



B. Communications Ltd.

Q3 2022 – Quarterly Report

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

Chapter B - Report of the Board of Directors on the State of the Corporation's Business

Chapter C – Unaudited Financial Statements

Chapter E - Report on the Effectiveness of Internal Control

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR Q3 2022 (THE "REPORTS"). THE HEBREW VERSION OF THE REPORTS IS THE BINDING VERSION AND THE ONLY VERSION HAVING LEGAL EFFECT. THE ENGLISH TRANSLATION HAS BEEN CREATED FOR THE PURPOSE OF CONVENIENCE ONLY. THE APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS WAS GIVEN TO THE HEBREW VERSION ONLY AND NO SUCH APPROVAL HAS BEEN GIVEN TO THE ENGLISH TRANSLATION. THIS ENGLISH TRANSLATION WAS NOT SUBMITTED TO THE ISRAELI SECURITIES AUTHORITY AND IS NOT REVIEWED BY ANY REGULATORY AUTHORITY.



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

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

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

B. Communications Ltd. ("**the Company**") together with the subsidiary Bezeq the Israeli Telecommunications Corporation Ltd. ("**Bezeq**" 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 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-

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.

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 Remuneration 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.

- 1.8. On August 9, 2022, the Company's Board of Directors decided to adopt a buyback plan of the Company's shares, in the amount of up to NIS 25 million, effective from August 11, 2022 until: (1) Purchase of the Company's shares to the extent of the total purchase cost; or (2) The end of the trading day on November 1, 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 protection of "Safe Harbor" in the buyback of securities by a corporation. For more details, see the immediate report published by the Company on August 10, 2022 (Ref. No.: 2022-01-101353), which is included in this report by way of reference. On September 14, 2022, the Company completed the execution of the aforementioned buyback plan with a performance rate of 99.98%, for more details see the Company's report from the said date (Ref. No.: 2022-01-095145).

- 1.9. On October 18, 2022, a special meeting of the company's shareholders was held, on the agenda of which was the approval of Mrs. Efrat Makov as an external director of the Company.

At the aforementioned meeting, it was decided to approve the re-appointment of Mrs. Efrat Makov, who serves as an external director of the Company, for an additional term of three (3) years, beginning on November 23, 2022.

For more details, see immediate reports published by the Company on September 13, 2022 and October 18, 2022 (Ref. Nos.: 2022-01-094674 and 2022-01-103272, respectively), which are included in this report by way of reference.

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

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

2.1. To Section 1.1.4 - Control of the Company, and to Section 2.16.3 – Communications Ordinance

Regarding the control permit and the Communications Ordinance - on September 4, 2022, the draft Communications Ordinance (Bezeq and Broadcasting) (Determining an Essential Service provided by Bezeq, the Israel Telecommunications Corporation Ltd.), (Amendment), 5782-2022 ("the **Draft Amendment**") was published for public comments on the government legislation website until September 25, 2022. In accordance with what is detailed in the introduction and in the explanatory notes to the Draft Amendment, the Company, a controlling shareholder in Bezeq, applied to the Ministry of Communications with a request, among other things, to amend the Communications Ordinance in a way that will allow it to gradually sell its holdings in the Company to the public in the future, so that at the end of the process it will no longer be a controlling shareholder in the Company. Following that, it is proposed, among other things, to amend the Communications Ordinance in a way

that would allow the controlling shareholder, subject to obtaining the approval of the Prime Minister and the Minister of Communications after consulting with the Minister of Defense, to transfer means of control to another party if, as a result of the transfer, it ceases to be a controlling shareholder.

It should be noted that insofar as the amendment enters into force, it will reduce the regulatory restrictions applicable at the said date on the Company and the other Bezeq shareholders, with an emphasis on the holdings of institutional entities as stated below. In addition, it was clarified as part of the Company's report that it did not submit a request to decentralize control of Bezeq, and that it did not make any decision to sell the Bezeq shares held by it in whole or in part.

The Draft Amendment includes proposals for additional amendments to the Communications Ordinance, including, *inter alia*:

- 2.1.1. Adding an option for the controlling **shareholder** to replace the Israeliness requirement with instructions from the General Security Service by virtue of Article 13 of the Communications Law.
- 2.1.2. Allowing an institutional investor to increase its holding to up to 7.5% in any type of control without the need for the Ministers' approval.
- 2.1.3. Repeal of Article 7(g) of the Communications Ordinance which establishes reporting obligations, conditions and limitations for any entity that owns 2.5% or more of any type of control in the Company in a situation where over 75% of the Company's shares will be held by the public.

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

Regarding the establishment of ISP activity in DBS - 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 while focusing on the sale of integrated packages to customers. Further to what was stated in the update to Section 1.7.4.10 regarding the change in the regulatory structure in the Bezeq field, as of October 2, 2022, the provisions of the Communications Regulations (Bezeq and Broadcasting) (General Permit for the Provision of Bezeq Services), 5782-2022 instead of the provisions of the said license.

On August 28, 2022, Mr. Ilan Siegel started his office as CEO of Bezeq, Pelephone, DBS and Bezeq International, in place of Mr. Ran Guron, who was appointed CEO of Bezeq (see Section 3 below - update to Section 2.9.5). On November 15, 2022, the Bezeq Board of Directors (after obtaining approval from the Bezeq International Board of Directors) approved the appointment of Mr. Ron Galab as CEO of Bezeq International as of January 1, 2023. In accordance with the resolution of the Board of Directors, as of this date, Mr. Ilan Siegel will continue to serve as CEO of Pelephone and D.B.S.

2.3. To Section 1.1.7 - Investigations by the Israel Securities Authority and the Israel Police

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). On September 6, 2022, an announcement was published by the Ministry of Justice according to which the Criminal Department of the State Attorney's Office filed an appeal against the decision on the same day.

2.4. Section 1.4.2 - Dividend distribution

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

Bezeq's balance of the distributable profits as of the date of the report is approximately NIS 1,713 million (surpluses accumulated in the last two years after the reduction of the distributions from May and October 2022).

2.5. To Section 1.5.4 - Key results and operational data

2.5.1. Bezeq Fixed Lines (Bezeq activity as NIO³)

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Income (NIS millions)	1,086	1,067	1,096	1,052	1,037	1,039	1,054
Operating profit (NIS millions)	388	393	386	358	390	407	593
Depreciation and amortization (NIS millions)	252	248	239	245	239	231	223
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	640	641	625	603	629	638	816
Net profit (NIS millions)	235	243	218	206	219	238	400
Cash flow from current activities (NIS millions)	427	541	634	593	567	354	510
Payments for investments in property, plant and equipment and intangible assets and other investments (NIS millions)	294	279	285	244	314	285	312
Receipts from the sale of property, plant and equipment and intangible assets (NIS millions)	8	5	14	87	4	-	182
Lease payments	34	33	36	32	31	24	29
Free cash flow (NIS millions) (2)	107	234	327	404	226	45	351
Number of active subscribers at the end of the period (thousands) (3)	1,522	1,542	1,563	1,583	1,602	1,615	1,630
Average monthly income per telephony subscriber (NIS) (ARPL) (4)	41	41	47	46	46	47	49
Outgoing usage minutes (millions)	744	726	801	811	782	827	965
Incoming usage minutes (millions)	989	952	1,058	1,096	1,152	1,095	1,284
Telephony churn rate (6)	2.8%	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)	1,505	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)	481	490	495	501	510	520	539
Of which are Internet lines at the end of the period - in retail (thousands) (7)	1,024	1,022	1,024	1,023	1,014	1,009	1,001
Average monthly income per Internet subscriber (NIS) - Retail (ARPU) (8)	116	113	110	109	107	106	103
Fiber optic network deployment at the end of the period (thousands of households available for connection) (9)	1,442	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)	212	161	124	84	44	16	1
Average plan speed for Internet subscriber – retail (Mbps) (5)	192	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 EBITDA is calculated as operating profit before depreciation, amortization and ongoing

³ NIO – national interior operator.

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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 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) Income 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 incomes from Internet access service (ISP).
- (9) As of the date of publication of the report, deployment of fiber optic network – approx. 1.477 million households are available for connection, of which approx. 233K subscribers are connected to the fiber network.

2.5.2. Telephone

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Income from services (NIS millions)	467	446	437	424	417	409	392
Income from the sale of end equipment (NIS millions)	141	153	163	178	124	167	178
Total income (NIS millions)	608	599	600	602	541	576	570
Operating profit (loss) (NIS millions)	60	52	64	8	22	15	(3)
Depreciation and amortization (NIS millions)	139	136	122	147	144	144	142
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	199	188	186	155	166	159	139
Net profit (loss) (NIS millions)	50	46	56	13	23	20	8
Cash flow from operating activities (NIS millions)	203	244	278	19	185	149	72
Payments for investments in property, plant and equipment, intangible assets and other investments, net (NIS millions)	157	66	72	54	68	60	71
Lease payments	58	47	61	54	52	53	60
Free cash flow (NIS millions) (1)	(12)	131	145	(89)	65	36	(59)
Number of postpaid subscribers for the end of the period (thousands) (2)	2,137	2,122	2,093	2,096	2,074	2,050	2,030
Number of prepaid subscribers for the end of the period (thousands) (2)	538	514	490	480	473	471	462
Number of subscribers for the end of the period (thousands) (2)	2,675	2,636	2,583	2,576	2,547	2,521	2,492
Average monthly income per subscriber (NIS) (ARPU) (3)	58	57	57	55	55	54	53
Subscriber churn rate (Churn Rate) (4)	5.7%	5.5%	6.8%	5.8%	5.5%	5.8%	5.8%

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- (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 income 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 753K subscribers in such packages.
- (3) The average monthly income per subscriber (postpaid and prepaid). The index is calculated by dividing the average monthly income from all cellular services from both Pelephone's subscribers and other communication operators, including income 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.

2.5.3. Bezeq International

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Income (NIS millions)	311	302	307	328	287	310	312
Operating profit (loss) (NIS millions)	17	17	(4)	1	13	16	(8)
Depreciation and amortization (NIS millions)	32	29	38	40	38	46	49
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	49	46	34	41	51	62	41
Net profit (loss) (NIS millions)	16	15	(5)	(5)	10	11	(8)
Cash flow from operating activities (NIS millions)	5	37	112	(52)	96	26	61
Payments for investments in property, plant and equipment and intangible assets and other investments, net (NIS millions) (2)	23	27	26	14	27	27	30
Lease payments	9	9	9	7	9	9	8
Free cash flow (NIS millions) (1)	(27)	1	77	(73)	60	(10)	23
Subscriber churn rate (3)	12.4%	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.

