



B Communications Ltd.

Quarterly Report for the Period Ended March 31, 2022

Updates to Chapter A (Description of the Corporation's Business) of the 2021 Annual Report

Chapter B – Report of the Board of Directors on the State of the Corporation's business

Chapter C – Condensed Interim Financial Statements for the Period ended March 31, 2022

Chapter E – Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR Q1 2022 (THE "REPORTS"). THE HEBREW VERSION OF THE REPORTS IS THE BINDING VERSION AND THE ONLY VERSION HAVING LEGAL EFFECT. THE ENGLISH TRANSLATION HAS BEEN CREATED FOR THE PURPOSE OF CONVENIENCE ONLY. THE APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS WAS GIVEN TO THE HEBREW VERSION ONLY AND NO SUCH APPROVAL HAS BEEN GIVEN TO THE ENGLISH TRANSLATION. THIS ENGLISH TRANSLATION WAS NOT SUBMITTED TO THE ISRAELI SECURITIES AUTHORITY AND IS NOT REVIEWED BY ANY REGULATORY AUTHORITY.



Update to Chapter A
(Description of the Corporation's
Business)
Of the 2021 Periodic Report¹

¹ As published by the Company on March 24, 2022 (Reference No.: 2022-01-029136), which is included in this report by way of reference.

Update² to Chapter A - Description of the Corporation's Business) of the 2021 Periodic Report

B. Communications Ltd. ("the Company") together with the subsidiary Bezeq the Israeli Telecommunications Corporation Ltd. ("Bezeq") and Bezeq's wholly owned subsidiaries, whose financial statements are consolidated with Bezeq's statements, will be called together in this periodic report - "the Group" or "Bezeq Group".

1. Updates in the Company

- 1.1. On March 23, 2022, the Company's Board of Directors decided to adopt a plan to repurchase the Company's shares, amounting to up to NIS 20 million, effective from March 27, 2022 until: (1) the purchase of the Company's shares at the total cost of purchase; 2) End of the trading day on May 12, 2022, whichever is earlier. The purchases will be made, from time to time during the aforementioned 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 by the Company on March 24, 2022 (Reference No.: 2022-01-029175), which is included in this report by way of reference.
- 1.2. On April 27, 2022, the Company's shareholders' meeting approved the following issues: reappointment of Somekh-Chaikin CPA, KPMG, as the Company's auditor from the date of the meeting until the date of the next annual meeting of the Company; reappointment of Mr. Darren Glatt as a director in the Company until the date of the next annual meeting of the Company; reappointment of Mr. Phil Bacal as a director in the Company until the date of the next annual meeting of the Company; reappointment of Mr. Ran Forer as a director in the Company until the next annual meeting of the Company; Reappointment of Mr. Ajit Pai as a director in the Company until the date of the next annual meeting of the Company; reappointment of Mr. Stephen Joseph as a director in the Company until the date of the next annual meeting of the Company; and approval of the adoption of a new remuneration policy for the Company. (Reference No.: 2022-01-051748), which is included in this report by way of reference.

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

Section 1.1 – Group activity and description of the development of its business

2.1. To Section 1.1.5 - Structural changes (structural change in subsidiaries)

Regarding the establishment of ISP activity in DBS - In April 2022, DBS submitted an application to the Ministry of Communications for a special license for Internet access services (ISP).

On May 17, 2022, Bezeq's Board of Directors approved the appointment of Mr. Ilan Siegel as CEO of Bezeq, Pelephone, DBS and Bezeq International, in place of Mr. Ran Guron, who was appointed CEO of Bezeq (see Section 3.2 below - update to Section 2.9. 5).

2.2. Section 1.4.2 - Dividend distribution

For details regarding the distribution made by Bezeq in May 2022, see Note 4.4 to the Company's Consolidated Statements.

Bezeq's balance of the distributable profits as of the date of the report is approximately NIS 1,694 million (surpluses accumulated in the last two years after the reduction of the distribution from May 2022).

2.3. To Section 1.5.4 - Key results and operational data

2.3.1. Bezeq Fixed Lines (Bezeq activity as NIO³)

² The update is in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and includes significant changes or innovations that have occurred in the Company's / or Bezeq and / or the Group's business, in any matter that must be described in the periodic report. The update is in relation to the Company's periodic report for 2021 and refers to the item numbers in Chapter A (Description of the Corporation's Business) in said periodic report.

³ NIO – national interior operator.

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	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue (NIS millions)	1,096	1,052	1,037	1,039	1,054
Operating profit (NIS millions)	386	358	390	407	593
Depreciation and amortization (NIS millions)	239	245	239	231	223
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	625	603	629	638	816
Net profit (NIS millions)	218	206	219	238	400
Cash flow from current activities (NIS millions)	634	593	567	354	510
Payments for investments in property, plant and equipment and intangible assets and other investments (NIS millions)	285	244	314	285	312
Receipts from the sale of property, plant and equipment and intangible assets (NIS millions)	14	87	4	-	182
Lease payments	36	32	31	24	29
Free cash flow (NIS millions) (2)	327	404	226	45	351
Number of active subscribers at the end of the period (thousands) (3)	1,563	1,583	1,602	1,615	1,630
Average monthly revenue per telephony subscriber (NIS) (ARPL) (4)	47	46	46	47	49
Outgoing usage minutes (millions)	801	811	782	827	965
Incoming usage minutes (millions)	1,058	1,096	1,152	1,095	1,284
Telephony churn rate (6)	3.0%	2.8%	2.4%	2.6%	2.8%
Total number of Internet subscribers at the end of the period (thousands) (7)	1,519	1,524	1,524	1,529	1,540
Of which are Internet lines at the end of the period - wholesale (thousands) (7)	495	501	510	520	539
Of which are Internet lines at the end of the period - in retail (thousands) (7)	1,024	1,023	1,014	1,009	1,001
Average monthly revenue per Internet subscriber (NIS) - Retail (ARPU) (8)	110	109	107	106	103
Fiber optic network deployment at the end of the period (thousands of households available for connection) (9)	1,193	1,064	848	597	310
Of these, number of subscribers connected to the fiber network at the end of the period (thousands) (9)	124	84	44	16	1
Average plan speed for Internet subscriber – retail (Mbps) (5)	151	130	104	88	78

- (1) Operating profit before depreciation and amortization (EBITDA) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as another index for evaluating its business results since it is an accepted index in the Company's area of activity which neutralizes aspects resulting from variability in capital structure, various taxation aspects and 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 does not serve as a single index for assessing the Company's results of operations or cash flow. Also, the index presented in this report may not be calculated in the same way as other indices in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from impairment of property, plant and equipment and intangible assets. For the purpose of adequate presentation of economic activity, the Company presents ongoing losses from impairment of property, plant and equipment and intangible assets in DBS and Bezeq International under the depreciation and amortization item, as well as ongoing losses from impairment of broadcasting rights under the operating and general expenses item (in the statement of income). For this matter see Note 10 to the financial statements and section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.
- (2) Free cash flow is a financial measure that is not based on generally accepted accounting principles. Free cash flow is defined as cash arising from current operations minus cash for the purchase / sale of property, plant and equipment. The Company presents free cash flow as an additional index to evaluate business results and cash flows, since the Company is of the opinion that 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. For this matter see section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.
- (3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (excluding a subscriber who has not paid his debt to the Company on time in the first three months (approximately)

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- of collection proceedings).
- (4) Calculated according to the average of subscribers for the period. For this matter see also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.
 - (5) In plans where there is a range of speeds, the maximum speed in the plan is taken into account.
 - (6) Number (gross) of telephony subscribers who abandoned Bezeq Fixed Lines during the period divided by the average number of telephony subscribers registered in the period. See also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.
 - (7) Total number of Internet subscribers including retail and wholesale subscribers. Retail – the Company's direct Internet subscribers. Wholesale - Internet subscribers through wholesale service to other communication providers.
 - (8) Revenue from retail Internet services divided by the average number of retail customers in the period. For this matter, see also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.
 - (9) As of the date of publication of the report, deployment of fiber optic network – approx. 1.25 million households are available for connection, of which approx. 143K subscribers are connected to the fiber network.

2.3.2. Telephone

	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue from services (NIS millions)	437	424	417	409	392
Revenue from the sale of end equipment (NIS millions)	163	178	124	167	178
Total revenue (NIS millions)	600	602	541	576	570
Operating profit (loss) (NIS millions)	64	8	22	15	(3)
Depreciation and amortization (NIS millions)	122	147	144	144	142
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	186	155	166	159	139
Net profit (loss) (NIS millions)	56	13	23	20	8
Cash flow from operating activities (NIS millions)	278	19	185	149	72
Payments for investments in property, plant and equipment, intangible assets and other investments, net (NIS millions)	72	54	68	60	71
Lease payments	61	54	52	53	60
Free cash flow (NIS millions) (1)	145	(89)	65	36	(59)
Number of postpaid subscribers for the end of the period (thousands) (2)	2,093	2,096	2,074	2,050	2,030
Number of prepaid subscribers for the end of the period (thousands) (2)	490	480	473	471	462
Number of subscribers for the end of the period (thousands) (2)	2,583	2,576	2,547	2,521	2,492
Average monthly income per subscriber (NIS) (ARPU) (3)	57	55	55	54	53
Subscriber churn rate (Churn Rate) (4)	6.8%	5.8%	5.5%	5.8%	5.8%

- (1) For 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 Telephone's subscribers (excluding other operators' subscribers who are hosted on the Telephone network, and without IoT subscribers) and does not include subscribers who has been connected to Telephone's service for six months or more but are not active. Inactive subscribers are subscribers who in the last six months have not received at least one call, did not make at least one call / message, did not perform a browsing operation, or did not pay for Telephone's services. A prepaid subscriber is included in the active subscriber base from the date on which he performed a charge, and is deducted from the active subscriber base when he does not make outgoing use for six months or more. It should be noted that a customer can have more than one subscription number ("line"). The number of subscribers includes subscribers who consume various services (such as data for in-vehicle media systems), the average revenue from which is significantly lower than the rest of the subscribers. It should be noted that Telephone markets packages with an increased volume of use that are also adapted to the needs of 5G, while close to the date of publication of Telephone's report, there are about 624K subscribers in such packages.
- (3) The average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average monthly revenue from all cellular services from both Telephone's subscribers and other communication operators, including revenue received from cellular operators using Telephone's network, repair service and extended warranty in the period by the average active subscriber base in that same period. See also Section 8 of the chapter on the description of the Corporation's business in the 2021 periodic report.

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- (4) The subscriber churn rate is calculated according to the ratio of the subscribers who disconnected from Telephone services and the subscribers who became inactive during the period to the average of active subscribers during the period. See also Section 8 of the chapter on the description of the Corporation's business in the 2021 periodic report.

2.3.3. Bezeq International

	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue (NIS millions)	307	328	287	310	312
Operating profit (loss) (NIS millions)	(4)	1	13	16	(8)
Depreciation and amortization (NIS millions)	38	40	38	46	49
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	34	41	51	62	41
Net profit (loss) (NIS millions)	(5)	(5)	10	11	(8)
Cash flow from operating activities (NIS millions)	112	(52)	96	26	61
Payments for investments in property, plant and equipment and intangible assets and other investments, net (NIS millions) (2)	26	14	27	27	30
Lease payments	9	7	9	9	8
Free cash flow (NIS millions) (1)	77	(73)	60	(10)	23
Subscriber churn rate (3)	7.3%	5.9%	5.5%	6.0%	7.9%

(1) For 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 is an average of the average Internet subscribers registered during the period. See also Section 8 of the chapter on the description of the Corporation's business in the periodic report for 2021.

