August 11, 2021

Bezeq - The Israel Telecommunication Corporation Ltd.

Quarterly Report for Period Ended June 30, 2021

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2020

Directors Report on the State of the Company's Affairs for the period ended June 30, 2021

Condensed Interim Financial Statements as of June 30, 2021

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended June 30, 2021

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2020

Update to Chapter A (Description of Company Operations)[1] of the Periodic Report for 2020 (the "Periodic Report") of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company")

1. General development of the Group's business

Section 1.1 – Group activities and business development

Section 1.1.4 – Mergers, acquisitions and structural changes

On examination of plan for structural change in the Subsidiaries:

On May 25, 2021, the Company's Board of Directors approved, further to the approval of the boards of directors of the Subsidiaries, a plan for a structural change in the Subsidiaries, including the full statutory merger of Bezeq International with and into DBS, following the spin-off of Bezeq International's integration activity into a separate company within the Group. The purposes of this move are, *inter alia*: to adapt the operations to the structure of the industry and to the changing regulatory environment, to focus on increasing revenues and on growth, to enhance operational synergies and to improve efficiency (the "**Structural Change Plan**"). Concurrently, the management of the Subsidiaries was authorized to conduct negotiations with the workers committees and the relevant representative organizations for the purpose of signing new collective agreements. It is noted that as of the report publication date, a labor dispute declared in regard to the Structural Change Plan is pending before the Regional Labor Court (see update to Section 4.8).

Further to the request submitted on April 25, 2021 to the Ministry of Communications by Bezeq International and DBS, on July 19, 2021 approval was given by the Minister of Communications for the transfer of the single general license of Bezeq International to DBS as part of the full statutory merger of Bezeq International into DBS, such approval being required for implementation of the Structural Change Plan. The approval further stipulates that the Company's license will be amended such that the structural separation provisions will apply also to the new company to which Bezeq International's integration activity is transferred. Having received the approval, Bezeq International and DBS plan to continue working to implement the Structural Change Plan, subject to completion of a number of processes, including talks with the employee representative bodies of Bezeq International and DBS and the receipt of court approval for a capital reduction for purposes of a dividend-in-kind distribution from Bezeq International to the Company, which is required to complete the transfer of the integration activity of Bezeq International to the new company. It should be noted that on April 18, 2021, the Company submitted to the Israel Tax Authority a request for a pre-ruling on the implementation of a structural change in accordance with Sections 103 and 105 of the Income Tax Ordinance, at Bezeq International and at DBS.

In addition, on August 11, 2021, the Company's Board of Directors approved, following the approval of Bezeq International's Board of Directors on that day, to spin-off the integration activity of Bezeq International into a separate company within the Group, which will be established and wholly owned by the Company, and to which the activity will be transferred (the "**Transferred Activity**"), as part of the Structural Change Plan. The Transferred Activity will be spun off in accordance with the provisions of Section 105(a)(1) of the Income Tax Ordinance [New Version], and subject to the Israel Tax Authority issuing an appropriate tax ruling, including and particularly with respect to the continued applicability of the tax ruling issued on September 15, 2016 in connection with the merger of DBS with and into the Company (see the Company's Immediate Report dated September 18, 2016), and subject to completion of the structural change, which includes the execution of a full statutory merger of Bezeq International with and into DBS immediately upon completion of the Transferred Activity spin-off process. The spin-off of the Transferred Activity will be carried out as a dividend-in-kind distribution to the Company, based on the book value of the Transferred Activity, with the distribution in kind amount as of June 30, 2021 being approximately NIS 92 million, based on Bezeq International's financial statements as of June 30,

[1] The update is in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or developments that have occurred in the Company's business in any matter which must be described in the Periodic Report. The update relates to the Company's Periodic Report for the year 2020 and refers to the section numbers in Chapter A (Description of Company Operations) in that Periodic Report.

2021 (the amount may be updated up to the actual distribution date) (the "**Dividend-in-Kind Distribution**").

Taking into account that immediately upon execution of the Dividend-in-Kind Distribution, and as a condition thereto, Bezeq International will be merged with and into DBS, Bezeq International's Board of Directors assessed DBS's post-merger solvency, including on the basis of an economic opinion submitted to it, and found that the Dividend-in Kind Distribution meets the statutory solvency test, subject, *inter alia*, to the Company providing a credit facility or capital to the merged company in the amount of up to NIS 254 million (the "**Credit Facility**"), for withdrawal by the end of 2026, with repayment of the Credit Facility to be made subsequent to that date according to DBS's solvency. Following the resolution of Bezeq International's Board of Directors, the Company's Board of Directors approved the provision of the Credit Facility, in accordance with its terms, which will become effective subject to and upon completion of the Structural Change Plan. It was further approved in the resolutions to file an application with the competent court for approval of a capital reduction, given that the said Dividend-in-Kind Distribution does not meet the profit test prescribed by law.

Concurrently, the management of Pelephone and Bezeq International will continue negotiations with the employee representative bodies on regulating labor relations under a new collective agreement.

The Company and the Subsidiaries are unable to assess, at this stage, whether, and when, all the terms and conditions required for the execution of the Structural Change Plan will be met. Accordingly, there is also no certainty that the Structural Change Plan will materialize in the manner described above, if at all.

Section 1.1.5 – Investigation by the Securities Authority and the Israel Police

Subsection 1.1.5.2 on the consideration being given to prosecuting the Company and summoning it for a hearing in Case 4000 – On July 8, 2021, the Company and Walla submitted written pleadings for a hearing. An oral hearing has been scheduled for August 16, 2021.

Section 1.5.4 – Main results and operational data

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

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	1,039	1,054	1,055	1,042	1,044	1,018
Operating profit (NIS million)	407	593	356	446	464	439
Depreciation and amortization (NIS million)	231	223	225	222	218	212
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	638	816	581	668	682	651
Net profit (NIS million)	238	400	216	300	229	295
Cash flow from operating activities (NIS million)	354	510	600	561	334	611
Payments for investments in fixed assets and intangible assets and other investments (NIS million)	285	312	237	272	201	200
Proceeds from the sale of fixed assets and intangible assets (NIS million)	-	182	119	1	19	7
Payments for leases	24	29	27	26	26	32
Free cash flow (NIS million)(2)	45	351	455	264	126	386
Number of active subscriber lines at the end of the period (thousand)(3)	1,615	1,630	1,639	1,653	1,675	1,693
Average monthly revenue per telephony line (NIS) (ARPL)(4)	47	49	50	51	51	48
Number of outgoing use minutes (million)	813	965	1,004	1,019	1,079	883
Number of incoming use minutes (million)	1,094	1,284	1,326	1,368	1,293	1,120
Total number of internet lines at the end of the period (thousand)(7)	1,529	1,540	1,556	1,565	1,571	1,566
Of which number of wholesale internet lines at the end of the period (thousand)(7)	520	539	557	570	580	584
Of which number of retail internet lines at the end of the period (thousand)(7)	1,009	1,001	999	995	991	982
Average monthly revenue per internet subscriber (NIS) – retail (ARPU)(8)	106	103	102	100	98	98
Average bundle speed per internet subscriber – retail (Mbps)(5)	87.8	77.7	74.2	71.6	70.4	69.1
Telephony churn rate(6)	2.6%	2.8%	3.2%	3.4%	2.7%	3.2%

(1) EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) is a financial metric which is not based on GAAP. The Company presents this metric as an additional metric for assessing its business results, since this is a generally accepted metric in the Company's area of operations that offsets aspects arising from variance of the capital structure, various tax aspects, and the depreciation/amortization method and period for fixed and intangible assets. This metric is not a substitute for metrics which are based on GAAP, and it is not used as a sole metric for assessing the results of the Company's operations or cash flows. Additionally, the metric presented in this report may be calculated differently from corresponding metrics in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and continuing losses from the impairment of fixed assets and intangible assets. As from January 1, 2019, in order to present fairly its financial activities, the Company presents continuing losses from the impairment of fixed assets and intangible assets in DBS under the item depreciation and amortization, and continuing losses from the impairment of broadcasting rights under the item general operating expenses (in the income statement). On this matter, see Note 11 to the financial statements and Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020, and also Note 5 to the financial statements for the period ended June 30, 2021.

(2) Free cash flow is a financial metric that is not based on GAAP. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of fixed assets and intangible assets, net, and from 2018, with the application of IFRS 16, payments for leases also are deducted. The Company presents free cash flow as an additional metric for assessing its business results and cash flows, since it believes that free cash flow is an important indicator of liquidity that reflects cash resulting from operating activities after cash investments in infrastructure and other fixed assets and intangible assets. On this matter, see Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

(3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (not including a subscriber who did not pay his debt to the Company on time in (roughly) the first three months of the collection process).

(4) Calculated according to average lines for the period. On this matter, see also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

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

(6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the period, divided by the average number of registered telephony subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

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

(8) Revenue from retail internet services is divided by the average number of retail customers in the period. On this matter, see also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

B. Pelephone

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue from services (NIS million)	409	392	396	396	394	405
Revenue from the sale of terminal equipment (NIS million)	167	178	137	149	141	168
Total revenues (NIS million)	576	570	533	545	535	573
Operating profit (loss) (NIS million)	15	(3)	(36)	(27)	(8)	(13)
Depreciation and amortization (NIS million)	144	142	151	147	151	150
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	159	139	115	120	143	137
Net profit (loss) (NIS million)	20	8	(12)	(12)	1	(2)
Cash flow from operating activities (NIS million)	149	72	241	143	149	164
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	60	71	80	100	73	65
Payments for leases	53	60	48	67	48	67
Free cash flow (NIS million)(1)	36	(59)	113	(24)	28	32
Number of postpaid subscribers at the end of the period (thousand)(2)	2,050	2,030	2,004	1,976	1,948	1,928
Number of prepaid subscribers at the end of the period (thousand)(2)	471	462	438	420	417	428
Number of subscribers at the end of the period) (thousand)(2)	2,521	2,492	2,442	2,396	2,365	2,356
Average monthly revenue per subscriber (NIS) (ARPU)(3)	54	53	55	56	56	58
Churn rate(4)	5.8%	5.8%	5.9%	7.0%	6.8%	7.2%

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers) and does not include subscribers connected to Pelephone's service for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call or not made at least one call / sent at least one SMS, or has performed no surfing activity on his phone, or has not paid for Pelephone services. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if the subscriber makes no outgoing use of his device for six months or more. It is noted that a customer may have more than one subscriber number ("line"). The subscriber list includes subscribers who use various services (such as data for vehicle media systems) from which the average revenue is substantially lower than for other subscribers.

(3) Average monthly revenue per subscriber (postpaid and prepaid). The metric is calculated by dividing the average total monthly revenue from cellular services, from both Pelephone subscribers and other telecom operators, including revenue from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from Pelephone's services and subscribers who became inactive during the period, to the average number of active subscribers during the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

C. Bezeq International

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	310	312	325	315	314	317
Operating profit (loss) (NIS million)	16	(8)	(22)	(275)	27	29
Depreciation and amortization (NIS million)	46	49	26	42	38	43
EBITDA (earnings before interest, taxes, depreciation and amortization)(NIS million)(1)	62	41	4	(233)	65	72
Net profit (loss) (NIS million)	11	(8)	(13)	(305)	21	22
Cash flow from operating activities (NIS million)	26	61	75	47	48	60
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)(2)	27	30	21	28	33	34
Payments for leases	9	8	7	7	8	8
Free cash flow (NIS million)(1)	(10)	23	47	12	7	18
Churn rate(3)	6.0%	7.9%	10.2%	7.2%	6.1%	6.7%

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.

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

(3) The number of internet subscribers who left Bezeq International during the period, divided by the average number of registered internet subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

D. DBS

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	315	315	317	313	319	338
Operating profit (loss) (NIS million)	22	(6)	(11)	18	23	9
Depreciation, amortization and continuing impairment (NIS million)	45	61	59	50	50	44
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	67	55	48	68	73	53
Net profit (loss) (NIS million)	18	0	(24)	16	18	14
Cash flow from operating activities (NIS million)	56	62	14	69	39	41
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	42	43	26	38	40	37
Payments for leases	7	6	6	6	7	7
Free cash flow (NIS million)(1)	7	13	(18)	25	(8)	(3)
Number of subscribers (at the end of the period, in thousands)(2)	560	559	557	556	557	556
Average monthly revenue per subscriber (ARPU) (NIS)(3)	186	187	186	187	190	195
Churn rate(4)	3.7%	4.3%	4.9%	5.4%	4.8%	5.9%

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber – a single household or small business customer. In the case of a business customer, that has more than a certain number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is adjusted. The number of business customers that are not small businesses is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined periodically. As of the date of approval of the financial statements, the percentage of DBS subscribers using yes+ and Sting TV services transmitted over the internet (as detailed in Sections 5.2.2.1 and 5.2.2.2 of the chapter Description of Company Operations in the Periodic Report for 2020) is 29% of all DBS subscribers. This percentage includes also subscribers that use satellite services in parallel.

(3) Average monthly revenue per subscriber is calculated by dividing total DBS revenues (other than revenue from the sale of content to external broadcasting entities) by the average number of customers in the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

Section 1.7.2 – Marketing a joint service bundle with a subsidiary and between subsidiaries

On May 23, 2021, the Ministry of Communications notified the Company of the rejection of its request from April 4, 2021 to market a joint service bundle that would enable it, *inter alia*, to provide internet infrastructure services of the Company and content services of DBS through broadband fixed-line access. In the Ministry's opinion, in view of the comprehensive economic-competitive analysis recently carried out, as reflected in the recommendations of the interdepartmental team set up to consider adjustments to the structural separation obligations in the Bezeq and HOT Groups, the time is not ripe for approving a joint service bundle as requested by the Company.

Subsection 1.7.2.2 on a hearing to examine the separation between broadband infrastructure service and Internet access (ISP) service – On June 20, 2021, the Company received the ruling of the Minister of Communications in the hearing, whereby the separation of broadband infrastructure service from Internet access (ISP) service will be cancelled for private customers, according to the following outline:

- By August 20, 2021, the companies owning infrastructure that are obligated to provide wholesale access service (the Company and HOT Telecom) will present an agreement regulating the key performance indicators (KPI) and the agreed compensation arrangements with an applicant for access who is an ISP license holder with at least 10,000 active customers in the wholesale market as of the date of publication of the ruling.

- By September 20, 2021, the Ministry will give notice of one of three possibilities: (1) approval of the agreement that was submitted; (2) approval of the agreement that was submitted subject to changes that the Ministry will publish; (3) if an agreement has not been submitted – the terms of a binding agreement. The agreement will become part of the “Shelf Offering” of the infrastructure owner and will apply to all access applicants. If the infrastructure owner will have more than one agreement – each access applicant will be offered the possibility to be included under one of the agreements without discrimination.

- From September 20, 2021 until December 20, 2021, a “calibration period” will apply during which infrastructure companies and access applicants will submit to the Ministry each month the main KPIs. The Ministry can extend the calibration period by an additional three months. At the end of the calibration period, a “preparation period” of three months will apply in which the agreed compensation mechanism will operate as well.

- At the end of the preparation period, i.e. on March 20, 2022 (unless any of the periods are extended), the prohibition on infrastructure providers offering ISP services to private customers will be cancelled (the "Effective Date”). Only customers receiving services on the Effective Date in a split/half split configuration, who wish to continue consuming Internet services in this manner will be permitted to do so.

By the start of the preparation period, the licenses of the infrastructure owners will be amended to state that from the Effective Date they are authorized to provide “Internet” service as a single service to private customers. The amendments to the license will be subject to a hearing on the conformance of the proposed amendments with the above ruling, and the hearing will be limited to arguments in this matter alone. Additionally, by the start of the preparation period, the Ministry will establish provisions applicable to service providers who have been permitted to provide ISP service, in order to reflect the provision of Internet service that includes elements of broadband infrastructure to private consumers.