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2.5.4. DBS

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Income (NIS millions)	315	316	316	322	318	315	315
Operating profit (loss) (NIS millions)	0	(2)	10	(14)	30	22	(6)
Depreciation, amortization and ongoing impairment (NIS millions)	46	46	50	52	45	45	61
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (NIS millions) (1)	46	44	60	38	75	67	55
Net profit (loss) (NIS millions)	0	2	10	(17)	29	18	0
Cash flow from operating activities (NIS millions)	9	43	78	42	73	56	62
Payments for investments in property, plant and equipment and intangible assets and other investments, net (in NIS millions)	39	49	46	55	38	42	43
Lease payments	6	6	6	7	6	7	6
Free cash flow (NIS millions) (1)	(36)	(12)	26	(20)	29	7	13
Number of subscribers (at the end of the period, thousands) (2)	575	567	564	563	560	560	559
Of which are IP subscribers (3)	307	280	253	226	198	173	147
Of which are StingTV subscribers	101	94	89	84	79	74	70
Average monthly income per subscriber (ARPU) (NIS) (3)	182	184	186	190	188	186	187
Subscriber churn rate (4)	3.2%	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 in respect of non-small business customers is calculated by dividing the total payment received from all non-small business customers by the average income per small business customer, which is determined once per period.
- (3) The number of DBS subscribers using Yes+ and STINGTV services transmitted via the Internet (as stated in Sections 5.2.2.1 and 5.2.2.2 of the chapter describing the corporation's business in the periodic report for 2021) as of the date of publication of the report, is about 317K subscribers (of which, 103K are STINGTV subscribers), which constitute 55% of all DBS subscribers. This number also includes subscribers who also use satellite services at the same time.
- (4) The average monthly income per subscriber is calculated by dividing the total DBS income (excluding income from the sale of content to external broadcasters, income from end equipment, Internet activity income) 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 known to it currently, as follows:

- Adjusted net profit⁴ 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)

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

- Adjusted EBITDA⁵ 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)
- CAPEX⁶ 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 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

2.6. 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.

2.7. 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 MRT⁷ 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 an 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.

⁵ See footnote 2.

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

⁷ MRT – Mobile Radio Telephone

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**") 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 September 29, 2022, the Ministry of Communications website published a final version of the regulations implementing the regulation format, according to which many of the entities that provide Bezeq services today will be transferred from regulation through a license to regulation through registration in a dedicated registry and in accordance with the regulations. In accordance with the provisions of the regulations, they will not apply to certain license holders, including Bezeq and its subsidiaries Pelephone, Bezeq International, and DBS, except in relation to the ISP service provided by DBS. At the same time, as it appears from the explanation of the regulations, the Ministry of Communications intends to map the licenses and actively cancel the instructions in the licenses that are regulated in the regulations, as well as to examine in the near future the justifications for determining different arrangements within the licenses. It should be noted that the regulations, which as mentioned do not apply to the Group companies (with the exception of DBS' ISP), stipulate an obligation to disconnect "dormant subscribers" from Internet access services (a subscriber who has not used an Internet access service for at least six consecutive months), except in relation to the service for a medium-large business subscriber as defined in the regulations.

The effect of amending the Communications Law and regulations on the Group companies is being assessed by the group companies, and it depends, among other things, on the manner in which they are implemented by the Ministry of Communications.

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

2.8. To Section 1.7.6 - Pandemic - Outbreak of COVID19

For this matter, see Note 1.2 to the Statements.

2.9. 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 745K customers (approximately 72% of Bezeq's retail Internet customers). Bezeq has about 407K product units to improve the reception range of the Be spot and Be Mesh home Internet networks.

3.2. To Section 2.7.2 - the infrastructure and equipment of landline interior communication

On September 19, 2022, Bezeq received a public appeal published by the Ministry of Communications regarding policy principles for decommissioning the copper networks, in which the Ministry reviews the main issues, challenges and principles for decommissioning the copper networks and transitioning to networks based on fiber infrastructure. According to the public appeal, there are a number of possible regulatory actions that the Ministry of Communications can take regarding the decommissioning of the copper networks, among other things, establishing an outline and milestones for the implementation of the decommissioning of the copper networks, and it asks the public and all license holders to submit references and positions to the call (until November 24, 2022). Bezeq is studying the appeal and intends to forward its comments to the Ministry.

3.3. 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 September 14, 2022, the General Meeting of the Company's shareholders approved 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.

3.4. To Section 2.11 - Working equity

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

3.5. 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.

3.6. 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

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

Paragraph 2.16.1.5 – 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.

Section 2.16.1.5 and Section 2.16.12.2 (Ultra-broadband fiber infrastructure service rates) - regarding the Ministry's intention to start a new pricing process for all wholesale rates in 2022 - on September 6, 2022, Bezeq received a letter from the CEO of the Ministry of Communications that includes notice of launching a wholesale market services pricing process - update and request for information ("**the Notice**"). The Notice was accompanied by a request for data from Axon Partners Group, which the Ministry chose to provide consulting services for the purpose of assisting in the construction of a cost model from which updated rates for the wholesale market will be derived. According to the notice, the process work will progress according to the following stages:

- 3.7.1. Collecting information from licensees.
- 3.7.2. Building the economic model based on a pricing methodology, formulating an up-to-date list of wholesale services, and determining maximum payments for wholesale services based on the model that will be published for a hearing (the hearing on the cost model is expected to be published in Q1/2023).
- 3.7.3. Decision by way of hearing and introducing an amendment to the usage regulations.

Bezeq transfers data and information in accordance with the request, and at this stage it is unable to assess the results and consequences of the future hearing.

3.8. To Section 2.16.12 - fiber - ultra-broadband landline infrastructures

Section 2.16.12.1 (Amendment to the Communications Law to regulate the deployment of an "advanced network") - regarding Bezeq's plan to deploy an ultra-fast fiber network - on October 3, 2022, the Minister of Communications approved Bezeq's request to allow it to deploy an advanced network and provide Bezeq service over it in additional statistical areas to the areas determined as of this date in Bezeq's license, and to amend Bezeq's license accordingly. It should be noted that this is a deployment in 151 additional areas, including approximately 60,000 households. As detailed in the decision of the Minister of Communications, the proportion of households in Bezeq's deployment areas is 82.5%, which is an addition of about 2.3% to this rate, so that the updated rate of households in Bezeq's deployment areas will be about 84.7%.

Also, following the tender published by the Ministry of Communications on October 13, 2021 for

deployment in the incentive areas, on October 26, 2022 the Ministry published another (second) tender for deployment in the remaining incentive areas.

3.9. 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)

– On November 14, the parties filed for the approval of the Court a settlement agreement under which] a total amount of NIS 75 million (including Remuneration and attorney's fees). The settlement agreement requires the approval of the Court in which the proceedings are conducted. In view of the provisions of the accounting standard, a provision was recorded in Bezeq's statements for Q1/2022 (during the negotiations for a settlement in the case) in the amount of the settlement amount, and on the other hand, in view of the existence of full insurance coverage, an indemnity asset in the amount of the provision was recognized in the same report, so that the aforementioned registration 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 stayed, at this stage, until November 24, 2022 (in relation to Section C (motion from March 2018) - the procedure is stayed, at this stage, until July 20, 2023).

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.

3.10. 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 1.7 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 3.1.8 - Structure of the competition and changes in the field

Section 3.1.8.4 (Public appeal on private networks) - On August 14, 2022, the Ministry of Communications published a hearing in which the public's opinion was sought on the Ministry's intention to allocate a frequency band in the 26 GHz range (and a narrow band in the 2100 MHz range) for use by entities other than cellular operators or general landline telephony service operators, for the purpose of providing private network service (on a project or local basis). Pelephone submitted its position for the hearing. The consequences of the issue will be clarified with the decision of the Ministry of Communications in the hearing.

4.2. To Section 3.8.2 - Right to use frequencies

Section 3.8.2.2 (Inventory of frequencies held by Pelephone) - regarding the temporary allocation to Pelephone for use in a 5MHz-wide band in the 1800 MHz range - the Ministry of Communications has reassigned this temporary allocation until December 31, 2022 under conditions and limitations, in order to allow the Pelephone to prepare to the expected change in frequency switching in the first GHz range.

Section 3.8.2.4 (tender for advanced bandwidth mobile telephone radio services) - on August 14, 2022, the Ministry of Communications published a non-binding principle document, regarding the ongoing tender for 5G mobile telephone radio services, which is planned to be published during Q4/2022. According to the document of principles, as part of the tender, a wide band of frequencies in the 26 GHz range will be allocated (a total of 100 bands of 20 MHz each) for competition between the existing mobile telephone radio operators, all for the purpose of improving and thickening the 5G capabilities and solutions that exist in the cellular networks today. After receiving the actual tender, it will be possible to evaluate its meaning on Pelephone.

4.3. 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.

Regarding notice of a labor dispute, see update to Section 4.8 below (Section 5.1 below).

4.4. To Section 3.14.3 – Site licensing and construction

In the matter of a specific cooperation agreement in the establishment of passive infrastructure in shared cellular sites signed between Pelephone and Cellcom and P.H.I. Networks (2015) Limited Partnership - In August 2022, the Ministry of Communications approved the agreement.

4.5. 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.

4.6. 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.

4.7. 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 incomes 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 Management 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.

On August 10, 2022, Pelephone and Bezeq International received a notice from the New General Histadrut - the Union of Cellular, Internet and High-Tech Workers regarding the announcement of a labor dispute at Pelephone and Bezeq International in accordance with the Labor Dispute Settlement Law, 5717-1957 and a strike starting on August 25, 2022. The matters in the dispute, according to the notice, are as follows: a demand for conducting negotiations and signing collective agreements to improve wages and working conditions, and an impasse in negotiations for signing a collective agreement.

On October 3, 2022, Bezeq International's Board of Directors approved the implementation of agreements reached with the New General Histadrut and the employee representation of Bezeq International (as part of conducting negotiations to regulate employee rights) regarding a plan for the voluntary retirement of Bezeq International employees during the years 2022-2024 ("Voluntary Retirement Plan"). The estimated cost of the Voluntary Retirement Plan is approximately NIS 70 million, assuming full implementation of the Voluntary Retirement Plan. The implementation of the Voluntary Retirement Plan is expected to allow Bezeq International to adjust its organizational structure, the scope of manpower and costs to the changes taking place in the market following the regulatory change in the field of Internet services (elimination of the separation between an infrastructure provider and an ISP that allows Bezeq to provide a unified Internet service) which causes the reduction of ISP activity at Bezeq International, this is in accordance with the alternative outline as detailed in Section 1.1.5 in the chapter describing the Corporation's business in the periodic report for the year 2021. Following this, starting on November 13, 2022, Bezeq International is expected to approve voluntary retirement for Bezeq International employees to the extent of the estimated cost of the plan (about NIS 70 million). Most of the expenditure for the voluntary retirement plan is expected to be recognized in the fourth quarter of 2022. For this matter, see also Note 15 to the statements.

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 held 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 income 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. To Section 5.13 - Financing

In November 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 October 1, 2022. This approval replaces a similar approval given in August 2022 (and not in addition thereto).

