B Communications Ltd.

Q2 2022 – Quarterly Report

Chapter A – Update to Chapter A (Description of the Corporation's Business) of the Periodic Report for 2021

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

Chapter C – Unaudited Financial Statements

Chapter E – Report on the Effectiveness of Internal Controls

Update to Chapter A

(Description of the Corporation's Business)

Of the 2021 Periodic Report[1]

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

Update[2] to Chapter A - Description of the Corporation's Business) of the 2021 Periodic Report

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

1. Updates in the Company

1.1. On March 23, 2022, the Company's Board of Directors decided to adopt a plan to repurchase the Company's shares, amounting to up to NIS 20 million, effective from March 27, 2022 until: (1) the purchase of the Company's shares at the total cost of purchase; 2) End of the trading day on May 12, 2022, whichever is earlier. The purchases will be made, from time to time during the aforementioned period, in transactions on the stock exchange through a stock exchange member. It should be noted that the plan was adopted in writing in accordance with the rules set forth in the directive of the Securities Authority dated July 26, 2010 (Position 199-8), regarding the "safe harbor" protection in the repurchase of securities by a corporation. For further details, see the immediate report published by the Company on March 24, 2022 (Reference No.: 2022-01-029175), which is included in this report by way of reference. On April 27, 2022, the Company completed the execution of the aforementioned purchase plan with a 100% performance rate, for more details see the Company's report from the said date (reference number: 2022-01-051820).

1.2. On April 27, 2022, the Company's shareholders' meeting approved the following issues: reappointment of Somekh-Chaikin CPA, KPMG, as the Company's auditor from the date of the meeting until the date of the next annual meeting of the Company; reappointment of Mr. Darren Glatt as a director in the Company until the date of the next annual meeting of the Company; reappointment of Mr. Phil Bacal as a director in the Company until the date of the next annual meeting of the Company; reappointment of Mr. Ran Forer as a director in the Company until the next annual meeting of the Company; Reappointment of Mr Ajit Pai as a director in the Company until the date of the next annual meeting of the Company; reappointment of Mr. Stephen Joseph as a director in the Company until the date of the next annual meeting of the Company; and approval of the adoption of a new remuneration policy for the Company. (Reference No.: 2022-01-051748), which is included in this report by way of reference.

1.3. On May 24, 2022, the Company's Board of Directors decided on the adoption of a plan for the buyback of the Company's shares, in the amount of up to NIS 30 million, effective from May 26, 2022 until: (1) A purchase of the Company's shares in the amount of the total purchase cost; or (2) The end of the trading day on August 4, 2022, whichever is earlier. The purchases will be made, from time to time during the above-mentioned period, in transactions on the stock exchange through a stock exchange member. It should be noted that the plan was adopted in writing in accordance with the rules set forth in the Securities Authority directive of July 26, 2010 (Position 199-8), in the matter of the "safe harbor" protection in the buyback of the securities by a corporation. For more details, see an immediate report published by the Company on May 24, 2022 (Reference No.: 2022-01-063631), which is included in this report by way of reference. On June 30, 2022, the Company completed the execution of the aforementioned purchase plan with a performance rate of 99.44%, for more details see the Company's report from the said date (Reference No.: 2022-01-084178).

1.4. On May 31, 2022, the Company made a buyback of 730,000 of its shares in an over-the-counter transaction for a total of approximately NIS 10 million. For details, see the Company's report from the said date (Reference No.: 2022-01-068491).

1.5. On June 19, 2022, the approval of the Ministry of Communications was received to amend the permit to hold means of control by virtue of a Bezeq lien, in such a way that the pledged Bezeq shares (as defined in the deed of trust of the Company's debentures (series F) will continue to be pledged in favor of the holders of debentures (Series C) of the Company and will also be pledged in favor of the holders of debentures (Series F) of the Company, instead of the pledge in favor of the holders of debentures (Series D) and debentures (Series E) of the Company

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

which were fully repaid in July 2021. For more details, see immediate report published by the Company on June 20, 2022 (Reference No.: 2022-01-075823), which is included in this report by way of reference.

1.6. On June 29, 2022, a special meeting of the Company's shareholders was held, the agenda of which was to approve the granting of 3,250,000 warrants, unregistered, exercisable for 3,250,000 ordinary shares of the Company, to the CEO of the Company, Mr. Tomer Raved, as well as the grant of 100,000 warrants, unregistered, exercisable for 100,000 ordinary shares of the Company, to the Company's CFO, Mr. Itzik Tadmor, in accordance with the Company's equity compensation plan and as an exception to the Company's remuneration policy.

At the aforementioned meeting, it was decided to approve the allocation of the options to the Company's CFO, Mr. Itzik Tadmor, as well as not to approve the granting of the options to the Company's CEO, Mr. Tomer Raved. Further to the above, on July 7, 2022, the Company's Board of Directors re-discussed the granting of the options to the CEO the Company, and in light of the recommendation of the Company's Remunueration Committee and taking into account the reasons given to the Company in relation to the objection of the shareholders, the Company's Board of Directors decided to approve the allocation of the options to the aforementioned Company's CEO.

For more details, see immediate reports published by the Company on June 29, 2022 and July 7, 2022 (Reference Nos.: 2022-01-081253 and 2022-01-086419, respectively), which are included in this report by way of reference.

1.7. On July 1, 2022, the Company made a partial early redemption of the Company's debentures (Series C) in the total amount of NIS 100,000,000. For more details, see immediate reports dated June 12, 2022 and July 11, 2022 (Reference Nos.: 2022-01-072097 and 2022-01-087361, respectively), which are included in this report by way of reference.

2. <u>Description of the general development of Bezeq Group's business</u>

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

2.1. <u>To Section 1.1.5 - Structural changes (structural change in subsidiaries)</u>

<u>Regarding the establishment of ISP activity in DBS</u> - Further to the application submitted by DBS to the Ministry of Communications in April 2022 for a special license for Internet access services (ISP), in June 2022 DBS received the license and began to provide such services as part of the sale of integrated packages to customers.

On May 17, 2022, Bezeq's Board of Directors approved the appointment of Mr. Ilan Siegel as CEO of Bezeq, Pelephone, DBS and Bezeq International, in place of Mr. Ran Guron, who was appointed CEO of Bezeq (see Section 3.2 below - update to Section 2.9.5). Until the start of Mr. Siegel's term of office (August 28, 2022), Mrs. Dganit Kramer, acting CEO and Vice President of the Private Customers Division, serves as Acting Deputy CEO.

2.2. <u>To Section 1.1.7 - Investigations by the Israel Securities Authority and the Israel Police</u>

Paragraph 1.1.7.3 (filing of an indictment against former officers in the Group that referred to fraud affairs in relation to the payment of consideration for the purchase of DBS shares by Bezeq, and fraud in relation to the conduct of the independent committees established in Bezeq for the purpose of examining transactions involving Bezeq's interested parties) - On July 20, 2022, the decision of the Economic Department in the Tel Aviv-Yafo District Court was published on the request of some of the defendants to cancel charges in the case ("**the Decision**"). In accordance with the Decision, the second and third charges in the indictment (fraud in relation to the conduct of the independent committees in the "Bezeq-Yes" transaction and in the "Yes-Space" transaction) against all the defendants in these charges: the former controlling owner of Bezeq, Mr. Shaul Elovitch, former officers of Bezeq - Mr. Or Elovitch, Mr. Amikam Shurer and Mrs. Linor Yochelman, as well as against the companies accused of the same charges - companies from the "Eurocom" group. It was also determined in the Decision, among other things, that it is not possible to accept the claim put forward by Mr. Shaul Elovitch, that the indictment does not reveal guilt in connection with the first charge (fraudulent receipt of advances at the expense of the second contingent consideration in the "Bezeq-Yes" transaction). It was also emphasized in the Decision that there is nothing to impose in any way on the civil aspect and on the pending proceedings in this context (it should be noted that a number of civil proceedings are pending against Bezeq and/or former officers therein regarding the transactions that are the subject of the Decision, as detailed in Section 2.18.1 of the chapter describing the Corporation's business in the Company's periodic report for 2021). The Company is studying the Decision and its consequences.

2.3. Section 1.4.2 - Dividend distribution

For details regarding the distribution made by Bezeq in May 2022, see Note 7 to the Company's Consolidated Statements.

Bezeq's balance of the distributable profits as of the date of the report is approximately NIS 1,731 million (surpluses accumulated in the last two years after the reduction of the distribution from May 2022).

2.4. To Section 1.5.4 - Key results and operational data

2.4.1. **Bezeq Fixed Lines (Bezeq activity as NIO[3])**

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue (NIS millions)	1,067	1,096	1,052	1,037	1,039	1,054
Operating profit (NIS millions)	393	386	358	390	407	593
Depreciation and amortization (NIS millions)	248	239	245	239	231	223
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	641	625	603	629	638	816
Net profit (NIS millions)	243	218	206	219	238	400
Cash flow from current activities (NIS millions)	541	634	593	567	354	510
Payments for investments in property, plant and equipment and intangible assets and other investments (NIS millions)	279	285	244	314	285	312
Receipts from the sale of property, plant and equipment and intangible assets (NIS millions)	5	14	87	4	-	182
Lease payments	33	36	32	31	24	29
Free cash flow (NIS millions) (2)	234	327	404	226	45	351
Number of active subscribers at the end of the period (thousands) (3)	1,542	1,563	1,583	1,602	1,615	1,630
Average monthly revenue per telephony subscriber (NIS) (ARPL) (4)	41	47	46	46	47	49
Outgoing usage minutes (millions)	726	801	811	782	827	965
Incoming usage minutes (millions)	952	1,058	1,096	1,152	1,095	1,284
Telephony churn rate (6)	2.6%	3.0%	2.8%	2.4%	2.6%	2.8%
Total number of Internet subscribers at the end of the period (thousands) (7)	1,512	1,519	1,524	1,524	1,529	1,540
Of which are Internet lines at the end of the period - wholesale (thousands) (7)	490	495	501	510	520	539
Of which are Internet lines at the end of the period - in retail (thousands) (7)	1,022	1,024	1,023	1,014	1,009	1,001
Average monthly revenue per Internet subsriber (NIS) - Retail (ARPU) (8)	113	110	109	107	106	103
Fiber optic network deployment at the end of the period (thousands of households available for connection) (9)	1,308	1,193	1,064	848	597	310
Of these, number of subscribers connected to the fiber network at the end of the period (thousands) (9)	161	124	84	44	16	1
Average plan speed for Internet subscriber – retail (Mbps) (5)	164	151	130	104	88	78

(1) Operating profit before depreciation and amortization (EBITDA) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as another index for evaluating its business results since it is an accepted index in the Company's area of activity which neutralizes aspects resulting from variability in capital structure, various taxation aspects and manner and period of amortization of property, plant and equipment and intangible assets. This index is not a substitute for indices based on generally accepted accounting principles, and does not serve as a single index for assessing the Company's results of operations or cash flow. Also, the index presented in this report may not be calculated in the same way as other indices in other companies. The Company's

[3] NIO – national interior operator.

EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from impairment of property, plant and equipment and intangible assets. For the purpose of adequate presentation of economic activity, the Company presents ongoing losses from impairment of property, plant and equipment and intangible assets in DBS and Bezeq International under the depreciation and amortization item, as well as ongoing losses from impairment of broadcasting rights under the operating and general expenses item (in the statement of income). For this matter see Note 5 to the financial statements and section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

(2) Free cash flow is a financial measure that is not based on generally accepted accounting principles. Free cash flow is defined as cash arising from current operations minus cash for the purchase / sale of property, plant and equipment. The Company presents free cash flow as an additional index to evaluate business results and cash flows, since the Company is of the opinion that cash flow is an important liquidity index that reflects the cash derived by Bezeq from its current operations after investing cash in infrastructure and property, plant and equipment and other intangible assets. For this matter see section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

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

(4) Calculated according to the average of subscribers for the period. For this matter see also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

(5) In plans where there is a range of speeds, the maximum speed in the plan is taken into account.

(6) Number (gross) of telephony subscribers who abandoned Bezeq Fixed Lines during the period divided by the average number of telephony subscribers registered in the period. See also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

(7) Total number of Internet subscribers including retail and wholesale subscribers. Retail – the Company’s direct Internet subscribers. Wholesale - Internet subscribers through wholesale service to other communication providers.

(8) Revenue from retail Internet services divided by the average number of retail customers in the period. For this matter, see also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report. Starting with the second quarter of 2022, the figure also includes revenues from Internet access service (ISP).

(9) As of the date of publication of the report, deployment of fiber optic network – approx. 1.36 million households are available for connection, of which approx. 180k subscribers are connected to the fiber network.

2.4.2. **Pelephone**

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue from services (NIS millions)	446	437	424	417	409	392
Revenue from the sale of end equipment (NIS millions)	153	163	178	124	167	178
Total revenue (NIS millions)	599	600	602	541	576	570
Operating profit (loss) (NIS millions)	52	64	8	22	15	(3)
Depreciation and amortization (NIS millions)	136	122	147	144	144	142
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	188	186	155	166	159	139
Net profit (loss) (NIS millions)	46	56	13	23	20	8
Cash flow from operating activities (NIS millions)	244	278	19	185	149	72
Payments for investments in property, plant and equipment, intangible assets and other investments, net (NIS millions)	66	72	54	68	60	71
Lease payments	47	61	54	52	53	60
Free cash flow (NIS millions) (1)	131	145	(89)	65	36	(59)
Number of postpaid subscribers for the end of the period (thousands) (2)	2,122	2,093	2,096	2,074	2,050	2,030
Number of prepaid subscribers for the end of the period (thousands) (2)	514	490	480	473	471	462
Number of subscribers for the end of the period (thousands) (2)	2,636	2,583	2,576	2,547	2,521	2,492
Average monthly income per subscriber (NIS) (ARPU) (3)	57	57	55	55	54	53
Subscriber churn rate (Churn Rate) (4)	5.5%	6.8%	5.8%	5.5%	5.8%	5.8%

(1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow,

see notes (1) and (2) in the Bezeq Fixed Lines table.

(2) Subscriber data includes Pelephone's subscribers (excluding other operators' subscribers who are hosted on the Pelephone network, and without IoT subscribers) and does not include subscribers who has been connected to Pelephone's service for six months or more but are not active. Inactive subscribers are subscribers who in the last six months have not received at least one call, did not make at least one call / message, did not perform a browsing operation, or did not pay for Pelephone's services. A prepaid subscriber is included in the active subscriber base from the date on which he performed a charge, and is deducted from the active subscriber base when he does not make outgoing use for six months or more. It should be noted that a customer can have more than one subscription number ("line"). The number of subscribers includes subscribers who consume various services (such as data for in-vehicle media systems), the average revenue from which is significantly lower than the rest of the subscribers. It should be noted that Pelephone markets packages with an increased volume of use that are also adapted to the needs of 5G, while close to the date of publication of Pelephone's report, there are about 702k subscribers in such packages.

