(41)**	(1.9)	(37)	(1.7)
Total revenues	**6,563**	100	6,520	100	**2,142**	100	2,178	100

Operating profit by operating segments	1-9 / 2021		1-9 / 2020		7-9 / 2021		7-9 / 2020	
	NIS millions	% of segment revenue	NIS millions	% of segment revenue	NIS millions	% of segment revenue	NIS millions	% of segment revenue
Fixed line communications	**1,390**	44.4	1,349	43.5	**390**	37.6	446	42.8
Cellular communications	**34**	2	(48)	(2.9)	**22**	4.1	(27)	(5)
Internet services, International Communications and network services	**21**	2.3	(219)	(23.2)	**13**	5.2	(275)	(87.3)
Multi-channel TV*	**(32)**	(3.4)	(33)	(3.4)	**(11)**	(3.5)	(16)	(5.1)
Others and adjustments	**93**	-	137	-	**43**	-	92	-
Consolidated operating profit / percentage of the Group's revenue	1,506	22.94	1,186	18.19	457	21.3	220	10.1

*** The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized since 2018 (see Notes 5.1 and 17 to the Statements). This is in accordance with the way the Group's chief operating decision-maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment.**
In addition, see Note 15.3 to the consolidated statements for a summary of selected data from the statements of DBS.

1.2.2. Operating segments (cont.)

b. Fixed Line communications segment

	1-9 / 2021	1-9 / 2020	Increase (decrease)		7-9 / 2021	7-9 / 2020	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Internet – infrastructure revenues	**1,208**	1,205	3	0.2	**407**	408	(1)	(0.2)	The change was mainly due to an increase in average revenue from retail subscribers, mainly from complementary end equipment 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 the number of wholesale Internet lines.
Fixed line telephony revenues	**691**	760	(69)	(9.1)	**220**	254	(34)	(13.4)	The decrease was due to a decrease in the average revenue per telephone line, mainly due to the moderation of the effect of the COVID pandemic on calls consumption, as well as a decrease in the number of lines.
Communications, transmission and other data revenues	**993**	926	67	7.2	**330**	309	21	6.8	The increase was due, among other things, to an increase in revenues from transmission services to Internet providers and businesses.
Cloud and digital services revenues	**238**	213	25	11.7	**80**	71	9	12.7	The increase was dueMainly From virtual exchange services As well as business directory services (B144) and business services.
Total revenues	**3,130**	3,104	26	0.8	**1,037**	1,042	(5)	(0.5)	
Operating and general expenses	**480**	436	44	10.1	**163**	154	9	5.8	The increase was mainly due to the recognition of expenses for the incentive fund as part of the amendment of Bezeq's license regarding the deployment of the fiber optic network (see Note 12 to the Statements), an increase in subcontractors' expenses and costs of terminal equipment and materials.
Salaries	**703**	678	25	3.7	**237**	225	12	5.3	The increase was mainly due to the absorption of employees, an increase in salaries and the recognition of share-based payment expenses (see Note 15 to the Statements), offsetting the retirement of employees and in the period also offsetting an increase in wages attributed to investment.
Depreciation and amortization	**693**	652	41	6.3	**239**	222	17	7.7	
Other operating expenses (income), net	**(136)**	(11)	(125)	-	**8**	(5)	13	-	The increase in other net operating revenue during the period was due to a capital gain from the sale of a real estate property in the amount of NIS 125 million and an update of the provision for legal claims. The change in the quarter was mainly due to a decrease in capital gains from the sale of real estate.
Operating profit	**1,390**	1,349	41	3.0	**390**	446	(56)	(12.6)	

1.2.2. Operating segments (cont.)

Fixed Line communications segment – cont.

	1-9 / 2021	1-9 / 2020	Increase (decrease)		7-9 / 2021	7-9 / 2020	Increase (decrease)		Explanation
	NIS millions		NIS millionss	%	NIS million		NIS millions	%	
Financing expenses, net	**268**	303	(35)	(11.6)	**110**	91	19	20.9	The increase in net financing expenses in the reported quarter was mainly due to early repayment costs of a loan recognized in the current quarter. On the other hand, in the reported period there is a decrease in the said costs compared to the corresponding period. In addition, there is a decrease in interest expenses due to loan repayments, offset by an increase in linkage differences in respect of debentures due to the rise in the index (see Note 14 to the Statements).
Income taxes	**265**	222	43	19.4	**61**	55	6	10.9	In the corresponding quarter, a deferred tax asset was recognized due to an expected loss for tax purposes from the sale of Walla.
Profit from segment	**857**	824	33	4	**219**	300	(81)	(27)	

1.2.2 Operating segments (cont.)

c. **Cellular communications segment**

	1-9 / 2021	**1-9 / 2020**	**Increase (decrease)**		**7-9 / 2021**	**7-9 / 2020**	**Increase (decrease)**		**Explanation**
	NIS millions		**NIS millions**	**%**	**NIS millions**		**NIS millions**	**%**	
Revenues from services	**1,218**	1,195	23	1.9	**417**	396	21	5.3	The increase was mainly due to some recovery from the effects of the COVID 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 in 5G packages.
Revenues from terminal equipment sales	**469**	458	11	2.4	**124**	149	(25)	(16.8)	The increase in the period was mainly due to the increase in retail sales due to the launches of new model devices. The decline in the quarter was mainly due to difficulties in supplying end equipment from the sector's main suppliers due to the global chip crisis.
Total revenue	**1,687**	1,653	34	2.1	**541**	545	(4)	(0.7)	
Operating and general expenses	**992**	1,017	(25)	(2.5)	**299**	346	(47)	(13.6)	The decrease in the period was mainly due to a decrease in call completion fees in parallel with revenues due to the COVID crisis and the continued reduction and streamlining of operating expenses. The decrease was mainly offset by an increase in the cost of sales of end equipment in parallel with revenues and a registration of the costs of implementing a cloud computing system. The decrease in the quarter was mainly due to a decrease in the cost of sales of end equipment and a decrease in call completion fees in parallel with revenues.
Salaries	**234**	239	(5)	(2.1)	**76**	79	(3)	(3.8)	
Depreciation and amortization	**430**	448	(18)	(4.0)	**144**	147	(3)	(2.0)	
Other operating, (income), net	**(3)**	(3)	-	-	**-**	-	-	-	
Operating profit (loss)	**34**	(48)	82	-	**22**	(27)	49	-	
Financing revenue, net	**32**	33	(1)	(3.0)	**11**	12	(1)	(8.3)	
Income taxes expenses (revenue)	**15**	(2)	17	-	**10**	(3)	13	-	
Profit (loss) from segment	**51**	(13)	64	-	**23**	(12)	35	-	

1.2.2 Operating segments (cont.)

d. Internet, international communications and network services segment

	1-9 / 2021	1-9 / 2020	Increase (decrease)		7-9 / 2020	7-9 / 2019	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenues	**909**	946	(37)	(3.9)	**287**	315	(28)	(8.9)	The decrease was mainly due to a decrease in Internet revenues as well as a decrease in revenues from the sale of equipment and licensing to businesses as a result of sanctions that were taken during the current quarter. The decrease was partially offset in the reported period due to an increase in revenue from business services.
Operating and general expenses and impairments	**581**	571	10	1.75	**179**	203	(24)	(11.8)	The increase in the period was mainly due to an increase in local capacity expenses, partly due to a one-time credit received in the corresponding period as a result of an update of Internet rates in the wholesale market and an increase in the international call expenses as a result of a change in international call mix. The increase was partially offset by a decrease in loan-loss expenses. The decrease in the quarter was mainly due to a decrease in expenses for the sale of equipment and licensing for businesses in parallel with a decrease in revenues, as well as a decrease in local capacity expenses.
Salaries	**177**	189	(12)	(6.3)	**59**	63	(4)	(6.3)	The decrease was mainly due to a continued decrease in the number of Bezeq Group employees as part of the streamlining plan.
Depreciation, amortization and impairment	**133**	123	10	8.1	**38**	42	(4)	(9.5)	The change was mainly due to a decrease in value as a result of the assessment of the realization value of the depreciable assets as of September 30, 2021 (see Note 5.2 to the Statements), as well as to an increase in expenses for reducing a subscription acquisition asset, offset by a decrease in current depreciation expenses as a result of impaired assets recognized in the previous year..
Other operating expenses, net	**(3)**	282	(285)	-	**(2)**	282	(284)	-	In the corresponding quarter, an impairment loss of NIS 282 million was recognized.
Operating profit (loss)	**21**	(219)	240	-	**13**	(275)	288	-	
Financing expenses (revenues), net	**1**	1	-	-	**-**	1	(1)	(100)	
Income taxes	**7**	42	(35)	(83.3)	**3**	29	(26)	(89.7)	In the corresponding quarter, a NIS 28 million tax asset was written off.
Profit (loss) from segment	**13**	(262)	275	-	**10**	(305)	315	-	