2.3.4. DBS

	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue (NIS millions)	316	322	318	315	315
Operating profit (loss) (NIS millions)	10	(14)	30	22	(6)
Depreciation, amortization and ongoing impairment (NIS millions)	50	52	45	45	61
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (NIS millions) (1)	60	38	75	67	55
Net profit (loss) (NIS millions)	10	(17)	29	18	0
Cash flow from operating activities (NIS millions)	78	42	73	56	62
Payments for investments in property, plant and equipment and intangible assets and other investments, net (in NIS millions)	46	55	38	42	43
Lease payments	6	7	6	7	6
Free cash flow (NIS millions) (1)	26	(20)	29	7	13
Number of subscribers (at the end of the period, thousands) (2)	564	563	560	560	559
Of which are IP subscribers (3)	253	226	198	173	147
Of which are StingTV subscribers	89	84	79	74	70
Average monthly income per subscriber (ARPU) (NIS) (3)	186	190	188	186	187
Subscriber churn rate (4)	3.7%	3.4%	3.7%	3.7%	4.3%

(1) For 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 subscribers registered in respect of non-small business customers is calculated by dividing the total payment received from all non-small business customers by the average income per small business customer, which is determined once per period.
- (3) The number 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 2021) as of the date of publication of the report, is about 265K subscribers (of which, 91K are STINGTV subscribers), which constitute 47% of all DBS subscribers. This number also includes subscribers who also use satellite services at the same time.
- (4) 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 number of customers in the period. See also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.
- (5) The number of DBS subscribers who churned from DBS during the period divided by the average number of subscribers registered in the period. See also Section 8 of the chapter on the description of the Corporation's business in the 2021 periodic report.

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

2.4. To Section 1.7.2 - Bezeq Group's activity as a communications group and the restrictions on structural separation

Paragraph 1.7.2.4 (Marketing of a common basket of Internet infrastructure services together with ISP) - regarding the abolition of the separation between broadband infrastructure service and Internet access service (ISP), further to what is described in the section, on April 3, 2022 (the effective date) Bezeq began marketing and providing a unified infrastructure and ISP service.

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

Section 1.7.4.6 (Enforcement and financial sanctions) - regarding a notice by the Consumer Protection Authority dated February 2021 on the intention to charge Bezeq a financial sanction of NIS 6.75 million for alleged violation of Article 2(a)(1) of the Consumer Protection Law, Claiming that Bezeq did not provide many of the consumers who purchased the TOP 100 browsing package with the minimum speed promised to them - further, in April 2022, Bezeq received a demand for payment of a financial sanction of NIS 6.9 million, which effectively dismisses Bezeq's position. Bezeq intends to file an appeal in the matter.

Paragraph 1.7.4.14 (Hearing - Preparations for the management of cyber defense) - On May 2, 2022, Bezeq, Pelephone and Bezeq International licenses were amended in a manner that regulates most of the issues raised at the hearing, including the addition of a clause and appendix to the license regarding cyber defense management. Bezeq, Pelephone and Bezeq International operate License amendments.

2.6. To Section 1.7.6 - Pandemic - Outbreak of COVID19

For this matter, see Note 1.2 to the Statements.

2.7. To Section 1.8.4 - Streamlining measures and promoting the assimilation of synergies between subsidiaries

Regarding the implementation of moves to promote and assimilate streamlining and synergy between the subsidiaries - further assimilation of streamlining and synergy processes is in negotiations as part of the renewal of the collective agreements with the employee representations of Bezeq International and Pelephone Communications Ltd.

3. Bezeq - Landline interior communications

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

Paragraph 2.6.6.5 (Bezeq's Be Router) - as of the date of publication of the report, Bezeq's customer base using the Be Router is approximately 699K customers (approximately 68.4% of Bezeq's retail Internet customers). Bezeq has about 380K product units to improve the reception range of the Be spot and Be Mesh home Internet networks.

3.2. To Section 2.9.5 - Bezeq's Officers and senior management

On April 24, 2022, Bezeq's CEO, Mr. Dudu Mizrahi, announced the termination of his position as CEO of Bezeq. His term will end on June 15, 2022. On May 12, 2022, Bezeq's Board of Directors approved the appointment of Mr. Ran Guron (CEO of the subsidiaries Pelephone, Bezeq International and DBS) as Bezeq's CEO.

On April 28, 2022, the General Meeting of Bezeq's shareholders approved, among other things, an updated remuneration policy for a period of three (3) years, effective from January 1, 2022, which includes, *inter alia*, clear amendments regarding the return of remuneration based on incorrect financial information., adjusting the remuneration policy in a manner that enables the granting of variable remuneration depending on performance to the Chairman of the Bezeq Board of Directors, as well as drafting amendments and other technical amendments.

3.3. To Section 2.11 - Working equity

For details regarding the Group's working equity, see Section 1.3 of the Board of Directors' Report.

3.4. To Section 2.13 - Financing

Regarding the shelf prospectus published by Bezeq on April 7, 2020 - In April 2022, the Securities Authority approved extending the period for proposing securities according to the shelf prospectus until April 7, 2023. Pursuant to the Authority's approval, in light of the existence of enforcement proceedings in Bezeq's case, insofar as Bezeq wishes to publish a shelf offer report by virtue of the shelf prospectus during the said period and as long as the proceedings continue, any such shelf offer report will be subject to a Securities Authority permit, which is in accordance with the provision of Rule 2(8) of the Securities Rules (cases in which the publication of a shelf offer report will be subject to a permit from the Securities Authority), 5776-2016.

Paragraph 2.13.6 (Credit rating) - On May 10, 2022, Maalot confirmed the rating of Bezeq and its debentures as iIAA- / Stable. In addition, on May 15, 2022, Midroog confirmed the rating of Bezeq's debentures as Aa3.il's with a stable rating horizon. In this regard, see also Bezeq's immediate reports dated May 10, 2022 and May 15, 2022, which are included in this report by way of reference, as well as Section 3 of the Board of Directors' report.

3.5. Restrictions on and supervision of Bezeq's operations

On May 16, 2022, Bezeq received a public appeal issued by the Ministry of Communications regarding the provision of communications services to the business segment, in which the Ministry invited companies in the communications market that provide communications services to the medium-large business segment to detail their activities in the field and barriers to expanding this activity, in order to promote regulation that will increase competition in the field. According to the public appeal, the medium-sized business customer market is characterized by a significant size advantage, and significant barriers to entry and expansion that also limit players who have been operating in it for many years. In addition, Bezeq's market shares in the segment and the rate of change in them are an indication of a low level of competition in the segment that affects prices and the level of services received by businesses in Israel. Bezeq is studying the public appeal and intends to forward its reference to the Ministry by the deadline set for the submission of references (June 6, 2022).

3.6. To Section 2.16.1 – Regulation of Bezeq's rates

Following the hearing to determine the maximum rate for passive infrastructure access service (cable access service) and dark fiber service in the incentive areas published by the Ministry of Communications on February 2, 2022 - on March 27, 2022 Bezeq submitted its response to the hearing and that there were material failures in the economic opinion by way of hearing, and that the intention to reduce the rates of use of Bezeq infrastructure in these areas should be frozen, noting that in accordance with the Ministry's intention, the issue of using Bezeq infrastructure and the wholesale price to be set for the service is expected to be discussed as part of the renewal of the period of the wholesale rate arrangement, and the issue of service price in the incentive areas should be part of that arrangement.

3.7. To Section 2.18.1 – Pending and contingent proceedings

Paragraph A (class action for compensation for losses alleged to have been incurred by Bezeq shareholders due to Bezeq's reporting failures, and the in-part approval of the claim as a class action) - Negotiations between the parties to the proceeding are being conducted to conclude the proceeding by way of a settlement in which the plaintiffs will be paid by the officers' insurance company and at no cost to Bezeq and the defendant officers, a total amount of NIS 75 million (including attorney's remuneration and fees). It should be noted that it is only a matter of negotiation at this stage, and there is no assurance that it will mature into a binding agreement. Also, a settlement agreement in the matter, insofar as it is signed, will require the approval of the Court where the proceeding is conducted. At the same time, in view of the provisions of the accounting standard, a provision in the amount of the settlement amount was recorded in Bezeq's statements for the first quarter of 2022, while on the other hand, in view of the existence of full insurance coverage, the same report recognized an indemnity asset in the amount of the provision, so that such record has no effect on Bezeq's results.

Paragraph I (Motion for disclosure and review of documents prior to the filing of a derivative claim filed against Bezeq and Bezeq International in which an order for disclosure and review of documents regarding assets balances in Bezeq International books was requested) - On March 25, 2022, the Court approved a consented motion for the applicants' renouncement of the motion for disclosure and review of the documents by way of dismissal thereof.

Paragraph M (Claim and motion for approval as class action filed against Bezeq on the grounds of misleading on the part of Bezeq in connection with the B144service) - on March 23, 2022, a judgment was rendered dismissing the motion for approval, while it was determined that the plaintiffs did not provide an evidentiary or factual basis, not even the minimum required, that could demonstrate a cause of action in the case.

4. Pelephone - Radio - Mobile Phone (Cellular Telephony)

4.1. To Section 3.16.1 - Pending and contingent legal proceedings

Paragraph 5 (Request for approval of a class action lawsuit filed against Pelephone and another cellular company on the grounds that they do not allow their subscribers to take advantage of the full "overseas packages" purchased in advance) - on April 26, 2022, a judgment was rendered rejecting the applicants' appeal against the dismissal of the motion for approval.

5. Bezeq International - Internet, international communications and network endpoint services

5.1. To Section 4.12.1 - Pending and contingent legal proceedings

Regarding the renouncement of the motion for disclosure and review of documents prior to the filing of a derivative claim filed against Bezeq and Bezeq International regarding asset balances in Bezeq International's books - see Section 3.6 above (update to Section 2.18.1(i)).

6. DBS - Multi-channel TV

6.1. To Section 5.1 - General information on the field of activity

On May 19, 2022, DBS signed an agreement with a corporation from the Walt Disney Group ("Disney"), according to which, as part of Disney's entry into the Israeli market, DBS, Pelephone and Bezeq International ("the Subsidiaries") will be allowed to distribute the streaming service "Disney+" in Israel ("the Disney+ Service"), together with communication packages marketed by them, under the conditions determined, for a period of about three years from the date of the launch of the Disney+ Service by Disney in Israel ("the Agreement"). Disney will be entitled to a payment based on the amount of subscribers of the Subsidiaries that will purchase the Disney+ Service, and which will not be less than the amounts stipulated in the agreement, which are not material to the Company. The Agreement confers a number of marketing advantages on DBS, some of which are subject to the approval of the Competition Authority.

6.2. To Section 5.13 - Financing

In April 2022, Bezeq approved a credit facility or an investment in DBS' capital in the total

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amount of up to NIS 40 million, for a period of 15 months starting from April 1, 2022. This approval replaces a similar approval given in November 2021 (and not in addition thereto) .

- 6.3. To Section 5.18 - Objectives and strategy

Section 5.18.1 (Phased transition (migration) of DBS from satellite broadcasts to Internet transmission (OTT)) - see Section 2.3.4 above (update to Section 1.5.4(d) (Note 3)).



Chapter B
Report of the Board of Directors
on the State of Affairs of the Corporation
for the Period Ended March 31, 2022

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2022

The Board of Directors of B Communications Ltd. ("**the Company**") is honored to submit the Board of Directors' report on the State of the Company and consolidated for all Group Companies (the Company and the Subsidiaries will be collectively referred to hereinafter as: "**the Group**"), for a period of three months ended March 31, 2022 ("**the Report Date**") in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 ("**the Reporting Regulations**").