(3) The average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average monthly revenue from all cellular services from both Pelephone's subscribers and other communication operators, including revenue received from cellular operators using Pelephone's network, repair service and extended warranty in the period by the average active subscriber base in that same period. See also Section 8 of the chapter on the description of the Corporation's business in the 2021 periodic report.

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

2.4.3. Bezeq International

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue (NIS millions)	302	307	328	287	310	312
Operating profit (loss) (NIS millions)	17	(4)	1	13	16	(8)
Depreciation and amortization (NIS millions)	29	38	40	38	46	49
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	46	34	41	51	62	41
Net profit (loss) (NIS millions)	15	(5)	(5)	10	11	(8)
Cash flow from operating activities (NIS millions)	37	112	(52)	96	26	61
Payments for investments in property, plant and equipment and intangible assets and other investments, net (NIS millions) (2)	27	26	14	27	27	30
Lease payments	9	9	7	9	9	8
Free cash flow (NIS millions) (1)	1	77	(73)	60	(10)	23
Subscriber churn rate (3)	12.9%	7.3%	5.9%	5.5%	6.0%	7.9%

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

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

(3) Number of Internet subscribers who left Bezeq International during the period is an average of the average Internet subscribers registered during the period. See also Section 8 of the chapter on the description of the Corporation's business in the periodic report for 2021.

2.4.4. DBS

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue (NIS millions)	316	316	322	318	315	315
Operating profit (loss) (NIS millions)	(2)	10	(14)	30	22	(6)
Depreciation, amortization and ongoing impairment (NIS millions)	46	50	52	45	45	61
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (NIS millions) (1)	44	60	38	75	67	55
Net profit (loss) (NIS millions)	2	10	(17)	29	18	0

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Cash flow from operating activities (NIS millions)	43	78	42	73	56	62
Payments for investments in property, plant and equipment and intangible assets and other investments, net (in NIS millions)	49	46	55	38	42	43
Lease payments	6	6	7	6	7	6
Free cash flow (NIS millions) (1)	(12)	26	(20)	29	7	13
Number of subscribers (at the end of the period, thousands) (2)	567	564	563	560	560	559
Of which are IP subscribers (3)	280	253	226	198	173	147
Of which are StingTV subscribers	94	89	84	79	74	70
Average monthly income per subscriber (ARPU) (NIS) (3)	184	186	190	188	186	187
Subscriber churn rate (4)	2.9%	3.7%	3.4%	3.7%	3.7%	4.3%

(1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.
(2) Subscriber - one household or a small business customer. In the case of a business customer who owns more than a certain number of decoders (such as a hotel, kibbutz or gym), the number of subscribers is adjusted. The number of subscribers registered inrespect of non-small business customers is calculated by dividing the total payment received from all non-small business customers by the average income per small business customer, which is determined once per period.
(3) The number of DBS subscribers using Yes+ and STINGTV services transmitted via the Internet (as stated in Sections 5.2.2.1 and 5.2.2.2 of the chapter describing the corporation's business in the periodic report for 2021) as of the date of publication of the report, is about 291K subscribers (of which, 97K are STINGTV subscribers), which constitute 51% of all DBS subscribers. This number also includes subscribers who also use satellite services at the same time.
(4) The average monthly revenue per subscriber is calculated by dividing the total DBS revenue (excluding revenue from the sale of content to external broadcasters) by the average number of customers in the period. See also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.
(5) The number of DBS subscribers who churned from DBS during the period divided by the average number of subscribers registered in the period. See also Section 8 of the chapter on the description of the Corporation's business in the 2021 periodic report.

Section 1.6 - Mid-term forecast and ambitions in relation to Bezeq Group

On July 31, 2022, Bezeq has updated Bezeq Group's forecast for 2022 (which was published in Bezeq's immediate report of March 23, 2022 – "**the Original Forecast**"), based on the information know to it currently, as follows:

- Adjusted net profit[4] for Bezeq's shareholders is expected to be in the range between NIS 1.1-1.2 billion (compared to between NIS 1-1.1 billion in the Original Forecast)
- Adjusted EBITDA[5] is expected to be in the range between NIS 3.65-3.75 billion (compared to NIS 3.6-3.7 billion in the original forecast)
- CAPEX[6] is expected to be in the range between NIS 1.7-1.8 billion (no change compared to the original forecast)

Also, regarding the scope of Bezeq's fiber network deployment - reaching about 1.5 million households (compared to 1.4 million in the Original Forecast).

The Company's forecasts detailed in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's assessments, assumptions and expectations, and among other things, on the Group's assessments regarding the structure of competition in the communications market and the regulatory

[4] Adjusted net profit and adjusted EBITDA – net of other operating expenses/revenue, net and one-off losses/gains from impairment/increase in value, and expenses on capital remuneration plan.

[5] See footnote 2.

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

arrangement of the segment on the current economic situation, and accordingly on the Group's ability to implement its plans for 2022, as well as taking into account the changes that will apply In the above, in the business conditions and the effects of regulatory decisions, technological changes, developments in the structure of the communications market, etc., or to the extent that one or more of the risk factors detailed in the periodic report for 2021 materialize.

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

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

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

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

Section 1.7.4.1 (interconnection rates) - on June 28, 2022, an amendment was published to the Telecommunications Regulations (Bezeq and Broadcasting) (Payments for Interconnection), 5760-2000, so that the transfer of interconnection payments for telephone calls that end on networks belonging to MRT[7] and NIO operators in a gradual reduction plan over three years, as follows:

(1) On June 15, 2023: for a call that ends on an MRT network, a maximum rate of 4 agorot per minute, for a call that ends on an NIO network, 0.7 agorot per minute, and for an outgoing international call - depending on the network from which it originated (NIO or MRT).

(2) On June 15, 2024: for a call that ends on an MRT network, a maximum rate of 2 agorot per minute, and for a call that ends on an NIO network - 0.4 agorot per minute, and for an outgoing international call - depending on the network from which it originated (NIO or MRT).

(3) On June 15, 2025: An accompanying arrangement will enter into force according to which each communication operator will bear its own costs and there will no longer be a transfer of payments between NIO and MRT licensees for a interconnection service with regard to call minutes in calls that end on the networks of MRT operators and in NIO networks (Bill and Keep), and an international operator will not pay for the forwarding of an outgoing international call.

For incoming international calls to the NIO or MRT network, the payment to be paid by an international operator will be according to the requirement of the NIO or MRT, respectively. (Effective as of July 28, 2022).

At this point, it is not different from the interconnection rate regime in the text message service.

The change in the interconnect rates regime as detailed above is not expected to have a material impact on the Group.

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

Subection 1.7.4.10 (Change in the regulation of the provision of Bezeq services) - On July 4, 2022, an amendment to the Telecommunications Law ("**the Amendment to the Law**")

[7] MRT – Mobile Radio Telephone

was published. In accordance with the Amendment to the Law that will come into force on October 2, 2022, the existing regulation in the field of Bezeq will be changed, among other things, in such a way that the obligation to obtain a specific license in advance as a condition for the performance of a Bezeq operation, which was the main tool for regulating the provision of communication services in Israel, will be abolished, and instead the default for such regulation will be through registration in the registry. The registry will be managed by the Director General of the Ministry of Communications, after checking threshold conditions. In the amendment to the law, cases were determined in which the obligation to obtain a license will still apply (for details on the matter, see the description in the 2021 reports in relation to this section). The Amendment to the Law is expected to reduce regulatory entry barriers to activity in the communications market, when new entities that wish to operate in the market will not be required, except in the cases detailed in the amendment to the law, to obtain a license and will be able to operate through such registration. Further to this, on July 18, 2022, the Ministry of Communications published for public comment draft regulations (Communications Regulations (Bezeq and Broadcasting) (General Permit for the Provision of Bezeq Services), 2022-2022) to implement a change in the regulatory format as mentioned ("**the Draft Regulations**"). According to the letter from the Director General of the Ministry of Communications attached to the Draft Regulations, many of the entities that provide Bezeq services today will be transferred from regulation through a license to regulation through registration in a designated registry and subject to the regulations. The regulations regulate the manner of registration in the registry and the instructions that will apply to Bezeq service providers who are registered in it. The main activity of the Group's companies will not be regulated through registration in the register, but will remain subject to licenses. According to the letter, despite the fundamental change in the manner of regulation, some of the provisions of the regulations are the same or similar to the license provisions in effect today. It was also stated in the letter of the Director General of the Ministry of Communications that the licenses of the licensees that they will not automatically be canceled and will continue to apply (including, as mentioned, licenses in the Group companies), will be amended on a point-by-point basis and as necessary in order to align with the new regulation method and the provisions of the regulations, and that the Ministry is considering two alternatives in this regard: (1) The provisions of the Draft Regulations will also apply to license holders, and in case of a contradiction between the things - the provisions of the Draft Regulations will prevail; (2) The provisions of the Draft Regulations will not apply at all to the license holders until the implementation of amendments therein is completed. Also, in accordance with the Draft Regulations, it is proposed to establish an obligation to disconnect "dormant subscribers" from Internet access services (subscribers who continue to pay authorized providers a monthly fee without consuming any services) if they do not use the service for six months. As long as such an obligation is established, it is not expected to have a material impact on the Group. The effect of the amendment to the law on the Group companies depends, among other things, on the manner in which it is implemented by the Ministry of Communications, including the final wording of the Draft Regulations, which is being studied by Bezeq.

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

2.7. To Section 1.7.6 - Pandemic - Outbreak of COVID19

For this matter, see Note 1.2 to the Statements.

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

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

3. Bezeq - Landline interior communications

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

Paragraph 2.6.6.5 (Bezeq's Be Router) - as of the date of publication of the report, Bezeq's customer base using the Be Router is approximately 715K customers (approximately 70% of Bezeq's retail Internet customers). Bezeq has about 382K product units to improve the reception range of the Be spot and Be Mesh home Internet networks.

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

As of June 19, 2022, Mr. Ran Guron serves as CEO of Bezeq in place of Mr. Dudu Mizrahi who has completed his term (Mr. Guron previously served as CEO of Pelephone, Bezeq International and DBS). On August 9, 2022, the Company's Board of Directors approved the convening of a general meeting of the Company's shareholders, the agenda of which includes, among other things, approval of the terms of office and employment of Bezeq's CEO.

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

3.3. To Section 2.11 - Working equity

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

3.4. To Section 2.13 - Financing

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

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

3.5. Restrictions on and supervision of Bezeq's operations

On May 16, 2022, Bezeq received a public appeal issued by the Ministry of Communications regarding the provision of communications services to the business segment, in which the Ministry invited companies in the communications market that provide communications services to the medium-large business segment to detail their activities in the field and barriers to expanding this activity, in order to promote regulation that will increase competition in the field. According to the public appeal, the medium-sized business customer market is characterized by a significant size advantage, and significant barriers to entry and expansion that also limit players who have been operating in it for many years. In addition, Bezeq's market shares in the segment and the rate of change in them are an indication of a low level of competition in the segment that affects prices and the level of services received by businesses in Israel, therefore, the Ministry is going through the process of examining the state of the competition and the barriers in the field, and is applying to receive the references of the players. On June 20, 2022, Bezeq submitted its response to the public appeal, according to which for large and medium-sized businesses the field of communication is a competitive market, where there are no barriers to entry and expansion and no market failures, and in such circumstances no regulatory intervention is required

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

Regarding the hearing to determine a maximum rate for passive infrastructure access service (cana access service) and dark fiber service in the incentive areas which was published by the Ministry of Communications on February 21, 2022. On July 19, 2022, the decision of the Minister of Communications was received by Bezeq, to which were attached signed regulations and the recommendation of the Economics Division of the Ministry of Communications regarding the establishment of a reduced rate for the use of Bezeq's passive infrastructure in the incentive zones and the infrastructure in the zones in transition to incentive zones. In accordance with the decision, the Minister established in the regulations the maximum payments in the incentive zones and in the zones in transition to incentive zones, as follows:

(1) For passive infrastructure access service - NIS 105 per km per month (compared to a rate of NIS 409).

(2) For dark fiber service - NIS 193 per km per month (compared to a rate of NIS 501).

With reference to the payments for the services in the zones in transition to incentive zones, the payments for them will come into effect after establishing a regulation regarding the identification of the use of these zones.

As indicated in the decision, as part of a new pricing process for all wholesale rates planned for 2022, the determination of the above-supervised rates will be examined, among other things.

Bezeq estimates that the direct financial impact as a result of setting the reduced rates is not expected to be material.

3.7. To Section 2.18.1 – Pending and contingent proceedings

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

For Paragraphs 2, 4, 5 (including the procedure indicated in Footnote 45), F, G - regarding the continued delay of the proceedings in these cases in view of the investigation by the Securities Authority and the proceedings derived from it - at the request of the State, the handling of these cases is suspended, at this stage , until September 1, 2022 (in relation to Section C (motion from March 2018) - the State was given an extension of 30 days from July 20, 2022 to submit an update notice on its behalf in the matter).

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

Paragraph M (Claim and motion for approval as class action filed against Bezeq on the grounds of misleading on the part of Bezeq in connection with the B144 service) - on March 23, 2022, a judgment was rendered dismissing the motion for approval, while it was determined that the plaintiffs did not provide an evidentiary or factual basis, not even the minimum required, that could demonstrate a cause of action in the case.

Paragraph N (Motion for approval of a class action claiming excess charges by Bezeq for telephony services during the COVID crisis) - on June 21, 2022, a ruling was issued approving an agreed request to withdraw from the motion for approval of a class action after it was clarified that Bezeq fully compensated its customers who were charged in excess in the amount of about NIS 2.5 million. The judgment also includes payment of compensation, fees and expenses in the total amount of about half a million NIS.

3.8. **To Section 2.20 - discussion of risk factors**

In view of the rising trend in the rate of inflation in recent months (see also Section 1.5 of the Board of Directors' Report), Bezeq assesses the degree of impact of the risk factor exposure to changes in currency rates, inflation and interest as medium impact.

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

4.1. To Section 3.9.4 – Collective agreement

The period of the special collective agreement dated November 13, 2019 ended on June 30, 2022. At the same time, a number of issues were settled from the beginning in an agreement for a longer period, until the end of 2022. The employee representatives and Pelephone's Management announced their desire to introduce changes in the collective agreement and the parties are conducting negotiations on the matter. In accordance with the provisions of the law (Article 13 of the Collective Agreements Law, 5717-1957), the existing collective agreement continues to apply in the meantime as an agreement for an indefinite period.

4.2. To Section 3.15.2 – Material agreements

Regarding the agreement for the provision of cellular services to State employees - in May 2022, the State chose to exercise the additional extension option in the agreement, and the agreement was extended for a period of 9 additional months, until May 2, 2023.