6.4. To Section 5.16 – Competition

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

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the best of DBS' knowledge, the said venture is intended to begin its operations at the end of 2022 or at the start of 2023, 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. To Section 5.17 - Legal proceedings

Paragraph 5.17.1(e) (Request for approval of a class action against DBS, claiming that its customers who order a paid channel close to the closing date of the invoice and cancel it soon after (so that they are supposed to pay according to a daily rate), are allegedly charged more) - On September 14, 2022, a judgment was issued confirming an agreed request for withdrawal, within which DBS undertook to make changes to the invoice and the billing system in connection with ordering sports channels paid according to a daily rate and to refresh the procedures for DBS representatives.

6.6. To Section 5.18 - Objectives and strategy

Section 5.18.1 (Phased transition (migration) of DBS from satellite broadcasts to Internet transmission (OTT)) - see Section 2.4.4 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).

November 15, 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 September 30, 2022

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended September 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 nine months ended September 30, 2022 ("Period") and for a period of three months ended on the same date ("Quarter").

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 1.3 to the statements. The auditors drew attention to this in their opinion on the statements.

For the effects of the COVID19 crisis, see Note 1.4 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:

	1-9/2022	1-9/2021	Change		7-9/2022	7-9/2021	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Net profit	809	882	(73)	(8.3)	276	236	40	4.9
EBITDA*	2,756	2,913	(157)	(5.4)	932	923	9	(0.8)
Adjusted EBITDA*	2,822	2,792	30	1.1	945	936	9	(1.5)

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

The decrease in net 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 from an increase in provision expenses for legal claims in the current period.

The decrease in net profit is mainly due to an increase in the profit of the cellular communications segment and also due to a decrease in financing expenses in the Company and in Bezeq.

For more information, see Chapter 1.2.1 below.

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

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

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

The following is a breakdown of the indices:

Index	Details of the method of calculation and the purposes of the index
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as profit before financing income/expenses, 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 / income, 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 / income. 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:

	1-9/2022	1-9/2021	7-9/2022	7-9/2021
	NIS millions		NIS millions	
Operating profit	1,382	1,506	464	457
Depreciation, amortization and impairment	1,374	1,407	468	466
EBITDA	2,756	2,913	932	923
Other operating expenses (income), net	59	(143)	10	7
Capital compensation expenses	7	22	3	6
Adjusted EBITDA	2,822	2,792	945	936

Report of the Board of Directors on the state of affairs of the corporation for the Period ended September 30, 2022

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

1.1 Financial position

	September 30,	September 30,	Increase (decrease)		Explanation
	2022	2021	NIS		
	NIS millions	%	millions	%	
Cash and current investments	2,497	2,004	493	24.6	The increase was due to an increase in current investment balances in the landline interior communications segment, offsetting a decrease in cash balances in the Bezeq Group's main segments. For more information, see Chapter 1.3 below.
Current and non-current trade receivables	2,257	2,361	(104)	(4.4)	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 mainly in the receivables balance due to an insurer's commitment to insurance indemnification for the provision for a claim (see Note 6.2 to the statements) and an increase in transaction balances in installments in the landline interior communications segment (see Note 6.2 to the Statements).
Inventory	98	70	28	40.0	The increase in inventory was mainly from the cellular communications segment.
Assets held for sale	-	36	(36)	-	
Broadcasting rights	63	57	6	10.5	
Right-of-use assets	1,779	1,763	16	0.9	
Property, plant and equipment	6,532	6,266	266	4.2	The increase was mainly due to the landline interior communications segment, partly due to the progress of the fiber network deployment project.
Intangible assets	3,261	3,266	(5)	(0.2)	
Deferred tax assets	-	37	(37)	-	
Deferred expenses and non-current investments	262	347	(85)	(24.5)	The decrease is mainly due to the classification of long-term deposits in the Company as current investments
Total assets	16,749	16,207	542	3.3	

Report of the Board of Directors on the state of affairs of the corporation for the Period ended September 30, 2022

1.1. Financial position (Cont.)

	June 30, 2022	June 30, 2021	Increase (decrease)	
	NIS millions	%	NIS millions	%
Debt to financial institutions and bondholders	9,938	9,944	(6)	(0.1)
	1,934	1,897	37	1.9
Liabilities in respect of leases				
Trade payables	1,663	1,723	(60)	(3.5)
Dividend payable	215	-	215	-
Employee benefits	466	667	(201)	(30.1)
Provisions	214	132	82	62.1
Deferred tax liabilities	331	302	29	9.6
Other liabilities	137	178	(41)	(23.0)
Total liabilities	14,898	14,843	55	0.4
Non-controlling interests	1,761	*1,303	458	35.1
Total equity deficit attributed to the Company's shareholders	90	*61	29	47.5
Total equity	1,851	1,364	487	35.7
Total liabilities and equity	16,749	16,207	542	3.3

Explanation
The decrease was due to a decrease in payable balances mainly due to payment for 5G frequencies in the cellular communication segment in the current quarter.
On September 14, 2022, the General Assembly of Bezeq's shareholders approved the distribution of a cash dividend to Bezeq's shareholders in the total amount of NIS 294 million. The dividend was paid on October 3, 2022. The Company's share of said dividend is approximately NIS 78 million. See Note 4.4 to the statements.
The decrease was mainly due to the landline interior communication segment as a result of payments for employee retirement and an increase in the discount rate of liabilities to employees, offset by an increase in the provision for termination of employee-employer relationship in early retirement.
The increase was mainly due to an increase in provisions for claims in the landline interior communications segment, see Note 6.2 to the statements.
The decrease was mainly due to the reduction in derivatives in the landline interior communications segment.
Equity as of September 30, 2022 constitutes approximately 11.1% of the total balance sheet, compared with a deficit in equity which constituted approximately 8.4% of the total balance sheet on September 30, 2021.

* Reclassified.

Report of the Board of Directors on the state of affairs of the corporation for the Period ended September 30, 2022

1.1.1. Enterprise results

Key results

	1-9/2022	1-9/2021	Increase (decrease)		7-9/2022	7-9/2021	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Income	6,742	6,563	179	2.7	2,262	2,142	120	5.6	The increase in income was due to the landline interior communications segment, the cellular communications segment and the Bezeq International services segment, offset by a decrease in income of the "Other" segment.
Operating and general expenses	2,514	2,376	138	5.8	849	744	105	14.1	The increase was due to all Bezeq Group's main segments.
Salary	1,413	1,417	(4)	(0.3)	471	468	3	0.6	Decrease in salary expenses in the "Other" segment, offset by an increase in the landline interior communications segment and the multichannel TV segment.
Depreciation, amortization and impairment	1,374	1,407	(33)	(2.3)	468	466	2	0.6	The decrease in Bezeq Group's expenses was offset by an increase in expenses in the landline interior communications segment.
Other operating expenses (income), net	59	(143)	202	-	10	7	3	42.9	The change in the period was mainly 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 11 to the Statements.
Operating Profit	1,382	1,506	(124)	(8.2)	464	457	7	1.5	
Financing expenses, net	300	331	(31)	(9.4)	97	146	(49)	(33.6)	The decrease in the period and in the quarter was due to the landline interior communications segment and to a decrease in refinancing costs of the Company's debt in Q3/2021, see Note 12 to the Statements.
Taxes on income	273	293	(20)	(6.8)	91	75	16	21.3	
Profit (loss) in the year	809	882	(73)	(8.3)	276	236	40	16.9	

Report of the Board of Directors on the state of affairs of the corporation for the Period ended September 30, 2022

1.1.2. Operating segments

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

Income by operating segments	1-9/2022		1-9/2021		7-9/2022		7-9/2021	
	NIS millions	% of total income	NIS millions	% of total income	NIS millions	% of total income	NIS millions	% of total income
Interior landline communication	3,249	48.2	3,130	47.7	1,086	48.0	1,037	48.4
Cellular communication	1,807	26.8	1,687	25.7	608	26.9	541	25.3
Bezeq International services	920	13.6	909	13.9	311	13.8	287	13.4
Multi-channel TV	947	14.0	948	14.4	315	13.9	318	14.8
Others and adjustments	(181)	(2.8)	(111)	(1.7)	(58)	(2.6)	(41)	(1.9)
Total income	6,742	100	6,563	100	2,262	100	2,142	100

Income by operating segments	1-6/2022		1-6/2021		4-6/2022		4-6/2021	
	NIS millions	% of total income	NIS millions	% of total income	מיליוני ש"ח	NIS millions	% of total income	NIS millions
Interior landline communication	1,167	35.9	1,390	44.4	388	35.7	390	37.6
Cellular communication	176	9.7	34	2.0	60	9.9	22	4.1
Bezeq International services	30	3.3	21	2.3	17	5.5	13	4.5
Multi-channel TV *	(36)	(3.8)	(32)	(3.4)	(22)	(7.0)	(11)	(3.5)
Others and adjustments	45	-	101	-	21	-	45	-
Consolidated operating profit / percentage of Group income	1,382	20.5	1,514	23.1	464	20.5	459	21.3

* 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 DBS' statements.

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

1.2.2. Activity segments (Cont.)

b. Interior landline communications segment

	1-9/2022	1-9/2021	7-9/2022		7-9/2021	1-9/2022	1-9/2021		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Internet income - infrastructure	1,329	1,208	121	10.0	452	407	45	11.1	The increase is due to growth in the average income per retail subscription, mainly from services and installations for customers on the fiber network and auxiliary end equipment and from the provision of Internet access services (ISP) starting in April 2022, as well as an increase in wholesale Internet service rates and in the wholesale market activity scope, offsetting a decrease in the number of wholesale internet lines.
Landline telephony income	597	691	(94)	(13.6)	188	220	(32)	(14.5)	The decrease was due to a decrease in the average income per telephone line, mainly due to the reduction of telephony rates starting from April 2022, and due to a decrease in the number of lines.
Transmission, data communication and other income	1,076	993	83	8.4	363	330	33	10.0	The increase was mainly due to an increase in income from paid jobs and transmission services to businesses.
Cloud and digital services income	247	238	9	3.8	83	80	3	3.8	
Total income	3,249	3,130	119	3.8	1,086	1,037	49	4.7	
Operating and general expenses	556	480	76	15.8	199	163	36	22.1	The increase was mainly due to an increase in the costs of subcontractors and materials due to the deployment of the fiber network.
Salary	733	703	30	4.3	242	237	5	2.1	The increase was mainly due to employee onboarding, mainly in the fiber network project, and periodic salary updates.
Depreciation and amortization	739	693	46	6.6	252	239	13	5.4	The increase was due, among other things, to an increase in the balance of investments in the fiber network deployment project.
Other operating expenses (income), net	54	(136)	190	-	5	8	(3)	(37.5)	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 11 to the Statements.
Operating profit	1,167	1,390	(223)	(16.0)	388	390	(2)	(0.5)	