The Company estimates that the realization of the process that will enable the Company to offer a single end-to-end Internet service will have a positive effect on its business. As regards Bezeq International Ltd., the process is likely to have an adverse effect on its results. The overall effect on the Group in the coming years is expected to be positive.

Section 1.7.4 – Regulatory aspects relevant to the entire Group or several Group companies

Subsection 1.7.4.4 on call center response times – On June 30, 2021, the licenses of the Company, Pelephone and Bezeq International and the licenses of other telecom operators were amended to provide that call centers for handling subscriber inquiries relating to the license holder's services (other than inquiries regarding a problem in receiving telecom services and the loss of cellular terminal equipment) must be manned 45 hours a week. It was likewise stipulated that the license holder must operate digital communication means, such as SMS and chat services, to receive inquiries relating to the license holder's services other than inquiries regarding malfunctions and loss of cellular terminal equipment. This amendment does not apply to call centers that operate 24/7 (call centers for handling malfunctions, etc.), whose activity remains unchanged. On July 22, 2021, the Council for Cable and Satellite Broadcasting published a hearing on the response times of call centers of DBS with similar characteristics to those dealt with in the amendment described above.

Subsection 1.7.4.10 on changing the regulatory framework for the provision of telecommunications services – On May 19, 2021, the bill for changing the regulatory framework in the telecommunications sector was tabled again, and on May 24, 2021, the Knesset approved the first reading of the bill.

Section 1.7.6 – COVID-19 pandemic

As of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's operations in 2021 are thus far mainly reflected in a decrease in revenue from Pelephone's roaming services due to the impact of the pandemic on the aviation and international tourism sectors, with no significant negative effects in other operating segments. Following the launch of the drive to vaccinate Israel's population against the virus at the start of January 2021, an attenuation of the pandemic's effects was apparent in the first half of 2021, along with first signs of a return to normal economic activity. On this matter, see also Note 1.2 to the financial statements for the period ended June 30, 2021.

2. Domestic fixed-line communications – Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company")

Section 2.2.6 – Other services

Subsection 2.2.6.1 on a hearing to establish an updated procedure for handling licensees' complaints about other licensees – On March 25, 2021, the Ministry of Communications decided to update the procedure, establishing, *inter alia*, that the team dealing with complaints in the Ministry will be able to recommend to the competent official in the Ministry to issue a decision that the Ministry will not prevent the injured licensees from taking steps, such as discontinuing the provision of service, not connecting new subscribers, etc., all depending on the circumstances and severity of the case.

Section 2.6.3 – Internet infrastructure segment

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

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

Subsection 2.6.6.5 on the Company's Be router – As of the report publication date, the number of Company customers using the Be router was 621,000 (61.5% of the Company's retail internet customers). It should be noted that in July 2021, the Company launched a new Be router (Be2) that is specially adapted for connecting to the fiber network. In addition, the Company markets products such as Bspot and Be Mesh to extend the range of home Wi-Fi coverage, with 313,000 units of these products sold by the Company as of the report publication date.

Section 2.7.2 – Domestic fixed-line communications infrastructure and equipment

Subsection 2.7.2.3 on ultra-wide bandwidth fiber infrastructure – As of the report publication date, the Company completed the physical deployment of the fiber network to 835,000 households countrywide (out of this number, a commercial connection is currently available to 718,000 households).

Section 2.7.4 – Sale of real estate

Subsection 2.7.4.4 on the Sakia property and a demand from the Israel Land Authority for payment of permit fees of NIS 148 million plus VAT for the plan for betterment of the property, and a demand from the Or Yehuda Local Planning Committee for payment of betterment tax of NIS 143.5 million for the realization of the property by way of sale – On June 27, 2021, the Company filed a claim with the Tel Aviv District Court against the Israel Land Authority for reimbursement of the full amount of NIS 217 million paid by it to the Israel Land Authority as permit fees and betterment tax, and for the award of declaratory relief, whereby the Israel Land Authority must pay the Company any amount that is forfeited, if forfeited, from a bank guarantee of NIS 75 million provided by the Company to the Or Yehuda Local Planning and Building Committee as security for the balance of the betterment tax. In the claim, the Company argues that it is not liable to pay permit fees and betterment tax since, in accordance with the provisions of the settlement agreement it signed with the Israel Land Authority and the State of Israel, it was entitled to receive the lease contract in respect of the Sakia property after it had undergone betterment according to the plan and without payment of permit fees to the Israel Land Authority, and that the liability for payment of betterment tax on the plan, in accordance with the provisions of the settlement agreement, falls on the Israel Land Authority.

Section 2.9.6 – Officers and senior management in the Company

As of April 26, 2021, an additional external director is serving on the Company's Board of Directors, bringing the number of directors as of that date to nine. Additionally, as of April 15, 2021, a VP Finance and Group Chief Financial Officer is serving in the Company, bringing the number of members of the Company's management as of that date to eleven.

On April 22, 2021, the General Meeting of the Company's shareholders approved an amendment to the Company's compensation policy, setting a cap of $250 million on the limit of liability under the officers liability insurance policy (instead of a limit of liability of $100-250 million), and including the option to renew the insurance by extending the existing policy or entering into a new policy at any time.

Regarding the equity compensation plan – See Note 14 to the financial statements for the period ended June 30, 2021.

Section 2.10 – Equipment and suppliers

Regarding equipment used by the Company and dependence on suppliers – With the start of the provision of telecommunications services on fiber ultra-broadband infrastructure (at the end of the first quarter of 2021), the equipment used by the Company includes also MSAG and GPON equipment, with the Company dependent on the supplier Nokia Solutions and Networks Israel Ltd. also with respect to its high-speed network (GPON).

Section 2.11 – Working capital

For information about the Company’s working capital, see Section 1.3 in the Directors report.

Section 2.13.6 – Credit rating

On May 2, 2021, Midroog removed the Company's debentures from credit watch negative and affirmed its rating of Aa3.il with a stable outlook for the debentures. Additionally, on May 12, 2021, Maalot affirmed its ilAA-/Stable rating for the Company and its debentures. On this matter, see also the Company's Immediate Reports dated May 2, 2021 and May 12, 2021, included herein by reference as well as Section 3 of the Directors report.

Section 2.16 – Restrictions and control of the Company's operations

Section 2.16.1 – Supervision of Company tariffs

Subsection 2.16.1.2 on tariffs fixed in regulations – On June 1, 2021, a temporary order was issued according to which the tariffs would not be adjusted on June 1, 2021, and details of the formula were updated for the next adjustment date on June 1, 2022.

Subsection 2.16.1.6 on a hearing concerning the setting of maximum rates for the Company's retail telephony services – Further to the submission of the Company's written comments on the hearing, on July 11, 2021 and August 5, 2021 an oral hearing was held in the matter.

Section 2.16.2 – The Company’s Domestic Carrier License

Regarding a draft amendment to the Company's license establishing obligations with respect to the deployment of an advanced network – see update to Section 2.16.12.

Section 2.16.4 – Wholesale market

Subsection 2.16.4.2 on the judgment which accepted in part a motion to disclose documents under Section 198A of the Companies Law with respect to the financial sanction (footnote 33 to that section of the report) – In April 2021, the applicant approached the Company before filing a motion to certify a derivative action, demanding that it take legal action against the officers in the matter of the financial sanction. The Company rejected the demand to take legal action at that stage, explaining that the circumstances that led to the imposition of the financial sanction were still being examined by a claims committee that had been set up by the Company.

Subsection 2.16.4.4 on a supervision report and a financial sanction imposed on the Company with respect to its wholesale telephony service, and a petition filed by the Company against the decision to impose the financial sanction – On April 18, 2021, a court judgment was handed down dismissing the Company's petition. It should be noted that the sanction, of NIS 11.2 million, was already paid by the Company in January 2019, shortly after the date of the decision to impose it.

Section 2.16.8 – Economic competition laws

Subsection 2.16.8.3 on the amendment of the conditions for the merger between the Company and DBS – On April 12, 2021, the Competition Authority published a decision of the Competition Commissioner amending the merger conditions. According to the amendment, the Commissioner decided to allow the Company's subsidiaries: Pelephone, Bezeq International and DBS (but not the Company) to sell communications bundles that include internet infrastructure, ISP and television services without any obligation to sell the television services at a separate price that will be uniform both for bundle buyers and for those who do not buy a bundle. In addition, the Commissioner decided to allow greater flexibility in purchasing foreign content, such that the condition requiring the Company and DBS to cancel exclusivity arrangements to which they are party with respect to television content that is not locally produced, and prohibiting them to be parties to such exclusivity arrangements, will not apply to the purchase of foreign content (other than sports).

Section 2.16.12 – Fiber – fixed-line ultra-broadband infrastructure

Subsection 2.16.12.1 on an amendment to the Communications Law for regulation of the deployment of an "advanced network":

On May 25, 2021, the Company's Board of Directors approved the Company's fiber deployment plan and its submission to the Ministry of Communications in accordance with Section 14B(a) of the Communications Law. Under the plan, the Company is expected to deploy and operate an ultra-fast fiber network covering 76% of Israel's population (estimated by the Company at 80% of households). On May 31, 2021, the Company submitted to the Ministry of Communications a list of the statistical areas in which it has chosen to carry out the deployment.

On June 15, 2021, further to the hearing on April 13, 2021, the Company received an amendment to its license concerning the setting of deployment obligations for an advanced network (the "**Amendment to the License**"). The Amendment to the License includes several changes to the existing provisions of the Company's license in aspects where there is a distinction between its traditional network and its advanced network, as well as the addition of an appendix setting out the Company's deployment obligations with respect to an advanced network, including a list of the statistical areas chosen by the Company for deployment of the fiber network, as well as milestones for the completion of the deployment of the advanced network, as follows:

A. Completion of deployment to buildings in which the cumulative percentage of households stands at 60% of all households in the service area (all the statistical areas chosen by the Company) – no later than the end of two years from the effective date (March 14, 2021).

B. Completion of deployment to buildings in which the cumulative percentage of households stands at 80% of all households in the service area – no later than the end of three years from the effective date.

C. Completion of deployment to buildings in which the cumulative percentage stands at 95% of all households in the service area – no later than at the end of five years from the effective date.

D. Completion of deployment to all buildings in the service area – no later than the end of six years from the effective date.

Further to the above, the Ministry of Communications also issued a "Call for Inputs on Principles for a Tender for Incentives for the Deployment of Advanced Fixed-Line Communications Networks."

Subsection 2.16.12.3 on deployment in new residential buildings – On June 8, 2021, the said amendment to the Planning and Construction Regulations concerning the installation of telecommunications infrastructure in new buildings was published. The amendment includes the possibility for the licensing authority to grant an exemption from the obligation to install telecommunications installations (except with respect to telephony service outlets), if it is persuaded that the majority of the apartment owners will not use the telecommunications installations.

Section 2.17.3 – Material agreements – employment agreements

Regarding the Company's agreement with Menora regulating pension payments for the early retirement of Company employees as well as payment differences for old-age and survivors' pensions to employees who retire from the Company – In July 2021 the term of the agreement was extended until the end of 2024.

<u>Section 2.18.1 – Pending legal proceedings</u>

Subsection D on a motion filed to certify a class action against the Company for charging a payment for support and/or warranty services as part of using its internet infrastructure – On March 24, 2021, the motion was dismissed. In the judgment dismissing the motion the court held, *inter alia*, that the petitioner had not met the burden of showing, even *prima facie*, the existence of violations and/or torts on the part of the Company that would justify certifying a class action, considering especially that in the circumstances there is no homogeneous injured class.

Subsection E on a motion to certify a class action with respect to the Company's antivirus service – On May 26, 2021, a judgment was issued approving a settlement agreement in the proceeding between the parties. The settlement agreement includes compensation of NIS 30 million (including petitioner's award and legal fees) to customers of the service, as well as benefits for subscribers of the service at an additional estimated cost of NIS 5 million. A full provision has already been made in the Company's books for the settlement agreement costs.

Subsection F on a motion to certify a class action on grounds of unlawful charging for the Company's B144 service – On April 4, 2021, a judgment was handed down approving a settlement in the case. The settlement is at an immaterial cost to the Company of NIS 2 million, and it includes partial compensation to the plaintiffs in the class for the collection of service termination fees.

Subsection K(2) on a consolidated motion to produce documents prior to a derivative action pursuant to the Competition Commissioner's ruling of September 4, 2019 that the Company had abused its position – On April 4, 2021, the petitioners accepted the court's suggestion to stay the proceedings until after the claims committee set up by the Company completes its work and the Company's Board of Directors makes a decision further to the committee's recommendations.

Subsection M on a motion to certify a class action against the Company on the grounds that when customers ordered an ordinary telephone line, the Company added them to other services as well, without any request or knowledge on their part – On May 18, 2021, the court issued a judgment striking out the certification motion at the petitioner's request, after the petitioner had been deemed unsuitable to represent the class, thus ending the proceeding.

Subsection N on a motion to certify a class action against the Company on the grounds that the Company misled customers regarding its B144 service – On May 8, 2021, the court issued a decision rejecting the petitioner's motion to amend the certification motion by replacing the class representative (primarily because the petitioner had been deemed unsuitable to represent the class), thus ending the proceeding. Subsequently, in May 2021, a new motion to certify a class action was filed in the same matter by another petitioner in the Tel Aviv District Court. In the new motion it was alleged that the Company misled customers who joined the B144 Internet advertising service for businesses (the "**Service**") to think that the cost of the Service depended upon actual use up to the charge ceiling, whereas in fact it charged its customers the ceiling amount even if in practice less use was made. Accordingly, it is requested in the new motion to include in the definition of the class of plaintiffs on whose behalf the class action would be conducted all customers and/or subscribers of the Company who signed up for the various types of service packages from the date when the Company began marketing the Service, and who were charged by the Company said excess amounts. The motion puts the amount of the claim at "NIS 8,112 for the petitioner and any future amount that will be determined for all the members of the class." The motion does not specify the total claim amount for all the class members, but states that, for purposes of establishing jurisdiction, the amount of the general damage of "collection differences" is estimated by the petitioner as within the subject matter jurisdiction of the court.

In April 2021, a claim was filed with the Central District Court together with a motion to certify it as a class action, by a customer of the Company's internet infrastructure service, alleging that the Company caused monetary and non-monetary damages to the class members, who paid an increased amount for a higher range of speeds than they were actually able to use following a modem upgrade meant to enable them to browse within that range, and in respect of harassment, inconvenience, mental distress and infringement of autonomy. According to the motion, the class of plaintiffs should include anyone who used the Company's internet infrastructure in the seven years prior to the filing of the certification motion and up to the date of its certification as a class action, and who paid for a certain range of speeds, notwithstanding which the infrastructure in their home is capable of providing only a lower range of speeds. The motion states that the amount of the class action is incapable of estimation, but that it "involves damages in the millions of shekels that fall within the jurisdiction of this Honorable Court."

3. Cellular telephony – Pelephone Communications Ltd. ("Pelephone")

Section 3.4 – Customers

Pelephone markets bundles with an increased browsing volume adapted also for 5G needs, and as of the report publication date, Pelephone has over 400,000 subscribers for bundles of this kind.

Section 3.7.1 – Infrastructure

Subsection 3.7.1.1.C on the future closure of networks operating on old technologies – On May 4, 2021, the Ministry published a secondary hearting on this issue, in which it presented the possibility of postponing the closure of the second generation network to December 31, 2027.

On June 27, 2021, the Ministry of Communications' ruling in the hearing was received, stipulating that 2G and 3G networks will be closed on December 31, 2025 (or earlier, at Pelephone's request, while complying with the stipulated terms), and setting timetables for the discontinuation of the import and connection to the network of devices that do not support a new technology.

As mentioned in Section 3.7.1.1C, Pelephone closed the 2G network several years ago. Pelephone will prepare in accordance with the above ruling for closing its 3G network according to the timetables stipulated in the ruling.