1.2.2. Operating segments (cont.)

e. Multi-channel TV segment *

	1-9 / 2021	1-9 / 2020	Increase (decrease)		7-9 / 2021	7-9 / 2020	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS million		NIS millions	%	
Revenues	**948**	970	(22)	(2.3)	**318**	313	5	1.6	The decrease in the period was mainly due to a change in the customer mix that led to a decrease in the average revenue per subscriber as well as a decrease in revenue from the sale of content. The increase in the quarter was mainly due to an increase in sports content revenues in light of the halting of sports events in the corresponding quarter due to the COVID crisis.
Operating and general expenses	**620**	638	(18)	(2.8)	**208**	204	4	2.0	The decrease in the period was mainly due to a decrease in content expenses and streamlining of operating expenses.
Salaries	**134**	146	(12)	(8.2)	**43**	48	(5)	(10.4)	The decrease was due to a continued decrease in the number of jobs as part of the streamlining plan.
Depreciation and amortization	**227**	230	(3)	(1.3)	**77**	76	1	1.3	
Other operating revenues (exepnses), net	**(1)**	(11)	10	90.9	**1**	1	-	-	The corresponding period included income in respect of a settlement agreement with a supplier and a reduction in expenses in respect of an arrangement for the retirement of employees.
Operating loss	**(32)**	(33)	1	(3.0)	**(11)**	(16)	5	(31.3)	
Financing revenues (expenses), net	**(2)**	-	(2)	-	**1**	1	-	-	The change was mainly due to a change in the fair value of financial assets..
Income taxes	**1**	2	(1)	(50)		1	(1)	(100)	
Loss from the segment	**(31)**	(35)	4	(11.4)	**(12)**	(18)	6	(33.3)	

*** The results of the multi-channel television segment are presented net of the overall effect of impairment recognized as of the fourth quarter of 2018 (for more information, see Notes 5.1 and 14 in the Statements). This is in accordance with the way in which the Group's chief operating decision-maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment.**
In addition, see Note 18.4 to the Consolidated Statements for a summary of selected data from DBS' statements.

1.3. Cash flows

	1-9 / 2021	1-9 / 2020	Increase (decrease)		7-9 / 2021	7-9 / 2020	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Net cash flow from operating activities	**2,202**	2,261	(59)	(2.6)	**913**	826	87	10.53	The decrease in net cash flow from current operations was mainly due to an increase in taxes paid in the fixed line communications segment, offset by changes in working capital, mainly benefits for employees. The increase in the quarter was due to changes in working capital, mainly in benefits for employees, offset by a decrease in collection from customers during the quarter due to sanctions taken mainly in the Internet, communications and network services segment.
Net cash flow used for investing activities	**(1,169)**	(1,537)	368	23.94	**(377)**	(537)	160	0.3	The decrease in net cash flow used in investing activities in the period was mainly due to a decrease in net investment in deposits in banks and securities and in the quarter also due to proceeds from the sale of property, plant and equipment, offset by an increase in property, plant and equipment investments in the fixed line communications segment.
Net cash flow used for financing activities	**(886)**	(618)	(268)	(43.4)	**(423)**	(118)	(305)	(258.47)	The increase in net cash flow used for financing activities in the quarter was due to an increase in loan repayments. The increase in the period is due to the issuance of debetures included in the corresponding period, offsetting a decrease in the repayment of loans, the interest paid and the costs for early repayment.
Net increase (decrease) in cash	**147**	106	41	38.68	**113**	171	(58)	(33.92)	

<u>Average volume in the reported period:</u>
Long-term liabilities (including current liabilities) to financial institutions and bondholders: approximately NIS 9,944 million.
Credit from suppliers: approximately NIS 910 million.
Short-term customer credit: approximately NIS 1,652 million.
Long-term customer credit: approximately NIS 252 million.

Working Capital:

The surplus in the Group's consolidated working capital as of September 30, 2021 amounted to approximately NIS 545 million, compared with a surplus in working capital of approximately NIS 975 million as of September 30, 2020.

The surplus in the Company's working capital (according to the “Solo” Statements) as of September 30, 2021 amounted to approximately NIS 209 million, compared with a surplus in working capital of approximately NIS 241 million as of September 30, 2020.

The surplus in Bezeq's working capital (according to the “Solo” Statements) as of September 30, 2021 amounted to approximately NIS 308 million, compared with a surplus in working capital of approximately NIS 706 million as of September 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 the balances of current investment and receivables in respect of the sale of real estate, offsetting a decrease in current liabilities mainly due to repayment of loans (including early repayment) and repayment of debentures.

1.4. Disclosure regarding the Company's projected cash flow

The Company's Board of Directors reviewed the Company's Consolidated Statements and the Separate Statements (Solo) for September 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 indicators 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 operating 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 operations 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 the COVID-19 outbreak

Further to Note 1.4 in the annual financial statements regarding the outbreak of COVID pandemic, it should be noted that following the operations to vaccinate the population of Israel against the virus that began in early 2021, a moderation in the effects of the pandemic, and to some extent the beginning of a return to the routine of economic activity of the economy was expected in Israel (although changes in the pandemic trend, including as a result of mutations in the virus, may lead to exacerbation of the pandemic and its effects on Group companies).

As of the date of approval of the financial statements, the effects of the COVID pandemic on the Group's activities in 2021 so far have been mainly reflected in the damage to Pelephone's revenue from roaming services, as a result of the epidemic's spread of aviation on international aviation and international tourism segments. It is clarified that the distribution 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, but these have not yet returned to pre-COVID levels. It should be noted that the global shortage of chips and disruptions in the supply chain cause, among other things, shortages and difficulties in the supply of equipment from the Group's main suppliers. The Group's companies are taking various steps in light of the aforesaid to reduce the damage to their activities.

It should be emphasized that this is a variable 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 revenue from roaming services, 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 from the Group's customers. The consequences of the COVID pandemic 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 slowdown that will develop as a result.

For further information, see the analysis of the results of operations in the cellular communications segment, the fixed line communications segmentand the m ultichannel TV segment in Chapter 1.2.2, Sections B, C and E.

2. Disclosure in connection with the corporation's financial reporting

2.1. Disclosure regarding valuations

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

<table>
<tr><th></th><th>Bezeq International -
Substantial valuation</th><th>DBS Company -
Very significant valuation (*)
Attached to the financial statements</th></tr>
<tr><td>Identify the subject of the valuation</td><td>Recoverable amount Bezeq International Ltd. for the purpose of examining the impairment of non-current assets.</td><td>Recoverable amount DBS Satellite Services (1998) Ltd. for the purpose of examining the impairment of non-current assets.</td></tr>
<tr><td>Timing of the valuation</td><td>September 30, 2021; The valuation was signed on Novewmber 28, 2021.</td><td>September 30, 2021; The valuation was signed on Novewmber 14, 2021.</td></tr>
<tr><td>The value of the valuation item shortly before the valuation if the customary accounting rules, including depreciation and amortization, would not require a change in its value in accordance with the valuation</td><td>NIS 34 million.</td><td>Negative total - NIS (69) million.</td></tr>
<tr><td>The value of the valuation subject determined in accordance with the valuation</td><td>Negative total - NIS (6) million.</td><td>Negative total - NIS (126) million.</td></tr>
<tr><td>Identifying and characterizing of the valuator</td><td colspan="2">The valuation was performed by Prof. Hadas Gelander, Partner, Director of Valuations and Economic Models in the Economic Department of Ernst Young (Israel) Ltd.

Prof. Gelander holds a bachelor's degree in accounting from the College of Management, Rishon LeZion; With a master's degree in business administration from the Hebrew University of Jerusalem; and a Ph.D. cum laude from Ben-Gurion University, Beer-Sheva, and is also a certified public accountant in Israel.

As part of her role, Prof. Gelander accompanies projects with leading companies in Israel and around the world, in various fields of activity and industries such as technology, finance, pharmaceuticals, energy, infrastructure, real estate and industry. In addition, during her role accompanying and advising companies in the areas of valuations for business needs (valuations and fair opinions) and accounting needs (allocation of acquisition costs, valuation of intangible assets, valuation of options for employees, etc.), she provided economic opinions as a court-appointed expert witness.

The valuator has no dependence on Bezeq or the Company.
Bezeq undertook to indemnify the valuator for damages in excess of three times her fee, unless she acts maliciously or with gross negligence.</td></tr>
<tr><td>The evaluation model</td><td>Fair value net of costs of sale</td><td>Fair value net of costs of sale</td></tr>
<tr><td>Assumptions under which the valuator made the valuation</td><td>Assumptions regarding the fair value net of costs of sale of Bezeq International’s assets.</td><td>Assumptions regarding the fair value net of costs of sale of DBS’ assets.</td></tr>
</table>

For further information, see Note 5 to the Statements.