4.3. To Section 3.16.1 - Pending and contingent legal proceedings

Paragraphs B and D (dismissal of motions for approval of class actions filed (among other things) against Pelephone on the grounds that Pelephone discriminates between Pelephone customers and other customers, and filing of appeals against the (consolidated) judgment by the applicants in the motions for approval of the class actions) - on July 7, 2022 a judgment was given in the HCJ dismissing the appeals submitted by the aforementioned applicants.

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

Paragraph H (Motion for approval of a class action filed against Pelephone regarding a repair service under obligation) - on July 21, 2022, a judgment was issued confirming the settlement arrangement, the main of which is certain changes in the repair service under obligation and the provision of benefits to its relevant customers in a total amount of approximately NIS 640K.

4.4. To section 3.19.1.2 - Pandemic and supply chain

In 2022, the trend of recovery in the aviation and international tourism industries continues, which resulted in an increase in revenues from roaming services.

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

5.1. To Section 4.8 – Human capital

The period of the special collective agreement of July 11, 2019 ended on December 31, 2021. The employee representatives and Bezeq International's Mnagement announced their desire to make changes to the collective agreement and the parties are conducting negotiations on the matter. In accordance with the provisions of the law (Article 13 of the Law on Collective Agreements, 5717-1957), the existing collective agreement at Bezeq International (with the exception of its clauses which are expressly defined in the agreement as having limited validity) continues to apply in the meantime as an agreement for an indefinite period.

Further to the update in Section 1.1.6 of the report describing the Company's corporate business for the period ended on December 31, 2021, regarding the decision of Bezeq's Board of Directors and Bezeq International's Board of Directors on the cancellation of the plan of merger/spin-off with and into DBS and the adoption of a plan for an alternative outline that will be formulated to reduce the ISP activity of Bezeq International so that in the end Bezeq International will be a growth-focused ICT company - the management of Bezeq International and the employee representatives of Bezeq International negotiated with the aim of signing a collective agreement adapted to the updated plan. In view of the above, some of the interim agreements reached between the parties to the collective labor relations on November 1, 2021 (when the plan of merger/spin-off with DBS was on the agenda) will be changed or adjusted as needed. As long as agreements are reached that will allow the signing of a collective agreement, the agreements will be submitted for approval by the Board of Directors. Bezeq International cannot estimate at this stage whether at the end of the negotiations it will be signed collective agreement as expected or the total cost that will be involved.

5.2. To Section 4.12.1 - Pending and contingent legal proceedings

Paragraph A (class action against Bezeq International regarding content filtering services) - on June 15, 2022, a judgment was issued in which the Court approved a settlement agreement signed between the parties, the main point of which is a payment by Bezeq International in the total amount of NIS 15 million (of which up to NIS 2.6 million, as a service credit benefit).

Regarding the renouncement of the motion for disclosure and review of documents prior to the filing of a derivative claim filed against Bezeq and Bezeq International regarding asset balances in Bezeq International's books - see Section 3.7 above (update to Section 2.18.1(i)).

6. DBS - Multi-channel TV

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

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

6.2. To Section 5.1.2 - limitations, legislation and special constraints in the field of activity

Following the Folkman Committee report and the decision of the Minister of Communications from September 2021, on August 9, 2022, the Ministry of Communications published a hearing for public comments until October 2022 regarding the Draft Law on the Principles of Regulation of the Provision of Audio-Visual Content to the Public, 5782-2022 ("**the Hearing**" and "**the Draft Law**", respectively). According to the hearing and the explanatory notes to the Draft Law, the law is intended to amend the legislation based on the recommendations of the Folkman Committee and to update the set of obligations and rights applicable to all players operating in the audio-visual content market in several ways, including the following principles:

1. A new authority will be established in place of the Council and the Second Authority Council, whose role will be to regulate the entire field of audio-visual content supply, and which will be authorized to issue instructions to prevent actions that may impair competition in the field ("**the Authority**").
2. A limited and focused set of obligations will be applied to the significant players operating in this market, including registration obligations, investment in local productions, distribution of the contents of the Israel Broadcasting Corporation and the Knesset Channel, instructions in the fields of ethics and consumerism, where the scope of the obligations will change according to the revenue level of the content provider.
3. The existing restrictions on the economic models in the audio-visual content market will be lifted (while allowing some of the provisions regarding cross-costs). As far as the traditional platforms are concerned, the obligations applicable to them for the transfer of broadcast channels and the allocation of transmission channels will be abolished, and the prohibitions applicable to them regarding broadcasting advertisements and maintaining a news company will be lifted. In addition, the obligation to supply the broadcast channels to the traditional platforms free of charge will be abolished. For this matter, a transitional provision was established according to which these changes will enter into force three

years from the publication of the law (while the Authority Council may shorten this period to two years after the publication of the law).

4. Individual arrangements will be established regarding the provision of news content to the public.
5. Arrangements will be established regarding the supply of sports content to the public, so that the supply of significant sports enterprises through a single content provider will be prevented, and sports enterprises of high demand or of special importance will be made accessible to the public.
6. Obligations to invest in local productions will be established that will apply, with the required changes, to all content providers, local and international, with a significant scope of activity in Israel, as well as to Israeli channels that independently provide advertisements to the public.

DBS is studying the contents of the hearing document and its implications. Since the hearing was published shortly before the approval of these statements, and since it is a hearing and there is no certainty as to whether the hearing will mature into binding legislation and what its contents and arrangements will be, it is difficult at this stage to assess the extent of the impact of the legislation and regulations that will be established following the hearing (insofar as it is adopted) on DBS's business.

6.3. <u>To Section 5.13 - Financing</u>

In August 2022, Bezeq approved a credit facility or an investment in DBS' capital in the total amount of up to NIS 40 million, for a period of 15 months starting from July 1, 2022. This approval replaces a similar approval given in April 2022 (and not in addition thereto).

6.4. <u>To Section 5.16 – Competition</u>

In June 2022, the stipulated approval of the Second Authority was received for the activities of Keshet Broadcasting Ltd., which operates, among other things, a commercial TV channel transmitted as part of DBS Broadcasting ("**Keshet**") in a cooperation project between Keshet and RGE Group Group Ltd. ("**RGE**") to establish and operate a multi-channel broadcasting platform, while acquiring minority holdings in RGE from Keshet, all after receiving exemption from arrangement in restraint of trade from the Competition Authority for the activity of the said venture, for a period until September 2025. To the best of DBS' knowledge, the said venture is intended to begin its operations by the end of 2022, which is expected to intensify the competition in the field, in particular in view of the identity of the venture companies (for details about the Sports Channel Ltd. which is part of the RGE Group - see Section 5.10.2 of the chapter describing the corporation's business in the Company's 2021 periodic report).

6.5. <u>To Section 5.18 - Objectives and strategy</u>

Section 5.18.1 (Phased transition (migration) of DBS from satellite broadcasts to Internet transmission (OTT)) - see Section 2.4.4 above (update to Section 1.5.4(d) (Note 3)).

Paragraph 5.18.3 (plan for structural change and establishment of ISP activity in DBS) - see Section 2.1 above (update to Section 1.1.6).

9.8.2022	
Date	B Communications Ltd.

Names and positions of signatories:

Darren Glatt, Chairman of the Board of Directors

Tomer Raved, CEO

Chapter B
Report of the Board of Directors
on the State of Affairs of the Corporation
for the Period Ended June 30, 2022

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended June 30, 2022

The Board of Directors of B Communications Ltd. (“**the Company**") is honored to submit the Board of Directors' report on the State of the Company and consolidated for all Group Companies (the Company and the Subsidiaries will be collectively referred to hereinafter as: "**the Group**"), for a period of three months ended June 30, 2022 (“**the Report Date**") in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 ("**the Reporting Regulations**").

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

For the investigation by the Securities Authority and the Israel Police, see Chapter 1.4 to the statements. The auditors drew attention to this in their opinion on the statements.

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

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

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

Group Results

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

	1-6/2022	1-6/2021	Change		4-6/2022	4-6/2021	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Net profit	**533**	646	(113)	(17.5)	**273**	265	8	4.9
EBITDA*	**1,824**	1,990	(166)	(8.3)	**919**	931	(12)	0.) (8
Adjusted EBITDA*	**1,877**	1,856	21	1.1	**922**	941	(19)	1.) (5

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

The decrease in profit in the period was due to the landline interior communications segment, mainly due to a capital gain from the sale of a real estate property recognized in the corresponding period, as well as an increase in provision expenses for legal claims. The decrease is mainly due to an increase in the profit of the cellular communications segment. For more information, see Chapter 1.2.1 below.

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

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

The following is a breakdown of the indices:

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

The following is the method of calculating the indices:

	1-6/2022	**1-6/2021**	**4-6/2022**	**4-6/2021**
	NIS millions		NIS millions	
Operating profit	**918**	1,049	**461**	466
Net depreciation, amortization and impairment	**906**	941	**458**	465
EBITDA	**1,824**	1,990	**919**	931
Net of other operating expenses (revenue), net	**49**	(150)	**3**	2
Net share-based payment	**4**	16	**-**	8
Adjusted EBITDA	**1,877**	1,856	**922**	941

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

1.1 Financial position

	June 30, 2022	June 30, 2021	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	
Cash and current investments	2,481	1,858	623	33.5	The increase was mainly due to an increase in current investment balances in the landline interior communications segment. For more information, see Chapter 1.3 below.
Current and non-current trade receivables	2,262	2,371	(109)	(4.6)	The decrease was mainly due to the moving forward of credit dates with the credit card companies in the landline interior communications segment, in the cellular communications segment and in the international Bezeq services segment, as well as to a decrease in the customer balance in the "others" segment, offsetting an increase in the receivables balance due to an insurer's commitment to insurance indemnification for the provision for claims in the landline interior communications segment (see Note 6.2 to the Statements).
Inventory	92	82	10	12.2	The increase in inventory was mainly due to stocking up in the cellular communications segment.
Broadcasting rights	62	60	2	3.3	
Right-of-use assets	1,797	1,786	11	0.6	
Property, plant and equipment	6,459	6,267	192	3.1	The increase was mainly due to the landline interior communications segment, partly due to the progress of the fiber network deployment project.
Intangible assets	3,263	3,277	(14)	0.4	
Deferred tax assets	-	42	(42)	-	The decrease in 2021 is mainly due to the classification of long-term deposits in the Company as short-term.
Deferred expenses and non-current investments	258	443	(185)	(41.8)	The decrease was mainly due to the repayment of a long-term shekel deposit in the landline interior communications segment.
Total assets	16,674	16,186	488	3.0	

1.1. Financial position (Cont.)

	June 30, 2022	June 30, 2021	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	
Debt to financial institutions and bondholders	9,906	10,199	(293)	(2.9)	The decrease in debt was due to the repayment (including early repayment) of debentures and loans in Bezeq and the Company, offsetting the receipt of loans and issuance of Series 13 and 14 debentures in the landline interior communications segment.
Liabilities in respect of leases	1,943	1,909	34	1.8	
Trade payables	1,758	1,574	184	11.7	The increase was mainly from the cellular communication segment due to the classification of a liability to pay for the cost of 5G frequencies as a current liability and an increase in the balances of end equipment suppliers as a result of stocking up.
Employee benefits	601	688	(87)	(12.6)	The decrease was due to payments for employee retirement and streamlining plans in the group and above in the discount rate of liabilities to employees, offset by an increase in the provision for termination of employee-employer relationship in early retirement during 2021.
Provisions	215	133	82	61.7	The increase was due to an increase in provisions for claims in the landline interior communications segment.
Deferred tax liabilities	315	298	17	5.7	
Other liabilities	140	273	(133)	(48.7)	The decrease was mainly due to the classification of a liability to pay for the cost of 5G frequencies in the cellular communications segment as a current liability and a reduction in derivatives in the landline interior communications segment.
Total liabilities	14,878	15,074	(196)	(1.3)	
Non-controlling interests	1,740	*1,081	659	61.0	
Total equity deficit attributed to the Company's shareholders	56	*31	25	80.7	Equity constitutes approximately 10.8% of the total balance sheet, compared with a deficit in equity which constituted approximately 6.67% of the total balance sheet on June 30, 2021.
Total equity	1,796	1,112	684	61.5	
Total liabilities and equity	16,674	16,186	488	3.0	

*** Reclassified.**

1.2. Enterprise results

1.2.1. Key results

	1-6/2022	1-6/2021	Increase (decrease)		4-6/2022	4-6/2021	Increase (decrease)		
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenue	**4,480**	4,421	59	1.3	**2,225**	2,200	25	1.1	The increase in revenue was due to the landline interior communications segment and the cellular communications segment, offset by a decrease in revenue of the "other" and Bezeq International services segments.
Operating and general expenses	**1,665**	1,632	33	2.0	**836**	799	37	4.6	The increase was due to all the Group's main segments, except for a decrease in expenses from the cellular communication segment.
Salary	**942**	949	(7)	(0.7)	**467**	468	(1)	(0.2)	The decrease was mainly due to a decrease in the "other" segment, offset by an increase in the landline interior communications segment.
Depreciation, amortization and impairment	**906**	941	(35)	(3.7)	**458**	465	(7)	(1.5)	The decrease in the Group's expenses was partially offset by an increase in expenses in the landline interior communications segment.
Other operating expenses (revenue), net	**49**	(150)	199	-	**3**	2	1	50.0	The change in the period was due to the landline interior communications segment as a result of an increase in expenses on provisions for legal claims compared to a decrease in the said expenses in the corresponding period, and because the corresponding period included a capital gain from the sale of a real estate property, see Note 10 to the Statements.
Operating Profit	**918**	1,049	(131)	(12.5)	**461**	466	(5)	(1.1)	
Financing expenses, net	**203**	185	18	9.7	**99**	110	(11)	(10.0)	The change was mainly due to the landline interior communications segment, see Note 11 to the Statements.
Taxes on revenue	**182**	218	(36)	(16.5)	**89**	91	(2)	(2.2)	
Profit (loss) in the year	**533**	646	(113)	(17.5)	**273**	265	8	3.0	

1.2.2. <u>Operating segments</u>

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

Revenue by operating segments	1-6/2022		1-6/2021		4-6/2022		4-6/2021	
	NIS millions	% of total revenue	NIS millions	% of total revenue	NIS millions	% of total revenue	NIS millions	% of total revenue
Interior landline communication	**2,163**	**48.3**	2,093	47.3	**1,067**	**48.0**	1,039	47.2
Cellular communication	**1,199**	**26.8**	1,146	26	**599**	**26.9**	576	26.2
Bezeq International services	**609**	**13.6**	622	14	**302**	**13.6**	310	14.1
Multi-channel TV	**632**	**14.1**	630	14.3	**316**	**14.2**	315	14.3
Others and adjustments	**(123)**	**(2.8)**	(70)	(1.6)	**(59)**	**(2.7)**	(40)	(1.8)
Total revenue	**4,480**	**100**	4,421	100	**2,225**	**100**	2,200	100