The report of the Board of Directors includes a review, in a limited format, of the matters discussed therein, and has been prepared taking into account that the reader of the report also has the report of the Board of Directors as of December 31, 2021.

For the investigation by the Securities Authority and the Israel Police, see Note 1.3 to the statements. The auditors drew attention to this in their opinion on the statements.

For the effects of the COVID19 crisis, see Note 1.6 below.

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

1. **Landline interior communication**
2. **Cellular communication**
3. **Internet, international communications and network endpoint services and ICT solutions (hereinafter: "Bezeq International Services")**
4. **Multi-channel TV**

	1-3.2022	1-3.2021	Change	
	NIS millions			%
Net profit	260	381	(121)	(31.8)
EBITDA*	905	1,059	(154)	(14.5)
Adjusted EBITDA*	955	915	40	(4.4)

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

The decrease in profit was due to the landline interior communications segment, mainly due to a capital gain from the sale of a real estate property recognized in the corresponding quarter, as well as an increase in provision expenses for legal claims. The decrease is mainly due to an increase in the profit of the cellular communications segment. For more information, see Section 1.2 below.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2022

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

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

The following is a breakdown of the indices:

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 financing expenses (revenue), taxes, depreciation and amortization. The EBITDA index is an accepted index in the Group's field of 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 profit 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 an EBITDA index net of other operating expenses / revenue, net and one-off losses / profits from impairment / increase in value and expenses in respect of the capital remuneration plan. The index allows comparisons of operational performance between different periods while neutralizing one-off effects of exceptional expenses / revenue. It should be noted that the correlated EBITDA index should not be compared to indices with a similar name reported by other companies due to a possible difference in the way the index is calculated.

The following is the method of calculating the indices:

	1-3.2022	1-3.2021
	NIS millions	NIS millions
Operating profit	457	583
Net depreciation, amortization and impairment	448	476
EBITDA	905	1,059
Net of other operating expenses (revenue), net	46	(152)
Net of expenses on capital remuneration plan	4	8
Adjusted EBITDA	955	915

Report of the Board of Directors on the state of affairs of the corporation for the Period ended March 31, 2022

1. Explanations by 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 - Assets

	March 31, 2022	March 31, 2021	Increase (decrease)	
	NIS millions			%
Cash and current investments	2,290	1,996	294	14.8
Current and non-current trade receivables	2,426	2,371	55	2.3
Inventory	108	87	21	24.1
Assets held for sale	-	2	(2)	-
Broadcasting rights	62	62	-	-
Right-of-use assets	1,816	1,735	81	4.7
Property, plant and equipment	6,400	6,182	218	3.5
Intangible assets	3,271	3,277	(6)	(0.2)
Deferred tax assets	-	57	(57)	-
Deferred expenses and non-current investments	303	491	(188)	(38.3)
Total assets	16,676	16,260	416	2.6

Explanation
The increase was mainly due to an increase in current investment balances in the landline interior communications segment. For more information, see Chapter 1.3 below.
The increase was due to an increase in the receivables balance, mainly due to a commitment on the part of an insurer for insurance indemnification in respect of provision for claims in Bezeq (see Note 6.2 to the Statements), offset by a decrease in the balance of customers.
The increase in inventory was mainly due to the cellular communications segment, as a result of the acquisition of new models of devices for launches.
The increase was due to the landline interior communications segment, partly due to the progress of the fiber network deployment project.
The decrease in 2021 is mainly due to the classification of long-term deposits in the Company as short-term.
The decrease was mainly due to the repayment of a long-term shekel deposit in the landline interior communications segment and a long-term deposit classified as a current investment in the Company.

Report of the Board of Directors on the state of affairs of the corporation for the Period ended March 31, 2022

1.1. Financial position (Cont.) – Liabilities and equity

	March 31, 2022	March 31, 2021	Increase (decrease)	
	NIS millions		%	
Debt to financial institutions and bondholders	9,707	10,274	(567)	(5.5)
Liabilities in respect of leases	1,943	1,840	103	5.6
Trade payables	1,946	1,819	127	7
Employee benefits	642	779	(137)	(17.6)
Provisions	233	136	97	71.3
Deferred tax liabilities	302	292	10	3.4
Other liabilities	147	282	(135)	(47.9)
Total liabilities	14,920	15,422	(502)	(3.2)
Non-controlling interests	1,693	855	838	98
Total equity deficit attributed to the Company's shareholders	63	(17)	80	-
Total equity	1,756	838	918	109.5
Total liabilities and equity	16,676	16,260	416	2.6

Explanation
The decrease in debt was due to the repayment (including early repayment) of debentures and loans, offsetting the issuance of Series 13 and 14 debentures and the receipt of loans in the landline interior communications segment.
The increase was mainly due to the classification of a liability to pay for the cost of 5G frequencies in the cellular communications segment as a current liability.
The decrease was due to payments for employee retirement and streamlining plans in the group and above in the discount rate of liabilities to employees, offset by an increase in the provision for termination of employee-employer relationship in early retirement during 2021.
The increase was due to an increase in provisions for claims in the landline interior communications segment.
The decrease was mainly due to the classification of a liability to pay for the cost of 5G frequencies in the cellular communications segment as a current liability and a decrease in derivatives in the landline interior communications segment.
Equity constitutes approximately 0.4% of the total balance sheet, compared with a deficit in equity which constituted approximately 0.1% of the total balance sheet on March 31, 2021.

Report of the Board of Directors on the state of affairs of the corporation for the Period ended March 31, 2022

1.2. The results of operations

1.2.1. Results summary

	March 31, 2022	March 31, 2021	Increase (decrease)		Explanation
	NIS millions			%	
Revenue	2,255	2,221	35	1.5	The increase in revenue was due to the landline interior communications segment and the cellular communications segment, offset by a decrease in revenue of the "other" segment.
Operating and general expenses	829	833	(4)	(0.5)	
Salary	475	481	(6)	(1.3)	The decrease was mainly due to the "other" segment, offsetting an increase in expenses, mainly in the landline interior communications segment.
Depreciation, amortization and impairment	448	476	(28)	(5.9)	The increase in expenses in the landline interior communications segment was offset by a decrease in the expenses of the rest of the Group.
Other operating expenses (revenue), net	46	(152)	198	-	The change was due to the landline interior communications segment as a result of an increase in expenses on provisions for legal claims, and because the corresponding quarter included a capital gain from the sale of a real estate property, see Note 11 to the Statements.
Operating Profit	457	583	(126)	(21.6)	
Financing expenses, net	104	75	29	38.7	The increase was mainly due to the landline interior communications segment, see Note 12 to the Statements.
Taxes on revenue	93	127	(34)	(26.8)	
Profit (loss) in the year	260	381	(121)	(31.8)	

Report of the Board of Directors on the state of affairs of the corporation for the year ended December 31, 2020

1.2.2. Operating segments

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

	1-3.2022		1-3.2021	
	NIS millions	% of total revenue	NIS millions	% of total revenue
Revenue by operating segments				
Interior landline communication	1,096	48.6	1,054	47.5
Cellular communication	600	26.6	570	25.7
Bezeq International services	307	13.6	312	14
Multi-channel TV	316	14	315	14.2
Others and adjustments	(64)	(2.8)	(30)	(1.4)
Total	2,255	100	2,221	100

	1-3.2022		1-3.2021	
	NIS millions	% of total revenue	NIS millions	% of total revenue
Operating profit (loss) by operating segment				
Interior landline communication	386	35.2	593	56.3
Cellular communication	64	10.7	(3)	(0.5)
Bezeq International services	(4)	(1.3)	(8)	(2.6)
Multi-channel TV	(7)	(2.2)	(18)	(5.7)
Others and adjustments	18	-	19	-
Consolidated operating profit / percentage of Group revenue	457	20.4	583	26.2

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.4 to the Consolidated Financial Statements for a summary of selected data from the statements of DBS.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2022

1.2.2. Activity segments (Cont.)

b. Interior landline communications segment

	1-3.2022	1-3.2021	Increase (decrease)	
	NIS millions		%	
Internet infrastructure	434	398	36	9.0
Landline telephony	220	242	(22)	(9.1)
Transmission, data communication and other	361	332	29	8.7
Cloud and digital services	81	82	(1)	(1.2)
Total	1,096	1,054	42	4.0
Operating and general expenses	178	155	23	14.8
Salary	246	233	13	5.6
Depreciation and amortization	239	223	16	7.2
Other operating expenses (revenue), net	47	(150)	197	-
Operating profit	386	593	(207)	(34.9)
Financing expenses, net	94	68	26	38.2
Taxes on revenue	74	125	(51)	(40.8)
Segment profit	218	400	(182)	(45.5)

Explanation
There has been an increase in the average revenue per retail subscription, mainly from services for customers on the fiber network (starting in March 2021) and auxiliary end equipment, an increase in the number of Internet lines in retail and an increase in wholesale Internet service rates.
The decrease was due to a decrease in the average revenue per telephone line, mainly due to the moderation of the effect of the COVID19 pandemic on the consumption of calls, as well as a decrease in the number of lines.
The increase was mainly due to an increase in revenue from transmission services to Internet providers and businesses and paid works.
The increase was mainly due to an increase in the costs of subcontractors and the costs of end equipment and materials, among other things due to the deployment of the fiber network.
The increase was mainly due to employee onboarding and salary increases, offset by employee retirement.
The change was due to an increase in expenses on provisions for legal claims, as opposed to a decrease in the aforesaid expenses in the corresponding quarter, and because the corresponding quarter included a capital gain from the sale of a real estate property, see Note 11 to the Statements.
The increase was mainly due to the costs of early repayment of debentures (Series 9) as well as an increase in linkage differences for debentures due to the increase in the index in the current quarter, offsetting financing revenue in respect of employee benefits, see Note 12 to the Statements.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2022

1.2.2. Activity segments (Cont.)

c. Cellular communications segment

	1-3.2022	1-3.2021	Increase (decrease)		Explanation
	NIS millions			%	
Services	437	392	45	11.5	The increase was mainly due to the recovery from the effects of the COVID19 crisis, which was reflected in an increase in roaming revenues and continued growth in the number of postpaid subscribers, including subscribers to 5G packages.
Sale of end equipment to customers	163	178	(15)	(8.4)	The decrease was mainly due to a change in the mix of device sales in light of the timing of the launch dates for new models, as well as a decrease in wholesale sales.
Total revenue	600	570	30	5.3	
Operating and general expenses	333	352	(19)	(5.4)	The decrease was mainly due to a decrease in the cost of selling end equipment in parallel with a decrease in revenues and a decrease in IT costs as a result of the record of the implementation of a cloud computing system in the corresponding quarter.
Salary	82	79	3	3.8	The increase was mainly due to the update of salary allocations and the sending of workers on unpaid leave in the corresponding quarter, which were partially offset due to a decrease in the number of jobs.
Depreciation and amortization	122	142	(20)	(14.1)	The decrease was mainly due to a decrease in the cost of the right-of-use of cellular sites assets.
Other operating expenses, net	(1)	-	(1)	-	
Operating profit (loss)	64	(3)	67	-	
Financing revenue, net	9	10	(1)	(10)	
Taxes on revenue expenses (revenue)	17	(1)	18	-	
Segment profit	56	8	48	600	