(*) Despite the negative value of DBS' operations, Bezeq supports DBS through the approval of credit facilities or an investment in DBS' capital (see Note 4 to the Statements). Bezeq's aforementioned support of DBS stems, among other things, from the current and expected contribution of the multi-channel television activity to all of the Bezeq Group's operations.

2.2. Due to claims filed against the Group, the exposure in respect of which can not yet be assessed or cannot be estimated, the auditors drew attention to this in their opinion on the Statements.

2.3. Subsequent events

2.3.1. For subsequent events, see Note 19 to the statements.

2.3.2. On November 29, 2021, Bezeq's Board of Directors approved an update to Bezeq Group's vision and strategy, For further information, see the update to Section 1.8 and the update to Section 1.4.1 of the update to Chapter A (description of the corporation's business) for the periodic report for 2020.

3. Details related to series of debentures

3.1. On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in the framework of which approximately NIS 394 million were issued to institutional entities and the public for NIS 394 million from Series F. The Company used the net proceeds of the issuance of the Series F debentures to make early repayments of its existing debentures as of the same date as detailed below. For further details regarding the terms of Series F debentures, see Note 18.8 to the Consolidated Statements.

3.2. On July 19, 2021, the Company made a full early repayment of the Series D debentures principal (plus accrued interest as of the maturity date) and a full early repayment of the Series E debentures principal (plus accrued interest as of the maturity date and an early repayment penalty as defined in the debentures' trust deed Series E). 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 maturity date). Following the early repayments, Series D and E were repaid in full and delisted from trading on the Tel Aviv Stock Exchange.

3.3. Financial terms

In accordance with the Company's commitment in debentures Series C and F to comply with LTV's condition (the first test date is according to the Statements as of December 31, 2021), the LTV ratio as of September 30, 2021 was 64.4%. The LTV ratio as of November 29, 2021 is 58.1%.

The Company's net debt balance as of September 30, 2021 is approximately NIS 1,717 million and consists of a principal balance and accrued interest as of the balance sheet date in respect of its debentures in the amount of NIS 2,051 million (net of approximately NIS 19 million in Series C held by the investee partnership of the Company) net of cash balances and investments in the amount of NIS 334 million.

3.4. On May 2, 2021, Midroog Ltd. issued the rating of Bezeq's debentures (which had negative consequences) and approved the Aa3.il rating of Bezeq's debentures with a stable rating horizon.

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

4. Miscellaneous

For information regarding the status of the liabilities of the reporting corporation and the subsidiaries in its Statements as of September 30, 2021, see the reporting form to be reported by the Company on MAGNA (electronic due duiligence system) on November 30, 2021.

Darren Glatt	Tomer Raved
Chairman of the Board of Directors	CEO

Signed on: November 29, 2021

Chapter C

Condensed Consolidated Interim Statements as of September 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 September 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 investigation by the Securities Authority 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 summons to a hearing on suspicions 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 Group and for which at this stage the exposure cannot be assessed or calculated.

Somekh Chaikin

Certified Public Accountants

November 29, 2021

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

Condensed consolidated interim statements on the financial position as of

		September 30, 2021	September 30, 2020	December 31, 2020
		(unaudited)	(unaudited)	(audited)
Assets	**Note**	**NIS millions**	**NIS millions**	**NIS millions**
Cash and cash equivalents		**1,041**	920	894
Investments		**963**	1,535	881
Trade receivables		**1,672**	1,692	1,621
Other receivables		**193**	333	180
Inventory		**70**	96	73
Assets held for sale		**36**	46	10
Total current assets		**3,975**	4,622	3,659
Trade receivables		**496**	525	514
Broadcasting rights – net of rights exercised		**57**	67	67
Right-of-use assets		**1,763**	1,197	1,804
Property, plant and equipment	6	**6,266**	6,035	6,131
Intangible assets		**3,266**	*3,172	3,268
Deferred expenses and non-current investments **		**347**	*435	402
Deferred tax assets		**37**	53	108
Total non-current assets		**12,232**	11,484	12,294
Total assets		**16,207**	16,106	15,953

* Reclassified.

** Including long-term restricted deposits.

Condensed consolidated interim statements on the financial position as of (cont.)

Liabilities and equity	Note	September 30, 2021 (unaudited) NIS millions	September 30, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Debentures, loans and credit		**745**	957	785
Current maturities of lease liabilities		**440**	387	415
Trade and other payables		**1,723**	1,749	1,766
Employee benefits		**439**	441	482
Provisions		**83**	113	117
Total current liabilities		**3,430**	3,647	3,565
Loans and debentures		**9,199**	10,369	9,485
Lease liabilities		**1,457**	971	1,492
Employee benefits		**228**	334	335
Derivatives and other liabilities		**178**	342	307
Deferred tax liabilities		**302**	*279	290
Provisions		**49**	54	52
Total non-current liabilities		**11,413**	12,349	11,961
Total liabilities		**14,843**	15,996	15,526
Equity (deficit)	10			
Non-controlling interests		**1,297**	256	534
Equity (deficit) attributed to shareholders of the company		**67**	(146)	(107)
Total equity		**1,364**	110	427
Total liabilities and equity		**16,207**	16,106	15,953

* Reclassified.

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

Date of approval of the statements: November 29, 2021

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

Condensed consolidated interim statements of income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	**2020**	**2021**	**2020**	**2020**
	(unaudited))	**(unaudited))**	**(unaudited))**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Revenues (Note 11)	**6,563**	6,520	**2,142**	2,178	8,723
Operating expenses					
General and operating expenses (Note 12) **	**2,376**	2,355	**744**	790	3,182
Salaries	**1,417**	1,399	**468**	475	1,894
Depreciation, amortization and impairment **	**1,407**	1,361	**466**	460	1,858
Other operating expenses (income), net (Note 13)	**(143)**	(30)	**7**	(7)	73
Impairment loss	**-**	249 *	**-**	240 *	8
Total operating expenses	**5,057**	5,334	**1,685**	1,958	7,015
Operating profit	**1,506**	1,186	**457**	220	1,708
Financing expenses (income)					
Financing expenses	**376**	395	**157**	121	525
Financing income	**(45)**	(43)	**(11)**	(15)	(51)
Financing expenses, net (Note 14)	**331**	352	**146**	106	474
Profit before taxes on income	**1,175**	834	**311**	114	1,234
Income taxes	**293**	290 *	**75**	108 *	334
Profit for the period	**882**	544	**236**	6	900
Profit (loss) attributed to the company shareholders	**159**	80	**27**	(18)	157
Profit attributed to the non-controlling interests	**723**	464	**209**	24	743
Profit for the period	**882**	544	**236**	6	900
Profit (loss) per share (NIS)					
Basic and diluted profit per share	**1.37**	0.68	**0.24**	(0.15)	1.38

* Reclassified
** 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

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited))	(unaudited))	(unaudited))	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Net profit for the period	**882**	544	**236**	6	900
Remeasurement of a defined benefit plan, net of tax (Items that will not be reclassified as income)	**-**	-	**-**	(11)	(9)
Other profit (loss) items, net of tax	**33**	-	**10**	(2)	(5)
Total comprehensive profit (loss) for the period	**915**	529	**246**	(7)	886
Attributable to:					
Shareholders of the company	**168**	76	**30**	(21)	154
Non-controlling interests	**747**	453	**216**	14	732
Total comprehensive profit (loss) for the period	**915**	529	**246**	(7)	886

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

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

Condensed consolidated interim statements of changes in equity (deficit)	Share capital	Share Premium	Treasury shares	Other reserves	Retained earnings (Deficit)	Total attributed to 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 nine months ended September 30, 2021 (unaudited)								
Balance as of January 1, 2021	12	1,495	(*)	(39)	(1,575)	(107)	534	427
Profit for the period	**-**	**-**	**-**	**-**	**159**	**159**	**723**	**882**
Other comprehensive profit for the period, net of tax	**-**	**-**	**-**	**9**	**-**	**9**	**24**	**33**
Total comprehensive profit for the period	**-**	**-**	**-**	**9**	**159**	**168**	**747**	**915**
Share-based payment	**-**	**-**	**-**	**6**	**-**	**6**	**16**	**22**
Balance as of September 30, 2021	**12**	**1,495**	**(*)**	**(24)**	**(1.416)**	**67**	**1.297**	**1.364**
For the period of nine months ended September 30, 2020 (unaudited)								
Balance as of July 1, 2020	12	1,495	(*)	(38)	(1,710)	(241)	(197)	(438)
Receipt in respect of the Horev settlement	-	-	-	-	19	19	-	19
Profit for the period	-	-	-	-	80	80	464	544
Other comprehensive loss for the period, net of tax	-	-	-	(4)	-	(4)	(11)	(15)
Total comprehensive profit (loss) for the period	-	-	-	(4)	80	76	453	529
Balance as of September 30, 2020	12	1,495	(*)	(42)	(1,611)	(146)	256	110
For the period of three months ended September 30, 2021 (unaudited)								
Balance as of July 1, 2021	12	1,495	(*)	(29)	(1,443)	35	1,077	1,112
Profit for the period	**-**	**-**	**-**	**-**	**27**	**27**	**209**	**236**
Other comprehensive profit for the period, net of tax	**-**	**-**	**-**	**3**	**-**	**3**	**7**	**10**
Total comprehensive profit for the period	**-**	**-**	**-**	**3**	**27**	**30**	**216**	**246**
Share-based payment	**-**	**-**	**-**	**2**	**-**	**2**	**4**	**6**
Balance as of September 30, 2021	**12**	**1,495**	**(*)**	**(24)**	**(1,416)**	**67**	**1.297**	**1,364**