Section 3.8.2 – Frequency usage rights

Subsection 3.8.2.3 on switching frequencies in the first Giga spectrum – On June 27, 2021, the Ministry of Communication's ruling was received, concerning the extension of the allocation of frequencies in the 850 MHz and 2100 MHz range held by Pelephone, until December 31, 2030 (it is clarified that the extension of the 850 MGz frequency as aforesaid is subject to the description in Section 3.8.2.3 regarding the switching of frequencies in the first Giga spectrum).

Section 3.9.5 – Labor disputes

Regarding the notice by the New Histadrut Labor Federation - Cellular, Internet and High-tech Workers Union from June 23, 2021 about the declaration of a labor dispute, *inter alia*, over the refusal of the joint management of Pelephone, Bezeq International and DBS to hold negotiations on various matters, which was also received at the Pelephone offices, see update to Section 4.8. On August 2, 2021, the employee representative bodies at Pelephone and Bezeq International began taking a range of organizational sanctions which, according to the notification by the workers committees, are directly tied to the synergies between Pelephone, Bezeq International and DBS, and may be extended to include also the stoppage of joint operations. Pelephone is assessing the scope and significance of the sanctions and considering how to proceed in the matter.

Section 3.14.4 – Economic Competition Law

Regarding an amendment from April 2021 to the Competition Commissioner's conditions for the merger between the Company and DBS, see update to Section 2.16.8.

Section 3.16.1 – Pending legal proceedings

Subsection C on a motion to certify a class action against Pelephone for charging for content services that were provided by an external company – On May 3, 2021, a judgment was handed down approving a settlement between Pelephone and the petitioners in the proceeding, which includes the grant of benefits to the relevant customers and to NPOs for a value of NIS 2.5 million.

4. ISP, International communications and NEP services – Bezeq International Ltd. ("Bezeq International")

Section 4.8 – Human capital

Regarding the declaration of a labor dispute at Bezeq International further to the intention to make organizational and structural changes at Bezeq International (the "**Structural Change**") – On June 10, 2021, Bezeq International was served with a petition of a party to a collective dispute and an urgent motion for temporary relief that was filed with the Tel Aviv Regional Labor Court by the New Histadrut Labor Federation - Cellular, Internet and High-tech Workers Union and the Bezeq International workers committee (the “**Petition**”). The Petition alleges that Bezeq International is unlawfully refusing to provide the employee representative body with material documents related to the Structural Change, which they requested in order to conduct collective negotiations, thereby violating the duties of consultation and disclosure in negotiations. The Histadrut and the workers union are petitioning the court to obligate Bezeq International to hand over the documents to the employee representative body, and that following the hearing, the court should accept the party's petition and issue a permanent injunction ordering Bezeq International not to take unilateral steps with respect to the Structural Change before the holding of consultations and negotiations, and a permanent injunction to hold consultations and negotiations with the employee representative body about the Structural Change. In a court hearing held on June 13, 2021, it was agreed to appoint an external party to examine some of the documents that were requested and decide whether they contain information relevant to the collective labor relations or to the duty of consultation. On July 11, 2021, the external party's opinion was received, stating that the documents do not contain information relevant to the collective labor relations or to the duty of consultation. In view of an appeal by the New Histadrut Labor Federation - Cellular, Internet and High-tech Workers Union and the Bezeq International workers committee against the external party's opinion, it was agreed in a court hearing held on July 27, 2021 that the documents would be submitted to the court for inspection and for a decision on the issue. On August 9, 2021, the court rejected the petition for the provision of the documents to the employee representative body, after determining that the documents are immaterial to the duty of consultation and that a structural or functional change is, by nature, a matter of the employer and does not require the consent of the employee representative body.

On June 23, 2021, Bezeq International received from the New Histadrut General Federation of Labor in Israel – the Cellular, Internet and High-Tech Workers Union a notice of declaration of a labor dispute at Bezeq International and at Pelephone under the Settlement of Labor Disputes Law, 1957, and a strike beginning on July 7, 2021 (the "**Notice**"). According to the Notice, the disputed issues revolve around the refusal of the joint management of Pelephone, Bezeq International and DBS (the "**Joint Management**") to hold negotiations regarding a change in the bargaining unit as part of the change in the corporate structure; the refusal of the Joint Management to enter into negotiations to regulate the rights and job security of Bezeq International's employees in view of the said structural change; and the Joint Management acting in bad faith, including taking into account foreign and illegitimate considerations in the plan for corporate and structural change, in order to harm the right to unionize and the bargaining power of the employees and their representative organization. On July 1, 2021, Bezeq International filed with the Tel Aviv Regional Labor Court a petition of a party to a collective dispute and an urgent motion for relief to prevent organizational steps pursuant to the Notice. In the petition it was argued that the Notice is invalid, as a petition had been filed on a combined and consolidated basis against Bezeq International and Pelephone to prevent actions aimed at a unilateral and nonconsensual change in the bargaining units and to establish a joint workers committee referred to as the "Alpha Committee" for the Subsidiaries, including DBS. In a hearing held on July 4, 2021, it was agreed that: (1) Pelephone and DBS, who were formal respondents in the proceeding, would be joined as petitioners in the proceeding; (2) Bezeq International and Pelephone would each conduct negotiations with its own workers committee regarding the sale of control of the Company; (3) Up to the issuance of another decision, the respondents (the New Histadrut General Federation of Labor and the workers committees of Pelephone and Bezeq International) would not call a strike in connection with the dispute over the sale of control. Regarding the bargaining units, it was determined that the court would issue a decision after all the responses had been filed and an opportunity given to cross examine the affiants.

On July 7, 2021, the court issued a decision for the consolidation of the proceedings in the two disputes (sale of control and bargaining unit). At a court hearing held on July 27, 2021, it was agreed that Bezeq International would withdraw its petition for temporary relief, and that the negotiations between the parties would continue, to a certain extent under the auspices of the court. The adjudication of the main proceeding is to continue, with the petitioners set to submit a reply to the response of the employee representative body.

On August 2, 2021, the Pelephone and Bezeq International workers committees began taking a range of organizational sanctions which, according to the notification by the workers committees, are directly tied to the synergies between Pelephone, Bezeq International and DBS, and may be extended to include also the stoppage of joint operations. Bezeq International is assessing the scope and significance of the sanctions and considering how to proceed in the matter.

Section 4.11 – Regulatory restrictions on Bezeq International's operations

Regarding an amendment from April 2021 to the Competition Commissioner's conditions for the merger between the Company and DBS, see update to Section 2.16.8.

Section 4.11.5 – Key regulatory developments

Subsection 4.11.5.4 on the publication of a hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services – Regarding the Ministry of Communications' ruling in the hearing on June 20, 2021, see update to section 1.7.2.2.

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

Section 5.1.2 – Legislations, restrictions and special constraints in the operating segment

Regarding the appointment of the Committee to Examine Overall Regulation of the Broadcasting Sector (the "**Committee**") – On July 27, 2021, the Committee's recommendations were published on the Ministry of Communications website. The Committee's report includes, *inter alia*, recommendations on the following matters:

- Abolition of the Cable and Satellite Broadcasting Council and the Council of the Second Authority for Television and Radio, and establishment of the Commercial Broadcasting Authority in their place.
- Application of regulation on all audio-visual content providers (those whose main activity is delivering content to subscribers), including the different OTT operators. With regard to local content providers – application of regulation according to a scale to be determined according to their volume of activity, based on their total annual revenues. With regard to international content providers – application of regulation to a limited and partially voluntary extent.
- Establishment of provisions to promote original productions of top genre only and of a gradual investment obligation applicable to the different content providers, while reducing the present provisions regarding the obligation to invest in original productions.
- Establishment of provisions that prohibit exclusivity in sports broadcasts, to apply to all local content providers, and additional provisions with respect to the broadcasting and purchase of sports content.
- A mechanism for the establishment of provisions with respect to consumerism in the broadcasting sector as well as recommendations regarding cancellation of the basic cable and satellite bundles.

According to the Committee’s report, there are issues on which the Committee has not reached a final conclusion, including the issue of economic models for the broadcasting market (for which the Committee recommends gradually abolishing the present separations and restrictions, including the must-carry obligation of the commercial channels, the channel allocation obligation, and the ban on broadcasting commercials on traditional platforms, including of DBS, while offering two plans for implementation of this recommendation) as well as the possibility for multi-channel platforms to hold news entitles. Therefore, the Committee requested, *inter alia*, comments on the recommendations by September 30, 2021, for further examination by the Ministry of Communications together with other relevant parties.

The Committee’s recommendations are subject to the approval of the Minister of Communications and various procedures for adoption (including legislation) and implementation thereof. The Company and DBS are studying the Committee’s report, and at this stage are unable to estimate the impact of the report on DBS’s business, *inter alia*, due to dependence on the manner of adoption and implementation of the recommendations, if at all, and since no final recommendations were given regarding some of the issues.

Section 5.11.3 – Bonuses and nature of employment agreements

Regarding the notice from June 2021 by the New Histadrut Labor Federation - Cellular, Internet and High-tech Workers Union about the declaration of a labor dispute, *inter alia*, over the refusal of the joint management of Pelephone, Bezeq International and DBS to hold negotiations on various matters, which was also received at the DBS offices, and a legal proceeding brought by Bezeq International in July 2021 pursuant to the notice, which is underway in the Tel Aviv Regional Labor Court, see update to Section 4.8.

Section 5.13 – Financing

In August 2021, the Company approved the provision of a credit facility or capital investment to DBS for a total of up to NIS 70 million, for 15 months as of July 1, 2021. This approval replaces a similar approval given in May 2021 (and is not in addition thereto).

Section 5.15.3 – Offering service bundles

Regarding an amendment from April 2021 to the Competition Commissioner's conditions for the merger between the Company and DBS, see update to Section 2.16.8.

Section 5.16 – Material agreements

In July 2021, an amendment was signed to the agreement between DBS and Spacecom in respect of the space segments leased by DBS from Spacecom (the "**Amendment to the Agreement**" and the "**Agreement**," respectively). As per the Amendment to the Agreement, *inter alia*, the lease period for satellite space segments on the Amos-7 satellite has been extended until February 2024, with DBS entitled to extend this period by six months. The Amendment to the Agreement extends until 2024 the period in which according to the Agreement, space segments are to be leased to DBS on two satellites, so that in the event of non-availability of one satellite, backup will be available to DBS on the other satellite, under conditions stipulated in the Agreement. The entry into force of the Amendment to the Agreement was contingent upon receipt of notice from Spacecom of fulfillment of the conditions precedent stipulated in the Agreement signed between Spacecom and the owner of the rights in the Amos-7 satellite. On July 27, 2021, Spacecom gave notice that the conditions precedent had been fulfilled and that the Amendment to the Agreement had accordingly come into force.

Section 5.17.1 – Pending legal proceedings

In June 2021, a motion to certify a class action was filed in the Central District Court against DBS. As described in the motion, *inter alia*, customers of DBS who order a paid channel close to the date of closing of the invoice, and cancel it shortly thereafter (so that they are supposed to pay a daily rate), are supposedly overcharged, allegedly due to a system malfunction. The class in the motion is defined as all DBS customers who were overcharged for an order for a paid channel as a result of a malfunction in the DBS system, during the seven years prior to the filing of the motion and up to its approval. The amount of the personal damage claimed is NIS 126.9 (NIS 26.9 for the overcharge and NIS 100 for non-monetary damage). In the motion it is noted that at this stage the petitioner does not have the required data for assessing the damage of the class members, however, this damage is valued in the motion at over NIS 2.5 million.

Section 5.18 – Goals and business strategy

Section 5.18.1 on DBS's gradual migration from satellite broadcasts to OTT broadcasts – See update to footnote 2 in Section 1.5.4.D.

Section 5.19.3 – DBS specific risks

Subsection 5.19.3.4 on satellite malfunction, damage, unavailability or termination of satellite services – The Amendment to the Spacecom Agreement mentioned in the update to Section 5.16 extends until 2024 the period in which according to the agreement, space segments are to be leased to DBS on two satellites, so that in the event of non-availability of one satellite, backup will be available to DBS on the other satellite, under conditions stipulated in the Agreement.

Section 5.19.3.8 – Malfunction of DBS's computer systems

In June 2021, DBS completed the expansion of the functional capabilities of its remote backup site, such that in the event of a failure in the computer systems of DBS's site in Kfar Saba, it will be possible to reactivate the central systems through the backup site.

August 11, 2021	
Date	Bezeq - The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Gil Sharon, Chairman of the Board of Directors

Dudu Mizrahi, Chief Executive Officer

Chapter B -

Board of Directors’ Report on the State of the Company’s Affairs for the Period Ended June 30, 2021

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

Board of Directors' Report on the State of the Company's Affairs for the Period Ended June 30, 2021

General

We hereby present the Board of Directors' report on the state of affairs of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") and the consolidated Group companies (the Company and the consolidated companies, jointly – the "Group"), for the six months ended June 30, 2021 ("Half Year") and for the three months ended on that date ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared taking into account that the Board of Directors' report as of December 31, 2020 is also available to the reader.

For information concerning the investigation by the Israel Securities Authority and the Israel Police, see Note 1.3 to the financial statements. The independent auditors have drawn attention to the matter in their opinion on the financial statements.

For information on a restatement, see Note 1.4 to the financial statements.

For information on the effects of the COVID-19 pandemic, see Section 1.4 below.

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

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

The Group's Results

The Group's results for the reporting period were as follows:

	1-6/2021	1-6/2020	Change		4-6/2021	4-6/2020	Change	
	NIS million		NIS million	%	NIS million		NIS million	%
Net profit	702	596	106	17.8	294	269	25	9.3
EBITDA*	1,996	1,880	116	6.2	934	970	(36)	(3.7)
Adjusted EBITDA*	1,862	1,858	4	0.2	944	951	(7)	(0.7)

* Regarding non-GAAP financial measures, see below.

The increase in net profit for the Half Year was due to an increase in operating profit, resulting mainly from a capital gain on the sale of a property as well as a decrease in financial expenses in the Domestic Fixed-Line Communications segment. For the Quarter there is a decrease in operating profit offset by a decrease in financial expenses in the Domestic Fixed-Line Communications segment

For further information, see Section 1.2.1 below.

* Non-GAAP Financial Measures

As of the reporting date, the Group's management is aided by non-GAAP financial performance measures for the evaluation and presentation of the Group's financial performance. These measures are not a substitute for the information included in the Company's financial statements.

These measures include:

Metric	Metric Calculation and Objectives
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	The EBITDA metric is a generally accepted metric in the Group's area of operations, which offsets effects arising from variance of the capital structure, various tax aspects and the depreciation/amortization method and period for fixed and intangible assets. The Group's EBITDA is calculated as operating profit before "depreciation, amortization and impairment" (including continuing losses from impairment of fixed and intangible assets, as described in Note 5 to the financial statements).
Adjusted EBITDA	This is calculated as EBITDA net of net other operating expenses/income and one-time losses/gains from impairment/appreciation and employee option expenses. This metric enables comparisons of operating performance between different periods after adjustment for one-time effects of unusual expenses/income. Adjusted EBITDA is not to be equated with other similarly designated metrics reported by other companies, due to a possible difference in calculating the metric.