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2022

1.2.2. Activity segments (Cont.)

d. Bezeq International services

	1-3.2022	1-3.2021	Increase (decrease)	
	NIS millions		%	
Revenue	307	312	(5)	(1.6)
Operating and general expenses	216	211	5	2.4
Salary	56	60	(4)	(6.7)
Depreciation and amortization	38	49	(11)	(22.4)
Other operating expenses	1	-	1	-
Operating loss	(4)	(8)	4	50
Financing expenses, net	1	-	1	-
Taxes on revenue expenses	-	-	-	-
Segment loss	(5)	(8)	3	37.5

Explanation
The decrease was due to a decrease in revenues from equipment and licensing as a result of an increase in delivery times for customers, as well as a decrease in revenues from Internet services due to a decrease in the number of subscribers and the cessation of retail Internet sales during the current quarter. The decrease in these revenues was partially offset by an increase in revenues from business applications resulting from an increase in the sale of cloud licensing.
The increase was mainly due to an increase in expenses from business applications in parallel with an increase in cloud licensing sales, as well as an increase in Internet activity expenses, which was mainly due to an increase in browsing volume consumption. The increase in these expenses was partially offset by a decrease in the cost of selling equipment and licensing to businesses, which corresponds to a decrease in revenues in this field.
The decrease was mainly due to a decrease in the number of the Company's employees.
The decrease was mainly due to a decrease in the expenses in respect of depreciation of the subscriber acquisition asset, depreciation of capacities and other assets, in addition to a decrease in the net impairment losses.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2022

1.2.2. Activity segments (Cont.)

e. Multi-channel TV *

	1-3.2022	1-3.2021	Increase (decrease)	
	NIS millions		%	
Revenue	316	315	1	0.3
Operating and general expenses	208	213	(5)	(2.3)
Salary	49	47	2	4.3
Depreciation and amortization	66	75	(9)	(12.0)
Other operating expenses (revenue)	-	(2)	2	-
Operating profit (loss)	(7)	(18)	11	61.1
Financing expenses, net	(1)	(7)	6	85.7
Taxes on revenue	1	1	-	-
Segment loss	(7)	(12)	5	41.7

Explanation
The decrease was mainly due to a decrease in content expenses.
The decrease was mainly due to fully amortized assets and an update of depreciation estimates.
The decrease was mainly due to a decrease in the number of hedging transactions and the effect of a change in the exchange rate of the dollar on hedging transactions.

* 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 to the Statements). This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.4 to the Consolidated Statements for a summary of selected data from the statements of DBS.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2022

1.2.2. Activity segments (Cont.)

f. Multi-channel TV (Cont.) - Comparison between accounting income and proforma income

	1-3.2022		1-3.2021	
	Accounting income	Proforma income	Accounting income	Proforma income
NIS millions				
Revenue	316	316	315	315
Operating and general expenses	206	208	212	213
Salary	50	49	50	47
Depreciation and amortization	50	66	61	75
Other operating (revenue)	-	-	(2)	(2)
Operating profit (loss)	10	(7)	(6)	(18)
Financing expenses, net	(1)	(1)	(7)	(7)
Taxes on revenue	1	1	1	1
Segment profit (loss)	10	(7)	-	(12)

1.3. Cash Flow

	1-3.2022	1-3.2021	Change		Explanation
		NIS millions		%	
Net cash flow from operating activities	1,093	697	396	56.8	The increase in net cash flow from operating activities was due to changes in working equity, mainly due to the transition in collection from customers from the fourth quarter of 2021 until the first quarter of 2022 due to employees' sanctions in the cellular communications segment and the Bezeq international services segment. There is also a decrease in Income Tax paid. The increase in cash flow occurred in all segments of the Group.
Net cash flow used for Investing operations	(268)	(290)	22	7.6	The decrease in net cash flow used in investing activities was mainly due to a decrease in return on the sale of property, plant and equipment, offset by an increase in net proceeds from the repayment of deposits in banks and a decrease in the purchase of property, plant and equipment in the landline interior communications segment.
Net cash flow used for financing operations	(527)	(107)	(420)	(392.5)	The increase in net cash flow used for financing activities was due to a partial early repayment at the Company's initiative of debentures (Series 9) in the amount of approximately NIS 370 million, as well as costs in respect of early repayment in the amount of NIS 26 million.
Net increase in cash	104	80	24	30	

Average volume in the reported year

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 9,877 million.

Provider credit: approx. NIS 974 million.

Short-term customer credit: approx. NIS 1,726 million. Long-term customer credit: approx. NIS 263 million.

Working equity

The Group's consolidated working equity as of March 31, 2022 amounted to approximately NIS 437 million, compared with working equity of approximately NIS 409 million as of March 31, 2021.

The Company's working equity (according to the "Solo" Statements) as of March 31, 2022 amounted to approximately NIS 182 million, compared with working equity of approximately NIS 208 million as of March 31, 2021.

Bezeq (according to the "Solo" Statements) as of March 31, 2022, has a working equity surplus in the amount of NIS 278 million, compared with a deficit in working equity of NIS 228 million as of March 31, 2021.

1.4. Disclosure regarding the Company's projected cash flow

The Company's Board of Directors reviewed the Company's consolidated financial statements and separate (Solo) financial statements as of March 31, 2022, including sources for repayment of the Company's liabilities, including the Company's debentures (Series C and F). In addition, the Company's Board of Directors examined the warning signs set forth in Regulation 10(b)(14)(a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and determined that despite the existence of a continuing negative cash flow from current operations in the separate (Solo) financial statements of the Company, in the opinion of the Company's Board of Directors, after receiving explanations for its opinion from the Company's Management, the continuing negative cash flow from current activities in the Company's separate (Solo) statements 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 statement.

1.5. Plan to buyback the Company's shares

1.5.1 In accordance with the Company's buyback plan approved by the Company's Board of Directors on November 30, 2021 the Company purchased 820,360 shares in the Company during the first quarter of 2022 for a total of approximately NIS 11 million. For further details, see the Company's report dated November 30, 2021. (Reference No.: 2021-01-104413).

1.5.2 On March 23, 2022, the Company's Board of Directors approved a plan to buy back the Company's shares in the amount of up to NIS 20 million, which begins on March 27, 2022 and ends: (1) upon an acquisition in the amount of NIS 20 million; Or (2) on May 12, 2022, whichever is earlier. As of March 31, 2022, the Company repurchased a total of 340,300 of its shares under the said acquisition plan for approximately NIS 5 million.

After the date of the Statements, and until April 27, 2022, the date on which the plan for the buyback of the Company's shares came to an end, the Company purchased an additional 1,009,529 shares of the Company for approximately NIS 15 million.

1.6. Effect of COVID19 outbreak

Following on from Note 1.4 to the 2021 Statements regarding the outbreak of COVID19, it should be noted that as of the date of approval of the Statements, the consequences of the COVID19 pandemic on the Group's operations in 2022 so far are not material. The decline in morbidity, the return to routine of the economy and the reduction of restrictions on travel abroad have supported a significant recovery in Pelephone's revenues from roaming services in recent months, which have returned to a slightly lower pre-COVID level of activity. It should also be noted that in 2022, so far, the delays in the supply chain and the global chip shortage have continued to affect the dates and delivery prices of equipment from the Group's main suppliers (the Group companies are taking various steps to reduce the damage to their operations).

It should be emphasized that this is a changing incident which is not under the control of the Group, and therefore the continuation or exacerbation of the crisis, if they occur, may materially adversely affect the Group's results. These effects may be reflected, among other things, in damage to roaming services revenues, and also in the Group companies' revenues from the business segment, in revenues from the sale of cellular end equipment, employee availability, customer service and technician activity, supply chain, and amounts and dates of collection from the Group's customers. The consequences of the COVID19 pandemic on the Group may vary depending on various developments, in particular the duration and extent of the crisis, the nature

**Report of the Board of Directors on the state of affairs of the corporation for the year ended
December 31, 2021**

and extent of the economic and other restrictions that accompany it, as well as the intensity and duration of the economic recession that will develop as a result.

For further information, see the analysis of the results of the activity of the cellular communications segment and the landline interior communications segment in Chapter 1.2.2, Sections B and C.

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

2.1. Disclosure regarding material valuation

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

	DBS (*)
Identification of subject of valuation	Recoverable amount of DBS Satellite Services (1998) Ltd. for the purpose of examining the impairment of non-current assets.
Timing of the valuation	March 31, 2022; The valuation was signed on May 17, 2022.
Value of the subject of the valuation close to the date of the valuation, if the accepted accounting rules, including depreciation and amortization, did not require a change in its value in accordance with the valuation	Negative total - NIS 60 million
Value of the subject of the valuation determined in accordance with the valuation	Negative total - NIS 125 million.
Identification and characterization of the valuator	<p>The valuation was performed by Prof. Hadas Gelandar, Partner, Director of Valuations and Economic Models in the Economic Department of Ernest Young (Israel) Ltd.</p> <p>Prof. Gelandar holds a bachelor's degree in accounting from the College of Management, Rishon LeZion; A master's degree in business administration from the Hebrew University of Jerusalem; And a doctorate <i>cum laude</i> from Ben-Gurion University, Beer-Sheva, and is also a certified public accountant in Israel.</p> <p>As part of her role, Prof. Gelandar 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, as part of her role accompanying and advising companies in the areas of valuations for business (valuations and fair opinions) and accounting (allocation of acquisition costs, valuation of intangible assets, valuation of options</p>

Report of the Board of Directors on the state of affairs of the corporation for the year ended December 31, 2021

	DBS (*)
	for employees, etc.) needs, 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 acted maliciously or through gross negligence.
Valuation model	In the first stage, an update to the value-in-use using the cash flow discounting method (DCF) was calculated in comparison with the valuation as of December 31, 2021. In the second stage, the fair value of DBS' non-current assets was determined, net of costs to sell, as of March 31, 2022.
Assumptions under which the valuator made the valuation	Assumptions were made regarding the fair value net of costs to sell of DBS' assets. For the purpose of calculating an update to the value-in-use using the cash flow discounting method (DCF), the following parameters were used: Discount rate - 9% (after tax), the permanent growth rate - 1%.

For further information, see Note 5 to the Statements.

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

- 2.2. Due to lawsuits filed against Bezeq Group, for which the exposure cannot yet be assessed or cannot be estimated, the accountants drew attention to this in their opinion on the Statements.

2.3. Material subsequent events

Regarding material events after the date of the financial statements - see Note 16 to the consolidated financial statements.

3. Details related to a series of liability certificates

3.1. On January 10, 2022, the Company exchanged approximately 417 million par value Series C debentures in exchange for approximately 432 million par value Series F debentures. As of March 31, 2022, the nominal value of Series C debentures that are not held by the Company is approximately NIS 595 million and the nominal value of Series F debentures is NIS 1,472 million.

3.2. Financial clauses in the Company's debentures

In accordance with the Company's commitment in debt series C and F to comply with LTV's condition, the LTV ratio as of March 31, 2022 was 45.1%.

The Company's net debt balance as of March 31, 2022 is approximately NIS 1,767 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 2,034 million (net of approximately 11.8 million par value Series C held by a partnership that is held by the Company), net of cash balances and short-term investments in the amount of NIS 267 million.

3.3. On January 23, 2022, Bezeq made an initiated, partial early repayment of the debentures (Series 9) in the amount of approximately NIS 370 million par value.

3.4. On May 10, 2022, Maalot confirmed Bezeq's rating as iIAA- / Stable and its debentures with a stable rating horizon (see Immediate Reporting Reference 2022-01-046005).

3.5. On May 15, 2022, Midroog approved the Aa3.il rating for Bezeq's debentures with a stable rating horizon (see Report from Reference 2022-01-047508).