For the period of three months ended September 30, 2020 (unaudited)

Balance as of July 1, 2020	12	1,495	(*)	(39)	(1,612)	(144)	242	98
Receipt in respect of the Horev settlement	-	-	-	-	19	19	-	19
Profit (loss) for the period	-	-	-	-	(18)	(18)	24	6
Other comprehensive loss for the period, net of tax	-	-	-	(3)	-	(3)	(10)	(13)
Total comprehensive profit (loss) for the period	-	-	-	(3)	(18)	(21)	14	(7)
Balance as of September 30, 2020	12	1,495	(*)	(42)	(1,611)	(146)	256	110

Condensed consolidated interim statements of changes in equity (deficit) (cont.)

	Share capital	**Share Premium**	**Treasury shares**	**Other reserves**	**Retained earnings (Deficit)**	**Total attributed to company shareholders**	**Non-controlling interests**	**Total**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
For the year ended 31 December 2020 (audited)								
Balance per day 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 (loss) 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 of Cash Flows

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Profit for the period	**882**	544	**236**	6	900
Adjustments:					
Depreciation, amortization and impairment loss	**1,407**	1,361	**466**	460	1,858
Loss from impairment of assets	**-**	249 *	**-**	240 *	8
Financing expenses, net	**343**	367	**151**	105	507
Capital gains (loss), net	**(123)**	(11)	**4**	(6)	(40)
Share-based payment	**22**	-	**6**	-	-
Income Tax expenses	**293**	290 *	**75**	108 *	334
Change in trade and other receivables	**(30)**	(19)	**(15)**	26	56
Change in inventory	**(14)**	(10)	**34**	10	13
Change in trade and other payables	**(98)**	(91)	**60**	34	17
Change in provisions	**(34)**	(11)	**(2)**	(8)	(8)
Change in employee benefits	**(150)**	(232)	**(20)**	(66)	(192)
Change in other liabilities	**6**	(12)	**2**	(5)	(1)
Income Tax paid, net	**(302)**	(164)	**(84)**	(78)	(243)
Net cash derived from operating activities	**2,202**	2,261	**913**	826	3,209
Cash flows from investing activities					
Purchase of property, plant and equipment	**(1,040)**	(824)	**(361)**	(342)	(1,133)
Investment in intangible assets and deferred expenses	**(281)**	(307)	**(84)**	(100)	(366)
Investing transactions, net	**(37)**	(446)	**69**	(97)	222
Proceeds from the sale of property, plant and equipment	**189**	31	**5**	3	148
Sale of Walla, net	**-**	-	**-**	-	44
Miscellaneous	**-**	9	**(6)**	(1)	18
Net cash used for investing activities	**(1,169)**	(1,537)	**(377)**	(537)	(1,067)

* Reclassified.

Condensed Consolidated Interim Statements of Cash Flows (Cont.)

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	**2020**	**2021**	**2020**	**2020**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Cash flows from financing activities					
Issuance of debentures and receipt of loans	**390**	718	**390**	-	718
Acquisition of non-controlling interests	**-**	-	**-**	-	(40)
Repayment of debentures and loans	**(791)**	(772)	**(688)**	(3)	(1,828)
Principal and interest payments on leases	**(291)**	(305)	**(97)**	(106)	(391)
Net compensation in respect of the Horev claim	**-**	(3)	**-**	(3)	(3)
Interest paid	**(175)**	(203)	**(9)**	(4)	(392)
Costs for early repayment of loans and debentures	**(19)**	(51)	**(19)**	-	(65)
Payment for expired hedging transactions	**-**	-	**-**	-	(57)
Miscellaneous	**-**	(2)	**-**	(2)	(4)
Net cash used in financing activity	**(886)**	(618)	**(423)**	(118)	(2,062)
Increase in cash and cash equivalents	**147**	106	**113**	171	80
Cash and cash equivalents for the beginning of the period	**894**	814	**928**	749	814
Cash and cash equivalents for the end of the period	**1,041**	920	**1,041**	920	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 September 30, 2021 include those of the Company and its subsidiaries (hereinafter, collectively - "the Group"), (see also Note 14 - Segment reporting**).**

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

1.2. Effects of the outbreak of the COVID-19 pandemic

Further to Note 1.4 in the annual statements regarding the outbreak of COVID-19 pandemic, it should be noted that following the campaign to vaccinate the population of Israel against the virus that began in early 2021, a moderation was expected in the effects of the pandemic in Israel and a return to economic activity to some extent \(although changes in the pandemic trend, including as a result of mutations in the virus, may lead to exacerbation of the pandemic and its effects on Group companies).

As of the date of approval of the statements, the effects of the COVID-19 pandemic on Bezeq Group's activities in 2021 have so far been mainly reflected in the damage to Pelephone's revenues from roaming services, as a result of the pandemic's spread on international aviation and tourism, without significant adverse effects in other areas of activity. It should be clarified that the distribution of the vaccine and the reduction of restrictions on travel abroad supported a certain recovery in Pelephone's revenues from roaming services in recent months, but these have not yet returned to the pre-COVID level of activity. It should be noted that the global shortage of chips and disruptions in the supply chain cause, among other things, shortages and difficulties in the supply of equipment from the Group's main suppliers. The Group's companies are taking various steps in light of the aforesaid to reduce the damage to their activities.

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

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

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

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

Regarding the possible prosecution of Bezeq and being summoned to a hearing in the 4000 Case - on July 8, 2021, Bezeq and Walla submitted a written argument for the hearing. As of the date of publication of the report, a decision has not yet been made by the State Attorney's Office and the Attorney General regarding the filing of an indictment following the allegations raised at the hearing, and the companies have not been given an expected date for obtaining the decision.

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. <u>Basis of preparation of the statements</u>

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 Company 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 November 29, 2021**.**

2.4. Use of estimates and judgment

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

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

3. Reporting rules and accounting policies

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

3.2. Accounting policies for new incidents

The following is a description of accounting policies applied by the Bezeq Group in connection with share-based remuneration described in Note 15:

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 an 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, 2024. 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, including an additional proposed amendment to the standard that was published, to the statements.

3.3.2. Amendment to Standard IAS 37 "Provisions, contingent liabilities and contingent assets" in respect of onerous contracts (hereinafter: “the Amendment”).

The Amendment stipulates that in examining the costs of maintaining 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 balance of the surplus in respect of the cumulative effect to this date. The Amendment may have effects on the identification and measurement of onerous contracts in the Group, which may even be reflected in the creation of material provisions, which the Group is unable to assess at this stage.

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 structural change in the subsidiaries

Further to the aforesaid in Note 13.1.2 to the annual financial statements, on May 25, 2021 and later on August 11, 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 Transferred Activity”). The goals of the move include: adapting the activity to the structure of the industry and the changing regulation, focusing on increasing revenues and growth, and increasing operational synergy and streamlining ("the Structural Change Plan"). At the same time, the management of the subsidiaries was given authority to negotiate with the employees’ committees and the relevant representative organizations for the purpose of signing new collective agreements.

Further to this, on July 19, 2021, the Minister of Communications approved the transfer of Bezeq International's unified general license to DBS as part of a full and statutory merger of Bezeq International into DBS, an approval 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 the Transferred Activity will be transferred.

The splitting 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 in particular regarding the continued application of the taxation decision adopted on September 19, 2016 in connection with DBS merger with and into Bezeq (see Bezeq's immediate report dated September 18, 2016, reference number 2016-01-124486) (it should be noted that on April 18, 2021, Bezeq submitted an application to the Tax Authority 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), and subject to the completion of the structural change, including Bezeq's full and statutory merger International with and into DBS upon and immediately after the completion of the procedure for the split of the Transferred Activity.

The splitting of the Transferred Activity will be carried out as a dividend distribution in kind to Bezeq, in accordance with the balance sheet value of the Transferred Activity, with the amount of the distribution in kind based on Bezeq International's financial statements as of June 30, 2021 being approximately NIS 922 million, (this amount may be updated up to the date of the actual distribution) ("the Dividend Distribution in Kind"). On October 7, 2021, the District Court received approval for 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 the Transferred Activity.