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

1.2.2. Activity segments (Cont.)

b. Interior landline communications segment

Financing expenses, net	249	268	(19)	(7.1)	79	110	(31)	(28.2)	The decrease in financing expenses, net, was mainly due to financing income in respect of employee benefits that were recognized as a result of the increase in the discount rate, a decrease in interest expenses due to a decrease in debt, income from hedging transactions on the dollar exchange rate, and in the quarter also due to early repayment costs that were included in the corresponding quarter. The decrease was offset by an increase in linkage differences in respect of debentures due to the increase in the index, and in the period also due to an increase in early repayment costs compared to the corresponding period, see Note 12 to the Statements.
Taxes on income	222	265	(43)	(16.2)	74	61	13	21.3	
Segment profit	696	857	(161)	(18.8)	235	219	16	7.3	

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

1.2.2. Activity segments (Cont.)

c. Cellular communications segment

	1-9/2022	1-9/2021	7-9/2022		7-9/2021	1-9/2022	1-9/2021		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Income from services	1,350	1,218	132	10.8	467	417	50	12.0	The increase was mainly due to the recovery from the effects of the COVID crisis, which was reflected in the increase in roaming incomes and continued growth in the number of subscribers, including subscribers in 5G packages.
Income from the sale of end equipment	457	469	(12)	(2.6)	141	124	17	13.7	The decrease in the period was mainly due to a decrease in wholesale sales. The increase in the quarter was mainly due to an increase in the number of devices sold.
Total income	1,807	1,687	120	7.1	608	541	67	12.4	
Operating and general expenses	995	992	3	0.3	327	299	28	9.4	The increase in the period was mainly due to an increase in roaming costs (in parallel with the increase in income), as well as to an increase in social expenses and network maintenance costs. The increase was offset by a decrease in the cost of sale of end equipment (in parallel with the decrease in incomes), as well as a decrease in IT costs as a result of recording the implementation of a cloud computing system in the corresponding period. The increase in the quarter was mainly due to an increase in the cost of sales of end equipment and roaming costs (in parallel with an increase in incomes) as well as an increase in network maintenance costs.
Salary	237	234	3	1.3	78	76	2	2.6	
Depreciation and amortization	397	430	(33)	(7.7)	139	144	(5)	(3.5)	The decrease in the period was mainly due to the decrease in the cost of assets for the right-of-use of mobile sites and assets whose depreciation period has ended.
Other operating expenses (income), net	2	(3)	5	-	4	-	4	-	
Operating profit	176	34	142	417.6	60	22	38	172.7	
Financing income, net	23	32	(9)	(28.1)	7	11	(4)	(36.4)	The decrease in financing income, net, was mainly due to an increase in financing expenses in respect of exchange rate differences, which was partially offset by an increase in income from interest from loans given to the parent company.
Taxes on income	47	15	32	213.3	17	10	7	70.0	
Segment profit	152	51	101	198.0	50	23	27	117.4	

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

1.2.2. Activity segments (Cont.)

d. Bezeq International services

	1-9/2022	1-9/2021	7-9/2022		7-9/2021	1-9/2022	1-9/2021		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Income	920	909	11	1.2	311	287	24	8.4	The increase was mainly due to an increase in incomes from business services due to an increase in activity and the acquisition of CloudEdge in Q1/2022, as well as an increase in incomes from licensing equipment and service contracts. This increase was partly offset by a decrease in income from Internet services due to a decrease in the number of subscribers.
Operating, general and impairment expenses	613	581	32	5.5	200	179	21	11.7	The increase was mainly due to an increase in business services expenses in parallel with an increase in cloud licensing sales, as well as an increase in connectivity expenses that resulted from an increase in rates due to the removal of interconnect regulation for calls in Israel entering to an NIO or mobile radio telephone network in July 2022.
Salary	175	177	(2)	(1.1)	60	59	1	1.7	The decrease in the period was mainly due to a continuous decrease in the number of Bezeq employees, offsetting an increase in salary expenses due to the consolidation of CloudEdge, a salary increase, and a decrease in the discount of sales incentives.
Depreciation, amortization and impairment	99	133	(34)	(25.6)	32	38	(6)	(15.8)	The decrease was due to a decrease in depreciation expenses for the acquisition of a subscription asset and other long-term assets and, in the period, also from a decrease in asset depreciation, net (see Note 5.2 to the Statements).
Other expenses (income), net	3	(3)	6	-	2	(2)	4	-	
Operating profit	30	21	9	42.9	17	13	4	30.8	
Financing expenses, net	4	1	3	400.0	1	-	1	-	The increase in financing expenses in the period was due, among other things, to exchange rate differences.
Taxes on income	-	7	(7)	-	-	3	(3)	-	
Segment profit	26	13	13	100.00	16	10	6	60.0	

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

1.2.2. Activity segments (Cont.)

e. Multi-channel TV (pro forma)*

	1-9/2022	1-9/2021	7-9/2022		7-9/2021	1-9/2022	1-9/2021		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Income	947	948	(1)	(0.1)	315	318	(3)	(0.9)	
Operating expenses	633	620	13	2.1	217	208	9	4.3	The increase was mainly due to an increase in the scope of content costs as well as an increase in costs of Internet activity.
Salary	145	134	11	8.2	51	43	8	18.6	The increase was mainly due to the effects of the collective agreement.
Depreciation and amortization	203	227	(24)	(10.6)	69	77	(8)	(10.4)	The decrease was mainly due to assets that were fully amortized and to updating amortization estimates.
Other operating expenses (income), net	2	(1)	3	-	-	1	(1)	-	
Operating loss	(36)	(32)	(4)	12.5	(22)	(11)	(11)	100.0	
Financing expenses (income), net	(6)	(2)	(4)	200.0	(1)	1	(2)	-	The change was mainly due to a change in the fair value of financial assets.
Taxes on income	2	1	1	100.0	1	-	1	-	
Segment loss	(32)	(31)	(1)	3.2	(22)	(12)	(10)	83.8	

* 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. 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.

(For more information, see Notes 5.1 and 15 to the Statements).

In addition, see Note 16.4 to the Consolidated Statements for a summary of selected data from DBS' statements and the following table.

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

1.2.2. Activity segments (Cont.)

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

	1-9/2022		1-9/2021		7-9/2022		7-9/2021	
	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			
Income	947	947	948	948	315	315	318	318
Operating and general expenses	645	633	613	620	216	217	198	208
Salary	150	145	139	134	53	51	44	43
Depreciation and amortization	142	203	151	227	46	69	45	77
Other operating expenses (income), net	2	2	(1)	(1)	-	-	1	1
Operating loss	8	(36)	46	(32)	-	(22)	30	(11)
Financing expenses (income), net	(6)	(6)	(2)	(2)	(1)	(1)	1	1
Taxes on income	2	2	1	1	1	1	-	-
Segment loss	12	(32)	47	(31)	-	(22)	29	(12)

1.3. Cash flow

	1-9/2022	1-9/2021	7-9/2022		7-9/2021	1-9/2022	1-9/2021		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Net cash flow from operating activities	2,605	2,202	403	18.3	640	914	(274)	(30.0)	The increase in net cash flow from current activities in the period was due to changes in working equity, mainly due to the moving forward of credit dates with the credit card companies, 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, as well as from a decrease in Income Tax paid in the interior landline communication segment. The decrease in net cash flow from current activities in the quarter was due to changes in working equity, mainly in trade payables and employee benefits.
Net cash flow used for Investing operations	(1,715)	(1,169)	(546)	46.7	(602)	(376)	(226)	60.1	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. Also, in the current quarter, a payment was made to the Ministry of Communications for 5G frequencies in the amount of NIS 88 million in the cellular communications segment
Net cash flow used for financing operations	(977)	(886)	(91)	10.3	(125)	(423)	298	(70.4)	The increase in the net flow used for financing activities in the period was mainly due to early repayment of debentures in the Company, to the payment of a dividend in Bezeq for non-controlling interests, as well as to the buyback of the Company's shares. The decrease in the quarter was due to a decrease in repayment of loans at Bezeq.
Net increase (decrease) in cash	(87)	147	(234)	-	(87)	113	(200)	-	

Average volume in the reported period

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 9,829 million.

Supplier credit: approx. NIS 961 million.

Short-term customer credit: approx. NIS 1,571 million.

Long-term customer credit: approx. NIS 273 million.

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

Working equity

The Group's consolidated working equity as of September 30, 2022 amounted to approximately NIS 649 million, compared with working equity of approximately NIS 545 million as of September 30, 2021.

The Company's working equity (according to the "Solo" Statements) as of September 30, 2022 amounted to approximately NIS 130 million, compared with working equity of approximately NIS 209 million as of September 30, 2021.

Bezeq (according to the "Solo" Statements) as of September 30, 2022, has a working equity surplus in the amount of approx. NIS 541 million, compared with a deficit in working equity of NIS 308 million as of September 30, 2021

1.4. Disclosure regarding the Company's projected cash flow

The Company's Board of Directors reviewed the Company's consolidated financial statements and separate (Solo) financial statements as of September 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. Company's Shares Buyback Plan

- 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.
- 1.5.2 On March 23, 2022, the Company's Board of Directors approved a buyback plan for the Company's shares in the amount of up to NIS 20 million. As part of the aforementioned plan, the Company purchased 1,349,829 of its 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. As part of the aforementioned plan, the Company purchased 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.
- 1.5.5 On August 9, 2022, the Company's Board of Directors approved a buyback plan of the Company's shares in the amount of up to NIS 25 million. As part of the aforementioned plan, the Company purchased 1,380,551 of its shares for approximately NIS 25 million.

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 incomes 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 cellular communications segment in Chapter 1.2.2, Section 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 its index-linked liabilities. The 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 nine-month period that ended on September 30, 2022, the increase in the consumer price index affected Bezeq Group's financing expenses to the extent of approximately NIS 77 million (approximately NIS 60 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 September 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.