The metrics were calculated as follows:

	1-6/2021	1-6/2020	4-6/2021	4-6/2020
	NIS million	NIS million	NIS million	NIS million
Operating profit	**1,055**	970	**469**	511
Net of depreciation, amortization and impairment	**941**	910	**465**	459
EBITDA	**1,996**	1,880	**934**	970
Net of other operating expenses (income), net	**(150)**	(22)	**2**	(19)
Net of employee option expenses	**16**	-	**8**	-
Adjusted EBITDA	**1,862**	1,858	**944**	951

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

1.1. Financial position

Item	June 30, 2021	June 30, 2020	Increase (decrease)		Explanation
	NIS million		NIS million	%	
Cash and current investments	1,646	1,929	(283)	(14.7)	The decrease was due to a decrease in current investments in the Domestic Fixed-Line Communications segment, offset by an increase in cash in the Group. For more information, see Section 1.3 below.
Current and non-current trade and other receivables	2,369	2,492	(123)	(4.9)	The decrease was mainly due to a decrease in other receivables resulting from the sale of a property in the Domestic Fixed-Line Communications segment. The decrease in trade receivables in the Cellular Communications segment was offset by the recording of an expected government grant following the award in the frequencies tender.
Inventory	82	110	(28)	(25.5)	
Held-for-sale assets	-	46	(46)	(100)	
Broadcasting rights	60	65	(5)	(7.7)	
Right-of-use assets	1,786	1,329	457	34.4	The increase was mainly attributable to the Domestic Fixed-Line Communications segment and the Cellular Communications segment, due to new lease agreements following the move to new offices.
Fixed assets	6,267	6,076	191	3.1	The change was attributable to the Domestic Fixed-Line Communications segment, offset by a decrease mainly in the ISP, International Communications and NEP Services segment and in the Multi-Channel Television segment, owing to recognition of asset impairment losses (see Note 5 to the financial statements).
Intangible assets	938	935	3	0.3	The increase was mainly due to recording of the cost of 5G frequencies in the Cellular Communications segment, offset by recognition of asset impairment losses in the ISP, International Communications and NEP Services segment (see Note 5.2 to the financial statements).
Deferred tax assets	42	57	(15)	(26.3)	
Deferred costs and non-current investments	323	361	(38)	(10.5)	The decrease was mainly due to recognition of impairment losses on long-term prepaid expenses for bandwidth capacity in the ISP, International Communications and NEP Services segment during 2020 (see Note 5.2 to the financial statements), offset by an increase in the Domestic Fixed-Line Communications segment due to an investment in a long-term shekel deposit.
Total assets	13,513	13,400	113	0.8	

1.1 Financial Position (Cont.)

Item	June 30, 2021	June 30, 2020	Increase (decrease)		Explanation
	NIS million		NIS million	%	
Debt to financial institutions and debenture holders	8,312	9,472	(1,160)	(12.2)	The decrease in debt was due to loan repayments (including early repayments) and debenture repayments.
Lease liabilities	1,909	1,416	493	34.8	The increase was mainly attributable to the Domestic Fixed-Line Communications segment and the Cellular Communications segment, due to new lease agreements following the move to new offices.
Trade and other payables	1,567	1,626	(59)	(3.6)	
Employee benefits	688	830	(142)	(17.1)	The decrease was due to payments for employee retirement and streamlining plans across the Group, offset by NIS 65 million in expenses for employee termination due to early retirement at the Company, recorded in the fourth quarter of 2020.
Provisions	133	172	(39)	(22.7)	The decrease was due to a decrease in provisions for claims in the Domestic Fixed-Line Communications segment.
Deferred tax liabilities	40	46	(6)	(13.0)	
Other liabilities	273	176	97	55.1	The increase was mainly attributable to a long-term liability in the Cellular Communications segment in respect of the award in the frequencies tender.
Total liabilities	12,922	13,738	(816)	(5.9)	
Total equity (equity deficit)	591	(338)	929	-	Equity comprises 4.4% of the balance sheet total, as compared to an equity deficit comprising 2.5% of the balance sheet total on June 30, 2020.
Total liabilities and equity	13,513	13,400	113	0.8	

1.2. Results of operations

1.2.1. Highlights

	1-6/2021	1-6/2020	Increase (decrease)		4-6/2021	4-6/2020	Increase (decrease)		Explanation
	NIS million			%	NIS million			%	
Revenues	4,421	4,342	79	1.8	2,200	2,155	45	2.1	The increase was attributable to the Cellular Communications segment and the "Others" segment, and in the Half Year also to the Domestic Fixed-Line Communications segment. The increase was partially offset by a decrease in revenue from the Multi-Channel Television segment and the ISP, International Communications and NEP Services segment.
General operating expenses	1,628	1,561	67	4.3	797	760	37	4.9	The increase was attributable to all the main Group segments, apart from a decrease in expenses in the Multi-Channel Television segment.
Salaries	947	923	24	2.6	467	444	23	5.2	The increase was attributable to the "Others" segment and the Domestic Fixed-Line Communications segment, and in the Quarter also to the Cellular Communications segment. The increase was offset by a decrease in expenses in the ISP, International Communications and NEP services segment and the Multi-Channel Television segment due to a reduction in the workforce.
Depreciation, amortization and impairment	941	910	31	3.4	465	459	6	1.3	The increase was attributable to the Domestic Fixed-Line Communications segment and the ISP, International Communications and NEP Services segment. The increase was partially offset by a decrease in expenses in the Cellular Communications segment.
Other operating expenses (income), net	(150)	(22)	(128)	-	2	(19)	21	-	The increase in net income in the Half Year was attributable to the Domestic Fixed-Line Communications segment due to a capital gain on the sale of a property as well as adjustment of the provision for legal claims (see Note 12 to the financial statements). The change in the Quarter was attributable to the Multi-Channel Television segment and the Domestic Fixed-Line Communications segment.
Operating profit	1,055	970	85	8.8	469	511	(42)	(8.2)	
Financial expenses, net	135	193	(58)	(30.1)	84	159	(75)	(47.2)	The decrease was attributable to the Domestic Fixed-Line Communications segment mainly due to an early repayment fee on a loan included in the corresponding quarter (see Note 13 to the financial statements).
Income tax	218	181	37	20.4	91	83	8	9.6	
Profit for the period	702	596	106	17.8	294	269	25	9.3	

1.2.2. Operating segments

A. Revenue and operating profit information presented by Group operating segments:

Revenues by operating segment	1-6/2021		1-6/2020		4-6/2021		4-6/2020	
	NIS million	% of total revenues	NIS million	% of total revenues	NIS million	% of total revenues	NIS million	% of total revenues
Domestic Fixed-Line Communications	2,093	47.3	2,062	47.5	1,039	47.2	1,044	48.5
Cellular Communications	1,146	25.9	1,108	25.5	576	26.2	535	24.8
ISP, International Communications and NEP Services	622	14.1	631	14.5	310	14.1	314	14.6
Multi-Channel Television	630	14.3	657	15.1	315	14.3	319	14.8
Others and adjustments	(70)	(1.6)	(116)	(2.6)	(40)	(1.8)	(57)	(2.7)
Total	4,421	100	4,342	100	2,200	100	2,155	100

Operating profit by operating segment	1-6/2021		1-6/2020		4-6/2021		4-6/2020	
	NIS million	% of segment revenues	NIS million	% of segment revenues	NIS million	% of segment revenues	NIS million	% of segment revenues
Domestic Fixed-Line Communications	1,000	47.8	903	43.8	407	39.2	464	44.4
Cellular Communications	12	1.0	(21)	(1.9)	15	2.6	(8)	(1.5)
ISP, International Communications and NEP Services	8	1.3	56	8.9	16	5.2	27	8.6
Multi-Channel Television*	(21)	(3.3)	(17)	(2.6)	(3)	(1.0)	(6)	(1.9)
Others and adjustments	56	-	49	-	34	-	34	-
Consolidated operating profit (loss)/ % of Group revenues	1,055	23.9	970	22.3	469	21.3	511	23.7

* **Results of the Multi-Channel Television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018 (see additional information in Notes 5 and 16 to the financial statements). This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 17.3 for condensed selected information from DBS's financial statements.**

1.2.2. **Operating segments** (cont.)

B. Domestic Fixed-Line Communications

	1-6/2021	1-6/2020	Increase (decrease)		4-6/2021	4-6/2020	Increase (decrease)		Explanation
	NIS million			%	NIS million			%	
Internet - infrastructure	801	797	4	0.5	403	402	1	0.2	The increase stemmed primarily from higher average monthly revenue per retail internet subscriber (ARPU), mainly attributable to supplementary terminal equipment, and from a rise in the number of retail internet lines, as well as the launch of customer services on the fiber network beginning in March 2021. The increase was offset by a reduction in wholesale internet service rates and a decrease in the number of wholesale internet lines.
Fixed-line telephony	471	506	(35)	(6.9)	229	258	(29)	(11.2)	The decrease was attributable to a decrease in the average monthly revenue per telephony line (ARPL) owing to a moderation in the effects of the COVID-19 pandemic as well as a decrease in the number of lines.
Transmission and data communications and others	663	617	46	7.5	331	314	17	5.4	The increase stemmed, among other things, from growth in revenues from transmission services for ISPs and businesses.
Digital and cloud services	158	142	16	11.3	76	70	6	8.6	The increase was primarily attributable to IP Centrex services and the B144 Business Directory.
Total revenues	2,093	2,062	31	1.5	1,039	1,044	(5)	(0.5)	
General operating expenses	317	282	35	12.4	162	140	22	15.7	The increase was mainly due to recognition of an expense for the incentive fund in connection with the amendment to the Company's license regarding the deployment of the fiber optic network (see Notes 6 and 8.1 to the financial statements), as well as a rise in subcontractor expenses, terminal equipment costs and building maintenance expenses due to municipal property tax credits in the corresponding quarter due to the COVID-19 pandemic.
Salaries	466	453	13	2.9	233	224	9	4.0	The increase was mainly due to the hiring of employees, recognition of expenses for share-based payments in the current Half Year and Quarter (see Note 14 to the financial statements) and salary increases, offset by the retirement of employees and an increase in salaries attributable to investment.
Depreciation and amortization	454	430	24	5.6	231	218	13	6.0	
Other operating expenses (income), net	(144)	(6)	(138)	-	6	(2)	8	-	The increase in net revenues in the Half Year stemmed from a capital gain of NIS 125 million on the sale of a property as well as adjustment of the provision for legal claims.
Operating profit	1,000	903	97	10.7	407	464	(57)	(12.3)	

1.2.2. Operating segments (cont.)

B. Domestic Fixed-Line Communications (cont.)

	1-6/2021	1-6/2020	Increase (decrease)		4-6/2021	4-6/2020	Increase (decrease)		Explanation
	NIS million			%	NIS million			%	
Financial expenses, net	158	212	(54)	(25.5)	90	163	(73)	(44.8)	The decrease in financial expenses, net was mainly due to the fact that the corresponding quarter included an early repayment fee on a loan of NIS 51 million as well as financial expenses for employee benefits resulting from a change in the discount rate (offset in the corresponding half year) (see Note 13 to the financial statements).
Income tax	204	167	37	22.2	79	72	7	9.7	
Segment profit	638	524	114	21.8	238	229	9	3.9	

1.2.2 **Operating segments** (cont.)

C. Cellular Communications

	1-6/2021	1-6/2020	Increase (decrease)		4-6/2021	4-6/2020	Increase (decrease)		Explanation
	NIS million			%	NIS million			%	
Services	801	799	2	0.3	409	394	15	3.8	The increase in the Quarter was primarily due to a degree of recovery from the effects of the COVID-19 pandemic, reflected in higher revenues from roaming services, partially offset by lower revenues from incoming air time. In addition, there is growth in the post-paid subscriber base, including subscribers to 5G bundles.
Sales of terminal equipment	345	309	36	11.7	167	141	26	18.4	The increase was mainly attributable to higher retail sales due to the launch of the new iPhone model.
Total revenues	1,146	1,108	38	3.4	576	535	41	7.7	
General operating expenses	693	671	22	3.3	341	326	15	4.6	The increase was mainly due to an increase in the cost of sales of terminal equipment in parallel with revenues and the recording of cloud computing system integration costs. The increase in expenses was offset by a decrease in call completion fees in parallel with revenues due to a degree of recovery from the effects of the COVID-19 pandemic and the continued reduction and streamlining of operating expenses.
Salaries	158	160	(2)	(1.3)	79	70	9	12.9	The decrease in the Half Year was attributable to a reduction in the workforce, fully offset mainly by employee furloughing and concentrated vacations in the corresponding half year. The increase in salary expenses in the Quarter was attributable to employee furloughing and concentrated vacations due to the COVID-19 pandemic in the corresponding quarter.
Depreciation and amortization	286	301	(15)	(5)	144	151	(7)	(4.6)	
Other operating (income), net	(3)	(3)	-	-	(3)	(4)	1	(25.0)	
Operating profit (loss)	12	(21)	33	-	15	(8)	23	-	
Financial income, net	21	21	-	-	11	11	-	-	
Income tax	5	1	4	400	6	2	4	200	
Segment profit (loss)	28	(1)	29	-	20	1	19	-	

1.2.2 **Operating segments** (cont.)

D. ISP, International Communications and NEP Services

	1-6/2021	1-6/2020	Increase (decrease)		4-6/2021	4-6/2020	Increase (decrease)		Explanation
	NIS million			%	NIS million			%	
Revenues	622	631	(9)	(1.4)	310	314	(4)	(1.3)	The decrease in the Half Year was mainly due to lower ISP revenues. The decrease was offset by an increase in revenues from business services and the sale of equipment and licenses to businesses. The decrease in the Quarter was mainly due to lower ISP revenues. The decrease was partially offset by an increase in revenues from businesses services and international calls.
General operating expenses and impairment	402	368	34	9.2	191	187	4	2.1	The increase in the Half Year was mainly due to higher expenses for the sale of equipment and licenses to businesses, along with an increase in local capacity expenses, inter alia due to a one-time credit received in the first quarter of 2020 following an update in internet rates in the wholesale market. The increase in the Quarter was due to an increase in the expenses for business services and international calls, partially offset by a decrease in doubtful debts.
Salaries	118	126	(8)	(6.3)	58	62	(4)	(6.5)	The decrease was mainly due to continued downsizing of the Company's workforce as part of the streamlining plan.
Depreciation, amortization and impairment	95	81	14	17.3	46	38	8	21.1	The increase stemmed mainly from impairment based on an assessment of the value-in-use of the depreciable assets as of June 30, 2021 (see Note 5.2 to the financial statements). The increase was offset by a decrease in current depreciation expenses.
Other operating expenses, net	(1)	-	(1)	-	(1)	-	(1)	-	
Operating profit	8	56	(48)	(85.7)	16	27	(11)	(40.7)	
Financial expenses (income), net	1	-	1	-	1	(1)	2	-	
Income tax	4	13	(9)	(69.2)	4	7	(3)	(42.8)	
Segment profit	3	43	(40)	(93)	11	21	(10)	(47.6)	

1.2.2. Operating segments (cont.)

E. Multi-Channel Television*

	1-6/2021	1-6/2020	Increase (decrease)		4-6/2021	4-6/2020	Increase (decrease)		Explanation
	NIS million			%	NIS million			%	
Revenues	630	657	(27)	(4.1)	315	319	(4)	(1.3)	The decrease was primarily due to a change in the customer mix resulting in a decline in ARPU, as well as a decrease in the Half Year in revenues from the sale of content.
General operating expenses	412	434	(22)	(5.0)	199	212	(13)	(6.1)	The decrease was mainly due to lower content consumption costs.
Salaries	91	98	(7)	(7.1)	44	47	(3)	(6.4)	The decrease was attributable to a continued reduction in the workforce as part of the streamlining plan.
Depreciation and amortization	150	154	(4)	(2.6)	75	78	(3)	(3.8)	
Other operating (income), net	(2)	(12)	10	(83.3)	-	(12)	12	(100)	The corresponding quarter included income from a settlement agreement with a supplier and a reduction in expenses for an employee retirement arrangement.
Operating loss	(21)	(17)	(4)	23.5	(3)	(6)	3	(50)	
Financial expenses (income), net	(3)	(1)	(2)	-	4	4	-	-	The change in the Half Year was mainly due to a change in fair value of financial assets.
Income tax	1	1	-	-	-	1	(1)	(100)	
Segment loss	(19)	(17)	(2)	11.8	(7)	(11)	4	(36.4)	

* Results of the Multi-Channel Television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018 (see additional information in Notes 5 and 16 to the financial statements). This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 17.3 for condensed selected information from DBS's financial statements.