Noting that immediately upon the Dividend Distribution in Kind, and as a condition for it, Bezeq International will merge with and into DBS, Bezeq International’s Board of Directors will examine DBS' repayment capacity, as it will be after the merger, including on the basis of an economic opinion. Submitted to it, and found that the Dividend Distribution in Kind meets the test of solvency set forth in the law, subject, *inter alia*, to Bezeq providing a credit facility or capital to the merged company in the total amount of up to NIS 254 million ("the Credit Facility") for withdrawal until the end of 2026, when the Credit Facility is repaid after this date in accordance with DBS' repayment capacity, following the decision of Bezeq International's Board of Directors, Bezeq's Board of Directors approved the provision of the Credit Facility, in accordance with its terms, which will take effect subject to the completion of the Structural Change Plan, and not before it. It should be emphasized that to the extent that Bezeq provides DBS with funds from the current Credit Facility (see Note 4.2.1) or another credit facility that will replace it, then these funds will be deducted from the Credit Facility.

It should be noted that as of the date of approval of the statements, a labor dispute has been declared in Pelephone and Bezeq International regarding the change in the corporate structure and is in legal proceedings in the Regional Labor Court. On November 1, 2021, Pelephone and Bezeq International, as part of a mediation process conducted in parallel between the parties, reached agreements in principle with the Histadrut and the employees’ representatives, subject to the signing of collective agreements.

The collective agreements reached following the agreements in principle will be brought for approval by the boards of directors of the subsidiaries. Bezeq cannot assess at this stage whether, at the end of the negotiations, the collective agreements will be signed as expected or the total cost that will be involved.

In this context, it should be noted that on August 11, 2021, DBS signed a collective agreement between it and the Histadrut and the employees' representation, which includes amendments to the previous collective agreements. The new collective agreement will be valid from January 1, 2022 until December 31, 2024.

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 when they will be met, insofar as they are met, and accordingly, there is no certainty that the Structural Change Plan will materialize.

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

4.2.1. As of September 30, 2021, DBS has a deficit in equity in the amount of NIS 31 million, as well as a working capital deficit in the amount of NIS 193 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 November 2021, Bezeq's Board of Directors approved the issuance of an irrevocable commitment by Bezeq to DBS to provide a credit facility or investment in equity in the amount of NIS 40 million, for a period of 15 months, from October 1, 2020 until December 31, 2022, instead of previous commitments, the last of which was issued in August 2021 ("Current Credit Facility"). 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 by Bezeq, will satisfy the needs of DBS' operations for the coming year.

4.2.2. See Note 5.1 below regarding impairment of assets recognized by DBS in the statements as of September 30, 2021.

4.3. Bezeq International Ltd.

4.3.1. Further to what is stated in Note 13.3.2 to the annual statements regarding a hearing on the examination of the separation between broadband infrastructure service and Internet access service (ISP), on June 20, 2021 Bezeq received a decision by the Minister of Communications at 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 restriction 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 DBS in the statements as of September 30, 2021.

5. Impairment

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

Following Note 11.5 to the annual statements regarding impairment recognized in 2019-2020 in respect of a multi-channel television cash-generating unit, in view 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. Accordingly, in examining the impairment performed in favor of the financial statements as of March 31, 2021, it was found that the value of the use of DBS' assets at that date, which is calculated using the method of discounting future cash flows (DCF), is negative by NIS 283 million and is significantly lower than the book value of its assets. Therefore, as required by IAS 36, DBS has reduced the value of its assets to the fair value balance less realization costs, and in total up to a negative amount of NIS 143 million.

During the six months that have passed since the previous valuation, there have been changes in relation to DBS' short-term forecasts alongside certain developments in the television market. In the opinion of DBS, these changes do not result in a change in the value in use of the activity so that it will be higher than the fair value of its assets less exercise costs.

In light of the negative value of the activity as determined in the valuation as of March 31, 2021, which was performed by an external valuator, DBS reduced its non-current assets as of September 30, 2021 to its fair value less realization costs. Based on the valuation as of September 30, 2021, the fair value of DBS assets less exercise costs is negative in the amount of NIS 126 million.

Therefore, the Group recognized in the periods of nine and three months that ended on September 30, 2021, a loss due to impairment in the amount of approximately NIS 195 million and approximately NIS 57 million, respectively. The impairment loss was attributed to the items of property, plant and equipment, broadcasting rights, intangible assets and advance expenses, as specified 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 allocation of loss from the impairment of the Group's assets:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	**2020**	**2021**	**2020**	**2020**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Broadcasting rights *	93	**122**	27	**35**	170
Property, plant and equipment **	63	**64**	23	**26**	112
Intangible assets **	34	**31**	7	**6**	29
Advance expenses *	5	**-**	-	**-**	13
Total impairment recognized	195	**217**	57	**67**	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 to the annual statements.

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

Further to Note 11.6 to the annual statements regarding impairment in the Internet, International communications and network services cash-generating unit in 2020, the valuation as of December 31, 2020 presented a value in use significantly lower than Bezeq International’s book value. In accordance with an examination conducted by an external valuator on September 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 as of September 30, 2020, up to the amount of the net exercisable value of such assets. Based on the valuation, which was performed by an external valuator as of September 30, 2021, the fair value of Bezeq International's assets net of exercise costs is negative in the amount of NIS 6 million.

Therefore, the Group recognized in the periods of nine and three months that ended on September 30, 2021, a loss due to impairment in the amount of approximately NIS 97 million and approximately NIS 40 million, respectively.

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

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	**2020**	**2021**	**2020**	**2020**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Property, plant and equipment and intangible assets	61 **	**156**	13 **	**156**	148
Long-term advance expenses for capacities	14 **	**98**	6 **	**98**	110
Additional advance expenses	-22 *	**-**	-21 *	**-**	18
Rights-of-use of leased assets	-	**-**	-	**-**	3
Total impairment recognized	97	**254**	40	**254**	279 ***

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

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

*** Presented as part of the item "Impairment loss" in the 2020 statement of income

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 to 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 the Bezeq’s plan for the deployment of fiber 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, covering about 76% of the country's population (Bezeq estimates that about 80% of households). On May 31, 2021, Bezeq submitted to the Ministry of Communications the list of statistical areas in which it chose to deploy as aforesaid, and on June 15, 2021, Bezeq received an amendment to Bezeq’s license regarding the determination of deployment obligations in an advanced network ("the amendment to the license"). The amendment to the license includes, among other things, the milestones for completing the network's deployment within six years from the effective date (March 14, 2021). In this regard, see also Note 9.1 regarding the Group companies' 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 Bezeq Group companies, or various legal proceedings are pending against it (hereinafter in this section: "legal claims").

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

In the opinion of the managements of Bezeq Group companies, the amount of the additional exposure (beyond the aforesaid provisions), as of September 30, 2021, due to claims filed against the Bezeq Group companies on various issues and whose likelihood of materialization is unexpected, amounted to a total of NIS 3.6 billion. In addition, there is exposure in the amount of NIS 2.6 billion in respect of claims whose chances have not yet been assessed at this stage. Additionally, requests were filed against the Bezeq Group companies to recognize the claims as class actions that did not specify the exact amount of the claim, for which the Group has additional exposure beyond the above.

The amounts of additional exposure in this Note are nominal.

For updates regarding changes after the date of the report, see section 7.4 below.

7.2. The following is a description of Bezeq Group's contingent liabilities that were in effect as of September 30, 2021 are classified according to groups with similar characteristics:

Claims group	Essence of the claims	The balance of the provision	The amount of additional exposure	The amount of exposure in respect of claims whose chances cannot yet be assessed
		(unaudited)		
		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.	**77**	**2,849**	**687**
Claims by enterprises and companies	Claims in which Bezeq Group companies are claimed liable in connection with their operations and / or their investments.	**-**	**687**	**1.878 ***
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.	**-**	**1**	**-**
State and authority claims	Various legal proceedings by the State of Israel, various governmental entities and state authorities (hereinafter: "the Authorities"). These are mainly procedures in the field of regulation applied to 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 and Note 7.3 below.	**2**	**5**	**7**
Miscellaneous	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.	**-**	**23**	**23**
Total claims against the Company and its subsidiaries		**79**	**3,565**	**2,595**

* 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, officers in the Group and companies from the group that controlled the Company at the time regarding the purchase of DBS shares by Eurocom DBS Ltd. In accordance with a court decision, the filing of a consolidated motion is expected to replace these two motions. The procedure is delayed in light of the criminal procedure that follows the investigation of the Securities and Exchange Commission (as described in Note 1.3) and at the request of the Attorney General until July 20, 2022.

7.3. Following 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 in the Tel Aviv District Court against the Israel Land Authority to reimburse the full amount of permits and improvement levies totaling NIS 217 million, as well as for declaratory relief according to which the Israel Land Authority must pay the Company any amount that will be forfeited, if any, 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.

7.4. After the date of the financial statements, a request was submitted against the Bezeq Group companies for approval of a class action without an amount estimate. As of the date of approval of the financial statements, the chances of said claim cannot be assessed**.**

8. Debentures, loans and credit

8.1. 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**.**

8.2. 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.