4. Miscellaneous

For information regarding the balance of liabilities of the reporting corporation as of March 31, 2022, see the form to be reported by the Company on the MAGNA system on May 24, 2022.

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Date of signing: May 24, 2022



Chapter C

Consolidated Financial Statements As of March 31, 2022 (Unaudited)

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

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Somekh Chaikin
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To
Shareholders of B Communications Ltd.

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

Introduction

We audited the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – “the Company”) as of March 31, 2022 and for a period of the three months that ended on the same date. The separate financial information is within the responsibility of the Company's Board of Directors and Management. It is our responsibility to provide a conclusion on the separate interim financial information for said interim periods based on our review.

Scope of our 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 generally accepted auditing standards in Israel, and therefore does not allow us to obtain assurance that we will know all the significant matters that could have been identified in the audit. Accordingly, we do not provide an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that makes us believe that the above separate interim financial information has not been prepared, in all material respects, in accordance with the 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 paragraph (drawing attention)

Without limiting our above conclusion, we draw attention to what is stated in Note 1.3 to the statements which refers to Note 1.3 to the annual consolidated financial statements, regarding the Securities Authority's investigation of a suspicion of committing offenses under the Securities Law and the Penal Code concerning, *inter alia*, transactions related to the former controlling shareholder in Bezeq and the announcement of the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing on suspicion of bribery and reporting with intention to mislead a reasonable investor, and regarding the filing of indictments against the former controlling shareholder in Bezeq in various offenses, among other things, for offenses of bribery and causing misleading detail in immediate reporting and regarding the filing of an indictment against the former controlling shareholder in Bezeq and former senior executives in the Bezeq Group which attribute to the defendants offenses of obtaining by deceit in aggravated circumstances, fraud and breach of trust in a corporation, and reporting offenses under the Securities Law. In addition, following the opening of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq's controlling group in the past, including motions for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and results on Bezeq as well as on the statements and estimates used in the preparation of these reports, if any.

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

Somekh Chaikin
Certified Public Accountants

May 24, 2022

Somekh Chaikin, Israeli partnership and a member of the KPMG network of independent firms
incorporated under the Swiss entity KPMG International Cooperative ("KPMG International")

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Condensed consolidated interim statements of financial position as of				
		March 31, 2022	March 31, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Assets	Note	NIS millions	NIS millions	NIS millions
Cash and cash equivalents		1,296	1,194	998
Investments		994	802	1,134
Customers		1,593	1,648	1,859
Other receivables		402	211	280
Inventory		108	87	74
Assets held for sale		-	2	-
Total current assets		4,393	3,944	4,345
Trade and accounts receivable		431	512	433
Broadcasting rights – net of rights exercised		62	62	60
Right-of-use assets		1,816	1,735	1,828
Property, plant and equipment		6,400	6,182	6,312
Intangible assets		3,271	3,277	3,251
Deferred expenses and non-current investments *		303	491	306
Deferred tax assets		-	57	24
Total non-current assets		12,283	12,316	12,214
Total assets		16,676	16,260	16,559

* Including long-term restricted deposits.

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Condensed consolidated interim statements of financial position as of (Cont.)

		March 31, 2022	March 31, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and assets	Note	NIS millions	NIS millions	NIS millions
Debtures, loans and credit		949	785	980
Current maturities of liabilities in respect of leases		449	402	466
Trade payables		1,946	1,819	1,755
Employee benefits		424	442	510
Provisions		188	87	69
Total current liabilities		3,956	3,535	3,780
Loans and debtures		8,758	9,489	9,068
Leasing liabilities		1,494	1,438	1,511
Employee benefits		218	337	243
Derivatives and other liabilities		147	282	142
Deferred tax liabilities		302	292	296
Provisions		45	49	49
Total non-current liabilities		10,964	11,887	11,309
Total liabilities		14,920	15,422	15,089
Equity (equity deficit):	8			
Attributed to the shareholders of the Company		63	*(19)	16
Attributed to non-controlling interests		1,693	*857	1,454
Total equity (equity deficit)		1,756	838	1,470
Total liabilities and equity (equity deficit)		16,676	16,260	16,559

Darren Glatt

Chairman of the Board of Directors

Tomer Raved

CEO

Itzik Tadmor

CFO

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

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Condensed consolidated interim statements of income			
	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue (Note 9)	2,255	2,221	8,821
Enterprise expenses			
Operating and general expenses	829	833	3,265
Salary	475	481	1,888
Depreciation, amortization and impairment *	448	476	1,889
Other operating expenses (revenue), net (Note 11)	46	(152)	(77)
Total operating expenses	1,798	1,638	6,965
Operating profit	458	583	1,856
Financing expenses (revenue)			
Financing expenses	145	104	533
Financing revenue	41	(29)	(55)
Financing expenses, net (Note 12)	104	75	478
Profit before taxes on revenue	353	508	1,378
Taxes on revenue expenses	93	127	382
Net profit for the year	260	381	996
Profit attributed to the shareholders of the Company	53	82	129
Profit attributed to non-controlling interests	207	299	867
Profit for the period	260	381	996
Profit per share (NIS)			
Baseline profit per share	.046	0.71	1.11
Diluted profit per share	0.45	0.71	1.11

* See Note 5 regarding impairment loss recognized in the reporting period.

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

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Condensed consolidated interim statements of comprehensive profit			
	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit (loss) for the year	260	381	996
Reassessment of defined benefit plan, net of tax *	26	-	(1)
Other comprehensive profit (loss) items (additional, net of tax)	12	22	37
Total comprehensive profit (loss) for the period	298	403	1,032
Attributable to:			
Company shareholders	63	88	139
Non-controlling interests	235	315	893
Total comprehensive profit (loss) for the period	298	403	1,032

* Comprehensive profit was recognized as a result of the update of the discount rate according to which the net liability for a defined benefit is calculated as of March 31, 2022.

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

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

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

	Share equity	Premium on shares	Treasury shares	Other principals	Loss balance	Total	Non- controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions

For period of three months ended March 31, 2022 (unaudited)

Balance as of January 1, 2022	12	1,495	(16)	(29)	(1,446)	16	1,454	1,470
Share-based payment	-	-	-	-	-	-	4	4
Buyback of shares	-	-	(16)	-	-	(16)	-	(16)
Profit for the period	-	-	-	-	53	53	207	260
Other comprehensive profit for the period, net of tax	-	-	-	10	-	10	28	38
Total comprehensive profit for the period	-	-	-	10	53	63	235	298
Balance as of March 31, 2022	12	1,495	(32)	(19)	(1,393)	63	1,693	1,756

For period of three months ended March 31, 2021 (unaudited)

Balance as of January 1, 2021	12	1,495	(**)	(39)	(1,575)	(107)	534	427
Share-based payment	-	-	-	*-	-	-	*8	8
Profit for the period	-	-	-	-	82	82	299	381
Other comprehensive profit for the period, net of tax	-	-	-	6	-	6	16	22
Total comprehensive profit for the period	-	-	-	-	88	88	315	403
Balance as of March 31, 2021	12	1,495	(**)	(33)	(1,493)	(19)	857	838

For year months ended December 31, 2021 (unaudited)

Balance as of January 1, 2021	12	1,495	(**)	(39)	(1,575)	(107)	534	427
Share-based payment	-	-	-	-	-	-	27	27
Buyback of shares	-	-	(16)	-	-	(16)	-	(16)
Profit for the period	-	-	-	-	129	129	867	996
Other comprehensive profit for the year, net of tax	-	-	-	10	-	10	26	36
Total comprehensive profit for the year 2021	-	-	-	10	129	139	893	1,032
Balance as of December 31, 2021	12	1,495	(16)	(29)	(1,446)	16	1,454	1,470

* Reclassified.

** Represents an amount lower than NIS 1 million.

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

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Condensed consolidated interim statements of cash flows			
	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from current operations			
Profit (loss) for the year	260	381	996
Adjustments:			
Depreciation and amortization	448	476	1,889
Impairment loss	126	82	498
Cancellation of impairment loss	2	(125)	(175)
Capital gain, net	4	8	27
Share in losses of equity-held investee companies	93	127	382
Change in trade and other receivables	217	(61)	(229)
Change in inventory	(37)	(18)	(19)
Change in trade and other payables	89	26	(41)
Change in provisions	43	(29)	(47)
Change in employee benefits	(83)	(37)	(65)
Change in other liabilities	(2)	2	(5)
Income Tax paid, net	(67)	(135)	(385)
Net cash derived from operating activities	1,093	697	2,826
Cash flows from investing activities			
Purchase of property, plant and equipment	(335)	(356)	(1,328)
Investment in intangible assets and deferred expenses	(95)	(102)	(363)
Investment activity, net	149	(19)	(164)
Proceeds from the sale of property, plant and equipment	15	183	278
Miscellaneous	(2)	4	(1)
Net cash used for investing activities	(268)	(290)	(1,578)

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Condensed consolidated interim statements of cash flows (Cont.)			
	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from financing activities			
Issuance of debentures and receipt of loans	-	-	1,730
Repayment of debentures and loans	(370)*	-	(2,072)
Leasing principal and interest payments	(111)	(102)	(387)
Re-purchase of shares	(11)	-	(16)
Interest paid	(9)	(5)	(333)
Costs in respect of early repayment of loans and debentures	(26)	-	(34)
Payment for completed hedging transactions	-	-	(30)
Miscellaneous	-	-	(2)
Net cash used for financing operations	(527)	(107)	(1,144)
Net increase (decrease) in cash and cash equivalents	298	300	104
Cash and cash equivalents for the beginning of the period	998	894	894
Cash and cash equivalents at the end of the period	1,296	1,194	998

* Partial early redemption at Bezeq's initiative of Bezeq's debentures (Series 9) in the amount of approximately NIS 370 million par value as detailed in Note 13.4 to the annual statements.

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 owns Control of Bezeq, the largest and leading communications group in Israel.

The condensed consolidated financial statements of the Company as of March 31, 2022 include those of the Company and its subsidiaries (hereinafter collectively - "the Group"), (see also Note 14 - Segmental Reporting).

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

1.2. Pandemic - Effects of the outbreak of COVID19

Further to Note 1.4 in the annual statements December 31, 2021 regarding the outbreak of COVID19, it should be noted that as of the date of approval of the statements, the consequences of COVID19 on the Group's activities in 2022 so far are not material. The decline in morbidity, the return to routine of the economy and the reduction of restrictions on travel abroad have supported a significant recovery in Pelephone's revenues from roaming services in recent months, and these have returned to a level of activity slightly lower than pre-COVID. It should also be noted that in 2022 so far the delays in the supply chain and the global chip shortage have continued to affect the dates and delivery prices of equipment from the Group's main suppliers (the Group companies are taking various steps to reduce the damage to their operations).

It should be emphasized that this is a changing incident 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 recession that will develop as a result.

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

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

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

As stated in Note 1.3.3 in the annual statements, Bezeq does not yet have complete information regarding the investigations, plans, materials and evidence in the possession of the relevant law authorities. Accordingly, Bezeq is still unable to

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

assess the effects of the investigations, their findings and results on Bezeq, as well as the financial statements and estimates used in the preparation of these statements, if any.

2. Basis of preparation of the statements

- 2.1. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, which deals with interim financial reporting and in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.
- 2.2. The condensed consolidated interim financial statements do not include all the information required in full annual financial statements and these reports should be read in the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2021 and the year ended on the same date and accompanying notes (hereinafter - the annual financial statements). The Group presents in the notes to the consolidated interim financial statements only the material changes that occurred from the date of the last annual financial statements to the date of these interim financial statements.
- 2.3. A summary of these consolidated interim financial statements was approved by the Company's Board of Directors on May 24, 2022.