1.3. Cash Flow

	1-6/2021	1-6/2020	Increase (decrease)		4-6/2021	4-6/2020	Increase (decrease)		Explanation
	NIS million			%	NIS million			%	
Net cash provided by operating activities	1,294	1,440	(146)	(10.1)	594	561	33	5.9	The decrease in the Half Year in net cash from operating activities stemmed primarily from higher income tax paid in the Domestic Fixed-Line Communications segment, as well as from changes in the working capital in the Cellular Communications segment. The increase in the Quarter was due to changes in the working capital.
Net cash used in investing activities	(802)	(672)	(130)	19.3	(493)	(438)	(55)	12.6	The increase in net cash used in investing activities was mainly attributable to the Domestic Fixed-Line Communications segment, due to an increase in the acquisition of fixed assets in connection with the fiber network deployment project, as well as a decrease in the Half Year in net proceeds from the repayment of bank deposits and sale of securities, offset by an increase in proceeds from the sale of fixed assets.
Net cash used in financing activities	(425)	(460)	35	(7.6)	(318)	(342)	24	(7.0)	The decrease in net cash used in financing activities stemmed from a decrease in loan repayments, in interest paid and in early repayment costs, offset by a debenture issue that was included in the corresponding quarter.
Net increase (decrease) in cash	67	308	(241)	(78.2)	(217)	(219)	2	(0.9)	

Average volume in the reported half year:

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 8,376 million

Supplier credit: NIS 933 million

Short-term credit to customers: NIS 1,645 million

Long-term credit to customers: NIS 254 million

Working capital

The Group's surplus working capital as of June 30, 2021 amounted to NIS 296 million, compared with surplus working capital of NIS 535 million as of June 30, 2020.

The Company has surplus working capital (according to the separate financial statements) as of June 30, 2021 amounting to NIS 258 million, compared with surplus working capital of NIS 519 million as of June 30, 2020.

The decrease in the Group's and the Company's surplus working capital stemmed from a decrease in current assets, mainly due to a reduction in current investments and in receivables for the sale of a property, offset by a decrease in current liabilities mainly due to loan repayments (including early repayment) and debenture repayments.

1.4 The COVID-19 pandemic and its impact

Further to Note 1.4 to the Annual Financial Statements regarding the outbreak of COVID-19, it is noted that following the launch of the drive to vaccinate Israel's population against the virus at the beginning of the year 2021, a decrease in the pandemic's impact was apparent in Israel in the first half of 2021, along with first signs of a return to normal economic activity.

As of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's operations in 2021 are thus far mainly reflected in a decline in revenue from Pelephone's roaming services due to the impact of the pandemic on the aviation and international tourism sectors, with no significant negative effects in other operating segments. Although the rollout of vaccines and easing of restrictions on travel abroad have led a certain recovery in Pelephone's revenues from roaming services in recent months, they have yet to return to their pre-pandemic levels.

It should be emphasized that the COVID-19 pandemic is an unfolding event that is not within the Group's control, thus should the pandemic continue or worsen, this may have a material adverse effect on the Group's results, reflected, among other things, in lower revenues from roaming services, a decrease in revenues from the business sector across all the Group companies and a decrease in sales of cellular terminal equipment. This may also affect employee availability, customer and technical services, supply chain operations, and the amounts and times of payments collected from customers of the Group. The impacts of the COVID-19 pandemic on the Group may change depending on various developments, in particular the duration and scope of the pandemic, the nature and extent of the economic and other related restrictions, and the intensity and duration of the resulting economic slowdown.

For more information, see an analysis of the results of operations of the Cellular Communications segment and the Domestic Fixed-Line Communications segment in Section 1.2.2, subsections B and C.

2. Disclosure Concerning the Company's Financial Reporting

2.1. Disclosure on valuations

Below are details of a very material valuation (attached to the financial statements) and on a material valuation in accordance with Regulation 8B(i) of the Securities Regulations (Periodic and Immediate Reports), 1970:

	Bezeq International **Material valuation**	**DBS** **Very material valuation (*)**
Subject of valuation	Recoverable amount of Bezeq International Ltd. in order to test for impairment of non-current assets	Recoverable amount of DBS Satellite Services (1998) Ltd. in order to test for impairment of non-current assets.
Date of valuation	June 30, 2021; the valuation was signed on August 5, 2021	June 30, 2021; the valuation was signed on August 11, 2021.
Value prior to the valuation had GAAP, including depreciation and amortization, not required a change in value in accordance with the valuation	NIS 65 million	Negative amount – NIS (72) million.
Value set in the valuation	NIS 37 million	Negative amount – NIS (128) million.
Appraiser's identity and profile	The valuation was prepared by Prof. Hadas Gelander, Partner and Head of Valuations and Economic Modeling in the Economic Department at Ernst Young (Israel) Ltd. Hadas holds a Bachelor Degree in Accounting from the College of Management – Academic Studies, Rishon Lezion; an MBA from the Hebrew University of Jerusalem; and a PhD (with honors) from the Ben Gurion University, Beer Sheva; and is a Certified Public Accountant in Israel. In her position, Prof. Hadas Gelander oversees projects of leading companies in Israel and the world, in various sectors such as: technology, finance, pharmaceuticals, energy, infrastructures, real estate and industry. As part of her duties, she assists and advises companies in the preparation of valuations for business purposes (fair value valuations and opinions) and for accounting purposes (purchase price allocation, valuation of intangible assets, valuation of employee options, etc.), and has provided professional financial opinions as an expert court witness. The appraiser is not dependent on the Company. The Company undertook to indemnify the appraiser for damages above three times the fee she was paid, except if she acted with malicious intent or gross negligence.	
Valuation model	Net realizable value (NAV).	Net realizable value (NAV).
Assumptions used in the valuation	Assumptions concerning the net realizable value of Bezeq International's assets.	Assumptions concerning the net realizable value of DBS's assets.

For more information, see Note 5 to the financial statements.

(*) Despite the negative value of DBS's operations, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 4 to the financial statements). The Company's support of DBS as aforesaid is due, among other things, to the Multi-Channel Television segment's current and expected contribution to the Bezeq Group's overall operations.

2.2. Due to legal claims filed against the Group, which cannot yet be assessed or for which exposure cannot be estimated at this time, the independent auditors have drawn attention to the matter in their opinion on the financial statements.

2.3. For information on subsequent material events – see Note 18 to the financial statements.

3. Information on debenture series

On May 2, 2021, Midroog Ltd. removed the Company's debentures from credit watch negative and affirmed its rating of Aa3.il with a stable outlook for the debentures (see Immediate Report).

On May 12, 2021, S&P Global Ratings Maalot affirmed its ilAA-/Stable rating for the Company and its debentures (see Immediate Report).

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

4. Miscellaneous

For information concerning the balance of liabilities of the reporting corporation and those companies consolidated in its financial statements as of June 30, 2021, see the Company's reporting form that will be uploaded on the MAGNA system on August 12, 2021.

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

Gil Sharon Chairman of the Board of Directors	Dudu Mizrahi Chief Executive Officer

Signed: August 11, 2021

Chapter C:

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

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

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Somekh Chaikin
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Auditors' Review Report to the Shareholders of

Bezeq - The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of Bezeq -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – "**Group**") comprising the condensed consolidated interim statement of financial position as of June 30, 2021 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three-month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting," and are also responsible for the preparation of the financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements (Israel) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

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

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 1.3 of the financial information, which refers to that stated in Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities Law and Penal Code, with respect *inter alia* to transactions related to the former controlling shareholder, and notifying the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of the company's prosecution and its invitation to a hearing on suspicion of bribery and reporting in order to mislead a reasonable

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investor, and as mentioned in that note, regarding the indictment filed against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, fraud and breach of trust in the corporation, and reporting offenses under the Securities Law. In addition, subsequent to the investigation opening, a number of civil legal proceedings were initiated against the company, former officers of the company as well as companies from the group that previously controlled the company, including requests 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 their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

In addition, without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the group which in this stage cannot be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 7.

Somekh Chaikin

Certified Public Accountants (Isr.)

August 11, 2021

Condensed Consolidated Interim Statements of Financial Position

		June 30, 2021	June 30, 2020	December 31, 2020
		(Unaudited)	(Unaudited)	(Audited)
Assets	**Note**	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents		**907**	708	840
Investments		**739**	1,221	724
Trade receivables		**1,661**	1,698	1,621
Other receivables		**195**	340	178
Inventory		**82**	110	73
Assets held for sale		**-**	46	10
Total current assets		**3,584**	4,123	3,446
Trade and other receivables		**513**	454	514
Broadcasting rights		**60**	65	67
Right-of-use assets		**1,786**	1,329	1,804
Fixed assets	6	**6,267**	6,076	6,131
Intangible assets		**938**	935	929
Deferred expenses and non-current investments		**323**	361	242
Deferred tax assets		**42**	57	108
Total non-current assets		**9,929**	9,277	9,795

Total assets	**13,513**	13,400	13,241

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

Condensed Consolidated Interim Statements of Financial Position (cont.)

		June 30, 2021	June 30, 2020	December 31, 2020
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**Note**	**NIS million**	**NIS million**	**NIS million**
Debentures, loans and borrowings		**743**	955	786
Current maturities of lease liabilities		**432**	399	415
Trade and other payables		**1,567**	1,626	1,759
Employee benefits		**462**	486	482
Provisions	7	**84**	122	117
Total current liabilities		**3,288**	3,588	3,559
Loans and debentures		**7,569**	8,517	7,614
Lease liabilities		**1,477**	1,017	1,492
Employee benefits		**226**	344	335
Derivatives and other liabilities		**273**	176	307
Deferred tax liabilities		**40**	46	32
Provisions		**49**	50	52
Total non-current liabilities		**9,634**	10,150	9,832
Total liabilities		**12,922**	13,738	13,391
Total equity (equity deficit)	9	**591**	(338)	(150)
Total liabilities and equity		**13,513**	13,400	13,241

Gil Sharon	**Dudu Mizrahi**	**Tobi Fischbein**
Chairman of the Board of Directors	Chief Executive Officer	CFO Bezeq Group

Date of approval of the financial statements: August 11, 2021

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

Condensed Consolidated Interim Statements of Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 10)	**4,421**	4,342	**2,200**	2,155	8,723
Operating expenses					
General operating expenses (Note 11)*	**1,628**	1,561	**797**	760	3,173
Salaries	**947**	923	**467**	444	1,891
Depreciation, amortization and impairment*	**941**	910	**465**	459	1,837
Other operating expenses (income), net (Note 12)	**(150)**	(22)	**2**	(19)	74
Impairment loss	**-**	-	**-**	-	293
Total operating expenses	**3,366**	3,372	**1,731**	1,644	7,268
Operating profit	**1,055**	970	**469**	511	1,455
Financial expenses (income) (Note 13)					
Financial expenses	**166**	220	**92**	169	416
Financial income	**(31)**	(27)	**(8)**	(10)	(45)
Financial expenses, net	**135**	193	**84**	159	371
Profit before income tax	**920**	777	**385**	352	1,084
Income tax	**218**	181	**91**	83	288
Net profit for the period attributable to shareholders of the Company	**702**	596	**294**	269	796
Basic and diluted earnings per share (NIS)	**0.25**	0.22	**0.11**	0.1	0.29

* For information about an impairment loss recognized in the reporting period, see Note 5.

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	**2020**	**2021**	**2020**	**2020**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Net profit for the period	**702**	596	**294**	269	796
Remeasurement of a defined benefit plan, net of tax (items that will not be reclassified to profit or loss)	**-**	11	**-**	(8)	(9)
Additional items of other comprehensive income (loss), net of tax	**23**	(13)	**1**	(2)	(5)
Total comprehensive income for the period attributable to shareholders of the Company	**725**	594	**295**	259	782

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

Condensed Consolidated Interim Statements of Changes in Equity (Equity Deficit)

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Attributable to shareholders of the Company							
Six months ended June 30, 2021 (unaudited)							
Balance at January 1, 2021	3,878	384	390	-	(63)	(4,739)	(150)
Profit for the period	**-**	**-**	**-**	**-**	**-**	**702**	**702**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**23**	**-**	**23**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**23**	**702**	**725**
Transactions with shareholders recognized directly in equity							
Share-based payments (Note 14)	**-**	**-**	**-**	**16**	**-**	**-**	**16**
Balance at June 30, 2021	**3,878**	**384**	**390**	**16**	**(40)**	**(4,037)**	**591**
Six months ended June 30, 2020 (unaudited)							
Balance at January 1, 2020	3,878	384	390	-	(58)	(5,526)	(932)
Profit for the period	-	-	-	-	-	596	596
Other comprehensive income (loss) for the period, net of tax	-	-	-	-	(13)	11	(2)
Total comprehensive income for the period	-	-	-	-	(13)	607	594
Balance at June 30, 2020	3,878	384	390	-	(71)	(4,919)	(338)
Three months ended June 30, 2021 (unaudited)							
Balance at April 1, 2021	3,878	384	390	8	(41)	(4,331)	288
Profit for the period	**-**	**-**	**-**	**-**	**-**	**294**	**294**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1**	**294**	**295**
Transactions with shareholders recognized directly in equity							
Share-based payments (Note 14)	**-**	**-**	**-**	**8**	**-**	**-**	**8**
Balance at June 30, 2021	**3,878**	**384**	**390**	**16**	**(40)**	**(4,037)**	**591**
Three months ended June 30, 2020 (unaudited)							
Balance at April 1, 2020	3,878	384	390	-	(69)	(5,180)	(597)
Profit for the period	-	-	-	-	-	269	269
Other comprehensive loss for the period, net of tax	-	-	-	-	(2)	(8)	(10)
Total comprehensive income for the period	-	-	-	-	(2)	261	259
Balance at June 30, 2020	3,878	384	390	-	(71)	(4,919)	(338)

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

Condensed Consolidated Interim Statements of Changes in Equity (Equity Deficit) (cont.)

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
			Attributable to shareholders of the Company				
Year ended December 31, 2020 (audited)							
Balance at January 1, 2020	3,878	384	390	-	(58)	(5,526)	(932)
Profit for 2020	-	-	-	-	-	796	796
Other comprehensive loss for the year, net of tax	-	-	-	-	(5)	(9)	(14)
Total comprehensive income for 2020	-	-	-	-	(5)	787	782
Balance at December 31, 2020	3,878	384	390	-	(63)	(4,739)	(150)

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

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**702**	596	**294**	269	796
Adjustments:					
Depreciation, amortization and impairment loss	**941**	910	**465**	459	1,837
Impairment loss of assets	**-**	-	**-**	-	293
Financial expenses, net	**141**	209	**85**	139	403
Capital loss (gain), net	**(127)**	(5)	**(2)**	4	(40)
Share-based payment	**16**	-	**8**	-	-
Income tax expenses	**218**	181	**91**	83	288
Change in trade and other receivables	**(47)**	(44)	**12**	-	57
Change in inventory	**(15)**	(20)	**3**	(3)	13
Change in trade and other payables	**(158)**	(125)	**(184)**	(223)	17
Change in provisions	**(32)**	(3)	**(3)**	(3)	(8)
Change in employee benefits	**(130)**	(166)	**(93)**	(78)	(192)
Change in other liabilities	**3**	(7)	**1**	-	(1)
Net income tax paid	**(218)**	(86)	**(83)**	(86)	(243)
Net cash provided by operating activities	**1,294**	1,440	**594**	561	3,220
Cash flow for investing activities					
Purchase of fixed assets	**(679)**	(482)	**(323)**	(238)	(1,133)
Investment in intangible assets and deferred expenses	**(197)**	(207)	**(95)**	(113)	(366)
Investment in bank deposits and securities	**(715)**	(972)	**(204)**	(462)	(1,335)
Proceeds from repayment of bank deposits and sale of securities	**600**	951	**126**	351	1,786
Proceeds from the sale of fixed assets	**184**	28	**1**	20	148
Sale of Walla, net	**-**	-	**-**	-	44
Miscellaneous	**5**	10	**2**	4	17
Net cash used in investing activities	**(802)**	(672)	**(493)**	(438)	(839)

Condensed Consolidated Interim Statements of Cash Flows (Cont.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow for financing activities					
Repayment of debentures and loans	**(103)**	(769)	**(103)**	(769)	(1,828)
Principal and interest payments for leases	**(194)**	(199)	**(92)**	(86)	(391)
Interest paid	**(128)**	(159)	**(123)**	(154)	(314)
Costs for early repayment of loans and debentures	**-**	(51)	**-**	(51)	(65)
Payment for expired hedging transactions	**-**	-	**-**	-	(57)
Miscellaneous	**-**	-	**-**	-	(4)
Issue of debentures and receipt of loans	**-**	718	**-**	718	718
Net cash used in financing activities	**(425)**	(460)	**(318)**	(342)	(1,941)
Increase (decrease) in cash and cash equivalents	**67**	308	**(217)**	(219)	440
Cash and cash equivalents at the beginning of the period	**840**	400	**1,124**	927	400
Cash and cash equivalents at the end of the period	**907**	708	**907**	708	840

1. General

1.1 Reporting Entity

1.1.1 Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The condensed consolidated financial statements of the Company as of June 30, 2021 include those of the Company and its subsidiaries (jointly – the "Group"). The Group is a major provider of communications services in Israel (see also Note 16 – Segment Reporting).