9. Engagements

9.1. 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 communications companies including Bezeq and its subsidiaries Pelephone, DBS and Bezeq International are charged 0.5% of their annual income during the retirement period for the incentive fund. The incentive fund will be managed by the Accountant General in the Ministry of Finance, for the benefit of encouraging fiber deployment 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.

9.2. Space segments lease agreement

Further to Note 19.2 to the annual 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 ("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.

10. Equity

	As of September 30, 2021	As of September 30, 2021	As of September 30, 2021
	Number of shares	Number of shares	Number of shares
	(unaudited)	(unaudited)	(audited)
Registered share capital	**300,000,000**	150, 000,000	150, 000,000
Share capital is issued and repaid*	**116,316,563**	116,316,563	116,316,563

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

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

11. Revenues

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Fixed line communication - Bezeq Fixed Lines					
Internet - infrastructure	**1,161**	1,141	**392**	387	1,537
Fixed line telephony	**674**	740	**216**	246	981
Transmission and data communication	**632**	579	**210**	194	785
Cloud and digital services	**238**	213	**80**	71	288
Other services	**172**	174	**57**	57	222
	2,877	2,847	**955**	955	3,813
Mobile radio telephone - Pelephone					
Cellular and end equipment services	**1,191**	1,165	**408**	386	1,550
Sales of end equipment	**464**	441	**123**	146	577
	1,655	1,606	**531**	532	2,127
Multi-channel TV- DBS	**948**	969	**319**	313	1,286
Internet (ISP), International communications, and network services - Bezeq International	**871**	904	**273**	301	1,217
Others	**212**	194	**64**	77	280
Total revenues	**6,563**	6,520	**2,142**	2,178	8,723

12. Operating and general expenses

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
End equipment and materials	**567**	552	**146**	188	747
Connectivity and payments to communications operators in Israel and abroad	**535**	585	**173**	199	776
Content costs (including depreciation of content)	**405**	442	**128**	135	589
Marketing and general	**395**	353	**140**	118	471
Services and maintenance by subcontractors	**249**	207	**81**	68	303
Maintenance of buildings and sites	**181**	179	**62**	68	246
Vehicle maintenance	**44**	37	**14**	14	50
Total operating and general expenses	**2,376**	2,355	**744**	790	3,182

13. Other operating expenses (income), net

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Capital loss (gain) (mainly real estate exercise)	**(123)**	(11)	**4**	(6)	(18)
Creation (cancelation) of provision for claims	**(26)**	(3)	**2**	(1)	11
Expenses in respect of the termination of employee-employer relationship in early retirement in the Company	**11**	-	**3**	-	64
Profit from the sale of an investee	**-**	-	**-**	-	(22)
Receipts from a settlement agreement	**-**	(9)	**-**	-	(9)
Provision for collective agreement signing bonus	**-**	-	**-**	-	40
Expenses (income) in respect of the termination of employee-employer relationship in early retirement with Pelephone, Bezeq International and DBS	**1**	(5)	**1**	-	9
Other income	**(6)**	(2)	**(3)**	-	(2)
Total other operating expenses (income), net	**(143)**	(30)	**7**	(7)	73

14. Financing expenses, net

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial liabilities	**275**	292	**101**	93	351
Financing expenses for liabilities in respect of leases	**28**	21	**9**	7	30
Linkage differences and exchange rate	**39**	16	**19**	10	23
Financing expenses for benefits to employees	**9**	8	**4**	8	8
Other financing expenses	**6**	7	**3**	3	6
Costs of early repayment of loans and debentures	**19**	51	**19**	-	96
Change in the fair value of financial assets measured at fair value through income	**-**	-	**2**	-	11
Total financing expenses	**376**	395	**157**	121	525
Income from grossing credit in sales	**21**	23	**6**	8	30
Change in the fair value of financial assets measured at fair value through income	**2**	3	**-**	-	-
Other financing incomes	**22**	17	**5**	7	21
Financing income in respect of benefits to employees	**-**	-	**-**	-	-
Total financing income	**45**	43	**11**	15	51
Financing expenses, net	**331**	352	**146**	106	474

15. Share-based remuneration

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

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

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

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

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

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

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

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Salary expenses	**22**	-	**6**	-	-

16. 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 September 30, 2021		As of September 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)	**1,718**	**1,821**	2,646	2,814	2,118	2,252
Debentures issued to the public (index-linked)	**3,263**	**3,581**	3,747	3,919	3,199	3,394
Debentures issued to the public (unlinked)	**5,016**	**5,372**	4,953	5,251	4,913	5,187
	9,997	**10,774**	11,346	11,984	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.

	September 30, 2021	September 30, 2020	December 31, 2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Level 1 - Investment in marketable securities measured at fair value through income	**111**	86	77
Level 2 – Forward contracts	**(49)**	(167)	(117)

17. Segment reporting

17.1. Operating segments

For the nine-month period ended September 30, 2021 (unaudited)							
	Fixed line	Cellular	Internet and international services	Multi-channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	**2,877**	**1,655**	**871**	**948**	**212**	**-**	**6,563**
Inter-segmental	**253**	**32**	**38**	**-**	**5**	**(328)**	**-**
Total revenue	**3,130**	**1,687**	**909**	**948**	**217**	**(328)**	**6,563**
Depreciation, amortization and impairment	**693**	**430**	**133**	**227**	**3**	**(79)**	**1,407**
Segment results - operating profit	**1,390**	**34**	**21**	**(32)**	**24**	**69**	**1,506**
Financial expenses	**281**	**17**	**4**	**3**	**-**	**71**	**376**
Financing income	**(13)**	**(49)**	**(3)**	**(5)**	**-**	**25**	**(45)**
Total financing expenses (income), net	**268**	**(32)**	**1**	**(2)**	**-**	**96**	**331**
Segment profit (loss) before income taxes	**1,122**	**66**	**20**	**(30)**	**24**	**(27)**	**1,175**
Income taxes	**265**	**15**	**7**	**1**	**5**	**-**	**293**
Segment results - net profit (loss)	**857**	**51**	**13**	**(31)**	**19**	**(27)**	**882**

For the nine-month period ended September 30, 2020 (unaudited)							
	Fixed line	Cellular	Internet and international services	Multi-channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	2,847	1,605	903	970	195	-	6,520
Inter-segmental	257	48	43	-	4	(352)	-
Total revenue	3,104	1,653	946	970	199	(352)	6,520
Depreciation, amortization and	652	448	123	230	10	(102)	1,361
Segment results - operating profit (loss)	1,349	(48)	(219)	(33)	35	102 *	1,186
Financial expenses	317	17	4	4	1	52	395
Financing income	(14)	(50)	(3)	(4)	-	28	(43)
Total financing expenses (income), net	303	(33)	1	-	1	80	352
Segment profit (loss) before income taxes	1,046	(15)	(220)	(33)	34	22	834
Income taxes	222	(2)	42	2	2	24 *	290
Segment results - net profit (loss)	824	(13)	(262)	(35)	32	(2)	544

* Reclassified
** 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.

17.1. Operating segments (cont.)

	For the three-month period ended September 30, 2021 (unaudited)						
	Fixed line	Cellular	Internet and international services	Multi-channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	**954**	**531**	**273**	**318**	**66**	**-**	**2,142**
Inter-segmental	**83**	**10**	**14**	**-**	**2**	**(109)**	**-**
Total revenue	**1,037**	**541**	**287**	**318**	**68**	**(109)**	**2,142**
Depreciation, amortization and	**239**	**144**	**38**	**77**	**1**	**(33)**	**466**
Segment results - operating profit (loss)	**390**	**22**	**13**	**(11)**	**5**	**38**	**457**
Financial expenses	**110**	**6**	**1**	**1**	**-**	**39**	**157**
Financing income	**-**	**(17)**	**(1)**	**-**	**-**	**7**	**(11)**
Total financing expenses (income), net	**110**	**(11)**	**-**	**1**	**-**	**46**	**146**
Segment profit (loss) before income taxes	**280**	**33**	**13**	**(12)**	**5**	**(8)**	**311**
Income taxes	**61**	**10**	**3**	**-**	**2**	**-**	**75**
Segment results - net profit (loss)	**219**	**23**	**10**	**(12)**	**4**	**(8)**	**236**

	For the three-month period ended September 30, 2020 (unaudited)						
	Fixed line	Cellular	Internet and international services	Multi-channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	955	531	301	313	78	-	2,178
Inter-segmental	87	14	14	-	6	(121)	-
Total revenue	1,042	545	315	313	84	(121)	2,178
Depreciation, amortization and	222	147	42	76	2	(29)	460
Segment results - operating profit (loss)	446	(27)	(275)	(16)	27	65 *	220
Financial expenses	95	5	1	2	-	18	121
Financing income	(4)	(17)	-	(1)	-	7	(15)
Total financing expenses (income), net	91	(12)	1	1	-	25	106
Segment profit (loss) before income taxes	355	(15)	(276)	(17)	27	40	114

Income taxes	55	(3)	29	1	-	26 *	108
Segment results - net profit (loss)	300	(12)	(305)	(18)	27	14	6

* Reclassified

** 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.

	Year ended December 31, 2020 (audited)						
	Fixed line	**Cellular**	**Internet and international services**	**Multi-channel TV ***	**Others**	**Adjustments**	**Consolidated**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
External revenues	3,813	2,127	1,217	1,286	280	-	8,723
Inter-segmental revenue	346	59	54	1	6	(466)	-
Total revenue	4,159	2,186	1,271	1,287	286	(466)	8,723
Depreciation, amortization and impairment	877	599	149	310	14	(91)	1,858
Segment results - operating profit (loss)	1,705	(84)	(241)	(42)	44	326	1,708
Financial expenses	419	18	5	15	1	67	525
Financing income	(16)	(66)	(3)	(2)	-	36	(51)
Total financing expenses (income), net	403	(48)	2	13	1	103	474
Segment profit (loss) before income taxes	1,302	(36)	(243)	(55)	43	223	1,234
Income taxes	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 14 for a summary of selected data from the financial statements of DBS.