Revenue by operating segments	1-6/2022		1-6/2021		4-6/2022		4-6/2021	
	NIS millions	% of total revenue	NIS millions	% of total revenue	מיליוני ש"ח	NIS millions	% of total revenue	NIS millions
Interior landline communication	**779**	**36.0**	1,000	47.8	**393**	**36.8**	407	39.2
Cellular communication	**116**	**9.7**	12	1.0	**52**	**8.7**	15	2.6
Bezeq International services	**13**	**2.1**	8	1.3	**17**	**5.6**	16	5.2
Multi-channel TV *	**(14)**	**2.2**	(21)	(3.3)	**(7)**	**2.2**	(3)	(1.0)
Others and adjustments	**24**	**19.5**	50	-	**6**	**10.2**	31	-
Consolidated operating profit / percentage of Group revenue	**918**	**20.5**	1,049	23.7	**461**	**20.7**	466	21.2

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since the fourth quarter of 2018 (For more information see Notes 5 and 15 to the Statements). **This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment**. In addition, see Note 16.4 to the Consolidated Financial Statements for a summary of selected data from the statements of DBS

1.2.2. Activity segments (Cont.)

b. **Interior landline communications segment**

	1-6/2022	1-6/2021	4-6/2022		4-6/2021	1-6/2022	1-6/2021		Explanation
	NIS millions		% of total revenue	NIS millions	% of total revenue		NIS millions	% of total revenue	
Internet revenue	**877**	801	76	9.5	**443**	403	40	9.9	There has been an increase in the average revenue per retail subscription, mainly from services for customers on the fiber network and auxiliary end equipment as well as from the provision of Internet access services (ISP) starting in April 2022, an increase in the number of Internet lines in retail and an increase in wholesale Internet service rates, offsetting a decrease in the number of wholesale internet lines.
Landline telephony revenue	**409**	471	(62)	(13.2)	**189**	229	(40)	(17.5)	The decrease was due to a decrease in the average revenue per telephone line, mainly due to the reduction of telephony rates starting from April 2022, and against the backdrop of the moderation in the effect of the COVID19 pandemic on the consumption of calls, in addition to a decrease in the number of lines.
Transmission, data communication and other revenue	**713**	663	50	7.5	**352**	331	21	6.3	The increase was mainly due to an increase in revenue from transmission services to businesses and Internet providers and paid works.
Cloud and digital services revenue	**164**	158	60	3.8	**83**	76	7	9.2	
Total revenue	**2,163**	2,093	70	3.3	**1,067**	1,039	28	2.7	
Operating and general expenses	**357**	317	40	12.6	**179**	162	17	10.5	The increase was mainly due to an increase in the costs of subcontractors due to the deployment of the fiber network.
Salary	**491**	466	25	5.4	**245**	233	12	5.2	The increase was mainly due to an increase in the cost of employee onboarding, an increase in salary and a decrease in the salary attributed to investment, offset by employee retirement and a reduction in share-based payments and actuarial provisions.
Depreciation and amortization	**487**	454	33	7.3	**248**	231	17	7.4	The increase was due, among other things, to investments in the progress of the fiber network deployment project.

Other operating expenses (revenue), net	**49**	(144)	193	-	**2**	6	(4)	(66.7)	The change in the period was due to an increase in the provision for expenses on legal claims compared to a decrease in said expenses in the corresponding period, and also because the corresponding period included a capital gain from the sale of a real estate asset, see Note 10 to the Statements.
Operating profit	**779**	1,000	(221)	(22.1)	**393**	407	(14)	(3.4)	
Financing expenses, net	**170**	158	12	7.6	**76**	90	(14)	(15.6)	The change was mainly due to financing revenue in respect of employee benefits due to the increase in the discount rate, exchange rate differences due to the increase in the dollar exchange rate and a decrease in interest expenses due to a decrease in debt, offsetting an increase in linkage differences for debentures due to the increase in the index, and during the period there are also costs of early repayment of debentures (Series 9), see Note 11 to the Statements.
Taxes on revenue	**148**	204	(56)	(27.4)	**74**	79	(5)	(6.3)	
Segment profit	**461**	638	(177)	(27.7)	**243**	238	5	2.1	

1.2.2. Activity segments (Cont.)

c. **Cellular communications segment**

	1-6/2022	1-6/2021	4-6/2022		4-6/2021	1-6/2022	1-6/2021		Explanation
	NIS millions		% of total revenue	NIS millions	% of total revenue		NIS millions	% of total revenue	
Revenue from services	**883**	**801**	82	10.2	**446**	409	37	9.0	The increase was mainly due to the recovery from the effects of the COVID crisis, which was reflected in the increase in roaming revenues and continued growth in the number of subscribers, including subscribers in 5G packages.
Revenue from the sale of end equipment	**316**	345	(29)	(8.4)	**153**	167	(14)	(8.4)	The decrease was mainly due to a change in the sales mix of devices in light of the timing of new device launch dates as well as a decrease in wholesale sales.
Total revenue	**1,199**	1,146	53	4.6	**599**	576	23	4.0	
Operating and general expenses	**668**	693	(25)	(3.6)	**335**	341	(6)	(1.8)	The decrease was mainly due to a decrease in the cost of selling end equipment in parallel with a decrease in revenues, and in the period also from a decrease in IT costs as a result of the record of the implementation of a cloud computing system in the corresponding period. The decrease was partially offset by an increase in roaming costs in parallel with the increase in revenues.
Salary	**159**	158	1	0.6	**77**	79	(2)	(2.5)	
Depreciation and amortization	**258**	286	(28)	(9.8)	**136**	144	(8)	(5.6)	The decrease in the period was mainly due to the decrease in the cost of assets for the right to use cellular sites as well as assets whose amortization period has ended. The decrease in the quarter was mainly due to assets whose amortization period ended.
Other expenses, net	**(2)**	(3)	1	33.3	**(1)**	(3)	2	66.7	
Operating profit	**116**	12	104	866.7	**52**	15	37	246.7	

Financing revenue (expenses), net	**16**	(21)	37	-	**(7)**	(11)	4	(36.4)	The decrease in financing revenue, net, was mainly due to an increase in financing expenses as a result of exchange rate differences, which was partially offset by an increase in revenue from interest from loans given to the parent company.
Taxes on revenue	**30**	5	25	500.0	**13**	6	7	116.7	
Segment profit	**102**	28	74	264.3	**46**	20	26	130.0	

1.2.2. Activity segments (Cont.)

d. **Bezeq International services**

	1-6/2022	1-6/2021	4-6/2022		4-6/2021	1-6/2022	1-6/2021		Explanation
	NIS millions		% of total revenue	NIS millions	% of total revenue		NIS millions	% of total revenue	
Revenue	**609**	622	(13)	(2.1)	**302**	310	(8)	(2.6)	The decrease was mainly due to a decrease in Internet revenues as a result of a decrease in the number of subscribers, revenues from equipment and licensing for businesses due to longer delivery times to customers, as well as revenues from international calls.
Operating, general and impairment expenses	**413**	402	11	2.7	**197**	191	6	3.1	The increase in the period was mainly due to an increase in expenses from business services in parallel with an increase in cloud licensing sales, as well as an increase in Internet activity expenses due to an increase in the consumption of browsing volume. The increase in these expenses was partially offset by a decrease in expenses for the sale of equipment and business licensing corresponding to the decrease in revenues from this area.
Salary	**115**	118	(3)	(2.5)	**59**	58	1	1.7	The decrease in the period was mainly due to a continued decrease in the number of Bezeq's employees, offsetting a decrease in the discount of sales incentives.
Depreciation, amortization and impairment	**67**	95	(28)	(29.5)	**29**	46	(17)	(37.0)	The decrease was mainly due to a decrease in asset value declines, net (see Note 5.2 to the Statements), a decrease in depreciation expenses for the purchase of a subscription and other property depreciation.
Other expenses (revenue), net	**1**	(1)	2	-	**-**	(1)	1	-	
Operating profit	**13**	8	5	62.5	**17**	16	1	6.25	
Financing expenses, net	**3**	1	2	200.0	**2**	1	1	100.0	

Taxes on revenue	**-**	4	(4)	-	**-**	4	(4)	-	
Segment profit	**10**	3	7	233.3	**15**	11	4	36.4	

1.2.2. Activity segments (Cont.)

e. **Multi-channel TV (pro forma)**

	1-6/2022	**1-6/2021**	**4-6/2022**		**4-6/2021**	**1-6/2022**	**1-6/2021**		Explanation
	NIS millions		% of total revenue	NIS millions	% of total revenue		NIS millions	% of total revenue	
Revenue	**632**	630	2	0.3	**316**	315	1	0.3	
Operating and general expenses	**416**	412	4	1.0	**223**	199	9	4.5	The increase was mainly due to an increase in marketing expenses, and in the quarter also due to an increase in content consumption expenses.
Salary	**94**	91	3	3.3	**45**	44	1	2.3	
Depreciation and amortization	**134**	150	(16)	(10.7)	**68**	75	(7)	(9.3)	The decrease was mainly due to assets that were fully amortized and to updating amortization estimates.
Other expenses (revenue), net	**2**	(2)	4	-	**2**	-	2	-	
Operating loss	**(14)**	(21)	7	33.3	**(7)**	(3)	(4)	(133.3)	
Financing expenses (revenue), net	**(5)**	(3)	(2)	(66.7)	**(4)**	4	(8)	-	The change was mainly due to a change in the fair value of financial assets.
Taxes on revenue	**1**	1	-	-	**-**	-	-	-	
Segment loss	**(10)**	(19)	9	47.4	**(3)**	(7)	4	57.1	

* The results of the multi-channel television segment are presented net of the overall effect of impairment recognized as of the fourth quarter of 2018 (for more information, see Notes 5 and 15 to the Statements). This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 16.4 to the Consolidated Statements for a summary of selected data from the statements of DBS and the following table.

1.2.2. Activity segments (Cont.)

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

	1-6/2022		1-6/2021		4-6/2022		4-6/2021	
	Accounting income	Pro forma profit and loss	Accounting income	Pro forma profit and loss	Accounting income	Pro forma profit and loss	Accounting income	Pro forma profit and loss
	NIS millions				NIS millions			
Revenue	**632**	**632**	630	630	**316**	**316**	315	315
Operating and general expenses	**429**	**416**	415	412	**213**	**208**	203	199
Salary	**97**	**94**	95	91	**47**	**45**	45	44
Depreciation and amortization	**96**	**134**	106	150	**46**	**68**	45	75
Other expenses (revenue), net	**2**	**2**	(2)	(2)	**2**	**2**	-	-
Operating loss	**8**	**(14)**	16	(21)	**(2)**	**(7)**	22	(3)
Financing expenses (revenue), net	**(5)**	**(5)**	(3)	(3)	**(4)**	**(4)**	4	4
Taxes on revenue	**1**	**1**	1	1	**-**	**-**	-	-
Segment loss	**12**	**(10)**	18	(19)	**2**	**(3)**	18	(7)

1.3. Cash flow

	1-6/2022	1-6/2021	4-6/2022		4-6/2021	1-6/2022	1-6/2021		Explanation
	NIS millions		% of total revenue	NIS millions	% of total revenue		NIS millions	% of total revenue	
Net cash flow from operating activities	**1,963**	1,289	674	52.3	**870**	592	278	47.0	The increase in net cash flow from operating activities was due to changes in working equity, mainly due to the moving forward of credit dates with the credit card companies in the period, and due to the transition in collection from customers from the fourth quarter of 2021 until the first quarter of 2022 due to employees' sanctions in the cellular communications segment and the Bezeq international services segment. There is also a decrease in Income Tax paid in the interior landline communication segment.
Net cash flow used for Investing operations	**(1,113)**	(792)	(321)	(40.5)	**(845)**	(501)	(344)	(68.7)	The increase in the net flow used for investment activity was due to an increase in net investment in bank deposits, and in the period also due to a decrease in the proceeds from the sale of property, plant and equipment assets in the interior landline communication segment.
Net cash flow used for financing operations	**(850)**	(463)	(387)	(83.6)	**(323)**	(357)	34	9.5	The increase in the net flow used for financing activities in the period was mainly due to early repayment in Bezeq and the Company, offsetting the receipt of a loan in Bezeq, as well as to the payment of a dividend in Bezeq for non-controlling interests amounting to NIS 176 million and the buyback of the Company's shares.
Net increase (decrease) in cash	**-**	34	(34)	-	**(298)**	(266)	(32)	(12.0)	

Average volume in the reported half

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 9,775 million.
Provider credit: approx. NIS 269 million.

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

Working equity

The Group's consolidated working equity as of June 30, 2022 amounted to approximately NIS 648 million, compared with working equity of approximately NIS 503 million as of June 30, 2021.

The Company's working equity (according to the "Solo" Statements) as of June 30, 2022 amounted to approximately NIS 107 million, compared with working equity of approximately NIS 228 million as of June 30, 2021.

Bezeq (according to the "Solo" Statements) as of June 30, 2022, has a working equity surplus in the amount of NIS 585 million, compared with a deficit in working equity of NIS 258 million as of June 30, 2021.

The increase in the Group's working equity surplus was mainly due to a decrease in customer balances due to the moving forward of the clearing dates with the credit companies.

1.4. Disclosure regarding the Company's projected cash flow

The Company's Board of Directors reviewed the Company's consolidated financial statements and separate (Solo) financial statements as of June 30, 2022, including sources for repayment of the Company's liabilities, including the Company's debentures (Series C and F). In addition, the Company's Board of Directors examined the warning signs set forth in Regulation 10(b)(14)(a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and determined that despite the existence of a continuing negative cash flow from current operations in the separate (Solo) financial statements of the Company, in the opinion of the Company's Board of Directors, after receiving explanations for its opinion from the Company's Management, the continuing negative cash flow from current activities in the Company's separate (Solo) statements does not indicate a liquidity problem in the Company, and the Company has sufficient financial resources to continue its operations and meet its obligations, *inter alia*, taking into account the Corporation's cash balances in the solo statement.

1.5. Plan to purchase the Company's shares

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

1.5.2 On March 23, 2022, the Company's Board of Directors approved an additional plan to buy back the Company's shares in the amount of up to NIS 20 million, which begins on March 27, 2022 and ends: (1) upon an acquisition in the amount of NIS 20 million; Or (2) on May 12, 2022, whichever is earlier. April 27, 2022, the date on which the buyback plan of the Company's shares came to an end, the Company purchased 1,349,829 Company shares for approximately NIS 20 million.

1.5.3 On May 24, 2022, the Company's Board of Directors approved an additional buyback plan of the Company's shares in the amount of up to NIS 30 million, which begins on May 25, 2022 and ends: (1) upon an acquisition in the amount of 30 million NIS; or (2) on August 4, 2022. As of June 30, 2022, the date on which the repurchase plan of the Company's shares came to an end, the company purchased within the said purchase plan a total of 2,024,830 of its shares for approximately NIS 30 million.

1.5.4 On May 31, the Company purchased a total of 730,000 of its shares for approximately NIS 10 million in an off-exchange transaction.