2.4. Use of estimates and discretion

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

Management's judgment, when applying the Group's accounting policies and the key assumptions used in the estimates involving uncertainty, are consistent with those used in the annual financial statements.

3. Reporting rules and accounting policies

- 3.1. The Group's accounting policies, summarized in these consolidated interim financial statements, are the policies applied in the annual financial statements, except as detailed in Note 3.2 below.

3.2. Accounting policies for new incidents

As of January 1, 2022, the Group has implemented the amendment to IAS 37 in respect of onerous contracts. According to the amendment, in examining whether a contract is onerous, the costs of performing a contract that must be taken into account are costs that relate directly to the contract, which include the following costs:

- A. Additional costs; and -
- B. Allocation of other costs directly related to the performance of a contract (such as depreciation expenses of property, plant and equipment used both to fulfill the contract under examination and to other additional contracts).

The implementation of the amendment had no effect on the Group's financial statements.

4. Group entities

A detailed description of the Group's entities appears in Note 12 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. Structural change in Bezeq's subsidiaries

As stated in Note 12.1.2 to the annual statements, on March 16, 2022, Bezeq's Board of Directors decided, following decisions made that day by the boards of directors of Bezeq's subsidiaries, to cancel the merger / spin-off plan (a previous plan for a structural change in which Bezeq International's private activities were to merge with and into Bezeq International's DBS and ICT activities to be spun off into a new company wholly owned by Bezeq) and to approve an alternative outline, a plan for which is to be presented within 60 days to Bezeq's subsidiaries' boards of directors, according to which Bezeq International's ISP activity in the private segment will be reduced as a result of the separation between broadband infrastructure service and Internet access service (ISP), and ISP activity will be established in the DBS for the purpose of selling "triple" packages to customers ("the alternative outline"), while striving to achieve, as far as possible, the strategic, business and economic purposes which formed the basis of the resolution to promote the structural change that were, among other things, the adaptation of the activity to the structure of the industry and the changing regulation, a focus on increasing revenues and growth, and increasing operational synergy and streamlining.

According to this alternative outline, the business purposes that were at the basis of the spin-off / merger plan will be achieved, as DBS is expected to become a "triple" sales arm that combines fiber and television, and at the end of the move Bezeq International will become a growth-focused ICT company. In addition, this alternative outline has the potential for a significant reduction in Bezeq International's expenses and investments in the ISP field in parallel with an accelerated reduction in this activity.

Bezeq and its subsidiaries are unable to assess, at this stage, whether all the conditions required for the implementation of the alternative outline will be met, and at what date, if any, and whether there is any certainty that the alternative outline will materialize in the manner described above, or at all.

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

- 4.2.1. As of March 31, 2022, DBS has a deficit in equity in the amount of NIS 38 million, as well as a working equity deficit in the amount of NIS 206 million. According to DBS' forecasts, it expects to accumulate operating losses in the coming years, and therefore will not be able to meet its obligations and continue to operate as a live going concern without Bezeq's support.

On April 27, 2022, Bezeq's Board of Directors approved a credit or investment framework in DBS' equity in the amount of NIS 40 million, for a period of 15 months, from April 1, 2022 until June 30, 2022, instead of a similar commitment from November 2021. It should be noted, So far, during 2022, no utilization of the credit facilities provided by Bezeq has been made by DBS.

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

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

4.2.2. See Note 5.1 below regarding impairment of assets recognized by DBS in the financial statements as of March 31, 2022.

4.3. Bezeq International Ltd.

See Note 5.2 below regarding impairment of assets recognized by Bezeq International in the statements as of March 31, 2022.

4.4. Dividend distribution by Bezeq

4.4.1. See Note 12.6 to the annual financial statements regarding Bezeq's dividend distribution policy, which was approved by Bezeq's Board of Directors on March 22, 2022.

4.4.2. On April 28, 2022, the General Meeting of Bezeq's shareholders (following the recommendation of Bezeq's Board of Directors dated March 22, 2022) approved the distribution of a cash dividend to Bezeq's shareholders in the total amount of NIS 240 million (constituting NIS 0.0867823 per share as of the effective date). The dividend was paid on May 16, 2022. The Company's share in the said dividend is approximately NIS 64 million.

5. Impairment

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

Following Note 10.5 to the annual statements regarding impairment recognized in 2021, the valuation as of December 31, 2021 presented a value materially lower than the book value of DBS. In accordance with an examination conducted by an external valuator on March 31, 2022 and in accordance with the assessment of DBS' Management, it was found that during the three months that have passed since the previous valuation, there have been no significant changes in DBS' economic performance in the market in which DBS operates, and its regulatory / legal and economic environment that may materially affect DBS forecasts for the following years. It will be clarified that as of the date of the report, in the absence of an ISP vendor license (application for such license has been submitted to the Ministry of Communications), DBS's forecast does not include its strategic plan to establish ISP operations and sell triple packages combining fiber and television to its customers (described in note 4.1 above).

Therefore, in light of the negative enterprise value as determined in the valuation as of December 31, 2021, DBS amortized its assets as of March 31, 2022 up to the amount of the net exercisable value of these assets.

Based on the fair valuation of DBS assets, which was performed by an external valuator as of March 31, 2022, the book value of the depreciable assets is approximately NIS 65 million higher than the fair value less exercise costs. Of three months which ended on March 31, 2022, with loss due to impairment in the amount of approximately NIS 65 million.

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

	For period of three months ended March 31		For year ended December 31
	2022	2021	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Broadcasting rights *	32	37	146
Property, plant and equipment **	20	28	91
Intangible assets **	10	14	48
Rights to use leased assets **	2	-	-

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

	For period of three months ended March 31		For year ended December 31
	2022	2021	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Other payables (advance expenses) *	1	3	4
Total impairment recognized	65	82	289

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

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

For information regarding the manner in which DBS determined the fair value (at level 3) of the assets minus exercise costs, see Note 10.5 in the annual financial statements.

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

Further to Note 10.6 to the annual statements regarding impairment in the cash-generating unit Internet, international communications, network endpoint services and ICT Solutions in 2021, the valuation as of December 31, 2021 presented a material value less than Bezeq International's book value. A valuation conducted by an external valuator as of March 31, 2022, was based on Bezeq International's latest forecasts, following the cancellation of the merger / spin-off plan and the approval of the alternative outline described in Note 4.1 above. In the valuation, material changes were made in the assumptions and forecasts of Bezeq International's Management regarding manpower streamlining in accordance with the provisions of IAS 36 regarding structural change.

The Bezeq International's enterprise value amounted to a negative amount of approximately NIS 176 million. The fair value of Bezeq International's assets net of exercise costs as of March 31, 2022 is in the negative amount of approximately NIS 15 million. Therefore, in light of its negative enterprise value as determined in the valuation as of March 31, 2022, Bezeq International amortized its assets up to the amount of the net exercisable value of these assets.

Based on the fair valuation of Bezeq International's assets, which was performed by an external valuator as of March 31, 2022, the book value of the depreciable assets is approximately NIS 34 million higher than the fair value minus exercise costs. Therefore, in the period of three months ended March 31, 2022, the Group recognized loss due to impairment in the amount of approximately NIS 34 million.

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

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Property, plant and equipment and intangible assets **	24	23	75
Short-term and long-term advance expenses *	8	1	28
Long-term advance payments for capacities **	2	5	17
Rights to use leased assets **	-	-	2
Total impairment recognized	34	29	122

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

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

For information regarding the manner in which DBS determined the fair value (at level 3) of the assets minus exercise costs, see Note 10.6 in the annual statements.

6. Contingent liabilities

- 6.1. During the day-to-day business, legal claims have been filed against the companies of the Bezeq Group 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 chances of the legal claims, the statements included adequate provisions in the amount of NIS 184 million, where provisions were required to cover the exposure as a result of such legal claims.

In the opinion of the managements of the Bezeq Group companies, the amount of additional exposure (beyond said provisions), as of March 31, 2022, due to legal claims filed against Bezeq Group companies on various issues and whose probability of realization is unexpected, amounted to a total of NIS 3 billion. Additional exposure in the amount of approximately NIS 2.5 billion in respect of claims the chances of which is not yet possible to assess at this stage. In addition, motions were filed against the companies of the Bezeq Group to recognize the claims as class actions that did not specify an exact amount of the claim, for which Bezeq Group has additional exposure beyond the above.

The amounts of additional exposure in this Note are nominal.
For updates regarding subsequent changes, see section 6.3 below.

- 6.2. The following is a description of the contingent liabilities of the Bezeq Group that were in effect as of March 31, 2022, classified in accordance with groups with similar characteristics:

Claims group	Claims essence	Provision balance	Additional exposure amount	Exposure amount in respect of claims whose chances cannot yet be assessed
		NIS millions		
Customer claims	Mainly motions for approval of class actions (and claims by virtue thereof) that concern allegations of illegal collection of funds and damage to the provision of services provided by Bezeq Group companies.	101	2,261	687
Claims by enterprises and companies	Legal claims in which the liability of Bezeq Group companies is claimed in connection with their operations and / or investments.	(1) 75 -	677	(2) 1,813
Claims of employees and former employees of Bezeq Group companies	Mainly individual claims filed by employees and former employees of the Bezeq Group concerning various payments.	-	2	-
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 in the annual statements.	8	-	-
Miscellaneous	Other legal claims, including tort claims (except for claims in which there is no dispute about the existence of insurance coverage), real estate, infrastructure, suppliers, etc.	-	36	4
Total legal claims against Bezeq and Bezeq's subsidiaries		184	2,976	2,504

- (1) An indemnity asset in the amount of the full provision in view of the existence of insurance coverage, the asset was recognized against the balance of the provision which was presented under the item "Other receivables" in the statement of financial

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

position as of March 31, 2022, in accordance with the provisions of Accounting Standard 37 IAS "Provisions, contingent liabilities and contingent assets".

- (2) The total includes two motions for approval of a class action in the total amount of NIS 1.8 billion filed in June 2017 against the Company, Bezeq, officers in the Bezeq Group and companies from the then controlling group of Bezeq regarding the purchase of DBS shares By Bezeq from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to replace these two motions. The proceedings are delayed in light of the criminal proceedings that are being conducted following the investigation of the Securities Authority (as described in Note 1.3) and at the request of the Attorney General at this stage, until July 20, 2022.

- 6.3. After the date of the statements, a lawsuit without a specified amount in the Bezeq Group has ended.

7. Debentures, loans and credit

On January 10, 2022, the Company exchanged approximately NIS 417 million in Series C debentures in exchange for approximately NIS 432 million in Series F debentures.

As of March 31, 2022, the nominal value of Series C debentures that are not held by the Company is approximately NIS 595 million and the nominal value of Series VI debentures is NIS 1,472 million.

8. Equity

	As of March 31, 2022	As of March 31, 2021	As of December 31, 2021
	Shares	Shares	Shares
	(Unaudited)	(Unaudited)	(Audited)
Issued and paid up equity as of January 1	114,858,990	116,316,563	116,316,563
Purchase of treasury shares	(1,160,660)	-	(1,457,573)
Issued and paid up equity, net (*)	113,698,330	116,316,563	114,858,990
Registered share equity	300,000,000	150,000,000	300,000,000

* As of March 31, 2022, 2,637,463 of the Company's shares are held as treasury shares.