17.2. Adjustments in respect of segments reporting income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Operating profit in respect of reporting segments	**1,413**	1,049	**414**	128	1,338
Financing expenses, net	**(331)**	(352)	**(146)**	(106)	(475)
Adjustments for the multi-channel television segment	**77**	83	**40**	34	81
Profit due to activities classified under the Other and other adjustments category	**16**	62 *	**3**	58 *	4
Elimination of loss (profit) from impairment of assets	**-**	(8)	**-**	-	286
Profit before taxes on income	**1,175**	834	**311**	114	1,234

* Reclassified

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

18.1. Bezeq the Israel Telecommunications Corp. Ltd.

Data from the statement of financial position:

	September 30, 2021	September 30, 2020	December 31, 2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Current assets	**2,338**	2,957	2,014
Non-current assets	**9,899**	9,162	9,600
Total assets	**12,237**	12,119	11,614
Current liabilities	**2,030**	2,251	2,096
Long-term liabilities	**9,316**	10,193	9,668
Total liabilities	**11,346**	12,444	11,764
Equity (deficit in equity)	**891**	(325)	(150)
Total liabilities and deficit in equity	**12,237**	12,119	11,614

Data from the statement of income:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**3,130**	3,104	**1,037**	1,042	4,159
Operating expenses					
Operating and general expenses	**703**	678	**237**	225	919
Salaries	**693**	652	**239**	222	877
Depreciation and amortization	**480**	436	**163**	154	590
Other expenses (income), net	**(136)**	(11)	**8**	(5)	68
Total operating expenses	**1,740**	1,755	**647**	596	2,454
Operating profit	**1,390**	1,349	**390**	446	1,705
Financing expenses (income)					
Financial expenses	**281**	317	**110**	95	419
Financing income	**(13)**	(14)	**-**	(4)	(16)
Financing expenses, net	**268**	303	**110**	91	403
Profit after financing expenses, net	**1,122**	1,046	**280**	355	1,302
Share of profits (losses) of equity accounted investees, net	**129**	(202)	**65**	(274)	(244)
Profit before income taxes	**1,251**	844	**345**	81	1,058
Income taxes	**265**	222	**61**	55	262
Profit for the period	**986**	622	**284**	26	796

18.2. Pelephone Communications Ltd.

Data from the statement of financial position:

	September 30, 2021	September 30, 2020	December 31, 2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Current assets	**883**	839	899
Non-current property	**3,479**	3,395	3,472
Total assets	**4,362**	4,234	4,371
Current liabilities	**741**	668	720
Long-term liabilities	**937**	925	1,022
Total liabilities	**1,678**	1,593	1,742
Equity	**2,684**	2,641	2,629
Total liabilities and equity	**4,362**	4,234	4,371

Data from the statement of income:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue from services	**1,218**	1,195	**417**	396	1,591
Revenue from the sale of end equipment	**469**	458	**124**	149	595
Total revenue from services and sales	**1,687**	1,653	**541**	545	2,186
Operating expenses					
Operating and general expenses	**992**	1,017	**299**	346	1,329
Salaries	**234**	239	**76**	79	324
Depreciation and amortization	**430**	448	**144**	147	599
Total operating expenses	**1,656**	1,704	**519**	572	2,252
Other operating expenses (income), net	**(3)**	(3)	**-**	-	18
Operating profit (loss)	**34**	(48)	**22**	(27)	(84)
Financing expenses (income)					
Financing expenses	**17**	17	**6**	5	18
Financing income	**(49)**	(50)	**(17)**	(17)	(66)
Financing income, net	**(32)**	(33)	**(11)**	(12)	(48)
Profit (loss) before income taxes	**66**	(15)	**33**	(15)	(36)
Income taxes	**15**	(2)	**10**	(3)	(11)
Profit (loss) for the period	**51**	(13)	**23**	(12)	(25)

18.3. Bezeq International Ltd

Data from the statement of financial position:

	September 30, 2021	September 30, 2020	December 31, 2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Current assets	**447**	472	443
Non-current property	**294**	267	342
Total assets	**741**	739	785
Current liabilities	**414**	426	432
Long-term liabilities	**107**	95	148
Total liabilities	**521**	521	580
Equity	**220**	218	205
Total liabilities and equity	**741**	739	785

Data from the income statement:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**909**	946	**287**	315	1,271
Operating expenses					
Operating, general and impairment expenses	**581**	571	**179**	203	802
Salaries	**177**	189	**59**	63	248
Depreciation, amortization and impairment	**133**	123	**38**	42	149
Other expenses, net	**(3)**	282	**(2)**	282	313
Total operating expenses	**888**	1,165	**274**	590	1,512
Operating profit (loss)	**21**	(219)	**13**	(275)	(241)
Financing expenses (income)					
Financing expenses	**4**	4	**1**	1	5
Financing income	**(3)**	(3)	**(1)**	-	(3)
Financing expenses, net	**1**	1	**-**	1	2
Profit (loss) before income taxes	**20**	(220)	**13**	(276)	(243)
Income taxes expenses	**7**	42	**3**	29	32
Profit (loss) for the period	**13**	(262)	**10**	(305)	(275)

18.4. DBS Satellite Services (1998) Ltd.

Data from the statement of financial position:

	September 30, 2021	September 30, 2020	December 31, 2020
	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions
Current assets	**218**	196	176
Non-current assets	**229**	256	248
Total assets	**447**	452	424
Current liabilities	**411**	435	436
Long-term liabilities	**67**	74	69
Total liabilities	**478**	509	505
Deficit in equity	**(31)**	(57)	(81)
Total liabilities and deficit in equity	**447**	452	424

Data from the income statement:

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**948**	970	**318**	313	1,287
Operating expenses					
Operating, general and impairment expenses	**613**	636	**198**	195	857
Salaries	**151**	144	**45**	50	203
Depreciation, amortization and impairment	**139**	152	**44**	50	203
Other operating expenses (income), net	**(1)**	(12)	**1**	-	(15)
Total operating expenses	**902**	920	**288**	295	1,248
Operating profit	**46**	50	**30**	18	39
Financing expenses (income)					
Financial expenses	**3**	4	**1**	2	15
Financing income	**(5)**	(4)	**-**	(1)	(2)
Financing expenses (income), net	**(2)**	-	**1**	1	13
Profit before income taxes	**48**	50	**29**	17	26
Income tax expenses	**1**	2	**-**	1	2
Profit for the period	**47**	48	**29**	16	24

19. Subsequent events

19.1. Further to Note 11 to the annual statements, on October 27, 2121, a notification was received from the Ministry of Communications that Pelephone meets the engineering conditions for eligibility for a 5G deployment grant in the amount of NIS 74 million. The grant is expected to be received in practice during the fourth quarter of 2022 and after the 5G license fee is paid on the date specified in the license.

19.2. See Note 4.1 above regarding the plan for structural change in the Bezeq Group and the developments after the date of the report.

19.3. On October 7, 2021, a hosting services agreement was signed between Bezeq International and a vendor, according to which the vendor will provide hosting services to Bezeq International in a server farm facility set up thereby. The delivery date is divided into two phases, with the first phase expected to be delivered in March 2023, and the second phase expected to be delivered in March 2024. The agreement period is 15 years, and there are options for extension for additional periods. The cost of the agreement for the first period (excluding the exercise of the options) is approximately NIS 250 million, which relates equally to the two phases (except for the period between the date of delivery of the first phase and the date of delivery of the second phase).