1.1.2 See Note 4.1 below regarding the plan for structural change in the Group companies and Note 4.3.1 regarding the Minister of Communication's ruling, whereby the separation between broadband infrastructure service and Internet access service (ISP) will be cancelled for private customers.

1.2 The COVID-19 pandemic and its impacts

Further to Note 1.4 to the Annual Financial Statements regarding the outbreak of COVID-19, it is noted that following the launch of the drive to vaccinate Israel's population against the virus at the start of January 2021, an attenuation of the pandemic's effects was apparent in Israel in the first half of 2021, along with first signs of a return to normal economic activity.

As of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's operations in 2021 are thus far mainly reflected in a decline in revenue from Pelephone's roaming services due to the impact of the pandemic on the aviation and international tourism sectors, with no significant negative effects in other operating segments. Although the rollout of vaccines and easing of restrictions on travel abroad have led to a certain recovery in Pelephone's revenues from roaming services in recent months, they have yet to return to their pre-pandemic levels.

It should be emphasized that the COVID-19 pandemic is an unfolding event that is not within the Group's control, thus should the pandemic continue or worsen, this may have a material adverse effect on the Group's results, reflected, among other things, in lower revenues from roaming services and sales of cellular terminal equipment as well as a decrease in revenues from the business sector across all the Group companies. This may also affect employee availability, customer and technical services, supply chain operations, and the amounts and times of payments collected from customers of the Group. The impacts of the COVID-19 pandemic on the Group may change depending on various developments, in particular the duration and scope of the pandemic, the nature and extent of the economic and other related restrictions, and the intensity and duration of the resulting economic slowdown.

1.3 Investigations by the Israel Securities Authority and the Israel Police

For information about investigations by the Israel Securities Authority and the Israel Police into suspected offenses under the Securities Law and the Penal Law, *inter alia* in connection with transactions involving the Company's former controlling shareholder, as well as the notice by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and summoning it to a hearing, see Note 1.3 to the Annual Financial Statements.

As mentioned in Note 1.3.3 to the Annual Financial Statements, the Company does not have complete information about the investigations, their content, or the material and evidence in the possession of the law enforcement authorities on this matter (although in January 2021 the Company received the core investigation material in connection with Case 4000, further to an invitation it received to a hearing in this matter). Accordingly, the Company is unable to assess the effects, if any, of the investigations, their findings and their results on the Company, on its financial statements and on the estimates used in the preparation of the financial statements. Once the constraints on carrying out reviews and controls in connection with the issues that arose in the investigations are lifted, the review of all matters related to those issues will be completed as required.

1.4 Restatement

During the preparation of the quarterly report as of September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the statement of income previous years' costs for advance payments to suppliers, and from inadequate recognition of prepaid expenses.

In light of the above findings, the Company published on December 21, 2020 restated financial statements *inter alia* for the second quarter of 2020 (including the comparative figures presented in them), in order to reflect retrospectively the effect of the corrections to the discrepancies. The comparative figures included in these financial statements are after restatement.

2. Basis of Preparation

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

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and they should be read in the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2020 and for the year then ended, and their accompanying notes (the "Annual Financial Statements”). The notes to the condensed consolidated interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on August 11, 2021.

2.4 Use of estimates and judgments

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

The judgments made by management, when applying the Group’s accounting policies and the key assumptions used in assessments that involve uncertainty, are consistent with those applied in the Annual Financial Statements.

3. Reporting Principles and Accounting Policy

3.1 The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements.

3.2 Accounting policy applied following new events

The following accounting policy is applied by the Group with respect to the share-based payment described in Note 14:

The fair value at the grant date of options for Company shares granted to employees is recognized as a salary expense with a corresponding increase in equity over the period during which the employee becomes entitled to the options. The Group elected to recognize the increase in equity under a capital reserve for employee options.

For share-based payment awards that are conditional upon meeting market-performance conditions, the fair value of the equity instruments granted is estimated taking into account such conditions, and therefore the Group recognizes an expense in respect of these awards whether or not the conditions have been met.

The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3.3 New standards and interpretations not yet adopted

3.3.1 Amendment to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current"

The amendment replaces certain requirements for classifying liabilities as current or non-current. The amendment will be effective for reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendment will be applied retrospectively, including the restatement of comparative figures. The Group is assessing the effects of the application of the amendment on its financial statements.

3.3.2 Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" regarding onerous contracts

The amendment specifies that when assessing the cost of fulfilling a contract, indirect costs should also be considered along with incremental costs (see Note 3.12.3 to the Annual Financial Statements).

The initial date of application of the amendment has been set for January 1, 2022, and it will be implemented by adjusting the balance of retained earnings for the cumulative effect as at that date. The amendment may affect the identification and measurement of onerous contracts in the Group, which may also be reflected in the creation of material provisions which the Company is unable to assess at this stage. The Company is studying the amendment and making preparations for its timely application.

4. Group Entities

A detailed description of the Group entities appears in Note 13 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since the publication of the Annual Financial Statements.

4.1 Plan for structural change in the Subsidiaries

Further to note 13.1.2 to the Annual Financial Statements, on May 25, 2021, the Company's Board of Directors approved, further to the approval of the boards of directors of the Subsidiaries, a plan for a structural change in the Subsidiaries, including the full statutory merger of Bezeq International with and into DBS, following the spin-off of Bezeq International's integration activity into a separate company within the Group. The purposes of this move are, *inter alia*: to adapt the operations to the structure of the industry and to the changing regulatory environment, to focus on increasing revenues and on growth, to enhance operational synergies and to improve efficiency (the "Structural Change Plan"). Concurrently, the management of the Subsidiaries was authorized to conduct negotiations with the workers committees and the relevant representative organizations for the purpose of signing new collective agreements. It is noted that as of the approval date of the financial statements, a labor dispute declared in regard to the Structural Change Plan is pending before the Regional Labor Court.

Further to the request submitted on April 25, 2021 to the Ministry of Communications by Bezeq International and DBS, approval was given by the Minister of Communications for the transfer of the general license of Bezeq International to DBS as part of the full statutory merger of Bezeq International into DBS, such approval being required for implementation of the Structural Change Plan. The approval further stipulates that the Company's license will be amended such that the structural separation provisions will apply also to the new company to which Bezeq International's integration business is transferred.

Having received the approval, Bezeq International and DBS plan to continue working to implement the Structural Change Plan, subject to completion of a number of processes and approvals, including talks with the employee representative bodies of Bezeq International and DBS and the receipt of court approval for a capital reduction for purposes of a dividend-in-kind distribution from Bezeq International to the Company, which is required to complete the transfer of the integration business of Bezeq International to the new company.

In addition, on August 11, 2021, the Company's Board of Directors approved, following the approval of Bezeq International's Board of Directors on that day, to spin-off the integration activity of Bezeq International into a separate company within the Group, which will be established and wholly owned by the Company, and to which the activity will be transferred (the "Transferred Activity"), as part of the Structural Change Plan.

The Transferred Activity will be spun off in accordance with the provisions of Section 105(a)(1) in the Income Tax Ordinance [New Version], and subject to the Israel Tax Authority issuing an appropriate tax ruling, including and particularly with respect to the continued applicability of the tax ruling issued on September 15, 2016 in connection with the merger of DBS with and into the Company (see Note 7.2.1 of the Annual Financial Statements), and subject to completion of the structural change, which includes the execution of a full statutory merger of Bezeq International with and into DBS, immediately upon completion of the Transferred Activity spin-off process.

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

Taking into account that immediately upon execution of the Dividend-in-Kind Distribution, and as a condition thereto, Bezeq International will be merged with and into DBS, Bezeq International's Board of Directors assessed DBS's post-merger solvency, including on the basis of an economic opinion submitted to it, and found that the Dividend-in-Kind Distribution meets the statutory solvency test, subject *inter alia* to the Company providing a credit facility or capital to the merged company in the amount of up to NIS 254 million (the "Credit Facility") for withdrawal by the end of 2026, with repayment of the Credit Facility to be made subsequent to that date according to DBS's solvency. Following the resolution of Bezeq International's Board of Directors, the Company's Board of Directors approved the provision of the Credit Facility, in accordance with its terms, which will become effective subject to and upon completion of the Structural Change Plan. It was further approved in the resolutions to file an application with the competent court for approval of a capital reduction, given that the said Dividend-in-Kind Distribution does not meet the profit test prescribed by law.

Concurrently, the management of Pelephone and Bezeq International will continue negotiations with the employee representative bodies on regulating labor relations under a new collective agreement.

The Company and the Subsidiaries are unable to assess, at this stage, whether and when all the terms and conditions required for the execution of the Structural Change Plan will be met. Accordingly, there is also no certainty that the Structural Change Plan will materialize in the manner described above, if at all.

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

4.2.1 As of June 30, 2021, DBS has an equity deficit of NIS 61 million and a working capital deficit of NIS 227 million. According to forecasts of DBS, it expects to continue to accumulate operating losses in the coming years and therefore it will be unable to meet its obligations and to continue operating as a going concern without the Company's support.

In August 2021, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment in the amount of NIS 70 million for 15 months, as of July 1, 2021 until September 30, 2022, instead of earlier undertakings, with the most recent one being from May 2021. It should be noted that thus far in 2021, DBS has not made any use of the credit facilities provided by the Company.

The management of DBS believes that the financial resources at its disposal, which include the working capital deficit and the Company’s credit facility and capital investments, will be adequate to meet the operational needs of DBS for the coming year.

4.2.2 See Note 5.1 below for information about an impairment of assets recognized by DBS in the financial statements as of June 30, 2021.

4.3 Bezeq International Ltd.

4.3.1 Further to Note 13.3.2 to the Annual Financial Statements regarding a hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services, on June 20, 2021, the Company received the ruling of the Minister of Communications in the hearing, whereby the separation of broadband infrastructure service from Internet access (ISP) service will be cancelled for private customers, according to the outline set out in the ruling. At the end of the preparatory period in March 2022, the prohibition on infrastructure suppliers offering access service to private customers will be revoked. Only customers receiving service at this time in a split or semi-unified configuration who wish to continue consuming internet services in this manner will be permitted to do so.

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

5. Impairment

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

Further to Note 11.5 to the Annual Financial Statements regarding impairment recognized in 2019 and 2020 for the multi-channel television cash-generating unit – in light of an examination of DBS's performance in the first quarter of 2021 and changes in its projected business results, DBS revised its forecasts for 2021 and subsequent years. Due to the aforesaid, DBS assessed the recoverable amount as of March 31, 2021 and found the value of operations to be a negative NIS 283 million and significantly lower than its carrying amount.

According to an examination performed by an external appraiser as of June 30, 2021, as well as an assessment by the DBS management, in the three months since the previous valuation there were no significant changes in the market and no regulatory changes that could materially affect DBS forecasts for the coming years.

Accordingly, in view of the negative value of operations as determined in the valuation as of March 31, 2021, DBS amortized its non-current assets as of June 30, 2021 to their net disposal value. Based on the valuation as of June 30, 2021, the fair value of DBS assets less disposal costs is a negative NIS 128 million.

Accordingly, in the six- and three-month periods ended June 30, 2021, the Group recognized an impairment loss of NIS 138 million and NIS 56 million, respectively. The impairment loss was attributed to fixed assets, broadcasting rights and intangible assets, as set out below, and included in depreciation, amortization and impairment expenses and in general operating expenses in the statement of income.

Attribution of impairment loss to Group assets:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Broadcasting rights*	**66**	87	**29**	38	170
Fixed assets**	**40**	38	**12**	20	112
Intangible assets**	**27**	25	**13**	14	29
Other receivables (prepaid expenses)*	**5**	-	**2**	-	13
Total impairment recognized	**138**	150	**56**	72	324

* The expense was presented under general operating expenses

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

For information about the method used by DBS to measure the fair value (Level 3) of the assets less disposal costs, see Note 11.5 to the Annual Financial Statements.

5.2 Impairment in the ISP, international communications and NEP services segment (Bezeq International)

Further to Note 11.6 to the Annual Financial Statements regarding impairment of the ISP, international communications and NEP services cash-generating unit in 2020 – the valuation as of December 31, 2020 presented a significantly lower value-in-use than the book value of Bezeq International. According to an examination performed by an external appraiser as of June 30, 2021, as well as an assessment by the Bezeq International management, no changes were found in the projected financial results of Bezeq International, there were no material changes in market expectations, and no regulatory changes were made that may have a material effect on the results. Accordingly, in view of the negative value of operations as determined in the valuation as of December 31, 2020, Bezeq International amortized its assets as of June 30, 2021 to their net disposal value. Based on an assessment of the fair value of Bezeq International's assets performed by an external appraiser as of June 30, 2021, the carrying amount of the depreciable assets is NIS 57 million higher than their fair value less disposal costs.

Accordingly, in the six and three month periods ended June 30, 2021, the Group recognized an impairment loss of NIS 57 million and NIS 28 million, respectively.

Attribution of impairment loss to Group assets:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Fixed assets and intangible assets	****48**	**-**	****25**	**-**	154
Long-term prepaid expenses for bandwidth capacity	****8**	**-**	****3**	**-**	129
Other prepaid expenses	***1**	**-**	**-**	**-**	21
Rights of use of leased assets	**-**	**-**	**-**	**-**	3
Total impairment recognized	**57**	**-**	**28**	**-**	***307

* The expense was presented under general operating expenses.

** The expense was presented under depreciation, amortization, and impairment expenses.

*** Presented under impairment loss in the Statement of Income for 2020.

For information about the method used by Bezeq International to measure the fair value (Level 3) of the assets less disposal costs, see Note 11.6 to the Annual Financial Statements.

6. Fixed Assets

Further to Note 10.4 to the Annual Financial Statements regarding the Company's deployment of a fiber-optic network – on May 25, 2021, the Company's Board of Directors approved the Company's plan for fiber deployment and the plan's submission to the Ministry of Communications in accordance with the Communications Law. As part of the plan, the Company is expected to deploy and operate an ultra-fast fiber network that will cover 76% of the country's population (the Company estimates that this is approximately 80% of Israeli households). On May 31, 2021, the Company submitted to the Ministry of Communications a list of the statistical areas where it wishes to deploy a fiber network and on June 15, 2021, the Company received an amendment to its license concerning the establishment of advanced network deployment obligations (the "License Amendment"). The License Amendment includes, *inter alia*, milestones for completing the network's deployment within six years of the Determining Date (March 14, 2021). In this regard, see also Note 8.1 regarding the commitment of the Group companies to pay into the Incentive Fund.

7. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions in the amount of NIS 81 million, where provisions are required to cover the exposure arising from such Legal Claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond those provisions) as of June 30, 2020 for Legal Claims filed against Group companies on various matters, which are unlikely to be realized, amounts to NIS 3.5 billion. There is also additional exposure of NIS 2.6 billion for Legal Claims the chances of which cannot yet be assessed. In addition, motions to certify class actions have been filed against the Group companies, which do not specify the exact amount of the claim and for which the Group has additional exposure beyond the aforesaid.

The amounts of the additional exposure in this Note are nominal.