- 8.1. In accordance with the Company's buyback plan approved by the Company's Board of Directors on November 30, 2021, the Company purchased during the 1st quarter of 2022, 820,360 of the Company's shares in the total amount of approximately NIS 11 million.
- 8.2. On March 23, 2022, the Company's Board of Directors approved an additional buyback of the Company's shares in the amount of up to NIS 20 million from March 24, 2022 until: (1) the purchase of the Company's shares in the amount of NIS 20 million; Or (2) May 12, 2022, whichever is sooner. As of March 31, 2022, the Company purchased a total of 340,300 of its shares under the said buyback plan for approximately NIS 5 million.

After the date of the statements, and until April 27, 2022, the date on which the plan for the buyback of the Company's shares came to an end, the Company purchased an additional 1,009,529 shares of the Company for approximately NIS 15 million. At the end of the buyback plan, Searchlight holds 62.11% and the Forer family holds 11.76% of the Company's issued and paid-up share equity.

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

- 8.3. On May 24, 2022, the Company's Board of Directors approved an additional buyback of the Company's shares in the amount of up to NIS 30 million from May 25, 2022 until: (1) The purchase of the Company's shares in the amount of NIS 30 million; Or (2) August 4, 2022, whichever is earlier.

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

9. Revenue

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Interior landline communication - Bezeq Fixed Lines			
Internet - Infrastructure	418	381	1,562
Landline telephony	215	236	891
Transmission and data communication	220	208	844
Cloud and digital services	81	82	318
Other services	72	62	230
	1,006	969	3,845
Mobile radio telephone - Pelephone			
Cellular services and end equipment	428	383	1,606
Sale of end equipment	161	177	643
	589	560	2,249
Multi-channel TV - DBS			
	316	315	1,270
Internet (ISP), international communications and network endpoint services – Bezeq International			
	293	299	1,186
Other			
	51	78	271
Total revenue	2,255	2,221	8,821

10. Operating and general expenses

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
End equipment and materials	203	221	803
Connectivity and payments to communications operators in Israel and abroad	183	182	717
Content costs (including depreciation of content)	131	144	553
Marketing and general	132	126	546
Services and maintenance by subcontractors	111	86	348
Maintenance of buildings and sites	55	60	238
Vehicle maintenance	14	14	*60
Total operating and general expenses	829	833	3,265

* Operating and general expenses are presented less expenses incurred in 2021 in respect of investments in property, plant and equipment and intangible assets in the amount of NIS 49 million.

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

11. Other operating expenses (revenue), net

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Capital gain (loss) (mainly from exercise of real estate)	2	(125)	(175)
Creation (cancellation) of provision for claims	43	(30)	(23)
Receipts from settlement agreement	-	-	(5)
Expenses in respect of the termination of an employer-employee relationship in early retirement in Bezeq	2	2	95
Expenses in respect of the termination of an employer-employee relationship in early retirement and a streamlining agreement in Pelephone, Bezeq International and DBS	-	-	37
Other expenses (revenue)	(1)	1	(6)
Other operating expenses (revenue), net	46	(152)	(77)

12. Financing expenses, net

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial liabilities	74	86	395
Financing expenses for liabilities in respect of leases	10	9	40
Linkage differences and exchange rate	26	4	49
Financing expenses in respect of employee benefits	-	3	7
Other financing expenses	4	2	8
Costs due to early repayment of loans and debentures	26	-	34
Change in the fair value of financial assets measured at fair value through statement of income	3	-	-
Total financing expenses	145	104	533
Financing revenue in respect of employee benefits *	20	-	-
Revenue from credit grossing in sales	6	8	28
Change in the fair value of financial assets measured at fair value through statement of income	6	7	11
Other financing revenue	3	14	16
Revenue from exchange of debentures	6	-	-
Total financing revenue	41	29	55
Financing expenses, net	104	75	478

* Including financing revenue in the amount of approximately NIS 23 million recognized as a result of the update of the discount rate according to which the liabilities in respect of benefits to employees as of March 31, 2022 are calculated.

13. Financial instruments

Fair value

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

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

	As of March 31, 2022		As of March 31, 2021		As of December 31, 2021	
	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 (non-linked)	1,620	1,634	2,131	2,250	1,612	1,713
Debentures issued to the public (index-linked)	2,961	3,188	3,218	3,472	2,913	3,249
Debentures issued to the public (non-linked)	4,883	4,964	4,963	5,313	5,215	5,543
	9,464	9,786	10,312	11,035	9,740	10,505

13.2. Fair value hierarchy

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

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Level 1 - Investment in marketable securities measured at fair value through income	77	99	99
Level 2 – Forward contracts	9	(79)	(19)
Level 3 - Contingent consideration and non-controlling interest liabilities in respect of a joining of businesses	6	-	-

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

14. Segmental reporting

14.1. Segments of activity

For period of three months ended March 31, 2022 (unaudited)							
	Interior landline communic ation	Cellular communic ation *	Internet, internation al communic ations, network endpoint services and ICT solutions	Multi- channel TV *	Others	Adjustmen ts	Consolidat ed
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	1,006	589	293	316	51	-	2,255
Inter-segmental revenue	90	11	14	-	-	(115)	-
Total revenue	1,096	600	307	316	51	(115)	2,255
Depreciation, amortization and impairment	239	122	38	66	1	(18)	448
Segment results - operating profit (loss)	386	64	(4)	(7)	4	14	457
Financial expenses	121	7	2	2	-	13	145
Financing revenue	(27)	(16)	(1)	(3)	-	10	(41)
Total financing expenses (revenue), net	94	(9)	1	(1)	-	19	104
Segment profit (loss) after financing expenses, net	292	73	(5)	(6)	4	(5)	353
Taxes on revenue	74	17	-	1	1	-	93
Segment results - net profit (loss)	218	56	(5)	(7)	3	(5)	260

For period of three months ended March 31, 2021 (unaudited)							
	Interior landline communic ation	Cellular communic ation *	Internet, internation al communic ations, network endpoint services and ICT solutions	Multi- channel TV *	Others	Adjustmen ts	Consolidat ed
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	969	560	299	315	78	-	2,221
Inter-segmental revenue	85	10	13	-	1	(109)	-
Total revenue	1,054	570	312	315	79	(109)	2,221
Depreciation, amortization and impairment	223	142	49	75	1	(14)	476
Segment results - operating profit (loss)	593	(3)	(8)	(18)	10	9	583

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Financial expenses	80	6	2	1	-	15	104
Financing revenue	(12)	(16)	(2)	(8)	-	9	(29)
Total financing expenses (revenue), net	68	(10)	-	(7)	-	24	75
Segment profit (loss) after financing expenses, net	525	7	(8)	(11)	10	(15)	508
Taxes on revenue	125	(1)	-	1	2	-	127
Segment results - net profit (loss)	400	8	(8)	(12)	8	(15)	381

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.4 regarding the summary of selected data from the financial statements of DBS.

For the year ended December 31, 2021 (audited)							
	Interior landline communic ation	Cellular communic ation *	Internet, internation al communic ations, network endpoint services and ICT solutions	Multi- channel TV *	Others	Adjustmen ts	Consolidat ed
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	3,845	2,249	1,186	1,270	271	-	8,821
Inter-segmental revenue	337	40	51	-	6	(434)	-
Total revenue	4,182	2,289	1,237	1,270	277	(434)	8,821
Depreciation, amortization and impairment	938	577	173	292	4	(95)	1,889
Segment results - operating profit (loss)	1,748	42	22	(41)	27	58	1,856
Financial expenses	357	23	5	4	-	144	533
Financing revenue	(15)	(65)	(3)	(3)	-	31	(55)
Total financing expenses (revenue), net	342	(42)	2	1	-	175	478
Segment profit (loss) after financing expenses, net	1,406	84	20	(42)	27	(117)	1,378
Taxes on revenue	343	20	12	1	6	-	382
Segment results - net profit (loss)	1,063	64	8	(43)	21	(117)	996

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.4 regarding the summary of selected data from the financial statements of DBS.

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

14.2. Adjustments in respect of segments reporting income

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Operating profit in respect of reportable segments	439	564	1,771
Financing expenses, net	(104)	(75)	(478)
Adjustments for the multi-channel television segment	17	12	72
Profit due to activities classified in other category and other adjustments	1	7	13
Profit before taxes on revenue	353	508	1,378

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

15.1. Bezeq the Israel Telecommunications Corporation Ltd.

Data from the statement of financial position:

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	2,654	2,345	2,554
Non-current assets	10,100	9,739	9,957
Total assets	12,754	12,084	12,511
Current liabilities	2,376	2,117	2,393
Long-term liabilities	8,958	9,679	9,022
Total liabilities	11,334	11,796	11,415
Equity	1,420	288	1,096
Total liabilities and equity	12,754	12,084	12,511

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Data from the statement of income:

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue	1,096	1,054	4,182
Enterprise expenses			
Salary	246	233	934
Depreciation, amortization and impairment	239	223	938
Operating and general expenses	178	155	667
Other expenses (revenue), net	47	(150)	(105)
Total enterprise expenses	710	461	2,434
Operating profit	386	593	1,748
Financing revenue (expenses)			
Financing expenses	121	80	357
Financing revenue	(27)	(12)	(15)
Financing expenses, net	94	68	342
Profit after financing expenses, net	292	525	1,406
Share in the profits of equity-held investee companies, net	64	8	120
Profit before taxes on revenue	356	533	1,526
Taxes on revenue	74	125	343
Profit for the period	282	408	1,183

15.2. Pelephone Communications Ltd.

Data from the statement of financial position:

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	896	866	1,121
Non-current assets	3,555	3,478	3,331
Total assets	4,451	4,344	4,452
Current liabilities	812	703	837
Long-term liabilities	884	1,003	916
Total liabilities	1,696	1,706	1,753
Equity	2,755	2,638	2,699
Total liabilities and equity	4,451	4,344	4,452

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Data from the statement of income:

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue from services	437	392	1,642
Revenue from end equipment sales	163	178	647
Total revenue from services and sales	600	570	2,289
Enterprise expenses			
Operating and general expenses	333	352	1,346
Salary	82	79	315
Depreciation, amortization and impairment	122	142	577
Total operating expenses	537	573	2,238
Other operating expenses (revenue), net	(1)	-	9
Operating profit (loss)	64	(3)	42
Financing revenue (expenses)			
Financing expenses	7	6	23
Financing revenue	(16)	(16)	(65)
Financing revenue, net	(9)	(10)	(42)
Profit before taxes on revenue	73	7	84
Taxes on revenue	17	(1)	20
Profit for the period	56	8	64

15.3. Bezeq International Ltd.

Data from the statement of financial position:

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	492	429	472
Non-current assets	321	310	311
Total assets	813	739	783
Current liabilities	440	407	409
Long-term liabilities	159	135	157
Total liabilities	599	542	566
Equity	214	197	217
Total liabilities and equity	813	739	783

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Data from the statement of income:

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue	307	312	1,237
Enterprise expenses			
Operating and general expenses	216	211	799
Salary	56	60	237
Depreciation, amortization and impairment	38	49	173
Other expenses, net	1	-	6
Total operating expenses	311	320	1,215
Other operating expenses (revenue), net	(4)	(8)	22
Financing expenses (revenue)			
Financing expenses	2	2	5
Financing revenue	(1)	(2)	(3)
Financing expenses, net	1	-	2
Profit (loss) before taxes on revenue	(5)	(8)	20
Taxes on revenue	-	-	12
Profit (loss) for the period	(5)	(8)	8

15.4. DBS Satellite Services (1998) Ltd.

Data from the statement of financial position:

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	220	188	196
Non-current assets	255	231	230
Total assets	475	419	426
Current liabilities	426	431	394
Long-term liabilities	87	68	80
Total liabilities	513	499	474
Equity	(38)	(80)	(48)
Total liabilities and equity (deficit in equity)	475	419	426

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

Data from the statement of income:

	For period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenue	316	315	1,270
Enterprise expenses			
Operating and general expenses	206	212	835
Salary	50	61	203
Depreciation, amortization and impairment	50	50	188
Other expenses, net	-	(2)	12
Total operating expenses	306	321	1,238
Operating profit (loss)	10	(6)	32
Financing expenses (revenue)			
Financing expenses	2	1	4
Financing revenue	(3)	(8)	(3)
Financing expenses (revenue), net	(1)	(7)	1
Profit before taxes on revenue	11	1	31
Taxes on revenue	1	1	1
Profit for the period	10	-	30

16. Material subsequent events

- 16.1. Regarding the continuation of the plan to repurchase the Company's shares after the balance sheet date, see Note 10.2.
- 16.2. Regarding the distribution of a cash dividend by Bezeq on May 16, 2022 and the Company's share in the said dividend, see Note 4.4.