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

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 September 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 September 30, 2022	Examination of the impairment of the assets of Bezeq International Ltd. as of September 30, 2022
Timing of the valuation	September 30, 2022; The valuation was signed on November 13, 2022.	September 30, 2022; The valuation was signed on November 13, 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 September 30, 2022 is negative in the amount of approx. NIS 20 million.	Book value before impairment as of September 30, 2022 is approximately NIS 69 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 149 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 NIS 81 million. Based on the valuation, the Group recognized in the periods of nine and three months that ended on September 30, 2022, an impairment loss of approximately NIS 205 million and approximately NIS 61 million, respectively.	DBS's total enterprise value is negative in the amount of approximately NIS 684 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 NIS 44 million. Based on the valuation, the Group recognized in the periods of nine and three months that ended on September 30, 2022, an impairment loss of approximately NIS 80 million and approximately NIS 25 million, respectively.
Identification and characterization of the valuator	<p>The valuation was performed by Prof. Hadas Gelandar, Partner, Director of Valuations and Economic Models in the Economic Department of Ernest Young (Israel) Ltd.</p> <p>Prof. Gelandar holds a bachelor's degree in accounting from the College of Management, Rishon LeZion; A master's degree in business administration from the Hebrew University of Jerusalem; And a doctorate <i>cum laude</i> from Ben-Gurion University, Beer-Sheva, and is also a certified public accountant in Israel.</p> <p>As part of her role, Prof. Gelandar accompanies projects with leading companies in Israel and around the world, in various fields of activity and industries such as technology, finance, pharmaceuticals, energy, infrastructure, real estate and industry. In addition, as part of her role accompanying and advising companies in the areas of valuations for business (valuations and fair opinions) and accounting (allocation of acquisition costs, valuation of intangible assets, valuation of options for employees, etc.) needs, she provided economic opinions as a court-appointed expert witness.</p> <p>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.</p>	

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

	DBS (**) Highly material valuation is attached to Bezeq's Statements as of September 30, 2022	Bezeq International Material valuation
Valuation model	<p>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.</p> <p>In the second stage - the fair value of the net assets and liabilities of DBS, minus sales costs, as of September 30, 2022, was determined.</p>	<p>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.</p> <p>In the second stage - the fair value of Bezeq International's net assets and liabilities, minus sales costs, as of September 30, 2022, was determined.</p>
Assumptions under which the valuator made the valuation	<p>Assumptions were made regarding the fair value net of costs to sell of DBS' assets.</p> <p>For the purpose of calculating an update to the value-in-use using the cash flow discounting method (DCF), compared to the valuation as of June 30, 2022. the following parameters were used: Discount rate – 10% (after tax) Permanent growth rate - 1%.</p>	<p>Assumptions were made regarding the fair value net of costs to sell of Bezeq International's assets.</p> <p>For the purpose of calculating an update to the value-in-use using the cash flow discounting method (DCF), compared to the valuation as of June 30, 2022. the following parameters were used: Discount rate – 10.8% (after tax) Permanent growth rate - 3%.</p>

(*) 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 684 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.

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

2.2. Material subsequent events

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

Report of the Board of Directors on the state of affairs of the corporation for the period ended September 30, 2022

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 July 1, 2022, the Company made a partial early redemption of approximately NIS 100 million of the Series C debentures plus accrued interest until the repayment date.

As of September 30, 2022, the par value balance of the Series C debentures is approximately NIS 497 million, and the par value balance 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 September 30, 2022 was 43.2%.

The Company's net debt balance as of September 30, 2022 is approximately NIS 1,812 million and consists of a debt balance principal and accrued interest as of the balance sheet date in respect of its debentures in the amount of NIS 2,018 million, net of cash balances, investments and dividend receivable in the amount of NIS 131 million.

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

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

4. Miscellaneous

For information regarding the balance of liabilities of the reporting corporation in its financial statements as of September 30, 2022, see the form to be reported by the Company on the MAGNA system on November 16, 2022.

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Date of signing: November 15, 2022



Chapter C

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

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

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Somekh Chaikin
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**Auditors' Review Report to the shareholders of
"B Communications Ltd"**

Introduction

We reviewed the attached financial information of B Communications Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated report of financial position as of September 30, 2022 and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the period of nine 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 in aggravating circumstances, corporate fraud and breach of trust and reporting offenses under the Securities Law. In addition, following the opening of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq's controlling group in the past, including motions for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and results on Bezeq as well as on the statements and estimates used in the preparation of these reports, if any.

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

Somekh Chaikin
Certified Public Accountants

November 15, 2022

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

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

Condensed consolidated interim statements of financial position as of				
		September 30, 2022	September 30, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Assets	Note	NIS millions	NIS millions	NIS millions
Cash and cash equivalents		911	1,041	998
Investments	14.1	1,586	963	1,134
Trade receivables		1,461	1,672	1,859
Other receivables		351	193	280
Inventory		98	70	74
Assets held for sale		-	36	-
Total current assets		4,407	3,975	4,345
Trade and other receivables		445	496	433
Broadcasting rights – net of rights exercised		63	57	60
Right-of-use assets		1,779	1,763	1,828
Property plant and equipment		6,532	6,266	6,312
Intangible assets		3,261	3,266	3,251
Deferred expenses and investments *		262	347	306
Deferred tax assets		-	37	24
Total non-current assets		12,342	12,232	12,214
Total assets		16,749	16,207	16,559

* Including long-term restricted deposits.

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

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

		September 30, 2022	September 30, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and assets	Note	NIS millions	NIS millions	NIS millions
Debentures, loans and credit		964	745	980
Current maturities of lease liabilities		471	440	466
Trade payables		1,663	1,723	1,755
Dividend payable	4.4	215	-	-
Employee benefits		273	439	510
Provisions	6	173	83	69
Total current liabilities		3,759	3,430	3,780
Debentures and loans		8,974	9,199	9,068
Lease liabilities		1,463	1,457	1,511
Employee benefits		193	228	243
Derivatives and other liabilities		137	178	142
Deferred tax liabilities		331	302	296
Provisions		41	49	49
Total non-current liabilities		11,139	11,413	11,309
Total liabilities		14,898	14,843	15,089
Equity attributable to:	8			
Shareholders of the Company		90	61*	16
Non-controlling interests		1,761	1,303*	1,454
Total equity		1,851	1,364	1,470
Total liabilities and equity (equity deficit)		16,749	16,207	16,559

* Reclassified.

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: November 15, 2022

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

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

Condensed consolidated interim income statements

	For period of six months ended September 30		For period of three months ended September 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
Revenues (Note 9)	6,742	6,563	2,262	2,142	8,821
Costs of operations:					
General and operating expenses (Note 10)	2,514	2,376	849	744	3,265
Salaries	1,413	1,417	471	468	1,888
Depreciation, amortization and impairment *	1,374	1,407	468	466	1,889
Other operating expenses, net (Note 11)	59	(143)	10	7	(77)
Total operating expenses	5,360	5,057	1,798	1,685	6,965
Operating profit	1,382	1,506	464	457	1,856
Financing expenses (income) (Note 12)					
Financing expenses	417	376	123	157	533
Financing income	(117)	(45)	(26)	(11)	(55)
Financing expenses, net	300	331	97	146	478
Profit before taxes on income	1,082	1,175	367	311	1,378
Income tax expenses	273	293	91	75	382
Profit for the period	809	882	276	236	996
Attributable to:					
Shareholders of the Company	157	159	55	27	129
Non-controlling interests	652	723	221	209	867
Profit for the period	809	882	276	236	996
Profit per share (NIS)					
Basic profit	1.40	1.37	0.48	0.24	1.11
Diluted profit	1.39	1.37	0.47	0.24	1.11

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

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

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

Condensed consolidated interim statements of comprehensive income

	For period of nine months ended September 30		For period of three months ended September 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
Profit for the period	809	882	276	236	996
Reassessment of defined benefit plan, net of tax (items that will not be reclassified to income)	53	-	16	-	(1)
Other comprehensive income (loss) items (additional, net of tax)	(1)	33	-	10	37
Total comprehensive income for the period	861	915	292	246	1,032
Attributable to:					
Shareholders of the company	170	168	59	30	139
Non-controlling interests	691	747	233	216	893
Total comprehensive income for the period	861	915	292	246	1,032

* Other comprehensive income 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 September 30, 2022.

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

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

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

	Share equity	Premium on shares	Treasury shares	Other funds	Deficit balance	Total 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 nine months ended September 30, 2022 (unaudited)

Balance as of January 1, 2022	12	1,495	(16)	(29)	(1,446)	16	1,454	1,470
Profit for the period	-	-	-	-	157	157	652	809
Other comprehensive income for the period, net of tax	-	-	-	-	13	13	39	52
Total comprehensive income for the period	-	-	-	-	170	170	691	861
Transactions credited directly to equity								
Dividend distributed to non-controlling interests	-	-	-	-	-	-	(392)	(392)
Buyback of shares	-	-	(96)	-	-	(96)	-	(96)
Share-based compensation	-	-	-	-	-	-	7	7
Businesses combination	-	-	-	-	-	-	1	1
Balance as of September 30, 2022	12	1,495	(112)	(29)	(1,274)	90	1,761	1,851

For period of nine months ended September 30, 2021 (unaudited)

Balance as of January 1, 2021	12	1,495	(*)	(39)	(1,575)	(107)	534	427
Profit for the period	-	-	-	-	159	159	723	882
Other comprehensive income for the period, net of tax	-	-	-	9	-	9	24	33
Total comprehensive income for the period	-	-	-	9	159	168	747	915
Transactions credited directly to equity								
Share-based compensation	-	-	-	**	-	-	**22	22
Balance as of September 30, 2021	12	1,495	(*)	(30)	(1,416)	61	1,303	1,364

Notes to Condensed Consolidated Interim Financial Statements as of September 30, 2022 (Unaudited)

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

Balance as of April 1, 2021	12	1,495	(87)	(29)	(1,335)	56	1,740	1,796
Profit for the period	-	-	-	-	55	55	221	276
Other comprehensive income for the period, net of tax	-	-	-	-	4	4	12	16
Total comprehensive income for the period	-	-	-	-	59	59	234	292
Transactions credited directly to equity								
Dividend distributed to non-controlling interests	-	-	-	-	-	-	(216)	(216)
Buyback of shares	-	-	(25)	-	-	(25)	-	(25)
Share-based compensation	-	-	-	-	-	-	3	3
Joining businesses	-	-	-	-	-	-	1	1
Balance as of September 30, 2021	12	1,495	(112)	(29)	(1,276)	90	1,761	1,851

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

Balance as of January 1, 2021	12	1,495	(*)	** (33)	(1,443)	35	**1,081	1,112
Net profit for the period	-	-	-	-	27	27	209	236
Other comprehensive loss for the year, net of tax	-	-	-	3	-	3	7	10
Total comprehensive income for the period	-	-	-	3	27	30	216	246
Transactions credited directly to equity								
Share-based compensation	-	-	-	**-	-	-	**6	6
Balance as of September 30, 2021	12	1,495	(*)	(30)	(1,416)	61	1,303	1,364

For year ended December 31, 2021 (audited)

Balance as of January 1, 2021	12	1,495	(*)	(39)	(1,575)	(107)	534	427
Profit for the year 2021	-	-	-	-	129	129	867	996
Other comprehensive loss for the year, net of tax	-	-	-	10	-	10	26	36
Total comprehensive income for the year 2021	-	-	-	10	129	139	893	1,032
Transactions credited directly to equity								
Share-based compensation	-	-	-	-	-	-	27	27
Buyback of shares	-	-	(16)	-	-	(16)	-	(16)
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

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

Condensed consolidated interim cash flows Statements

	For period of nine months ended September 30		For period of three months ended September 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	809	882	276	236	996
Adjustments:					
Depreciation, amortization and impairment	1,374	1,407	468	466	1,889
Financing expenses, net	347	343	112	151	498
Capital loss (gain), net	(1)	(123)	(4)	4	(175)
Share-based compensation	7	22	3	6	27
Income tax expenses	273	293	91	75	382
Change in trade and other receivables	354	(30)	10	(15)	(229)
Change in inventory	(37)	(14)	(8)	34	(19)
Change in trade and other payables	(117)	(98)	(98)	60	(41)
Change in provisions	30	(34)	2	(2)	(47)
Change in employee benefits	(230)	(150)	(118)	(20)	(65)
Change in other liabilities	(2)	6	6	3	(5)
Income Tax paid, net	(202)	(302)	(100)	(84)	(385)
Net cash derived from operating activities	2,605	2,202	640	914	2,826
Cash flows from investing activities					
Purchase of PP&E	(1,020)	(1,040)	(347)	(361)	(1,328)
Investment in intangible assets and deferred expenses	(264)	(281)	(80)	(84)	(363)
Investment activity, net	(386)	(37)	(102)	69	(164)
Payment to the Communications Ministry for frequencies	(88)	-	(88)	-	-
Proceeds from the sale of PP&E	31	189	10	5	278
Miscellaneous	12	-	5	(5)	(1)
Net cash used for investing activities	(1,715)	(1,169)	(602)	(376)	(1,578)

Condensed consolidated interim statements of cash flows (Cont.)