1.6. Effects of the COVID19 outbreak

Following on from Note 1.4 to the 2021 Statements regarding the outbreak of COVID19, it should be noted that the decline in morbidity, the return to routine of the economy and the reduction of restrictions on travel abroad have supported a significant recovery in Pelephone's revenues from roaming services throughout the reporting period, which have returned to a level of activity that is close to pre-COVID. The delays in the supply chain and the global chip shortage have continued to negatively affect the delivery dates and prices of equipment from Bezeq Group's main suppliers, without material effects on the continuity of business activity.

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

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

1.7. An update on the effects of inflation and the increase in interest rates on the results of the group's activities

As stated in Note 30.5.1 to the annual financial statements, changes in the inflation rate affect the Group's profitability and future cash flows, mainly due to Bezeq's index-linked liabilities. Bezeq Group implements a policy to reduce and partially hedge the exposure to the price index and the dollar-shekel exchange rate through the execution of forward transactions. See details regarding hedging transactions in Note 30.6 to the annual report.

All of the Company's debt is in shekels, so changes in the inflation rate have no effect on the Company's profitability or future cash flows.

In the six-month period that ended on June 30, 2022, the increase in the consumer price index affected Bezeq Group's financing expenses to the extent of approximately NIS 64 million (approximately NIS 50 million after hedging) compared to the corresponding period. It should be noted that the net effect of the increase in interest rates in the economy on the Bezeq Group's operating results was not material during the reporting period.

In accordance with the scope of Bezeq Group's index-linked debt as of June 30, 2022, every 1% increase in the Consumer Price Index is expected to result in an increase in Bezeq Group's financing expenses to the extent of approximately NIS 30 million, this is before considering the effect of hedging transactions. In addition, a 1% change in the Bank of Israel interest rate is not expected to have a material effect on the Bezeq Group's operating results.

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

2.1. Disclosure regarding valuations

The following are details of a highly material valuation (attached to Bezeq's financial statements) and a substantial and a material valuation in accordance with Regulation 8B(i) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

	DBS (**) Highly material valuation is attached to Bezeq's Statements as of June 30, 2022	Bezeq International Material valuation
Identification of subject of valuation	Examination of the impairment of the assets of DBS Satellite Services (1998) Ltd. as of June 30, 2022	Examination of the impairment of the assets of Bezeq International Ltd. as of June 30, 2022
Timing of the valuation	June 30, 2022; The valuation was signed on August 8, 2022.	June 30, 2022; The valuation was signed on August 8, 2022.
Value of the subject of the valuation close to the date of the valuation, if the accepted accounting rules, including depreciation and amortization, did not require a change in its value in accordance with the valuation	Book value before impairment as of June 30, 2022 is negative in the amount of approx. NIS 36 million.	Book value before impairment as of June 30, 2022 is approximately NIS 19 million.
Value of the subject of the valuation determined in accordance with the valuation	DBS's total enterprise value is negative in the amount of approximately NIS 152 million. In light of the negative enterprise value, the net value of the assets and liabilities of DBS was determined as the fair value and zero, whichever is higher. Accordingly, DBS's equity, obtained as a result of the position according to the fair value of the balance sheet items according to the requirements of IAS 36, is negative in the amount of approximately 115 million NIS. Based on the valuation, the Group recognized in the periods of six and three months that ended on June 30, 2022, an impairment loss of approximately NIS 144 million and approximately NIS 79 million, respectively.	DBS's total enterprise value is negative in the amount of approximately NIS 692 million (*). In light of the negative enterprise value, the net value of the assets and liabilities of DBS was determined as the fair value and zero, whichever is higher. Accordingly, DBS's equity, obtained as a result of the position according to the fair value of the balance sheet items according to the requirements of IAS 36, is negative in the amount of approximately 2 million NIS. Based on the valuation, the Group recognized in the periods of six and three months that ended on June 30, 2022, an impairment loss of approximately NIS 55 million and approximately NIS 21 million, respectively.

	DBS (**) Highly material valuation is attached to Bezeq's Statements as of June 30, 2022	Bezeq International Material valuation
Identification and characterization of the valuator	The valuation was performed by Prof. Hadas Gelander, Partner, Director of Valuations and Economic Models in the Economic Department of Ernest Young (Israel) Ltd. Prof. Gelander holds a bachelor's degree in accounting from the College of Management, Rishon LeZion; A master's degree in business administration from the Hebrew University of Jerusalem; And a doctorate *cum laude* from Ben-Gurion University, Beer-Sheva, and is also a certified public accountant in Israel. As part of her role, Prof. Gelander accompanies projects with leading companies in Israel and around the world, in various fields of activity and industries such as technology, finance, pharmaceuticals, energy, infrastructure, real estate and industry. In addition, as part of her role accompanying and advising companies in the areas of valuations for business (valuations and fair opinions) and accounting (allocation of acquisition costs, valuation of intangible assets, valuation of options for employees, etc.) needs, she provided economic opinions as a court-appointed expert witness. The valuator has no dependence on Bezeq or the Company. Bezeq undertook to indemnify the valuator for damages in excess of three times her fee, unless she acted maliciously or through gross negligence.	

2.1. Disclosure regarding valuations

	DBS (**) Highly material valuation is attached to Bezeq's Statements as of June 30, 2022	Bezeq International Material valuation
Valuation model	In the first stage - an update to the value in use is calculated using the DCF discounting method compared to the valuation as of June 30, 2022. In the second stage - the fair value of the net assets and liabilities of DBS, minus sales costs, as of June 30, 2022, was determined.	In the first stage - an update to the value in use is calculated using the DCF discounting method compared to the valuation as of June 30, 2022. In the second stage - the fair value of Bezeq International's net assets and liabilities, minus sales costs, as of June 30, 2022, was determined.
Assumptions under which the valuator made the valuation	Assumptions were made regarding the fair value net of costs to sell of DBS' assets. For the purpose of calculating an update to the value-in-use using the cash flow discounting method (DCF), the following parameters were used: Discount rate – 9.5% (after tax), the permanent growth rate - 1%.	Assumptions were made regarding the fair value net of costs to sell of Bezeq International's assets. For the purpose of calculating an update to the value-in-use using the cash flow discounting method (DCF), the following parameters were used: Discount rate – 10.7% (after tax), the permanent growth rate - 3%.

(*) It should be noted that the neutralization of the streamlining assumptions, as required by accounting standards 36 IAS and 37 IAS, resulted in an abnormal and unrepresentative value in a negative amount of approximately NIS 692 million, and this in light of the assumptions of Bezeq International's updated multi-year plan, according to which the scope of activity is expected to decrease throughout the years of the forecast, while

economic benefits expected to result from the streamlining were not taken into account in light of the limitations of the accounting standards mentioned above.
(**) Despite the negative enterprise value of DBS, Bezeq supports DBS by approving credit facilities or investing in DBS' equity (see Note 4 to the Statements). Bezeq's said support of DBS stems, among other things, from the current and expected contribution of the multi-channel TV activity to all of Bezeq Group's activities.

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

2.3. Material subsequent events

Regarding material events after the date of the financial statements - see Note 17 to the Condensed Consolidated Financial Statements.

3. Details related to a series of liability certificates

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

On June 30, 2022, the Company made a partial early repayment of approximately NIS 100 million on the Series C debentures (plus accrued interest until the repayment date (the payment to bondholders was made on July 1, 2022).

As of June 30, 2022, the par value of the Series C debentures that are not held by the Company is approximately NIS 497 million, and the par value of the Series V debentures is NIS 1,472 million.

3.2. On January 23, 2022, Bezeq made a partial early repayment on its own initiative of the debentures (Series 9) in the amount of approximately NIS 370 million par value.

3.3. Financial clauses

In accordance with the Company's commitment in debt series C and F to comply with LTV's condition, the LTV ratio as of June 30, 2022 was 47.8%.

The Company's net debt balance as of June 30, 2022 is approximately NIS 1,841 million and consists of a principal balance and accrued interest as of the balance sheet date in respect of its debentures in the amount of NIS 1,972 million (net of approximately 11.8 million par value Series C held by a partnership that is held by the Company), net of cash balances and short-term investments in the amount of NIS 131 million.

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

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

4. Miscellaneous

For information regarding the balance of liabilities of the reporting corporation in its financial statements as of June 30, 2022, see the form to be reported by the Company on the MAGNA system on August 9, 2022.

Darren Glatt	Tomer Raved
Chairman of the Board of Directors	CEO

Date of signing: August 10, 2022

Chapter C

Consolidated Interim Financial Statements As of June 30, 2022 (Unaudited)

Condensed Consolidated Interim Financial Statements as of June 30, 2022 (Unaudited)

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

To
Shareholders of B Communications Ltd.

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

Introduction
We reviewed the attached financial information of B Communications Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated report of financial position as of June 30, 2022 and the condensed consolidated statements of income, comprehensive profit, changes in equity and cash flows for the periods of six and three months that ended on the same date. The Board of Directors and Management are responsible for preparing and presenting financial information for these interim periods in accordance with the international accounting standard IAS 34 "Financial Reporting for Interim Periods", and they are also responsible for editing financial information for these interim periods according to Chapter D of the Securities Regulations (Periodic and Immediate Financial Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for these interim periods based on our review.

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

Conclusion
Based on our review, nothing has come to our attention that makes us believe that the above separate interim financial information has not been prepared, in all material respects, in accordance with the international accounting standard IAS 34.

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

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

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

Somekh Chaikin
Certified Public Accountants

August 9, 2022

Condensed consolidated interim statements of financial position as of

		June 30, 2022	June 30, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Assets	**Note**	**NIS millions**	**NIS millions**	**NIS millions**
Cash and cash equivalents		**998**	928	998
Investments	14.1	**1,483**	930	1,134
Accounts receivables		**1,450**	1,661	1,859
Other receivables		**365**	197	280
Inventory		**92**	82	74
Total current assets		**4,388**	3,798	4,345
Trade and accounts receivable		**447**	513	433
Broadcasting rights – net of rights exercised		**62**	60	60
Right-of-use assets		**1,797**	1,786	1,828
Property, plant and equipment		**6,459**	6,267	6,312
Intangible assets		**3,263**	3,277	3,251
Deferred expenses and investments *		**258**	443	306
Deferred tax assets		**-**	42	24
Total non-current assets		**12,286**	12,388	12,214
Total assets		**16,674**	16,186	16,559

* Including long-term restricted deposits.

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

		June 30, 2022	June 30, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and assets	**Note**	**NIS millions**	**NIS millions**	**NIS millions**
Debentures, loans and credit		**959**	743	980
Current maturities of liabilities in respect of leases		**466**	432	466
Trade payables		**1,758**	1,758	1,755
Employee benefits		**390**	462	510
Provisions	6	**172**	84	69
Total current liabilities		**3,745**	3,745	3,780
Loans and debentures		**8,947**	9,456	9,068
Leasing liabilities		**1,477**	1,477	1,511
Employee benefits		**211**	226	243
Derivatives and other liabilities		**140**	273	142
Deferred tax liabilities		**315**	298	296
Provisions		**43**	49	49
Total non-current liabilities		**11,133**	11,779	11,309
Total liabilities		**14,878**	14,878	15,089
Equity (equity deficit):	8			
Attributed to the shareholders of the Company		**56**	*31	16
Attributed to non-controlling interests		**1,740**	*1,081	1,454
Total equity (equity deficit)		**1,796**	1,112	1,470
Total liabilities and equity (equity deficit)		**16,674**	16,186	16,559

* Reclassified

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

Date of approval of the financial statements: August 9, 2022

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

Condensed consolidated interim statements of income

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS	NIS	NIS	NIS
Revenue (Note 9)	**4,480**	4,421	**2,225**	2,200	8,821
Enterprise expenses					
Operating and general expenses (Note 10)	**1,665**	1,632	**836**	799	3,265
Salary	**942**	949	**467**	468	1,888
Depreciation, amortization and impairment *	**906**	941	**458**	465	1,889
Other operating expenses, net (Note 11)	**49**	(150)	**3**	2	(77)
Total operating expenses	**3,562**	3,372	**1,764**	1,734	6,965
Operating profit	**918**	1,049	**457**	466	1,856
Financing expenses (revenue)					
Financing expenses	**294**	221	**149**	120	533
Financing revenue	**(91)**	(36)	**(50)**	(10)	(55)
Financing expenses, net (Note 12)	**203**	185	**99**	110	478
Profit before taxes on revenue	**715**	864	**362**	356	1,378
Taxes on revenue expenses	**182**	218	**89**	91	382
Net profit for the year	**533**	646	**273**	265	996
Net profit attributed to the shareholders of the Company	**102**	132	**49**	50	129
Net profit attributed to non-controlling interests	**431**	514	**224**	215	867
Net profit for the period	**533**	646	**273**	265	996
Profit per share (NIS)					
Baseline profit per share	**0.92**	1.14	**0.42**	0.43	1.11
Diluted profit per share	**0.90**	1.14	**0.43**	0.43	1.11

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

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

Condensed consolidated interim statements of comprehensive profit

	For period of six months ended June 30		For period of three months ended June 30		For the year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit (loss) for the year	**533**	646	**273**	265	996
Reassessment of defined benefit plan, net of tax (items that will not be reclassified to income)	***37**	-	***11**	-	(1)
Other comprehensive profit (loss) items (additional, net of tax)	**(1)**	23	**(13)**	1	37
Total comprehensive profit (loss) for the period	**569**	669	**271**	266	1,032
Attributable to:					
Company shareholders	**111**	138	**48**	50	139
Non-controlling interests	**458**	531	**223**	216	893
Total comprehensive profit (loss) for the period	**569**	669	**271**	266	1,032

* Other comprehensive profit was recognized as a result of the update of the discount rate according to which the net liability for a defined benefit is calculated as of June 30, 2022.