B. Communications Ltd.

Condensed Separate Interim Financial Information

As of March 31, 2022

Condensed Separate Interim Financial Information as of March 31, 2022 (unaudited)

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Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
03 684 8000

To
Shareholders of B Communications Ltd.

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

Introduction

We audited the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – “the Company”) as of March 31, 2022 and for a period of the three months that ended on the same date. The separate financial information is within the responsibility of the Company's Board of Directors and Management. It is our responsibility to provide a conclusion on the separate interim financial information for said interim periods based on our review.

Scope of our 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 generally accepted auditing standards in Israel, and therefore does not allow us to obtain assurance that we will know all the significant matters that could have been identified in the audit. Accordingly, we do not provide an audit opinion.

Conclusion

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

Emphasis paragraph (drawing attention)

Without limiting our above conclusion, we draw attention to what is stated in Note 1 which refers to Note 1.3 in the annual consolidated financial statements, regarding the Securities Authority's investigation of a suspicion of committing offenses under the Securities Law and the Penal Code concerning, *inter alia*, transactions related to the former controlling shareholder in Bezeq and the announcement of the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing on suspicion of bribery and reporting with intention to mislead a reasonable investor, and regarding the filing of indictments against the former controlling shareholder in Bezeq in various offenses, among other things, for offenses of bribery and causing misleading detail in immediate reporting and regarding the filing of an indictment against the former controlling shareholder in Bezeq and former senior executives in the Bezeq Group which attribute to the defendants offenses of obtaining by deceit in aggravated circumstances, fraud and breach of trust in a corporation, and reporting offenses under the Securities Law. In addition, following the opening of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq's controlling group in the past, including motions for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and results on Bezeq as well as on the statements and estimates used in the preparation of these reports, 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 in respect of which cannot be assessed or calculated at this stage.

Somekh Chaikin
Certified Public Accountants

May 24, 2022

Condensed Separate Interim Financial Information as of March 31, 2022 (unaudited)

Condensed Separate Interim Financial Data

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	70	70	25
Short-term investments and deposits	129	139	180
Other receivables	14	25	14
Total current assets	213	234	219
Long-term deposits	68	161	79
Investment in equity-held investee company	1,809	*1,513	1,724
Total non-current assets	1,877	1,674	1,803
Total assets	2,090	1,910	2,022
Liabilities			
Trade payables	31	26	7
Total current liabilities	31	26	7
Debentures	1,996	1,901	1,999
Total non-current liabilities	1,996	1,901	1,999
Total liabilities	2,027	1,927	2,006
Equity deficit	63	*(19)	16
Total liabilities and equity	2,090	1,908	2,022

* Reclassified

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: May 24, 2022

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

Condensed Separate Interim Financial Information as of March 31, 2022 (unaudited)

Condensed Interim Income Data			
	For a period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS		
	millions	NIS millions	NIS millions
Enterprise expenses			
Salary	1	1	5
Operating and general expenses	2	2	8
Total enterprise expenses	3	3	13
Operating loss	(3)	(3)	(13)
Financing expenses (revenue) (See Note 2)			
Financing expenses	26	27	184
Financing revenue	(7)	(1)	(10)
Financing expenses (revenue), net	19	26	174
Profit (loss) after financing expenses, net	(22)	(27)	(187)
Share in the profits (losses) of equity-held investee company, net	75	109	316
Net profit for the period	53	82	129

Condensed Interim Comprehensive Profit Data			
	For a period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS	NIS	
	NIS millions	millions	NIS millions
Net profit for the period	53	82	129
Other comprehensive profit items, net of tax	10	6	10
Total comprehensive profit for the period	63	88	139

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

Condensed Separate Interim Financial Information as of March 31, 2022 (unaudited)

Condensed Interim Cash Flows Data			
	For a period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from current activities			
Profit for the period	53	82	129
Adjustments:			
Share in profits of equity-held investee companies, net	(75)	(109)	(316)
Financing expenses, net	20	26	174
Change in other payables	(1)	(2)	10
Net cash used for current activities	(3)	(3)	(3)
Cash flows from investing activities			
Change in deposits and investments, net	59	18	66
Interest / dividend received in cash	-	-	1
Net cash derived from investing activities	59	18	67
Cash flows for financing activities			
Issuance of debentures	-	-	1,035
Repayment of debentures principal	-	-	(1,015)
Buyback of shares	(11)	-	(16)
Interest paid	-	-	(79)
Costs for early repayment of debentures	-	-	(19)
Net cash used for financing activities	(11)	-	(94)
Increase (decrease) in cash and cash equivalents	45	15	(30)
Cash and cash equivalents at the beginning of the period	25	55	55
Cash and cash equivalents at the end of the period	70	70	25

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

Notes to the condensed interim financial information

1. Method of preparation of the financial data

1.1. Definitions

"The Company" - "B Communications" Ltd.

"Associated Company", "Group", "Holding Company": as these terms are defined in the Company's consolidated financial statements for 2021.

1.2. Main methods of preparing the financial data

The condensed interim financial information is presented in accordance with the provisions of Regulation 38D (hereinafter - "the Regulation") and Schedule 10 to the Securities Regulations (Periodic and Immediate Reports), 5770-1970 (hereinafter – "Schedule 10") regarding the condensed interim financial information of the Corporation. It should be read alongside the separate financial information as of the day and year ended December 31, 2021 and alongside the condensed consolidated interim financial statements as of March 31, 2021 (hereinafter: "the Consolidated Financial Statements").

The accounting policy in this condensed separate interim financial information is in accordance with the accounting policy rules which are specified in the separate financial information as of the day and year ended December 31, 2021.

For accounting policy for new incidents, see Note 3.2 to the Consolidated Financial Statements.

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

2. Financing expenses / revenue

	For a period of three months ended March 31		For year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial debt	23	27	165
Change in the fair value of financial assets measured at fair value through income	3	-	-
Cost of early repayment of debentures	-	-	19
Total financing expenses	26	27	184
Change in the fair value of financial assets measured at fair value through income	1	1	11
Revenue from exchange of debentures	6	-	-

Condensed Separate Interim Financial Information as of March 31, 2022 (unaudited)

Total financing revenue	7	1	11
Financing expenses, net	19	26	173

3. Contingent liabilities

For information regarding claims against the Company and the Bezeq Group companies, see Note 6.1 in the Consolidated Financial Statements.

4. Material subsequent events

- 4.1. For information regarding the replacement of the Company's series of debentures during January 2022, see Note 7 to the Consolidated Statements.
- 4.2. For information regarding the buyback of the Company's shares during the first quarter of 2022, see Note 8 to the Consolidated Statements.
- 4.3. For information regarding the distribution of a dividend by Bezeq after the date of the financial statements and the Company's share in the said dividend, see Note 4.4 to the Consolidated Statements.
- 4.4. For information regarding the investigation by the Securities Authority and the Israel Police, see Note 1.3 to the Consolidated Statements.
- 4.5. Regarding loss from impairment in respect of Bezeq International and DBS, see Note 5 to the Consolidated Statements.
- 4.6. For information regarding the approval of an additional buyback plan of the Company's shares dated May 24, 2022, see Note 8.3 to the Consolidated Statements.



Chapter E

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period ended March 31, 2022

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

Annual report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 38c(a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

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 the said members of Management, serving in the Company are:

1. Ilan Chaikin, Internal Auditor;
2. Lital Aharoni, Comptroller;

Internal control over financial reporting and disclosure includes controls and procedures existing in the Corporation, designed by or under the supervision of the CFO and CEO in the field of finance, 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 reports it publishes under the provisions is collected, processed, summarized and reported on the date and in the format as prescribed by law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information the disclosure of which by the Corporation is required, is accumulated and transmitted to the Corporation's Management, including the CEO and senior executives in the field of finance or to those actually performing the said functions,

in order to enable decisions with regard to the disclosure requirement to be made at the appropriate time.

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

In the annual report on the effectiveness of the internal control over financial reporting and disclosure which was attached to the Company's periodic report as of December 31, 2021 ("**the last annual report on internal control**"), the internal control was found to be effective.

In the annual report on the effectiveness of the internal control over financial reporting and disclosure attached to the periodic report for the period ended December 31, 2021 (hereinafter - the last annual report on internal control), the Board of Directors and Management assessed the internal control in the Corporation; Based on this assessment, the Board of Directors and Management of the Corporation have concluded that the said internal control, as of December 31, 2021, is effective.

Until the date of the report, the Board of Directors and the Management have not been informed of any event or matter that may change the assessment of the effectiveness of the internal control, as presented in the last annual report on internal control;

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

Regarding the investigations by the Israel Securities Authority and the Israel Police, as detailed in Section 1.1.7 of the chapter describing the Corporation's business in the periodic report for 2021, the Corporation does not have complete information regarding these investigations, plans, materials and evidence in the possession of

the law authorities in this case. (Although in January 2021, Bezeq received the core of the investigation material in connection with Case 4000 following Bezeq's summons for a hearing on this matter. Accordingly, the Corporation is still unable to assess the effects of the investigations, findings and results on the Corporation, as well as the financial statements and estimates used in the preparation of these reports, if any.

(1) Executive statements:

a) Statement of the CEO pursuant to Regulation 38c(d)(1) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

I, Tomer Raved, declare that:

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

(2) To my knowledge, the Reports do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reported period;

(3) To 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 statements relate;

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining 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 the financial reporting and disclosure that are likely to adversely affect the Corporation's ability to collect, process, summarize or report financial information in a manner that casts doubt on the financial reporting reliability and preparation of financial statements; and-

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

(5) I, alone or 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), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; -

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

(C) I have not been informed of any incident 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 and 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: May 24, 2022

Tomer Raved, CEO

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

I, Itzik Tadmor, declare that:

(1) I examined the interim statements and the other financial information contained in the interim statements of B Communications Ltd. (hereinafter – “the Corporation”) for the first quarter of 2022 (hereinafter – “the Statements” or “the Interim Statements”);

(2) To the best of my knowledge, the Interim Statements do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reported period;

(3) To the best of my knowledge, the Interim Statements and other financial information contained in the Interim Statements 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 Statements relate;

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining 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 as it relates to interim financial statements and other financial information contained in interim financial statements that are likely to adversely affect a corporation's ability to collect, process, summarize or report financial information in such a way as to cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; 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 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), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; And -

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

(C) I have not been informed of any incident 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 and 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: May 24, 2022

Itzik Tadmor, Chief Financial Officer