	For period of six months ended September 30		For period of three months ended September 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	390	-	390	1,730
Repayment of debentures and loans	(535)	(791)	(6)	(688)	(2,072)
Leasing principal and interest payments	(309)	(291)	(106)	(97)	(387)
Re-purchase of shares	(71)	-	(4)	-	(16)
Interest paid	(160)	(175)	(9)	(9)	(333)
Dividend distributed to non-controlling interests	(176)	-	-	-	-
Costs in respect of early repayment of loans and debentures	(26)	(19)	-	(19)	(34)
Payment for completed hedging transactions	-	-	-	-	(30)
Miscellaneous	-	-	-	-	(2)
Net cash used for financing operations	(977)	(886)	(125)	(423)	(1,144)
Net increase in cash and cash equivalents	(87)	147	(87)	113	104
Cash and cash equivalents for the beginning	998	894	998	928	894
Cash and cash equivalents at the end of the	911	1,041	911	1,041	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 September 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 incomes 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 in the Company and in Bezeq 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, 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 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. On September 6, 2022, an announcement was published by the Ministry of Justice according to which the Criminal Department of the State Attorney's Office filed an appeal against the decision on the same day.

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, the Company Bezeq are 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 financial 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, 2020 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 condensed consolidated interim financial statements were approved by the Company's Board of Directors on November 15, 2022.
- 2.4. **Use of estimates and discretion**

When preparing the condensed consolidated interim financial statements in accordance with the 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. **Policy of 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 PP&E 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 12.1.2 to the annual statements, on March 16, 2022, Bezeq's Board of Directors decided, following decisions made that day by the boards of directors of Bezeq's subsidiaries, to cancel the merger / spin-off plan (a previous plan for a structural change in which Bezeq International's private activities were to merge with and into Bezeq International's DBS and ICT activities to be spun off into a new company wholly owned by Bezeq) and to approve an alternative outline, 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 incomes 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.

The subsidiary Bezeq International started implementing the alternative layout, and the subsidiary DBS started selling integrated ("Triple") packages that include Bezeq fiber and TV. In addition, an agreement was formed regarding the voluntary retirement of employees, which would allow a reduction in expenses. Bezeq and Bezeq's subsidiaries are not able to assess, at this stage, whether all the conditions required for the full implementation of the alternative plan (the implementation of which has been initiated) will be met, and at what time they will be met, if ever.

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

4.2.1. As of September 30, 2022, DBS has a deficit in equity in the amount of NIS 34 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.

In November, 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 October 1, 2022 until December 31, 2023, instead of a similar commitment from November 2021. It should be noted that so far, during 2022, DBS did not utilize the credit facilities provided by Bezeq.

In the opinion of DBS' Management, the sources of funding available to it, which include, *inter alia*, the continuation of the existing policy of deficit in working equity and credit and investments facility from Bezeq, 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 September 30, 2022.

4.3. Bezeq International Ltd.

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

4.3.2. See Note 17 regarding the approval of a voluntary retirement plan at Bezeq International which was approved by the Bezeq International Board of Directors after the date of the statements.

4.4. Dividends distribution by Bezeq

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

4.4.2. On September 14, 2022, the General Meeting of Bezeq's shareholders approved (following the recommendation of Bezeq's Board of Directors dated August 9, 2022) the distribution of a cash dividend to Bezeq's shareholders in the total amount of NIS 240 million (which, as of the effective date for the distribution, is NIS 0.1063081 per share). The dividend was paid on October 3, 2022. The Company's share in the aforementioned dividend is approximately NIS 78 million.

5. Impairment

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.

As of September 30, 2022, according to the assessment of DBS' Management, it was found that during the three months that have elapsed since the date of the previous valuation, there have been no significant changes in the market, and there have been no regulatory changes that could significantly affect DBS' forecasts for the years ahead.

Accordingly, DBS did not perform an updated valuation as of September 30, 2022 and based itself on the results of the valuation as of June 30, 2022, according to which the value of the activity is negative and amounts to a total of NIS 152 million. The current value as of September 30, 2022 taking into account the update of the discount rate is negative and amounts to a total of NIS 149 million.

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

As a result, the Group recognized, in the nine and three-month periods that ended on September 30, 2022, an impairment loss of approximately NIS 205 million and approximately NIS 61 million, respectively.

The impairment loss was attributed to PP&E, 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:

Notes to Condensed Consolidated Interim Financial Statements as of September 30, 2022 (Unaudited)

	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
	NIS millions	NIS millions	NIS millions	NIS millions
As of September 30, 2022 and for the period of three months that ended on that date (unaudited)	(149)	(81)	(20)	(61)
As of June 30, 2022 and for the period of three months that ended on that date (unaudited)	(152)	(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 nine months that ended September 30, 2022				(205)
As of December 31, 2021 and for the year that ended on that date (audited)	(271)	(109)		(288)

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

It should be noted that the assessment of DBS' value-in-use is sensitive to the net cash flow in the representative year in general, and to the assessment of ARPU level (average income per subscriber) and the subscriber base at the end of the forecast range in particular. (A change of NIS 1 in ARPU throughout the years of the forecast (and the terminal year) results in a change in enterprise value in the amount of approximately NIS 80 million and a change of 5K subscribers throughout the years of the forecast (and in the terminal year) results in a change in enterprise value in the amount of approximately NIS 98 million).

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

	For period of nine months ended September 30		For period of three months ended September 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 *	111	93	32	27	146
PP&E **	56	63	18	23	91
Intangible assets **	29	34	8	7	48
Other payables (advance expenses) *	7	5	3	-	4
Rights to use leased assets**	2	-	-	-	(1)
Total impairment recognized	205	195	61	57	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.

5.2. 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.

Bezeq International Management's forecasts for June 30, 2022 include substantial changes in the assumptions regarding personnel streamlining. In relation to Management's previous forecasts, all in light of Bezeq International's updated work plan, according to which a significant streamlining in manpower will be carried out. It should be noted that these substantial changes were not taken into account in the valuation as of June 30, 2022, in accordance with the requirement of accounting standards 36 IAS and 37 IAS. Neutralizing these streamlining assumptions resulted in an abnormal and unrepresentative value in the negative amount of approximately NIS 692 million, all 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.

As of September 30, 2022, there were no substantial changes in Bezeq International's forecasts compared to the forecast made by Bezeq International as of June 30, 2022. Accordingly, Bezeq International did not perform an updated valuation for this date and relies on the results of the valuation as of June 30, 2022, according to which the enterprise value is negative and amounts to a total of NIS 692 million. The current value as of September 30, 2022, taking into account the update of the discount rate, is negative and amounts to a total of NIS 684 million.

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

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

The fair value of Bezeq International's assets and liabilities, net of exercise costs as of September 30, 2022, amounted to approximately NIS 44 million. Therefore, the Group recognized, in the nine and three month periods that ended on September 30, 2022, an impairment loss in the amount of approx. NIS 80 and NIS 25 million, respectively.

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:

Notes to Condensed Consolidated Interim Financial Statements as of September 30, 2022 (Unaudited)

	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
	NIS millions	NIS millions	NIS millions	NIS millions
As of September 30, 2022 and for the period of three months that ended on that date (unaudited)	(684)	44	69	(25)
As of June 30, 2022 and for the period of three months that ended on that date (unaudited)	(692)	(2)	19	(21)
As of March 31, 2022 and for the period of three months that ended on that date (unaudited)	(174)	(15)	19	(34)
Total impairment recognized in period of nine months that ended September 30, 2022				(80)
As of December 31, 2021 and for the year that ended on that date (audited)	(196)	70		(122)

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

	For period of nine months ended September 30		For period of three months ended September 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
PP&E and intangible assets **	55	61	17	13	75
Short-term and long-term advance expenses *	17	22	5	21	28
Long-term advance payments for capacities **	8	14	3	6	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

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

In the opinion of the managements of the Bezeq Group companies, which is based, among other things, on legal opinions regarding the chances of the legal claims, the statements included adequate provisions in the amount of NIS 168 million, where provisions were required to cover the exposure as a result of such legal claims.

In the opinion of the managements of the Bezeq Group companies, the amount of additional exposure (beyond said provisions), as of September 30, 2022, due to legal claims filed against Bezeq Group companies on various issues and whose probability of realization is unexpected, amounted to a total of NIS 3 billion. Additional exposure in the amount of approximately NIS 2.5 billion in respect of claims the chances of which is not yet possible to assess at this stage. In addition, motions were filed against the Group companies to recognize the claims as class actions that did not specify an exact amount of the claim, for which Bezeq Group has additional exposure beyond the aforementioned. The amounts of additional exposure in this Note are nominal.

- 6.2. The following is a description of the contingent liabilities and the balance of the provision for claims of the Bezeq Group that were in effect as of September 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.	93	1,819	708
Claims by enterprises and companies	Legal claims in which the liability of Bezeq Group companies is claimed in connection with their operations and / or investments.	75 ⁽¹⁾	685	1,808 ⁽²⁾
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.	-	13	13
Total legal claims against Bezeq and its subsidiaries⁽³⁾		168	168	2,517

- (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 September 30, 2022, in accordance with the provisions of Accounting Standard 37 IAS "Provisions, Contingent Liabilities and Contingent Assets".

- (1) The total includes two motions for approval of a class action in the total amount of NIS 1.8 billion filed in June 2017 against the Company, Bezeq, officers in the Bezeq Group and companies from the then controlling group of Bezeq and the Company 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 November 24, 2022.

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

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 (the payment to bondholders was paid on July 1, 2022).

As of September 30, 2022, the nominal value of the Series C debentures balance is approximately NIS 497 million, and the nominal value of the Series VI debentures balance is NIS 1,472 million.