7.2 Following are details of the Group's contingent liabilities as of March 31, 2021, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provisions	Additional exposure	Exposure for claims the chances of which cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions (and claims by virtue thereof) on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**79**	**2,816**	**720**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	**-**	**687**	***1,873**
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	**-**	**11**	**-**
Claims by the State and authorities	Various legal proceedings by the State of Israel, government institutions and authorities (the "Authorities"). These are mainly proceedings related to regulation applicable to the Group companies and financial disputes concerning amounts payable by the Group companies to the Authorities (including municipal property taxes). See also Note 6.6 to the Annual Financial Statements and Section 7.3 below.	**2**	**6**	**7**
Miscellaneous	Other lawsuits, including claims in tort (excluding claims regarding which the existence of insurance coverage is not disputed), real estate claims, infrastructure claims, etc.	**-**	**21**	**24**
Total legal claims against the Company and subsidiaries		**81**	**3,541**	**2,624**

* The amount includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's former controlling shareholder, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed due to the investigation described in Note 1.3 and at the request of the Attorney General, until September 6, 2021.

7.3 Further to Note 6.6 to the Annual Financial Statements concerning the Sakia property and the authorities' demand for payment of permit fees and betterment tax – on June 27, 2021, the Company filed a claim with the Tel Aviv District Court against the Israel Land Authority for reimbursement of the full amount of NIS 217 million paid as permit fees and betterment tax, and for the award of declaratory relief, whereby the Israel Land Authority must pay the Company any amount that is forfeited, if forfeited, from a bank guarantee of NIS 75 million provided by the Company to the Or Yehuda Local Planning and Building Committee as security for the balance of the betterment tax.

8. Commitments

8.1 Commitment to pay into the Incentive Fund

Further to Note 6 above concerning deployment of the fiber-optic network by the Company, in accordance with the provisions of Section 14C of the Communications Law–once the Company's license is amended, the telecom companies, among them the Company and its subsidiaries Pelephone, DBS and Bezeq International, will be required to pay a rate of 0.5% of their annual revenue during the deployment period, into the Incentive Fund. The Incentive Fund to be managed by the Accountant-General in the Ministry of Finance, is meant to encourage fiber deployment by participating in its funding in statistical areas that are not included among the deployment areas selected by the Company. The Communications Minister, with the consent of the Finance Minister and the approval of the Economic Affairs Committee, may change this rate.

8.2 Space segment leasing agreement

Further to Note 19.2 to the Annual Financial Statements regarding the agreement between DBS and Spacecom Communications Ltd. ("Spacecom") – an amendment to the agreement was signed in July 2021 in connection with the space segments leased by DBS from Spacecom ("Amendment to the Space Agreement" and "the Agreement", respectively). As per the Amendment to the Agreement, the lease period for satellite space segments on the Amos-7 satellite has been extended until February 2024, with DBS entitled to extend this period by six months. Entry into the Amendment to the Space Agreement entails an additional cost of $14 million. Also, entry into the Amendment to the Agreement extends the period in which according to the Agreement, space segments are to be leased to DBS on two satellites, so that in the event of non-availability of one satellite, backup will be available to DBS on the other satellite, under conditions stipulated in the Agreement.

9. Equity

	June 30, 2021	June 30, 2020	December 31, 2020
	Number of shares	Number of shares	Number of shares
	(Unaudited)	(Unaudited)	(Audited)
Authorized share capital*	**2,849,485,753**	2,825,000,000	2,825,000,000
Issued and paid-up share capital	**2,765,485,753**	2,765,485,753	2,765,485,753

Further to Note 32.1 of the Annual Financial Statements regarding the approval of the General Meeting of the Company's shareholders for increasing the Company's authorized capital, to enable the grant of equity-based awards under the equity-based compensation plan – in the first quarter of 2021, the Company's authorized capital was increased by 24,485,753 ordinary shares of NIS 1 par value each.

10. Revenues

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Domestic fixed-line communication (Bezeq Fixed-Line)					
Internet – infrastructure	**769**	754	**388**	372	1,537
Fixed-line telephony	**458**	494	**222**	252	981
Transmission and data communications	**422**	385	**214**	204	785
Cloud and digital services	**158**	142	**76**	70	288
Other services	**115**	117	**53**	60	222
	1,922	1,892	**953**	958	3,813
Cellular telephony - Pelephone					
Cellular services and terminal equipment	**783**	779	**400**	383	1,550
Sale of terminal equipment	**341**	295	**164**	137	577
	1,124	1,074	**564**	520	2,127
Multichannel television - DBS	**629**	656	**314**	318	1,286
ISP, international communications and NEP services - Bezeq International	**598**	603	**299**	302	1,217
Other	**148**	117	**70**	57	280
Total revenues	**4,421**	4,342	**2,200**	2,155	8,723

11. General Operating Expenses

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Terminal equipment and materials	**421**	364	**200**	176	747
Interconnectivity and payments to domestic and international operators	**362**	386	**180**	201	776
Content costs (including content impairment)	**277**	307	**133**	143	589
Marketing and general	**251**	231	**127**	114	462
Maintenance of buildings and sites	**119**	111	**59**	46	246
Services and maintenance by subcontractors	**168**	139	**82**	71	303
Vehicle maintenance	**30**	23	**16**	9	50
Total general operating expenses	**1,628**	1,561	**797**	760	3,173

12. Other Operating Expenses (Income), Net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital gains (mainly disposal of real estate, see Note 32.2 to the Annual Financial Statements)	**(127)**	(5)	**(2)**	4	(18)
Recognition (cancellation) of provision for claims	**(28)**	(2)	**2**	(3)	11
Expenses (income) for employee termination benefits under the Company's early retirement program	**8**	-	**6**	(5)	64
Provision for collective agreement signing bonus	**-**	-	**-**	-	40
Gain from the sale of an investee	**-**	-	**-**	-	(22)
Amounts received under settlement agreements	**-**	(9)	**-**	(9)	(9)
Recognition (cancellation) of provision for streamlining agreement at Pelephone, Bezeq International, and DBS.	**-**	(5)	**-**	(5)	9
Other expenses	**(3)**	(1)	**(4)**	(1)	(1)
Total other operating expenses (income), net	**(150)**	(22)	**2**	(19)	74

13. Financial Expenses, Net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**119**	145	**60**	72	273
Linkage and exchange rate differences	**20**	6	**16**	4	22
Financial expenses for lease liabilities	**19**	14	**10**	7	30
Financial expenses for employee benefits	**5**	-	**2**	29	8
Other financial expenses	**3**	4	**1**	2	7
Costs for early repayment of loans and debentures	**-**	51	**-**	51	65
Change in fair value of financial assets at fair value through profit or loss	**-**	-	**3**	4	11
Total financial expenses	**166**	220	**92**	169	416
Income for credit in sales	**15**	15	**7**	7	30
Change in fair value of financial assets at fair value through profit or loss	**4**	3	**-**	-	-
Other financial income	**12**	9	**1**	3	15
Total financial income	**31**	27	**8**	10	45
Financial expenses, net	**135**	193	**84**	159	371

14. Share-Based Payment

14.1 Further to Note 32.1 to the Annual Financial Statements regarding an equity-based compensation plan – in the first half of 2021, 60,000,954 options were allotted to officers, executives and senior employees of the Company and the Subsidiaries, including the allotment of 12,000,000 options to the Chairman of the Board of Directors of the Company, as well as the allotment of 9,000,000 options to the CEO of the Company and 9,000,000 options to the CEO of Pelephone, DBS and Bezeq International.

14.2 The options were allotted to each offeree in three grants, each for a third of the total number of options allotted to the offeree. Each grant has a different exercise price and vests in four annual tranches. The exercise of any option is subject to the exercise price condition being met after the option vesting date (the average of the closing prices of the Company's share on the stock exchange during at least 30 consecutive trading days immediately prior to the test date is equal to or higher than the price set as a condition for exercising the option).

Exercise prices and share target prices for exercising the option:

	Exercise price	Share target price
Grant 1	NIS 3.72	NIS 5
Grant 2	NIS 4.46	NIS 5.75
Grant 3	NIS 5.35	NIS 7

14.3 The fair value of the options granted, which was estimated by an external appraiser using the Monte Carlo method, is NIS 46 million, based on the vesting period and terms of exercise of the options as set the above. Out of this amount, the fair value at the date of grant of the options to the Chairman of the Board of Directors is NIS 9.3 million. The fair value at the date of grant of the options to the Company's CEO and to the CEO of Pelephone, DBS and Bezeq International is NIS 6.9 million each.

Below are the main parameters used in the valuation:

Share price	NIS 3.43
Projected volatility	29.82%
Risk-free interest rate	0.54%
Dividend yield	A zero dividend yield was assumed
Projected early exercise factor	2.2–2.8
Time to expiry	6.9 years
Abandonment rate after vesting	0%

14.4 Below are the salary expenses recognized by the Group for share-based compensation:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Salary expenses	**16**	-	**8**	-	-

15. Financial Instruments

Fair value

A. Financial instruments at fair value for disclosure purposes only

The table below shows the differences between the carrying amount and the fair value of financial liabilities. The methods used to determine the fair values of financial instruments are described in Note 30.8 to the Annual Financial Statements.

	June 30, 2021		June 30, 2020		December 31, 2020	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and institutions (unlinked)	**2,015**	**2,137**	2,631	2,755	2,118	2,252
Debentures issued to the public (CPI-linked)	**3,222**	**3,492**	3,724	3,831	3,199	3,394
Debentures issued to the public (unlinked)	**3,030**	**3,235**	3,042	3,216	3,036	3,253
	8,267	**8,864**	9,397	9,802	8,353	8,899

B. Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, specifying the assessment method. The methods used to determine the fair value are described in Note 30.7 to the Annual Financial Statements.

	June 30, 2021	June 30, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: investment in marketable securities at fair value through profit or loss	**-**	13	-
Level 2: forward contracts	**(68)**	(160)	(117)

16. Segment Reporting

16.1 Operating segments

	Six months ended June 30, 2021 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,923	1,124	598	630	146	-	4,421
Inter-segment revenues	170	22	24	-	3	(219)	-
Total revenues	2,093	1,146	622	630	149	(219)	4,421
Depreciation and amortization	454	286	95	150	2	(46)	941
Segment results - operating profit (loss)	1,000	12	8	(21)	19	37	1,055
Financial expenses	171	11	3	2	-	(21)	166
Financial income	(13)	(32)	(2)	(5)	-	21	(31)
Total financial expenses (income), net	158	(21)	1	(3)	-	-	135
Segment profit (loss) after financial expenses, net	842	33	7	(18)	19	37	920
Income tax	204	5	4	1	4	-	218
Segment results - net profit (loss)	638	28	3	(19)	15	37	702

	Three months ended June 30, 2021 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	954	564	299	315	68	-	2,200
Inter-segment revenues	85	12	11	-	2	(110)	-
Total revenues	1,039	576	310	315	70	(110)	2,200
Depreciation and amortization	231	144	46	75	1	(32)	465
Segment results - operating profit (loss)	407	15	16	(3)	9	25	469
Financial expenses	91	5	1	7	-	(12)	92
Financial income	(1)	(16)	-	(3)	-	12	(8)
Total financial expenses (income), net	90	(11)	1	4	-	-	84
Segment profit (loss) after financial expenses, net	317	26	15	(7)	9	25	385
Income tax	79	6	4	-	2	-	91
Segment results - net profit (loss)	238	20	11	(7)	7	25	294

* Results of the multi-channel television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 17.3 for condensed selected information from DBS's financial statements.

16.1 Operating segments (cont.)

	Six months ended June 30, 2020 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,892	1,074	607	657	112	-	4,342
Inter-segment revenues	170	34	24	-	3	(231)	-
Total revenues	2,062	1,108	631	657	115	(231)	4,342
Depreciation and amortization	430	301	81	154	7	(63)	910
Segment results - operating profit (loss)	903	(21)	56	(17)	10	39	970
Financial expenses	222	12	2	3	1	(20)	220
Financial income	(10)	(33)	(2)	(4)	-	22	(27)
Total financial expenses (income), net	212	(21)	-	(1)	1	2	193
Segment profit (loss) after financial expenses, net	691	-	56	(16)	9	37	777
Income tax	167	1	13	1	2	(3)	181
Segment results - net profit (loss)	524	(1)	43	(17)	7	40	596

	Three months ended June 30, 2020 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	957	520	306	319	53	-	2,155
Inter-segment revenues	87	15	8	-	2	(112)	-
Total revenues	1,044	535	314	319	55	(112)	2,155
Depreciation and amortization	218	151	38	78	4	(30)	459
Segment results - operating profit (loss)	464	(8)	27	(6)	7	27	511
Financial expenses	166	6	-	5	1	(9)	169
Financial income	(3)	(17)	(1)	(1)	-	12	(10)
Total financial expenses (income), net	163	(11)	(1)	4	1	3	159
Segment profit (loss) after financial expenses, net	301	3	28	(10)	6	24	352
Income tax	72	2	7	1	2	(1)	83
Segment results - net profit (loss)	229	1	21	(11)	4	25	269

* Results of the multi-channel television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 17.3 for condensed selected information from DBS's financial statements.

16.1 Operating segments (cont.)

	Year ended December 31, 2020 (Audited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,813	2,127	1,217	1,286	280	-	8,723
Inter-segment revenues	346	59	54	1	6	(466)	-
Total revenues	4,159	2,186	1,271	1,287	286	(466)	8,723
Depreciation, amortization and impairment	877	599	149	310	14	(112)	1,837
Segment results - operating profit (loss)	1,705	(84)	(241)	(42)	44	73	1,455
Financial expenses	419	18	5	15	1	(42)	416
Financial income	(16)	(66)	(3)	(2)	-	42	(45)
Total financial expenses (income), net	403	(48)	2	13	1	-	371
Segment profit (loss) before income tax	1,302	(36)	(243)	(55)	43	73	1,084
Income tax expenses (income)	262	(11)	32	2	4	(1)	288
Segment results - net profit (loss)	1,040	(25)	(275)	(57)	39	74	796

* Results of the multi-channel television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the manner in which the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 15.3 for condensed selected information from DBS's financial statements.