19.4. On November 29, 2021, as part of the implementation of an streamlining plan in Bezeq, Bezeq's Board of Directors approved the retirement of approximately 50 veteran permanent employees, in the early retirement track, at a total cost of approximately NIS 71 million (the cost includes a reserve of 5% of the estimated retirement costs). In light of the aforesaid, Bezeq is expected to record in its financial statements for the fourfth quarter of 2021 an expense of approximately NIS 67.5 million.

19.5. On November 29, 2021, the Company's Board of Directors decided to adopt a plan to repurchase the Company's shares, amounting to up to NIS 30 million, effective from December 1, 2021 until: (1) the purchase of the Company's shares at the total cost of purchase; (2) On March 1, 2022, whichever is earlier.

19.6. On November 29, 2021, it was decided by the Remuneration Committee and the Company's Board of Directors to approve a special grant in the amount of approximately NIS 2.3 million to the Company's CEO for the year 2020 and for the year 2021.

Condensed Separate Interim Financial Information
As of September 30, 2021

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Somekh Chaikin
KPMG Millennium Tower
17 Haarbaa Street, PO Box 609
Tel Aviv 6100601
03-684-8000
To:
The shareholders of B Communications Ltd.

Re: Special 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 September 30, 2021 and for a period of nine and three months ending on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. It is our responsibility to provide our conclusion on the separate interim financial information for these interim periods based on our review.

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

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

Emphasis of matter paragraph (drawing attention)

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

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

Somekh Chaikin
CPA

November 29, 2021

Condensed interim statement on the financial position as of

	September 30, 2021 (unaudited) NIS millions	September 30, 2020 (unaudited) NIS millions	December 31, 2020 (audited) NIS millions
Assets			
Cash and cash equivalents	**22**	23	55
Short-term investments and deposits	**192**	228	157
Other trade receivables	**20**	23	23
Total current assets	**234**	274	235
Long-term deposits	**120**	200	160
Investment in affiliate	**1,676**	1,297	1,398
Total assets That are not Washing	**1,796**	1,497	1,558
Total assets	**2,030**	1,771	1,793
Liabilities			
Other payables	**25**	33	7
Total current liabilities	**25**	33	7
Debentures	**1,938**	1,884	1,893
Total non-current liabilities	**1,938**	1,884	1,893
Total liabilities	**1,963**	1,917	1,900
Equity (deficit)	**67**	(146)	(107)
Total liabilities and equity (deficit)	**2,030**	1,771	1,793

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

Date of approval of the financial statements: November 29, 2021

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

Condensed interim statement on income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Operating expenses					
Salaries	**2**	2	**1**	1	3
Operating and general expenses	**6**	5	**2**	1	8
Total operating expenses	**8**	7	**3**	2	11
Operating loss	**(8)**	(7)	**(3)**	(2)	(11)
Financing expenses (income) (see Note 2)					
Financing expenses	**103**	81	**48**	27	110
Financing income	**(7)**	(2)	**(2)**	(1)	(6)
Financing expenses, net	**96**	79	**46**	26	104
Loss after financing expenses, net	**(104)**	(86)	**(49)**	(28)	(115)
Share of profit of equity accounted investee, net	**263**	166	**76**	10	265
Profit (loss) before taxes on income	**159**	80	**27**	(18)	150
Income tax	**-**	-	**-**	-	7
Net profit (loss) for the period	**159**	80	**27**	(18)	157

Condensed interim statements of comprehensive income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Net profit (loss) for the period	**159**	80	**27**	(18)	157
Profit (loss) items including other, net of tax	**9**	(4)	**3**	(3)	(3)
Total comprehensive profit (loss) for the period	**168**	76	**30**	(21)	154

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

Condensed interim statement on cash flows

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activity					
Profit (loss) for the period	**159**	80	**27**	(18)	157
Adjustments:					
Share of profit of equity accounted investee, net	**(263)**	(166)	**(76)**	(10)	(265)
Financing expenses, net	**98**	83	**46**	25	106
Change in payables and credit	**-**	-	-	-	(7)
Change in other receivables	**(1)**	(1)	**-**	-	(1)
Net cash used for operating activity	**(7)**	(8)	**(3)**	(3)	(10)
Cash flow from investment activity					
Investment in subsidiary	**-**	-	**-**	-	(40)
Change in deposits and investments, net	**10**	(343)	**2**	(15)	(229)
Others	**-**	-	**(1)**	-	2
Net cash generated from (used for) investment activities	**10**	(343)	**1**	(15)	(267)
Cash flows from financing activities					
Issuance Bonds net	**390**	-	**390**	-	-
Fired Foundation Bonds	**(382)**	-	**(382)**	-	-
Interest paid	**(40)**	(39)	**-**	-	(78)
Repaid cost Early of bonds	**(4)**	-	**(4)**	-	-
Net compensation for Horev claim	**-**	-	**-**	-	(3)
Net cash generated from (used in) financing activities	**(36)**	(39)	**4**	-	(81)
Net increase (decrease) in cash and cash equivalents	**(33)**	(390)	**2**	(18)	(358)
Cash and cash equivalents at the beginning of the period	**55**	413	**20**	41	413
Cash and cash equivalents at the end of the period	**22**	23	**22**	23	55

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

Notes to condensed separate interim financial information

1. Method of preparation of the financial data

1.1. Definitions

"The Company" – "B Communications" Ltd.

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

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

The Condensed Interim Separate Financial Information is 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. It should be read together with the separate information for the day and year ended December 31, 2020 and together with the Condensed Consolidated Statements as of September 30, 2021 (hereinafter: "the Consolidated Statements").

The accounting policy in this 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.

For accounting policies for new events, see Note 3.2 to the Consolidated Statements.

For new standards and interpretations that have not yet been adopted, see Note 3.3 to the Consolidated Statements.

2. Financing income / expenses

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2021	2020	2021	2020	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest expenses	**99**	81	**44**	27	109
Cost of early repayment of debentures	**4**	-	**4**	-	-
Exchange rate change	**-**	-	**-**	-	1
Total financing expenses	**103**	81	**48**	27	110
Profit from marketable securities and investment in bank deposits	**7**	2	**2**	1	6
Total financing income	**7**	2	**2**	1	6
Financing expenses, net	**96**	79	**46**	26	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.

4.3. Regarding the investigation of Bezeq by the Securities Authority and the police, see Note 1.3 to the Consolidated Statements.

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

4.5. For information regarding a credit facility in the amount of NIS 40 million provided to DBS by Bezeq, see Note 4.2.1 to the Consolidated Statements.

4.6. For information on the effects of COVID pandemic outbreak see Note 1.2 to the Consolidated Statements.

4.7. For an update on share-based payment in the Bezeq Group, see Note 15 to the Consolidated Statements.

4.8. For information regarding a structural change plan in the subsidiaries and the provision of the credit facility that will take effect subject to the completion of the structural change plan and upon its completion, see Note 4.1 to the Consolidated Statements.

4.9. 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 9 to the Consolidated Statements.

4.10. On November 29, 2021, the Company's Board of Directors decided to adopt a plan to repurchase the Company's shares, amounting to up to NIS 30 million, effective from December 1, 2021 until: (1) the purchase of the Company's shares at the total cost of purchase; 2) on March 1, 2022, whichever is earlier.

4.11. On November 29, 2021, it was decided by the Remuneration Committee and the Company's Board of Directors to approve a special grant in the amount of approximately NIS 2.3 million to the Company's CEO for the year 2020 and for the year 2021.

4.12. For information regarding subsequent events, see Note 19 to the Consolidated Statements.

Chapter E

Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period ended September 30, 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. Lital Aharoni, Controller;

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 June 30, 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 been informed of an 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 detailed below;

On August 2, 2021, the employee representations in some of the corporations held by Bezeq (Pelephone and Bezeq International) began taking a variety of organizational sanctions, which also included stopping the billing process used to charge customers, and disrupting work processes on the financial statements. On November 1, 2021, the above-mentioned corporations reached agreements in principle with the Histadrut and the employees' representations on the cessation of sanctions and entry into negotiations. For more information, see section 4.8 in the chapter describing the corporation's business in this quarterly statement.

Until the date of publication of the current quarterly statement, Bezeq and the above-mentioned corporations performed compensatory controls in order to strengthen the internal control system for financial reporting and disclosure and to complete the control assessment in a timely manner. Compensatory controls mainly included the addition of analytical analyzes, reasonability tests and tests of sensitivity to the estimates used, as well as the involvement of senior professional managers in the process of reviewing the statements.

After examining the matter and among other things as a result of actions taken after the end of the aforementioned sanctions and compensatory controls, and taking into account the conclusion reached by Bezeq's Board of Directors regarding the effectiveness of Bezeq's internal control, Management, under the supervision of the Board of Directors, came to the conclusion that this event should not change the effectiveness assessment of internal control as found in the last quarterly internal control report.

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.

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 third quarter of 2021 (hereinafter - "the Statements");

(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 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 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 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 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: November 29, 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 third quarter of 2021 (hereinafter - "the Statements");

(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: November 29, 2021

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Itzik Tadmor, CFO