8. Equity

	As of September 30, 2022	As of September 30, 2021	As of December 31, 2021
	Shares	Shares	Shares
	(Unaudited)	(Unaudited)	(Audited)
Registered share equity	300,000,000	300,000,000	300,000,000
Issued and paid up share equity	116,335,793	116,335,793	116,335,793
Treasury shares	(7,782,373)	(19,230)	(1,476,803)
Issued and paid up equity, net	108,553,420	116,316,563	114,858,990

- 8.1. In accordance with the Company's buyback plan approved by the Company's Board of Directors on November 30, 2021, the Company purchased during the 1st quarter of 2022, 820,360 of the Company's shares in the total amount of approximately NIS 11 million.
- 8.2. On March 23, 2022, the Company's Board of Directors approved an additional buyback plan for the Company's shares in the amount of up to NIS 20 million. As part of the plan for the aforementioned buyback, the Company purchased a total of 1,349,829 of its shares for approximately NIS 20 million.
- 8.3. 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. As part of the aforementioned buyback plan, the Company purchased a total of 2,024,830 of its shares for approximately NIS 30 million.
- 8.4. 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.
- 8.5. On August 9, 2022, the Company's Board of Directors approved a buyback plan of the Company's shares in the amount of up to NIS 25 million. As part of the aforementioned buyback plan, the Company purchased 1,380,551 of its shares for approximately NIS 25 million.
- 8.6. On November 15, 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 November 17, 2022 and end at: (1) purchase in the amount of NIS 25 million; or (2) on March 1, 2023, whichever is earlier.

- 8.7. As of the date of approval of the financial statements, Searchlight and the Forer family own 64.48% and 12.20%, respectively, of the Company's net issued and paid-up share equity.

9. Revenues

	For period of nine months ended September 30		For period of three months ended September 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 - Bezeq					
Internet	1,283	1,161	437	392	1,562
Transmission and data communication	669	632	224	210	844
Landline telephony	583	674	183	216	891
Cloud and digital services	247	238	83	80	318
Other services	213	172	76	57	230
	2,995	2,877	1,003	955	3,845
Mobile radio telephone - Pelephone					
Cellular services and end equipment	1,322	1,191	457	408	1,606
Sale of end equipment	454	464	142	123	643
	1,776	1,655	599	531	2,249
Multi-channel TV - DBS	947	948	315	319	1,270
Internet (ISP), international communications and network endpoint services – Bezeq International	879	871	297	273	1,186
Other	145	212	48	64	271
Total income	6,742	6,563	2,262	2,142	8,821

10. Operating and general expenses

	For period of nine months ended September 30		For period of three months ended September 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
End equipment and materials	576	567	182	146	803
Connectivity and payments to communications operators in Israel and abroad	554	535	192	173	717
Content costs (including depreciation of content)	418	405	138	128	553
Marketing and general	395	395	132	140	546
Services and maintenance by subcontractors	339	249	119	81	348
Maintenance of buildings and sites	184	181	69	62	238
Vehicle maintenance	48	44	17	14	*60
Total operating and general expenses	2,514	2,376	849	744	3,265

11. Other operating expenses (income), net

	For period of nine months ended September 30		For period of three months ended September 30		For year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Capital gain (loss) (mainly from exercise of real estate)	(1)	(123)	(4)	4	(175)
Creation (cancellation) of provision for claims	52	(26)	7	2	(23)
Receipts from settlement agreement	-	-	-	-	(5)
Expenses in respect of the termination of an employer-employee relationship in early retirement and a streamlining agreement in Pelephone, Bezeq International and DBS	11	11	7	3	95
Other income	(5)	(6)	(2)	(3)	(6)
Total other operating expenses (income), net	59	(143)	10	7	(77)

12. Financing expenses, net

	For period of nine months ended September 30		For period of three months ended September 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 liabilities	230	275	77	101	395
Financing expenses for liabilities in respect of leases	32	28	12	9	40
Linkage differences and exchange rate	112	39	33	19	49
Financing expenses in respect of employee benefits	-	9	-	4	7
Other financing expenses	9	6	1	3	8
Costs due to early repayment of loans and debentures	26	19	-	19	34
Change in the fair value of financial assets measured at fair value through statement of income	8	-	-	2	-
Total financing expenses	417	376	123	157	533
Financing income in respect of employee benefits *	41	-	11	-	-
Income from credit grossing in sales	17	21	5	6	28
Change in the fair value of financial assets measured at fair value through statement of income	26	2	2	-	11
Other financing income	27	22	8	5	16
Income from exchange of debentures	6	-	-	-	-
Total financing income	117	45	26	11	55
Financing expenses, net	300	331	97	146	478

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

13. Share-based compensation

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 nine months of 2022 amounted to approximately NIS 140K.

14. Financial instruments**14.1. Investments composition**

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Shekel deposits in banks	1,446	817	1,015
Foreign currency deposits in banks	12	35	20
Investments in financial funds and marketable assets measured at fair value	108	111	99
Derivative instruments	20	-	-
	1,586	963	1,134

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.

Notes to Condensed Consolidated Interim Financial Statements as of September 30, 2022 (Unaudited)

	As of September 30, 2022		As of September 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)	1,557	1,495	1,718	1,821	1,612	1,713
Debentures issued to the public (index-linked)	3,051	3,050	3,263	3,581	2,913	3,249
Debentures issued to the public (non-linked)	4,790	4,625	5,016	5,372	5,215	5,543
	9,398	9,170	9,997	10,774	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.

	September 30, 2022	September 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	111	99
Level 2 – Forward contracts	32	(49)	(19)

15. Segment reporting

15.1. Activity segments

For period of nine months ended September 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 incomes	2,995	1,776	879	947	145	-	6,742
Inter-segmental income	254	31	41	-	3	(329)	-
Total income	3,249	1,807	920	947	148	(329)	6,742
Depreciation and amortization	739	397	99	203	2	(66)	1,374
Segment results - operating profit (loss)	1,167	176	30	(36)	8	37	1,382
Financing expenses	331	27	7	6	1	45	417
Financing income	(82)	(50)	(3)	(12)	-	30	(117)
Total financing expenses (income), net	249	(23)	4	(6)	1	75	300
Segment profit (loss) after financing expenses, net	918	199	26	(30)	7	(38)	1,082
Taxes on income	222	47	-	2	2	-	273
Segment results - net profit (loss)	696	152	26	(32)	5	(38)	809
For period of nine months ended September 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 million s	NIS millions	NIS millions
External revenues	2,877	1,655	871	948	212	-	6,563
Inter-segmental revenues	253	32	38	-	5	(328)	-
Total revenues	3,130	1,687	909	948	217	(328)	6,563
Depreciation and amortization	693	430	133	227	3	(79)	1,407
operating profit (loss)	1,390	34	21	(32)	24	69	1,506
Financing expenses	281	17	4	3	-	71	376
Financing income	(13)	(49)	(3)	(5)	-	25	(45)
Total financing expenses (income), net	268	(32)	1	(2)	-	96	331
Segment profit (loss) after financing expenses, net	1,122	66	20	(30)	24	(27)	1,175
Taxes on income	265	15	7	1	5	-	293
Net profit (loss)	857	51	13	(31)	19	(27)	882

Notes to Condensed Consolidated Interim Financial Statements as of September 30, 2022 (Unaudited)

* 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.

For period of nine months ended September 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 incomes	1,003	599	297	315	48	-	2,262
Inter-segmental income	83	9	14	-	-	(106)	-
Total income	1,086	608	311	315	48	(106)	2,262
Depreciation and amortization	252	139	32	69	-	(24)	468
Segment results - operating profit (loss)	388	60	17	(22)	1	20	464
Financial expenses	100	11	2	1	1	8	123
Financing income	(21)	(18)	(1)	(2)	-	16	(26)
Total financing expenses (income), net	79	(7)	1	(1)	1	24	97
Segment profit (loss) after financing expenses, net	309	67	16	(21)	-	(4)	367
Taxes on income	74	17	-	1	(1)	-	91
Segment results - net profit (loss)	235	50	16	(22)	1	(4)	276
For period of nine months ended September 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 incomes	954	531	273	318	66	-	2,142
Inter-segmental income	83	10	14	-	2	(109)	-
Total income	1,037	541	287	318	68	(109)	2,142
Depreciation and amortization	239	144	38	77	1	(33)	466
Segment results - operating profit (loss)	390	22	13	(11)	5	38	457
Financial expenses	110	6	1	1	-	39	157
Financing income	-	(17)	(1)	-	-	7	(11)
Total financing expenses (income), net	110	(11)	-	1	-	46	146
Segment profit (loss) after financing expenses, net	280	33	13	(12)	5	(8)	311
Taxes on income	61	10	3	-	1	-	75
Segment results - net profit (loss)	219	23	10	(12)	4	(8)	236

Notes to Condensed Consolidated Interim Financial Statements as of September 30, 2022 (Unaudited)

* 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.

For year ended December 30, 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 revenues	3,845	2,249	1,186	1,270	271	-	8,821
Inter-segmental revenues	337	40	51	-	6	(434)	-
Total revenues	4,182	2,289	1,237	1,270	277	(434)	8,821
Depreciation and amortization	938	577	173	292	4	(95)	1,889
Segment results - operating profit (loss)	1,748	42	22	(41)	27	58	1,856
Financial expenses	357	23	5	4	-	144	533
Financing income	(15)	(65)	(3)	(3)	-	31	(55)
Total financing expenses (income), net	342	(42)	2	1	-	175	478
Segment profit (loss) after financing expenses, net	1,406	84	20	(42)	27	(117)	1,378
Taxes on income	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.

15.1. Adjustments in respect of segments reporting income

	For period of nine months ended September 30		For period of three months ended September 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
Operating profit in respect of reportable segments	1,337	1,413	443	414	1,771
Financing expenses, net	(300)	(331)	(97)	(146)	(478)
Adjustments for the multi-channel television segment	44	77	22	40	72
Profit (loss) due to activities classified in other category and other adjustments	1	16	(1)	3	13
Profit before taxes on income	1,082	1,175	367	311	1,378

16. Summary of selected data from the statements of Bezeq the Israel Telecommunications Corp. Ltd., Pelephone Communications Ltd., Bezeq International Ltd. and DBS Satellite Services (1998) Ltd.