16.2 Reportable segment profit or loss reconciliation

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Operating profit for reportable segments	**999**	921	**435**	477	1,338
Financial expenses, net	**(135)**	(193)	**(84)**	(159)	(371)
Adjustments for the multi-channel television segment	**37**	49	**25**	37	81
Profit (loss) for operations classified in other categories and other adjustments	**19**	-	**9**	(3)	36
Profit before income tax	**920**	777	**385**	352	1,084

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

17.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

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

Selected data from the statement of income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**801**	799	**409**	394	1,591
Revenues from sales of terminal equipment	**345**	309	**167**	141	595
Total revenues from services and sales	**1,146**	1,108	**576**	535	2,186
Operating expenses					
General operating expenses	**693**	671	**341**	326	1,329
Salaries	**158**	160	**79**	70	324
Depreciation and amortization	**286**	301	**144**	151	599
Total operating expenses	**1,137**	1,132	**564**	547	2,252
Other operating expenses (income), net	**(3)**	(3)	**(3)**	(4)	18
Operating profit (loss)	**12**	(21)	**15**	(8)	(84)
Financial expenses (income)					
Financial expenses	**11**	12	**5**	6	18
Financial income	**(32)**	(33)	**(16)**	(17)	(66)
Financial income, net	**(21)**	(21)	**(11)**	(11)	(48)
Profit (loss) before income tax	**33**	-	**26**	3	(36)
Income tax expenses (income)	**5**	1	**6**	2	(11)
Profit (loss) for the period	**28**	(1)	**20**	1	(25)

17.2 Bezeq International Ltd.

Selected data from the statement of financial position

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

Selected data from the statement of income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**622**	631	**310**	314	1,271
Operating expenses					
General operating expenses	**402**	368	**191**	187	802
Salaries	**118**	126	**58**	62	248
Depreciation and amortization	**95**	81	**46**	38	149
Other expenses (income), net	**(1)**	-	**(1)**	-	313
Total operating expenses	**614**	575	**294**	287	1,512
Operating profit (loss)	**8**	56	**16**	27	(241)
Financial expenses (income)					
Financial expenses	**3**	2	**1**	-	5
Financial income	**(2)**	(2)	**-**	(1)	(3)
Financial expenses (income), net	**1**	-	**1**	(1)	2
Profit (loss) before income tax	**7**	56	**15**	28	(243)
Income tax expenses	**4**	13	**4**	7	32
Profit (loss) for the period	**3**	43	**11**	21	(275)

17.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	June 30, 2021	June 30, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**192**	189	176
Non-current assets	**231**	260	248
Total assets	**423**	449	424
Current liabilities	**419**	444	436
Long-term liabilities	**65**	78	69
Total liabilities	**484**	522	505
Equity deficit	**(61)**	(73)	(81)
Total liabilities and equity deficit	**423**	449	424

Selected data from the statement of income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**630**	657	**315**	319	1,287
Operating expenses					
General operating expenses and impairment	**415**	441	**203**	210	857
Depreciation, amortization and impairment	**106**	94	**45**	50	203
Salaries	**95**	102	**45**	48	203
Other operating expenses, net	**(2)**	(12)	**-**	(12)	(15)
Total operating expenses	**614**	625	**293**	296	1,248
Operating profit	**16**	32	**22**	23	39
Financial expenses (income)					
Financial expenses	**2**	3	**7**	5	15
Financial income	**(5)**	(4)	**(3)**	(1)	(2)
Financial expenses (income), net	**(3)**	(1)	**4**	4	13
Profit before income tax	**19**	33	**18**	19	26
Income tax expenses	**1**	1	**-**	1	2
Profit for the period	**18**	32	**18**	18	24

18. Additional Material Subsequent Events

18.1 For information about the approval of the Minister of Communications for the transfer of the general license of Bezeq International to DBS, as part of the full statutory merger of Bezeq International with DBS, and also about the Board of Directors' resolutions regarding a plan for a structural change, see Note 4.1.

18.2 See Note 8.2 above for information regarding the amendment to the space segment leasing agreement signed by DBS.

Condensed Separate Interim Financial Information as of June 30, 2021

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

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

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970 of Bezeq - The Israel Telecommunication Corporation Ltd. (hereinafter - “the Company”) as of June 30, 2021 and for the six and three-month periods then ended. The separate interim financial information is the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements (Israel) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 6 of the financial information, which refers to Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority’s (ISA) investigation of the suspicion of committing offenses under the Securities Law and Penal Code, with respect *inter alia* to transactions related to the former controlling shareholder, and notifying the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of the company's prosecution and its invitation to a hearing on suspicion of bribery and reporting in order to mislead a reasonable investor, and as mentioned in that note, regarding the indictments filed against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, fraud and breach of trust in the corporation, and reporting offenses under the

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Securities Law. In addition, subsequent to the investigation opening, a number of civil legal proceedings were initiated against the company, former officers of the company as well as companies from the group that previously controlled the company, including requests 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 their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

In addition, without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Company which in this stage cannot be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 5.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 11, 2021

Condensed Separate Interim Information on Financial Position

	June 30, 2021	June 30, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**582**	433	431
Investments	**739**	1,206	724
Trade receivables	**793**	750	773
Other receivables	**95**	215	76
Loans provided to investees	**-**	16	-
Assets held for sale	**-**	46	10
Total current assets	**2,209**	2,666	2,014
Trade and other receivables	**219**	206	214
Fixed assets	**5,339**	5,022	5,154
Intangible assets	**246**	236	237
Goodwill	**265**	265	265
Investment in investees	**2,948**	3,241	2,878
Right-of-use assets	**641**	254	628
Non-current and other investments	**218**	94	111
Deferred taxes	**48**	35	113
Total non-current assets	**9,924**	9,353	9,600
Total assets	**12,133**	12,019	11,614

Condensed Separate Interim Information on Financial Position (cont.)

	June 30, 2021	June 30, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**743**	955	786
Trade and other payables	**680**	604	768
Current tax liabilities	**-**	35	-
Employee benefits	**388**	386	384
Current maturities of lease liabilities	**91**	82	79
Provisions (Note 5)	**49**	85	79
Total current liabilities	**1,951**	2,147	2,096
Loans and debentures	**7,569**	8,517	7,614
Loans from subsidiaries	**1,165**	1,035	1,065
Employee benefits	**195**	301	303
Lease liabilities	**575**	186	566
Derivatives and other liabilities	**87**	171	120
Total non-current liabilities	**9,591**	10,210	9,668
Total liabilities	**11,542**	12,357	11,764
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**366**	319	327
Accumulated deficit	**(4,037)**	(4,919)	(4,739)
Total equity (equity deficit) attributable to the shareholders of the Company	**591**	(338)	(150)

Total liabilities and equity (equity deficit)	**12,133**	12,019	11,614

Gil Sharon	**Dudu Mizrahi**	**Tobi Fischbein**
Chairman of the Board of Directors	Chief Executive Officer	CFO Bezeq Group

Date of approval of the financial statements: August 11, 2021

The accompanying notes are an integral part of the separate financial information.

Condensed Separate Interim Information on Income

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

Condensed Separate Interim Information on Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**702**	596	**294**	269	796
Items of other comprehensive income (loss), net of tax	**23**	(2)	**1**	(10)	(14)
Total comprehensive income for the period	**725**	594	**295**	259	782

The accompanying notes are an integral part of the separate financial information.

Condensed Separate Interim Information on Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**702**	596	**294**	269	796
Adjustments:					
Depreciation and amortization	**454**	430	**231**	218	877
Share in losses (profits)of investees, net	**(64)**	(72)	**(56)**	(40)	244
Financial expenses, net	**136**	200	**78**	130	368
Capital gain, net	**(127)**	(5)	**(2)**	4	(35)
Share-based payment	**10**	-	**5**	-	-
Income tax expenses	**204**	167	**79**	72	262
Change in trade and other receivables	**(40)**	(93)	**(10)**	(42)	(94)
Change in trade and other payables	**(69)**	(68)	**(105)**	(140)	69
Change in provisions	**(30)**	(1)	**(2)**	(1)	(8)
Change in employee benefits	**(105)**	(119)	**(83)**	(53)	(136)
Miscellaneous	**(3)**	(3)	**(2)**	(2)	(18)
Net cash provided by (used in) operating activities due to transactions with subsidiaries	**19**	11	**9**	(2)	24
Net income tax paid	**(223)**	(98)	**(82)**	(79)	(243)
Net cash provided by operating activities	**864**	945	**354**	334	2,106
Cash flows from investing activities					
Investment in intangible assets and deferred investments	**(78)**	(68)	**(39)**	(35)	(139)
Proceeds from the sale of fixed assets	**182**	26	**-**	19	146
Investment in bank deposits and securities	**(715)**	(971)	**(204)**	(461)	(1,335)
Proceeds from repayment of bank deposits and sale of securities	**600**	948	**126**	348	1,785
Purchase of fixed assets	**(519)**	(333)	**(246)**	(166)	(771)
Miscellaneous	**10**	10	**4**	4	17
Net proceeds from the sale of Walla	**-**	-	**-**	-	55
Net cash provided by investing activities due to transactions with investees	**-**	44	**-**	11	70
Net cash used in investing activities	**(520)**	(344)	**(359)**	(280)	(172)
Cash flows from financing activities					
Issue of debentures and receipt of loans	**-**	718	**-**	718	718
Repayment of debentures and loans	**(103)**	(763)	**(103)**	(763)	(1,821)
Interest paid	**(137)**	(163)	**(132)**	(158)	(346)
Payment of principal and interest for leases	**(53)**	(58)	**(24)**	(26)	(111)
Payment for expired hedging transactions	**-**	-	**-**	-	(57)
Costs for early repayment of loans and debentures	**-**	(51)	**-**	(51)	(65)
Net cash provided by financing activities due to transactions with subsidiaries	**100**	15	**45**	15	45
Net cash used in financing activities	**(193)**	(302)	**(214)**	(265)	(1,637)
Net increase (decrease) in cash and cash equivalents	**151**	299	**(219)**	(211)	297
Cash and cash equivalents at the beginning of the period	**431**	134	**801**	644	134
Cash and cash equivalents at the end of the period	**582**	433	**582**	433	431

The accompanying notes are an integral part of the separate financial information.

Notes to the Condensed Separate Interim Financial Information

1. Manner of Preparing Financial Information

1.1 Definitions

The "Company" – Bezeq - The Israel Telecommunication Corporation Ltd.

"Associate," the "Group," "Investee" – as these terms are defined in the Company's Consolidated Financial Statements for 2020.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports),1970 (the "Regulations") and the Tenth Schedule to the Regulations (the "Tenth Schedule") concerning a corporation's condensed separate interim financial information. It should be read in conjunction with the separate financial information as of and for the year ended December 31, 2020 and in conjunction with the condensed consolidated interim financial statements as of June 30, 2021 (the "Consolidated Statements").

The accounting policies used in preparing this condensed separate interim financial information are consistent with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2020.

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

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

1.3 Restatement

At the beginning of November 2020, during the preparation of the quarterly report as of September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers, and from inadequate recognition of prepaid expenses.

In light of the above findings, the Company published on December 21, 2020 restated financial statements *inter alia* for the second quarter of 2020 (including the comparative figures presented in them), in order to reflect retrospectively the effect of the corrections to the discrepancies.

The comparative figures included in this condensed separate financial information are after restatement.

2. Revenues

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Internet - infrastructure	**801**	797	**403**	402	1,622
Fixed-line telephony	**471**	506	**229**	258	1,008
Transmission and data communications	**544**	495	**276**	251	1,011
Cloud and digital services	**158**	142	**76**	70	288
Other services	**119**	122	**55**	63	230
	2,093	2,062	**1,039**	1,044	4,159

3. General Operating Expenses

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**54**	51	**27**	21	113
Marketing and general	**91**	80	**51**	41	159
Interconnectivity and payments to communications operators	**53**	55	**25**	30	115
Services and maintenance by subcontractors	**55**	43	**27**	22	94
Vehicle maintenance	**17**	13	**8**	6	29
Terminal equipment and materials	**47**	40	**24**	20	80
	317	282	**162**	140	590

4. Other Operating Expenses (Income), Net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Expenses (income) due to employee termination benefits under early retirement program	**8**	-	**6**	(5)	64
Capital gains (mainly from the sale of real estate)	**(127)**	(5)	**(2)**	4	(13)
Provision for collective agreement signing bonus	**-**	-	**-**	-	40
Gain from the sale of an investee	**-**	-	**-**	-	(22)
Other expenses(income) (mainly claims)	**(25)**	(1)	**2**	(1)	(1)
Total operating income, net	**(144)**	(6)	**6**	(2)	68

5. Contingent Liabilities

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

In the opinion of the Company's management, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions in the amount of NIS 49 million, where provisions are required to cover the exposure arising from such Legal Claims.

Furthermore, motions to certify class actions have been filed against the Company, which do not specify the exact amount of the claim and for which the Group has additional exposure beyond the aforesaid.

Breakdown of the Company's contingent liabilities as of June 30, 2021:

Balance of provision	Additional exposure*	Exposure for claims whose chances cannot yet be assessed*
NIS million		
49	1,404	(1) 2,559

* Nominal

(1) The exposure includes:

Two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's former controlling shareholder, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed due to the investigation described in Note 1.3 to the Consolidated Statements and at the request of the Attorney General, until September 6, 2021.

For further information concerning contingent liabilities, see Note 7 to the Consolidated Statements.

6. Events in and Subsequent to the Reporting Period

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

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

6.3 For information on a credit facility of NIS 70 million that was provided to DBS, see Note 4.2.1 to the Consolidated Statements.

6.4 For information on the impacts of the COVID-19 pandemic, see Note 1.2 to the Consolidated Statements.

6.5 For an update on share-based payment, see Note 14 to the Consolidated Statements.

6.6 For information on a plan for structural change in the Subsidiaries and the provision of a credit facility that will become effective subject to and upon completion of the structural change plan, see Note 4.1 to the Consolidated Statements.

6.7 For information on the deployment of a fiber optic network by the Company and the commitment to pay into the Incentive Fund, see Notes 6 and 8 to the Consolidated Statements.

6.8 For information on additional material subsequent events, see Note 18 to the Consolidated Statements.

Chapter E:
Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended June 30, 2021

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

1. Report on internal control over financial reporting and disclosure:

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

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

For this matter, the members of Management are:

1. Dudu Mizrahi, CEO
2. Udi Atar, VP Residential Division
3. Eyal Kamil, VP Operations and Logistics Division
4. Amir Nachlieli, Legal Counsel
5. Erez Hasdai, VP Economics and Regulation Division
6. Guy Hadass, VP Corporate Communications
7. Tobi Fischbein, CFO Bezeq Group
8. Moran Kita, VP Human Resources Division
9. Meni Baruch, VP Technologies and Network Division[1]
10. Nir David, VP Business Division
11. Keren Laizerovitz, VP Marketing and Innovation Division

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

1. Lior Segal, Internal Auditor
2. Shelly Bainhoren, Group Corporate Secretary and Internal Compliance Officer

Internal control over financial reporting and disclosure includes controls and procedures in the Company, which were planned by the CEO[2] and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

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

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

In the quarterly report on the effectiveness of internal control over financial reporting and disclosure that was attached to the quarterly report for the period ended March 31, 2021 (the "Last Quarterly Report on Internal Control"), the internal control was found to be effective.

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

[1] Began serving in this position on May 25, 2021.

[2] Regarding the transfer of the CEO's authority in matters connected with investees of the Company to the Board of Directors – see Section 1.1.3 of the Description of Company Operations chapter in the Periodic Report for 2020.

As at the reporting date, based on that stated in the Last Quarterly Report on Internal Control, and based on information that was brought to the attention of the Board of Directors and Management as aforesaid, the internal control is effective.

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Concerning the investigations of the Israel Securities Authority and the Israel Police as detailed in section 1.1.5 of the Description of Company Operations chapter in the periodic report for 2020, the Company does not have complete information about the investigations, their content, or the material and evidence in the possession of the law enforcement authorities on this matter (although in January 2021 the Company received the core investigation material in connection with Case 4000, further to an invitation it received to a hearing in this matter). Accordingly, the Company is unable to assess the effects, if any, of the investigations, their findings and their outcome on the Company, on its financial statements and on the estimates used in the preparation of the financial statements. Once the constraints on carrying out reviews and controls related to issues that arose in the investigations are lifted, the review of all matters related to those issues will be completed as required.

2. Declaration of Executives:

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

I, Dudu Mizrahi, declare that:

1. I have reviewed the quarterly report of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") for the second quarter of 2021 (the "Reports").
2. To the best of my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.
3. To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
4. I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:
   A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

   B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure
5. I, alone or together with others in the Company:
   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;

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

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

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

Date: August 11, 2021

Dudu Mizrahi, CEO

B. **Declaration of most senior financial officer in accordance with Regulation 38C(d)(2) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970:**

I, Tobi Fischbein, declare that:

1. I have reviewed the interim financial statements and other financial information included in the reports for the interim period of Bezeq - The Israel Telecommunication Corporation Ltd, (the "Company") for the second quarter of 2021 (the "Reports" or the "Reports for the Interim Period").
2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.
3. To the best of my knowledge, the financial statements and other financial information included in the Reports for the Interim Period reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports:
4. I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of the internal control over financial reporting and disclosure:
   A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as it relates to the interim financial statements and other financial information included in the Reports for the Interim Period, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;
   B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure.
5. I, alone or together with others in the Company:
   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;
   B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
   C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was brought to my attention, in respect of the interim financial statements and any other financial information included in the Reports for the Interim Period, that would, in my opinion, change the conclusions of the Board of Directors and Management concerning the effectiveness of the internal control over the Company's financial reporting and disclosure.

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

Date: August 11, 2021

Tobi Fischbein, CFO Bezeq Group