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

Condensed consolidated interim statements of changes in equity

	Share equity	Premium on shares	Treasury shares	Other funds	Loss balance	Equity attributed to company owner	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For period of six months ended June 30, 2022 (unaudited)								
Balance as of January 1, 2022	**12**	**1,495**	**(16)**	**(29)**	**(1,446)**	**16**	**1,454**	**1,470**
Share-based payment	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Dividend distribution for non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(176)**	**(176)**
Buyback of shares	**-**	**-**	**(71)**	**-**	**-**	**(71)**	**-**	**(71)**
Net profit for the period	**-**	**-**	**-**	**-**	**102**	**102**	**431**	**533**
Other comprehensive profit for the period, net of tax	**-**	**-**	**-**	**-**	**9**	**9**	**27**	**36**
Total comprehensive profit for the period	**-**	**-**	**-**	**-**	**111**	**111**	**458**	**569**
Balance as of June 30, 2022	**12**	**1,495**	**(87)**	**(29)**	**(1,335)**	**56**	**1,740**	**1,796**
For period of six months ended June 30, 2021 (unaudited)								
Balance as of January 1, 2021	12	1,495	(*)	(39)	(1,575)	(107)	534	427
Share-based payment	-	-	-	**-	-	-	**16	16
Profit for the period	-	-	-	-	132	132	514	646
Other comprehensive loss for the period, net of tax	-	-	-	6	-	6	17	23
Total comprehensive profit for the period	-	-	-	6	132	138	531	669
Balance as of June 30, 2021	12	1,495	(*)	(33)	(1,443)	31	1,081	1,112

Condensed Consolidated Interim Financial Statements as of June 30, 2022 (Unaudited)

For period of three months ended June 30, 2022 (unaudited)

Balance as of April 1, 2021	**12**	**1,495**	**(32)**	****(26)**	****(1,386)**	**63**	**1,693**	**1,756**
Distribution of dividend to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(176)**	**(176)**
Net profit for the period	**-**	**-**	**(55)**	**-**	**-**	**(55)**	**-**	**(55)**
Buyback of shares	**-**	**-**	**-**	**-**	**49**	**49**	**224**	**273**
Profit for the period	**-**	**-**	**-**	**-**	**2**	**(1)**	**(1)**	**(2)**
Total comprehensive profit for the period	**-**	**-**	**-**	**(3)**	**51**	**48**	**223**	**271**
Balance as of June 30, 2021	**12**	**1,495**	**(87)**	**(29)**	**(1,335)**	**56**	**1,740**	**1,796**

For period of three months ended June 30, 2021 (unaudited)

Balance as of January 1, 2021	12	1,495	(*)	**(33)	(1,493)	(19)	**857	838
Share-based payment	-	-	-	**-	-	-	**8	8
Net profit for the period	-	-	-	-	50	50	215	265
Other comprehensive loss for the year, net of tax	-	-	-	*	-	-	1	1
Total comprehensive profit for the period	-	-	-	*	50	50	216	266
Balance as of June 30, 2021	12	1,495	(*)	(33)	(1,443)	31	1,081	1,112

For year ended December 31, 2021 (unaudited)

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

* Represents an amount lower than NIS 1 million.

** Reclassified

Condensed consolidated interim statements of cash flows

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from current operations					
Profit for the period	**533**	646	**273**	265	996
Adjustments:					
Depreciation, amortization and impairment	**906**	941	**458**	465	1,889
Financing expenses, net	**234**	192	**108**	110	498
Cancellation of impairment loss	**3**	(127)	**1**	(2)	(175)
Capital loss (gain), net	**4**	16	**-**	8	27
Share-based payment	**182**	218	**89**	91	382
Revenue tax expenses					
Change in trade and other receivables	**343**	(48)	**126**	13	(229)
Change in inventory	**(29)**	(15)	**8**	3	(19)
Change in trade and other payables	**(19)**	(158)	**(108)**	(184)	(41)
Change in provisions	**28**	(32)	**(15)**	(3)	(47)
Change in employee benefits	**(112)**	(130)	**(29)**	(93)	(65)
Change in other liabilities	**(8)**	4	**(6)**	2	(5)
Income Tax paid, net	**(102)**	(218)	**(35)**	(83)	(385)
Net cash derived from operating activities	**1,963**	1,289	**870**	592	2,826
Cash flows from investing activities					
Purchase of property, plant and equipment	**(673)**	(679)	**(338)**	(323)	(1,328)
Investment in intangible assets and deferred expenses	**(184)**	(197)	**(89)**	(95)	(363)
Investment activity, net	**(283)**	(106)	**(432)**	(87)	(164)
Proceeds from the sale of property, plant and equipment	**21**	184	**6**	1	278
Miscellaneous	**6**	6	**8**	3	(1)
Net cash used for investing activities	**(1,113)**	(792)	**(845)**	(501)	(1,578)

Condensed consolidated interim statements of cash flows (Cont.)

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Cash flows from financing activities					
Issuance of debentures and receipt of loans	**300**	-	**300**	-	1,730
Repayment of debentures and loans	**(527)**	(103)	**(157)**	(103)	(2,072)
Leasing principal and interest payments	**(203)**	(194)	**(92)**	(92)	(387)
Re-purchase of shares	**(67)**	-	**(56)**	-	(16)
Interest paid	**(151)**	(166)	**(142)**	(162)	(333)
Dividend distributed to non-controlling interests	**(176)**	-	**(176)**	-	-
Costs in respect of early repayment of loans and debentures	**(26)**	-	**-**	-	(34)
Payment for completed hedging transactions	**-**	-	**-**	-	(30)
Miscellaneous	**-**	-	**-**	-	(2)
Net cash used for financing operations	**(850)**	(463)	**(323)**	(357)	(1,144)
Net increase (decrease) in cash and cash equivalents	**-**	34	**(298)**	(266)	104
Cash and cash equivalents for the	**998**	894	**1,296**	1,194	894
Cash and cash equivalents at the	**998**	928	**998**	928	998

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

1. General

1.1. The reporting entity

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

The condensed consolidated financial statements of the Company as of June 30, 2021 include those of the Company and its subsidiaries (hereinafter collectively - "the Group"). (See also Note 15 - Segmental Reporting).

1.2. Update on the effects of the outbreak of COVID19

Further to Note 1.4 in the 2021 statements regarding the outbreak of COVID19, it should be noted that the decline in morbidity, the return to routine of the economy and the reduction of restrictions on travel abroad have supported a significant recovery in Pelephone's revenues from roaming services in the reporting period, and these have returned to a level of activity close to pre-COVID. The delays in the supply chain and the global chip shortage have continued to negatively affect the dates and delivery prices of equipment from the Bezeq Group companies' main suppliers, without material effects on the continuity of business.

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

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

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

On July 20, 2022, the decision of the Economic Department of the Tel-Aviv-Yafo District Court was published on the application of some of the defendants to drop charges in the case ("the Decision"). In accordance with the Decision, the second and third charges in the indictment (fraud in relation to the conduct of the independent committees in the "Bezek-Yes" transaction and the "Yes-Space" transaction) were dismissed against all the defendants in these charges: the former controlling owner of Bezeq, Shaul Elovitch, former officers of Bezeq – Or Elovitch, Amikam Shurer and Linor Yochelman, as well as against the companies accused of the same charges - companies from the "Eurocom" group. It was also determined in the Decision, among other things, that it is not possible to accept the claim put forward by Mr. Shaul Elovitch, that the indictment does not reveal guilt in connection with the first charge (fraudulent receipt of advances at the expense of the second contingent consideration in the Bezeq-Yes transaction). It was also emphasized in the Decision that there is no point in it in any way implicating the civil aspect, and the pending proceedings in this regard (it should be noted that a number of civil proceedings are pending against Bezeq and/or its former officers regarding the transactions that are the subject of the Decision, as detailed in Note 17 to the annual statements and in Note 6 below). Bezeq is studying the Decision and its consequences.

As stated in Note 1.3.3 to the annual statements, Bezeq does not yet have complete information regarding the investigations, plans, materials and evidence in the possession of the relevant law authorities. Accordingly, Bezeq is still unable to assess the effects of the investigations, their findings and results on Bezeq, as well as the financial statements and estimates used in the preparation of these statements, if any.

2. Basis of preparation of the statements

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

2.2. The condensed consolidated interim financial statements do not include all the information required in full annual financial statements and these reports should be read in the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2021 and the year ended on the same date and accompanying notes (hereinafter - the annual financial statements). The Group presents in the notes to the condensed consolidated interim financial statements only the material changes that occurred from the date of the last annual financial statements to the date of these interim financial statements.

2.3. This concise consolidated interim financial statements was approved by the Company's Board of Directors on August 9, 2022.

2.4. Use of estimates and discretion

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

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

3. Reporting rules and accounting policies

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

3.2. Initial application of an amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" regarding onerous contracts

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

A. Additional costs; and -

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

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

4. Group entities

A detailed description of the Group's entities appears in Note 12 to the annual statements. The following is a breakdown of the material changes that have taken place in connection with the Group's entities since the publication of the annual statements.

4.1. Structural change in Bezeq's subsidiaries

As stated in Note 12.1.3 to the annual statements, on March 16, 2022, Bezeq's Board of Directors decided, following decisions made that day by the boards of directors of Bezeq's subsidiaries, to cancel the merger / spin-off plan (a previous plan for a structural change in which Bezeq International's private activities were to merge with and into Bezeq International's DBS and ICT activities to be spun off into a new company wholly owned by Bezeq) and to approve an alternative outline, according to which Bezeq International's ISP activity in the private segment will be reduced as a result of the separation between broadband infrastructure service and Internet access service (ISP), and ISP activity will be established in the DBS for the purpose of selling "triple" packages to customers (“the alternative outline"), while striving to achieve, as far as possible, the strategic, business and economic purposes which formed the basis of the resolution to promote the structural change that were, among other things, the adaptation of the activity to the structure of the industry and the changing regulation, a focus on increasing revenues and growth, and increasing operational synergy and streamlining.

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

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

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

4.2.1. As of June 30, 2022, DBS has a deficit in equity in the amount of NIS 35 million, as well as a working equity deficit in the amount of NIS 206 million. According to DBS' forecasts, it expects to accumulate operating losses in the coming years, and therefore will not be able to meet its obligations and continue to operate as a live going concern without Bezeq's support.

On April 27, 2022, Bezeq's Board of Directors approved a credit or investment framework in DBS’ equity in the amount of NIS 40 million, for a period of 15 months, from April 1, 2002 until June 30, 2012, instead of a similar commitment from November 2021. It should be noted , So far, during 2022, DBS did not utilize the credit facilities provided by Bezeq.

In August 2022, Bezeq's Board of Directors approved a credit facility or investment in DBS' equity in a total amount of up to NIS 40 million, for a period of 15 months starting on July 1, 2022. This approval replaces an approval given in April 2022 (and not in addition to it).

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

4.2.2. See Note 5.1 below regarding impairment of assets recognized by DBS in the financial statements as of June 30, 2022.

4.3. Bezeq International Ltd.

See Note 5.2 below regarding impairment of assets recognized by Bezeq International in the statements as of June 30, 2022.

4.4. Dividends distribution by Bezeq

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

4.4.2. On August 9, 2022, Bezeq's Board of Directors decided to recommend to the General Meeting of Bezeq's shareholders to distribute a cash dividend to Bezeq's shareholders in the total amount of NIS 294 million. As of the date of approval of the financial statements, the said dividend has not yet been approved by the General Meeting. The Company's share of the said dividend, when it is approved by Bezeq's general assembly, is about NIS 78 million.

5. <u>Impairment</u>

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

Following Note 11.5 to the annual statements regarding impairment recognized in 2021, the valuation as of December 31, 2021 presented a value materially lower than the book value of DBS.
Following the expected changes in the sale of combined TV and Internet packages to customers and in the costs of distributing DBS IP broadcasts and in view of the expected increase in competition in the market, DBS updated its forecasts for 2022 and the following years and estimated the recoverable amount as of June 30, 2022.

Based on the valuation, which was performed by an external valuator as of June 30, 2022, DBS's enterprise value is negative and lower than its book value and the fair value of its assets and liabilities, net.

In light of the negative enterprise value as determined in the valuation as of June 30, 2022, DBS amortized its assets up to the amount of the net fair value of these assets.

Therefore, Bezeq Group recognized, in the six and three month periods that ended on June 30. 2022, an impairment loss of approximately NIS 144 million and approximately NIS 79 million, respectively.

The impairment loss was attributed to property, plant and equipment, broadcasting rights, intangible assets and advance expenses, as detailed below, and was included in the depreciation, amortization and impairment expenses item as well as in the operating and general expenses item of the income statement.

The following are details regarding DBS' enterprise value and the fair value of the assets and liabilities, net, as determined by an external valuator and recognized impairment losses:

	DBS' enterprise value(according to the DCF method)	Fair value of DBS' assets and liabilities, net	Book value of DBS' assets and liabilities, net before recognition of impairment	Impairment loss
As of June 30, 2022 and for the period of three months that ended on that date (unaudited)	**(156)**	**(115)**	**(36)**	**(79)**
As of March 31, 2022 and for the period of three months that ended on that date (unaudited)	(282)	(125)	(60)	(65)
Total impairment recognized in period of six months that ended June 30, 2022				**(144)**
As of December 31, 2021 and for the year that ended on that date (audited)	(271)	(109)		(288)

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

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Broadcasting rights *	**79**	66	**47**	29	146
Property, plant and equipment **	**38**	40	**18**	12	91
Intangible assets **	**21**	27	**11**	13	48
Other payables (advance expenses) *	**4**	5	**3**	2	4
Rights to use leased assets**	**2**	-	**-**	-	(1)
Total impairment recognized	**144**	138	**79**	56	288

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

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

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

Further to Note 11.6 to the annual statements regarding impairment in the cash-generating unit Internet, international communications, network endpoint services and ICT Solutions in 2021, the valuation as of December 31, 2021 presented a materially lower value than Bezeq International's book value.

In view of the expected changes mainly in the sale of ISP services and in the forecast of profitability from ICT activities, Bezeq International updated its forecasts for 2022 and the following years and estimated the recoverable amount as of June 30, 2022.

Based on the valuation, as of June 30, 2022, Bezeq International's enterprise value is negative and lower than its book value and the fair value of its assets and liabilities, net.

In the valuation, substantial changes were made in Management's assumptions and forecasts regarding personnel streamlining in accordance with the provisions of IAS 36 regarding structural change. It should be noted that the neutralization of the streamlining assumptions, as required by accounting standards IAS 36 and IAS 37, resulted in an abnormal value in the negative amount of approximately NIS 718 million, and this in light of the assumptions of Bezeq International's updated work plan, according to which the scope of activity is expected to be reduced throughout the years of the forecast, while economic benefits expected to result from the streamlining were not taken into account in light of the limitations of the accounting standards mentioned above. The results of the value upon completion of the streamlining moves are expected to result in a higher value than the value shown for the purposes of examining the accounting impairment.

In light of the negative enterprise value as determined in the valuation as of June 30, 2022, Bezeq International amortized its assets up to the amount of the net fair value of these assets.

The fair value of Bezeq International's assets and liabilities, net of exercise costs as of June 30, 2022, amounted to a negative amount of approximately NIS 2 million.

The following are details regarding Bezeq International's enterprise value and the fair value of its assets and liabilities, net, as determined by an external valuator and recognized impairment losses:

	DBS' enterprise value(according to the DCF method)	**Fair value of DBS' assets and liabilities, net**	**Book value of DBS' assets and liabilities, net before recognition of impairment**	**Impairment loss**
As of June 30, 2022 and for the period of three months that ended on that date (unaudited)	**(733)**	**(2)**	**23**	**(21)**
As of March 31, 2022 and for the period of three months that ended on that date (unaudited)	(176)	(15)	19	(34)
Total impairment recognized in period of six months that ended June 30, 2022				**(55)**
As of December 31, 2021 and for the year that ended on that date (audited)	(196)	70		(122)

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

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

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Property, plant and equipment and intangible assets **	**38**	48	**14**	25	75
Short-term and long-term advance expenses *	**11**	1	**3**	-	28
Long-term advance payments for capacities **	**6**	8	**4**	3	17
Rights to use leased assets **	**-**	-	**-**	-	2
Total impairment recognized	**55**	57	**21**	28	122

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

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

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

6. Contingent liabilities

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

In the opinion of the managements of the Group companies, which is based, among other things, on legal opinions regarding the chances of the legal claims, the statements included adequate provisions in the amount of NIS 166 million, where provisions were required to cover the exposure as a result of such legal claims.