16.1. Bezeq the Israel Telecommunications Corporation Ltd.

Data from the statement of financial position:

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	2,984	2,338	2,554
Non-current assets	10,363	9,899	9,957
Total assets	13,347	12,237	12,511
Current liabilities	2,443	2,030	2,393
Long-term liabilities	9,392	9,316	9,022
Total liabilities	11,835	11,346	11,415
Equity	1,512	891	1,096
Total liabilities and equity	13,347	12,237	12,511

Data from the statement of income:

	For period of nine months ended September 30		For period of three months ended September 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
Revenues	3,249	3,130	1,086	1,037	4,182
Cost of operations					
Salary	733	703	242	237	934
Depreciation and amortization	739	693	252	239	938
Operating and general expenses	556	480	199	163	667
Other expenses (income), net	54	(136)	5	8	(105)
Total Cost of operations	2,082	1,740	698	647	2,434
Operating profit	1,167	1,390	388	390	1,748
Financing income (expenses)					
Financing expenses	331	281	100	110	357
Financing income	(82)	(13)	(21)	-	(15)
Financing expenses, net	249	268	79	110	342
Profit after financing expenses, net	918	1,122	309	280	1,406
Share in the profits of equity-held investee companies, net	195	129	67	65	120
Profit before taxes on income	1,113	1,251	376	345	1,526
Taxes on income	222	265	74	61	343
Profit for the period	891	986	302	284	1,183

16.2. **Pelephone Communications Ltd.**

Data from the statement of financial position:

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	859	883	1,121
Non-current assets	3,588	3,479	3,331
Total assets	4,447	4,362	4,452
Current liabilities	721	741	837
Long-term liabilities	870	937	916
Total liabilities	1,591	1,678	1,753
Equity	2,856	2,684	2,699
Total liabilities and equity	4,447	4,362	4,452

Data from the statement of income:

	For period of nine months ended September 30		For period of three months ended September 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
Income from services	1,350	1,218	467	417	1,642
Income from end equipment sales	457	469	141	124	647
Total income from services and sales	1,807	1,687	608	541	2,289
Cost of operations					
Operating and general expenses	995	992	327	299	1,346
Salary	237	234	78	76	315
Depreciation and amortization	397	430	139	144	577
Total operating expenses	1,629	1,656	544	519	2,238
Other expenses (income), net	2	(3)	4	-	9
Operating profit	176	34	60	22	42
Financing income (expenses)					
Financing expenses	27	17	11	6	23
Financing income	(50)	(49)	(18)	(17)	(65)
Financing expenses (income), net	(23)	(32)	(7)	(11)	(42)
Profit before taxes on income	199	66	67	33	84
Taxes on income	47	15	17	10	20
Profit for the period	152	51	50	23	64

16.3. Bezeq International Ltd.

Data from the statement of financial position:

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	369	447	472
Non-current assets	380	294	311
Total assets	749	741	783
Current liabilities	365	414	409
Long-term liabilities	136	107	157
Total liabilities	501	521	566
Equity	248	220	217
Total liabilities and equity	749	741	783

Data from the statement of income:

	For period of nine months ended September 30		For period of three months ended September 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
Income	920	909	311	287	1,237
Cost of business					
Operating and general expenses	613	581	200	179	799
Salary	175	177	60	59	237
Depreciation, amortization and impairment	99	133	32	38	173
Other expenses, net	3	(3)	2	(2)	6
Total operating expenses	890	888	294	274	1,215
Operating profit	30	21	17	13	22
Financing expenses (income)					
Financing expenses	7	4	2	1	5
Financing income	(3)	(3)	(1)	(1)	(3)
Financing expenses, net	4	1	1	-	2
Profit before taxes on income	26	20	16	13	20
Taxes on income	-	7	-	3	12
Profit for the period	26	13	16	10	8

16.4. DBS Satellite Services (1998) Ltd.

Data from the statement of financial position:

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	181	218	196
Non-current assets	253	229	230
Total assets	434	447	426
Current liabilities	392	411	394
Long-term liabilities	76	67	80
Total liabilities	468	478	474
Equity	(34)	(31)	(48)
Total liabilities and equity (deficit in equity)	434	447	426

Data from the statement of income:

	For period of nine months ended September 30		For period of three months ended September 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
Income	947	948	315	318	1,270
Cost of business					
Operating and general expenses	645	613	216	198	835
Salary	142	151	46	45	203
Depreciation, amortization and impairment	150	139	53	44	188
Other operating expenses, net	2	(1)	-	1	12
Total operating expenses	939	902	315	288	1,238
Operating profit	8	46	-	30	32
Financing expenses (income)					
Financing expenses	4	1	1	3	6
Financing income	(12)	(5)	(2)	-	(3)
Financing expenses (income), net	(6)	(2)	(1)	1	1
Profit before taxes on income	14	48	1	29	31
Taxes on income	2	1	1	-	1
Profit for the period	12	47	-	29	30

17. Material events during and after the reporting period

- 17.1. Regarding the approval of an additional buyback plan of the Company's shares dated November 15, 2022, see Note 8.6.
- 17.2. On October 3, 2022, Bezeq International's Board of Directors approved the implementation of agreements reached with the New Histadrut and Bezeq International's employees' representation (as part of conducting negotiations to regulate employee rights) regarding a plan for the voluntary retirement of Bezeq International employees during the years 2022-2024 ("the Voluntary Retirement Plan"). As of November 13, 2022, Bezeq International is expected to approve voluntary retirement for Bezeq International employees to the extent of the estimated cost of the plan (about NIS 70 million). Most of the expenditure for the voluntary retirement plan is expected to be recognized in the fourth quarter of 2022.



**Condensed Separate Interim Financial
Information**

**As of September 30, 2022
(Unaudited)**

Condensed Separate Interim Financial Information as of September 30, 2022 (unaudited)

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

To
Shareholders of B Communications Ltd.

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

Introduction

We audited the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – “the Company”) as of September 30, 2022 and for the period of nine months that ended on that date. The separate interim 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

November 15, 2022

Condensed Separate Interim Financial Information as of September 30, 2022 (unaudited)

Condensed Separate Interim Financial Data as of			
	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	42	22	25
Short-term investments	58	192	180
Other receivables	80	20	14
Total current assets	180	234	219
Long-term deposits	27	120	79
Investment in equity-accounted investee	1,833	1,670*	1,724
Total non-current assets	1,860	1,790	1,803
Total assets	2,040	2,024	2,022
Liabilities			
Trade and other payables	50	25	7
Total current liabilities	50	25	7
Debentures	1,900	1,938	1,999
Total non-current liabilities	1,900	1,938	1,999
Total liabilities	1,950	1,963	2,006
Equity	90	61*	16
Total liabilities and equity	2,040	2,024	2,022

* Reclassified

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: November 15, 2022

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

Condensed Separate Interim Financial Information as of September 30, 2022 (unaudited)

Condensed Interim Income Statement					
	For the period of nine months ended September 30		For the period of three months ended September 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
Cost of business					
Salaries	2	2	1	1	5
General and operating expenses	5	6	1	2	8
Total cost of business	7	8	2	3	13
Operating loss	(7)	(8)	(2)	(3)	(13)
Financing expenses (income) (See Note 2)					
Financing expenses	82	103	25	48	184
Financing income	(8)	(7)	(2)	(2)	(10)
Financing expenses (income), net	74	96	23	46	174
Loss after financing expenses, net	(81)	(104)	(25)	(49)	(187)
Share in the profits (losses) of equity-held investee company, net	238	263	80	76	316
Net profit for the period	157	159	55	27	129

Condensed Interim Comprehensive Income Statement					
	For period of nine months ended September 30		For period of three months ended September 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
Net profit for the period	157	159	55	27	129
Other comprehensive income items, net of tax	13	9	4	3	10
Total comprehensive income for the period	170	168	59	30	139

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

Condensed Separate Interim Financial Information as of September 30, 2022 (unaudited)

Condensed Interim Cash Flows Statements					
	For period of nine months ended September 30		For period of three months ended September 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					
Profit for the period	157	159	55	27	129
Adjustments:					
Share in profits of equity-held investee companies, net	(238)	(263)	(80)	(76)	(316)
Financing expenses, net	70	98	25	46	174
Change in other payables	(1)	(1)	(1)	-	10
Net cash used for current activities	(4)	(7)	(1)	(3)	(3)
Cash flows from investing activities					
Change in deposits and investments, net	167	10	44	2	66
Dividend received	64	-	-	-	-
Others	-	-	(1)	(1)	1
Net cash generated from investing activities	231	10	43	1	67
Cash flows for financing activities					
Issuance of debentures	-	390	-	390	1,035
Repayment of debentures principal	(100)	(382)	-	(382)	(1,015)
Buyback of shares	(71)	-	(4)	-	(16)
Interest paid	(39)	(40)	-	-	(79)
Cost of early repayment of debentures	-	(4)	-	(4)	(19)
Net cash generated from (used for) financing activities	(210)	(36)	(4)	4	(94)
Increase (decrease) in cash and cash equivalents	17	(33)	38	2	(30)
Cash and cash equivalents at the beginning of the period	25	55	4	20	55
Cash and cash equivalents at the end of the period	42	22	42	22	25

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

1. Method of preparation of the financial statements

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 September 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 September 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 Separate Financial Information as of the day and year ended December 31, 2021.

2. Financing expenses / income

	For period of nine months ended September 30		For period of three months ended September 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	74	99	24	44	165
Change in the fair value of financial assets measured at fair value through income	8	-	1	-	-
Cost of early repayment of debentures	-	4	-	4	19
Total financing expenses	82	103	25	48	184
Interest income from investments in marketable debentures and bank deposits	2	7	2	2	10
Income from exchange of debentures	6	-	-	-	-
Total financing income	8	7	2	2	10
Financing expenses, net	74	96	23	46	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 Q3/2022, see Note 8 to the Consolidated Statements.
- 4.2. For information regarding the approval of the Company's Board of Directors from November 15, 2022 to carry out another buyback of the Company's shares, see Note ___ to the Consolidated Statements.
- 4.3. During the first half of 2022, B Communications 2 Limited Partnership transferred to the Company the balance of the Company's Series C debentures held thereby, in the amount of approximately NIS 10 million. After the bonds were transferred to the Company, the aforementioned debentures were withdrawn from the Stock Exchange clearinghouse and delisted from the trading cycle.
- 4.4. For information about the dividend distributed by Bezeq on October 3, 2022 and its share in the said dividend, see Note 4.4 to the Consolidated Statements.
- 4.5. For information regarding the investigation by the Securities Authority and the Israel Police, see Note 1.3 to the Consolidated Statements.
- 4.6. Regarding loss from impairment in respect of Bezeq International and DBS, see Note 5 to the Consolidated Statements.



Chapter E

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period ended September 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 semi-annual report for the period ending on June 30, 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 third 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: November 15, 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 third quarter of 2022 (hereinafter – “the Statements” or “the Interim Statements”);
- (2) To the best of my knowledge, the Interim Statements do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reported period;
- (3) To the best of my knowledge, the Interim Statements and other financial information contained in the Interim Statements adequately reflect, in all material respects, the financial position, results of operations and cash flows of the corporation for the dates and periods to which the Statements relate;
- (4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:
 - (A) Any significant deficiencies and material vulnerabilities in the determination or exercise of internal control over financial reporting and disclosure as it relates to interim financial statements and other financial information contained in interim financial statements that are likely to adversely affect a corporation's ability to collect, process, summarize or report financial information in such a way as to cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; And -

- (B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;
- (5) I, alone or with others in the Corporation:
- (A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; And -
- (B) Have established controls and procedures, or verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles; And -
- (C) I have not been informed of any incident or matter that occurred during the period between the date of the last report (quarterly or periodic, as the case may be) and the date of this report, which may change the conclusion of the Board and Directors and Management regarding the effectiveness of internal control over financial reporting and disclosure of the Corporation.

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

Date: November 15, 2022

Itzik Tadmor, Chief Financial Officer