In the opinion of the managements of the Group companies, the amount of additional exposure (beyond said provisions), as of June 30, 2022, due to legal claims filed against the Group companies on various issues and whose probability of realization is unexpected, amounted to a total of NIS 3 billion. Additional exposure in the amount of approximately NIS 2.6 billion in respect of claims the chances of which is not yet possible to assess at this stage. In addition, motions were filed against the Group companies to recognize the claims as class actions that did not specify an exact amount of the claim, for which the Group has additional exposure beyond the aforementioned.

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

6.3. The following is a description of the contingent liabilities of the Bezeq Group that were in effect as of June 30, 2022, classified in accordance with groups with similar characteristics:

Claims group	Claims essence	Provision balance	Additional exposure amount	Exposure amount in respect of claims whose chances cannot yet be assessed
		NIS millions		
Customer claims	Mainly motions for approval of class actions (and claims by virtue thereof) that concern allegations of illegal collection of funds and damage to the provision of services provided by Bezeq Group companies.	**91**	**2,237**	**723**
Claims by enterprises and companies	Legal claims in which the liability of the Group companies is claimed in connection with their operations and / or investments.	(1)**75**	**677**	(2)**1,813**
Claims of employees and former employees of Bezeq Group companies	Mainly individual claims filed by employees and former employees of the Bezeq Group concerning various payments.	**-**	**1**	**1**
Miscellaneous	Other legal claims, including tort claims (except for claims in which there is no dispute about the existence of insurance coverage), real estate, infrastructure, suppliers, etc.	**-**	**36**	**14**
Total legal claims against Bezeq and the subsidiaries(3)		**166**	**2,951**	**2,551**

(1) An indemnity asset in the amount of the full provision in view of the existence of insurance coverage, the asset was recognized against the balance of the provision which was presented under the item "Other receivables" in the statement of financial position as of June 30, 2022, in accordance with the provisions of Accounting Standard 37 IAS "Provisions, Contingent Liabilities and Contingent Assets".

(2) The total includes two motions for approval of a class action in the total amount of NIS 1.8 billion filed in June 2017 against the Company, Bezeq, officers in the Bezeq Group and companies from the then controlling group of the Company and Bezeq regarding the purchase of DBS shares By Bezeq from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to replace these two motions. The proceedings are delayed in light of the criminal proceedings that are being conducted following the investigation of the Securities Authority (as described in Note 1.3) and at the request of the Attorney General at this stage, until September 21, 2022.

(3) In addition, see also Note 6.6 to the annual statements.

6.4. After the date of the statements, lawsuits ended, for which the exposure was about NIS 355 million.

7. Debentures, loans and credit

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

On June 30, 2022, the Company made a partial early repayment of about 100 million on Series C debentures plus accrued interest until the vesting date.

As of June 30, 2022, the nominal value of Series C debentures that are not held by the Company is approximately NIS 495 million and the nominal value of Series VI debentures is NIS 1,472 million.

8. Equity

	As of June 30, 2022	**As of June 30, 2021**	**As of December 31, 2021**
	Shares	**Shares**	**Shares**
	(Unaudited)	**(Unaudited)**	**(Audited)**
Issued and paid up equity as of January 1	**114,858,990**	116,316,563	116,316,563
Purchase of treasury shares	**(4,925,019)**	-	(1,457,573)
Issued and paid up equity, net (*)	**109,933,971**	116,316,563	114,858,990
Registered share equity	**300,000,000**	150,000,000	300,000,000

* As of June 30, 2022, 6,401,822 of the Company's shares are held as treasury shares.

8.2. In accordance with the Company's buyback plan approved by the Company's Board of Directors on November 30, 2021, the Company purchased during the 1st quarter of 2022, 820,360 of the Company's shares in the total amount of approximately NIS 11 million.

8.3. On March 23, 2022, the Company's Board of Directors approved an additional buyback plan for the Company's shares in the amount of up to NIS 20 million starting on March 27, 2022 and ending upon: (1) Purchase in the amount of NIS 20 million; Or (2) on May 12, 2022, whichever is earlier.

Until April 27, 2022, the date on which the plan for the buyback of the Company's shares came to an end, the Company purchased 1,349,829 shares of the Company for approximately NIS 20 million.

8.4. On May 24, 2022, the Company's Board of Directors approved an additional buyback plan for the Company's shares in the amount of up to NIS 30 million, starting on May 25, 2022 and ending upon: (1) Purchase in the amount of NIS 30 million; Or (2) on August 4, 2022, whichever is earlier. As of June 30, 2022, the date on which the buyback plan for the Company's shares came to an end, the Company purchased a total of 2,024,830 of its shares for approximately NIS 30 million as part of the said purchase plan.

8.5. On May 31, 2022, the Company purchased a total of 730,000 of its shares for approximately NIS 10 million in an off-exchange transaction.

8.6. On August 9, 2022, the Company's Board of Directors approved an additional buyback plan of the Company's shares in the amount of up to NIS 25 million, which will begin on August 10, 2022 and end: (1) Upon a purchase in the amount of NIS 25 million; or (2) on November 1, 2022, whichever is earlier.

8.7. As of the date of approval of the financial statements, Searchlight and the Forer family own 63.67% and 12.05%, respectively, of the Company's net issued and paid-up share equity.

9. Revenue

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Interior landline communication -					
Internet - infrastructure	**846**	769	**428**	388	1,562
Landline telephony	**400**	458	**185**	222	891
Transmission and data communication	**445**	422	**225**	214	844
Cloud and digital services	**164**	158	**83**	76	318
Other services	**137**	115	**65**	53	230
	1,992	1,922	**986**	953	3,845
Mobile radio telephone - Pelephone					
Cellular services and end equipment	**865**	783	**437**	400	1,606
Sale of end equipment	**312**	341	**151**	164	643
	1,177	1,124	**588**	564	2,249
Multi-channel TV - DBS	**632**	629	**316**	314	1,270
Internet (ISP), international communications and network endpoint services – Bezeq International	**582**	598	**289**	299	1,186
Other	**97**	148	**46**	70	271
Total revenue	**4,480**	4,421	**2,225**	2,200	8,821

10. Operating and general expenses

	For period of six months ended June 30		For period of three months ended June 30		For year ended December
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited	(Unaudited	(Unaudited)	(Audited)
	NIS millions	NIS	NIS	NIS millions	NIS
End equipment and materials	**394**	421	**191**	200	803
Connectivity and payments to communications operators in Israel and abroad	**362**	362	**179**	180	717
Content costs (including depreciation of content)	**280**	277	**149**	133	553
Marketing and general	**263**	255	**131**	129	546
Services and maintenance by subcontractors	**220**	168	**109**	82	348
Maintenance of buildings and sites	**115**	119	**60**	59	238
Vehicle maintenance	**31**	30	**17**	16	60
Total operating and general expenses	**1,665**	1,632	**836**	799	3,265

11. Other operating expenses (revenue), net

	For period of six months ended June 30		For period of three months ended June 30		For year ended
	2022	2021	2022	2022	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS	NIS	NIS millions	NIS millions	NIS millions
Capital gain (loss) (mainly from exercise of real estate)	**3**	(127)	**1**	(2)	(175)
Creation (cancellation) of provision for claims	**45**	(28)	**1**	2	(23)
Receipts from settlement agreement	**-**	-	**-**	-	(5)
Expenses in respect of the termination of an employer-employee relationship in early	**4**	8	**2**	6	95
Expenses in respect of the termination of an employer-employee relationship in early retirement and a streamlining agreement in Pelephone, Bezeq International and DBS	**-**	-	**-**	-	37
Other revenue	**(3)**	(3)	**(1)**	(4)	(6)
Other operating expenses (revenue), net	**49**	(150)	**3**	2	(77)

12. Financing expenses, net

	For period of six months ended June 30		For period of three months ended June 30		For year ended December
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)	**(Unaudited**	**(Unaudited)**	**(Unaudited**	**(Audited)**
	NIS millions	**NIS**	**NIS millions**	**NIS**	**NIS**
Interest expenses in respect of financial liabilities	**153**	174	**79**	88	395
Financing expenses for liabilities in respect of leases	**20**	19	**10**	10	40
Linkage differences and exchange rate	**79**	20	**51**	16	49
Financing expenses in respect of employee benefits	**-**	5	**-**	2	7
Other financing expenses	**8**	3	**4**	1	8
Costs due to early repayment of loans and debentures	**26**	-	**-**	-	34
Change in the fair value of financial assets measured at fair value through statement of income	**8**	-	**5**	3	-
Total financing expenses	**294**	221	**149**	120	533
Financing revenue in respect of employee benefits *	**30**	-	**10**	-	-
Revenue from credit grossing in sales	**12**	15	**6**	7	28
Change in the fair value of financial assets measured at fair value through statement of income	**26**	4	**19**	-	11
Other financing revenue	**17**	17	**15**	3	16
Revenue from exchange of debentures	**6**	-	**-**	-	-
Total financing revenue	**91**	36	**50**	10	55
Financing expenses, net	**203**	185	**99**	110	478

* Financing revenue recognized as a result of the update of the discount rate according to which the liabilities in respect of benefits to employees as of June 30, 2022 are calculated.

13. Share-based payment

On May 24, 2022, the Company's Board of Directors approved the granting of 3,250,000 unregistered warrants to the Company's CEO, exercisable into 3,250,000 ordinary shares of the company, which constitute approximately 2.3% of the Company's issued and paid-up share equity not fully diluted (without taking into account the options that were granted thereto in the past) as of the date of the grant, and also, the grant of 100,000 warrants, unregistered, to the company's CFO, exercisable into 100,000 ordinary shares of the Company, which constitute approximately 0.08% of the issued and paid-up share equity of the Company not fully diluted (without taking into account the options that were granted to the CEO in the past) as of the grant date.

The vesting period of the options granted to the CEO and CFO of the Company is 3 years. The expense recorded in the Company's books for the options granted to the CEO and CFO in the first six months of 2022 amounted to approximately NIS 40k.

14. Financial instruments

14.1. Investments composition

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Shekel deposits in banks (1)	**1,326**	830	1,015
Foreign currency deposits in banks (2)	**29**	19	20
Investments in financial funds and marketable assets measured at fair value	**108**	81	99
Derivative instruments	**20**	-	-
	1,483	930	1,134

(1) Deposits in NIS in banks due before January 2025.
(2) Deposits in US dollars in banks due before March 2023.

14.2. Fair value

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

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

	As of June 30, 2022		As of June 30, 2021		As of December 31, 2021	
	Book value (including accrued interest)	Fair value	Book value (including accrued interest)	Fair value	Book value (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS millions		NIS millions		NIS millions	
Loans from banks and institutional entities (non-linked)	**1,554**	**1,542**	2,015	2,137	1,612	1,713
Debentures issued to the public (index-linked)	**3,000**	**3,099**	3,222	3,492	2,913	3,249
Debentures issued to the public (non-linked)	**4,744**	**4,706**	4,917	5,295	5,215	5,543
	9,298	**9,347**	10,154	10,924	9,740	10,505

14.2. Fair value (Cont.)

B. Fair value hierarchy

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

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Level 1 - Investment in financial funds and marketable securities measured at fair value through income	**108**	110	99
Level 2 – Forward contracts	**23**	(68)	(19)

15. Segmental reporting

15.1. Segments of activity

	For period of six months ended June 30, 2022 (unaudited)						
	Interior landline communication	Cellular communication *	Internet, international communications, network endpoint services and ICT solutions	Multi-channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External	**1,992**	**1,177**	**582**	**632**	**97**	**-**	**4,480**
Inter-segmental	**171**	**22**	**27**	**-**	**5**	**(225)**	**-**
Total revenue	**2,163**	**1,199**	**609**	**632**	**102**	**(225)**	**4,480**
Depreciation and amortization	**487**	**258**	**67**	**134**	**2**	**(42)**	**906**
Segment results - operating profit	**779**	**116**	**13**	**(14)**	**7**	**17**	**918**
Financial	**231**	**16**	**5**	**5**	**-**	**38**	**295**
Financing	**(61)**	**(32)**	**(2)**	**(10)**	**-**	**13**	**(92)**
Total financing expenses (revenue), net	**170**	**(16)**	**3**	**(5)**	**-**	**51**	**203**
Segment profit (loss) after financing expenses, net	**609**	**132**	**10**	**(9)**	**7**	**(34)**	**715**
Taxes on	**148**	**30**	**-**	**1**	**3**	**-**	**182**
Segment results - net profit (loss)	**461**	**102**	**10**	**(10)**	**4**	**(34)**	**533**

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized starting from the fourth quarter of 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 16.4 for condensed selected data from the financial statements of DBS.

15.1. Segments of activity (Cont.)

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

	For period of three months ended June 30, 2022 (unaudited)						
	Interior landline communication	Cellular communication *	Internet, international communications, network endpoint services and ICT solutions	Multi-channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External	**986**	**588**	**289**	**316**	**46**	**-**	**2,225**
Inter-segmental	**81**	**11**	**13**	**-**	**5**	**(110)**	**-**
Total revenue	**1,067**	**599**	**302**	**316**	**51**	**(110)**	**2,225**
Depreciation and amortization	**248**	**136**	**29**	**68**	**1**	**(24)**	**458**
Segment results - operating profit	**393**	**52**	**17**	**(7)**	**3**	**3**	**461**
Financial	**110**	**9**	**3**	**3**	**-**	**25**	**150**
Financing	**(34)**	**(16)**	**(1)**	**(7)**	**-**	**7**	**(51)**
Total financing expenses (revenue), net	**76**	**(7)**	**2**	**(4)**	**-**	**32**	**99**
Segment profit (loss) after financing expenses, net	**317**	**59**	**15**	**(3)**	**3**	**(29)**	**361**
Taxes on	**74**	**13**	**-**	**-**	**2**	**-**	**89**
Segment results - net profit (loss)	**243**	**46**	**15**	**(3)**	**1**	**(29)**	**273**

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized starting from the fourth quarter of 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 16.4 for condensed selected data from the financial statements of DBS.

15.1. Segments of activity (Cont.)

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

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

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized starting from the fourth quarter of 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 16.4 for condensed selected data from the financial statements of DBS.

15.2. Adjustments in respect of segments reporting income

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS	NIS millions	NIS	NIS	NIS millions
Operating profit in respect of reportable segments	**894**	999	**455**	435	1,771
Financing expenses, net	**(203)**	(185)	**(99)**	(110)	(478)
Adjustments for the multi-channel television segment	**22**	37	**5**	25	72
Profit (loss) due to activities classified in other category and other adjustments	**2**	13	**1**	6	13
Profit before taxes on revenue	**715**	864	**362**	356	1,378

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

16.1. Bezeq the Israel Telecommunications Corporation Ltd.

Data from the statement of financial position:

	June 30, 2022	June 30, 2021	December
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**2,820**	2,209	2,554
Non-current assets	**10,217**	9,924	9,957
Total assets	**13,037**	12,133	12,511
Current liabilities	**2,235**	1,951	2,393
Long-term liabilities	**9,317**	9,591	9,022
Total liabilities	**11,552**	11,542	11,415
Equity	**1,485**	591	1,096
Total liabilities and equity	**13,037**	12,133	12,511

Data from the statement of income:

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**2,163**	2,093	**1,067**	1,039	4,182
Enterprise expenses					
Salary	**491**	466	**245**	233	934
Depreciation and amortization	**487**	454	**248**	231	938
Operating and general expenses	**357**	317	**179**	162	667
Other expenses (revenue), net	**49**	(144)	**2**	6	(105)
Total enterprise expenses	**1,384**	1,093	**674**	632	2,434
Operating profit	**779**	1,000	**393**	407	1,748
Financing revenue (expenses)					
Financing expenses	**231**	171	**110**	91	357
Financing revenue	**(61)**	(13)	**(34)**	(1)	(15)
Financing expenses, net	**170**	158	**76**	90	342
Profit after financing expenses, net	**609**	842	**317**	317	1,406
Share in the profits of equity-held investee companies, net	**128**	64	**64**	56	120
Profit before taxes on revenue	**737**	906	**381**	373	1,526
Taxes on revenue	**148**	204	**74**	79	343
Profit for the period	**589**	702	**307**	294	1,183

16.2. Pelephone Communications Ltd.

Data from the statement of financial position:

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**937**	830	1,121
Non-current assets	**3,537**	3,526	3,331
Total assets	**4,474**	4,356	4,452
Current liabilities	**802**	662	837
Long-term liabilities	**869**	1,034	916
Total liabilities	**1,671**	1,696	1,753
Equity	**2,803**	2,660	2,699
Total liabilities and equity	**4,474**	4,356	4,452

Data from the statement of income:

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue from services	**883**	801	**446**	409	1,642
Revenue from end equipment sales	**316**	345	**153**	167	647
Total revenue from services and sales	**1,199**	1,146	**599**	576	2,289
Enterprise expenses					
Operating and general expenses	**668**	693	**335**	341	1,346
Salary	**159**	158	**77**	79	315
Depreciation and amortization	**258**	286	**136**	144	577
Total operating expenses	**1,085**	1,137	**548**	564	2,238
Other expenses (revenue), net	**(2)**	(3)	**(1)**	(3)	9
Operating profit	**116**	12	**52**	15	42
Financing revenue (expenses)					
Financing expenses	**16**	11	**16**	5	23
Financing revenue	**(32)**	(32)	**(9)**	(16)	(65)
Financing expenses (revenue), net	**(16)**	(21)	**(7)**	(11)	(42)
Profit before taxes on revenue	**132**	33	**59**	26	84
Taxes on revenue	**30**	5	**13**	6	20
Profit for the period	**102**	28	**46**	20	64

16.3. Bezeq International Ltd.

Data from the statement of financial position:

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**394**	429	472
Non-current assets	**389**	292	311
Total assets	**783**	721	783
Current liabilities	**406**	397	409
Long-term liabilities	**146**	115	157
Total liabilities	**552**	**512**	566
Equity	**231**	209	217
Total liabilities and equity	**783**	**721**	**783**

Data from the statement of income:

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**609**	622	**302**	310	1,237
Enterprise expenses					
Operating and general expenses	**413**	402	**197**	191	799
Salary	**115**	118	**59**	58	237
Depreciation, amortization and impairment	**67**	95	**29**	46	173
Other expenses, net	**1**	(1)	**-**	(1)	6
Total operating expenses	**596**	614	**285**	294	1,215
Other operating expenses (revenue), net	**13**	8	**17**	16	22
Financing expenses (revenue)					
Financing expenses	**5**	3	**3**	1	5
Financing revenue	**(2)**	(2)	**(1)**	-	(3)
Financing expenses, net	**3**	1	**2**	1	2
Profit (loss) before taxes on revenue	**10**	7	**15**	15	20
Taxes on revenue	**-**	4	**-**	4	12
Profit (loss) for the period	**10**	3	**15**	11	8

16.4. DBS Satellite Services (1998) Ltd.

Data from the statement of financial position:

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	**213**	192	196
Non-current assets	**253**	231	230
Total assets	**466**	423	426
Current liabilities	**419**	419	394
Long-term liabilities	**82**	65	80
Total liabilities	**501**	484	474
Equity	**(35)**	(61)	(48)
Total liabilities and equity (deficit in equity)	**466**	**423**	**426**

Data from the statement of income:

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	**632**	630	**316**	315	1,270
Enterprise expenses					
Operating and general expenses	**429**	415	**213**	203	835
Salary	**96**	106	**46**	45	203
Depreciation, amortization and impairment	**97**	95	**47**	45	188
Other expenses, net	**2**	(2)	**2**	-	12
Total operating expenses	**624**	614	**318**	293	1,238
Operating profit (loss)	**8**	16	**(2)**	22	32
Financing expenses (revenue)					
Financing expenses	**5**	2	**3**	7	4
Financing revenue	**(10)**	(5)	**(7)**	(3)	(3)
Financing expenses (revenue), net	**(5)**	(3)	**(4)**	4	1
Profit before taxes on revenue	**13**	19	**2**	18	31
Taxes on revenue	**1**	1	**-**	-	1
Profit for the period	**12**	18	**2**	18	30

B. Communications Ltd.

Condensed Separate Interim Financial Information

As of June 30, 2022

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

To
Shareholders of B Communications Ltd.

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

Introduction
We audited the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – "the Company") as of June 30, 2022 and for the periods of six and three months that ended on that date. The separate financial information is within the responsibility of the Company's Board of Directors and Management. It is our responsibility to provide a conclusion on the separate interim financial information for said interim periods based on our review.

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

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

Emphasis paragraph (drawing attention)
Without limiting our above conclusion, we draw attention to what is stated in Note 1 which refers to Note 1.3 in the annual consolidated statements, regarding the Securities Authority's investigation of a suspicion of committing offenses under the Securities Law and the Penal Code concerning, *inter alia,* transactions related to the former controlling shareholder in Bezeq and the announcement of the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing on suspicion of bribery and reporting with intention to mislead a reasonable investor, and regarding the filing of indictments against the former controlling shareholder in Bezeq in various offenses, among other things, for offenses of bribery and causing misleading detail in immediate reporting and regarding the filing of an indictment against the former controlling shareholder in Bezeq and former senior executives in the Bezeq Group which attributes to the defendants offenses of obtaining by deceit in aggravated circumstances, fraud and breach of trust in a corporation, and reporting offenses under the Securities Law. In addition, following the opening of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq's controlling group in the past, including motions for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and results on Bezeq as well as on the statements and estimates used in the preparation of these reports, if any.

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

Somekh Chaikin
Certified Public Accountants

August 9, 2022

Condensed Separate Interim Financial Data as of

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	**4**	20	25
Short-term investments and deposits	**100**	191	180
Other receivables	**13**	24	14
Total current assets	**117**	235	219
Long-term deposits	**27**	120	79
Investment in equity-held investee company	**1,827**	*1,592	1,724
Total non-current assets	**1,854**	1,712	1,803
Total assets	**1,971**	1,947	2,022
Liabilities			
Trade payable and credit balances	**10**	7	7
Total current liabilities	**10**	7	7
Debentures	**1,905**	1,909	1,999
Total non-current liabilities	**1,905**	1,909	1,999
Total liabilities	**1,915**	1,916	2,006
Equity	**56**	*31	16
Total liabilities and equity	**1,971**	1,947	2,022

* Reclassified

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

Date of approval of the financial statements: August 9, 2022

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

Condensed Interim Income Data

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost of business					
Salary	2	2	1	1	5
Operating and general expenses	3	4	1	2	8
Total cost of business	5	6	2	3	13
Operating loss	(5)	(6)	(2)	(3)	(13)
Financing expenses (revenue) (See Note 2)					
Financing expenses	57	55	32	28	184
Financing revenue	(6)	(5)	-	(2)	(10)
Financing expenses (revenue), net	51	50	32	26	174
Profit (loss) after financing expenses, net	**(56)**	**(56)**	**(34)**	**(29)**	**(187)**
Share in the profits (losses) of equity-held investee companies, net	158	188	83	79	316
Net profit for the period	102	132	49	50	129

Condensed Interim Comprehensive Profit Data

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	**102**	132	49	50	129
Other comprehensive profit items, net of tax	**9**	6	(1)	-	10
Total comprehensive profit for the period	**111**	138	48	50	139

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

Condensed Interim Cash Flows Data

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from current activities					
Net profit for the period	**102**	132	49	50	129
Adjustments:					
Share in profits of equity-held investee companies, net	**(158)**	(188)	**(83)**	(79)	(316)
Financing expenses, net	**52**	52	**32**	26	174
Change in other payables	**(1)**	(1)	**-**	1	10
Net cash used for current activities	**(5)**	(5)	**(2)**	(2)	(3)
Cash flows from investing activities					
Change in deposits and investments, net	**124**	8	**65**	(10)	66
Others	**-**	1	**-**	1	1
Dividend received from investee	**64**	-	**64**	-	-
Net cash derived from (used for) investing activities	**188**	9	**129**	(9)	67
Cash flows for financing activities					
Issuance of debentures	**-**	-	**-**	-	1,035
Repayment of debentures principal	**(98)**	-	**(98)**	-	(1,015)
Buyback of shares	**(67)**	-	**(56)**	-	(16)
Interest paid	**(39)**	(39)	**(39)**	(39)	(79)
Costs for early repayment of debentures	**-**	-	**-**	-	(19)
Net cash used for financing activities	**(204)**	(39)	**(193)**	(39)	(94)
Decrease in cash and cash equivalents	**(21)**	(35)	**(66)**	(50)	(30)
Cash and cash equivalents at the beginning of the period	**25**	55	**70**	70	55
Cash and cash equivalents at the end of the period	**4**	20	**4**	20	25

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

Notes to the condensed interim financial information

1. Method of preparation of the financial data

1.1. Definitions

"The Company" - "B Communications" Ltd.

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

1.2. Main methods of preparing the financial data

The following is the condensed financial data from the condensed consolidated interim statements of the Group as of June 30, 2022 (hereinafter: the “Consolidated Statements”), attributed to the Company itself ("hereinafter: the "Condensed Separate Interim Financial Information") presented in accordance with the provisions of Regulation 38D (hereinafter - the “Regulation") and Schedule 10 to the Securities Regulations (Periodic and Immediate Reports), 5770-1970 (hereinafter – “Schedule 10") regarding the Condensed Separate Interim Financial Information of the Corporation. This Condensed Separate Interim Financial Information should be read alongside the Consolidated Statements as of the day and year ended December 31, 2021 and alongside the condensed consolidated interim statements as of June 30, 2021 (hereinafter: the “Consolidated Statements").

The accounting policy in this Condensed Separate Interim Financial Information is in accordance with the accounting policy rules which are specified in the Consolidated Statements as of the day and year ended December 31, 2021.

2. Financing expenses / revenue

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial debt	**50**	55	**27**	28	165
Change in the fair value of financial assets measured at fair value through income	**7**	-	**5**	-	-
Cost of early repayment of debentures	**-**	-	**-**	-	19
Total financing expenses	**57**	55	**32**	28	184
Change in the fair value of financial assets measured at fair value through income	**-**	5	-	2	10
Revenue from exchange of debentures	**6**	-	**-**	-	-
Total financing revenue	**6**	5	-	2	10

Financing expenses, net	**51**	50	**32**	26	174

3. Contingent liabilities

For information regarding claims against the Company, see Note 6 in the Consolidated Statements.

4. Material subsequent events

4.1. For information regarding the buyback of the Company's shares during the first half of 2022, see Note 8 to the Consolidated Statements.

4.2. For information regarding the distribution of a dividend by Bezeq during the first half of 2022 and its share in the said dividend and a distribution subject to the approval of the Bezeq General Assembly, see Note 4.4 to the Consolidated Statements.

4.3. For information regarding the investigation by the Securities Authority and the Israel Police, see Note 1.3 to the Consolidated Statements.

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

4.5. Regarding the granting of options to the Company's CEO and CFO, see Note 14 to the Consolidated Statements.

4.6. On July 6, 2022, the Company transferred the Series C debentures that were held by a partnership owned by the Company to the Company's account and then removed the transferred debentures from circulation.

4.7. For information regarding another plan for the buyback of the Company's shares which was approved on August 9, 2022, see Note 8.5 to the Consolidated Statements.

Chapter E

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period ended June 30, 2022

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

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

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

For this purpose, the members of Management are:

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

In addition to the said members of Management, serving in the Company are:

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

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

Internal control includes, *inter alia*, controls and procedures designed to ensure that information the disclosure of which by the Corporation is required, is accumulated and transmitted to the Corporation's Management, including the CEO and senior executives in the field of finance or to those actually performing the said functions, in order to enable decisions with regard to the disclosure requirement to be made at the appropriate time.

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

In the quarterly report regarding the effectiveness of the internal control over the financial reporting and the disclosure which was attached to the quarterly report for the period ending on March 31, 2022 (hereinafter - the quarterly report regarding the latest internal control), the internal control was found to be effective.

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

As of the date of the report, based on what was stated in the quarterly report regarding the latest internal control, and based on information brought to the attention of Management and the Board of Directors as mentioned above, the internal control is effective.

****

Regarding the investigations by the Israel Securities Authority and the Israel Police, as detailed in Section 1.1.7 of the chapter describing the Corporation's business in the periodic report for 2021, the Corporation does not have complete information regarding these investigations, plans, materials and evidence in the possession of the law authorities in this case. (Although in January 2021, Bezeq received the core of the investigation material in connection with Case 4000 following Bezeq’s summons for a hearing on this matter. Accordingly, the Corporation is still unable to assess the effects of the investigations, findings and results on the Corporation, as well as the financial statements and estimates used in the preparation of these reports, if any.

Executive statements:

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

I, Tomer Raved, declare that:

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

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

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

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

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

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

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

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; -

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

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

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

Date: August 9, 2022

Tomer Raved, CEO

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

I, Itzik Tadmor, declare that:

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

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

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

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabitlies in the determination or exercise of internal control over financial reporting and disclosure as it relates to interim financial statements and other financial information contained in interim financial statements that are likely to adversely affect a corporation's ability to collect, process, summarize or report financial information In such a way as to cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; And -

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

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

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; And -

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

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

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

Date: August 9, 2022

Itzik Tadmor, Chief Financial Officer