



B. Communications Ltd.

Q1 2023 – Quarterly Report

Chapter A - Update to Chapter A (Description of the Corporation's Business) of the 2022 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 Q1 2023 (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 2022 Periodic Report¹**

¹ As published by the Company on March 14, 2023 (Reference No.: 2023-01-6022360), which is included in this report by way of reference.

Update² to Chapter A - Description of the Corporation's Business) of the 2022 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 30, 2023, the Knesset's Economic Committee approved the amendment to the Communications Order (Approval of the Communications Order (Bezeq and Broadcasting) (Establishing Essential Service Provided by "Bezeq", the Israel Telecommunications Corp. Ltd.). For more details, see immediate report published by the Company on March 30, 2023 (Ref.: 2023-01-036198).
- 1.2. On April 20, 2023, 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 and authorization of the Board of Directors to determine his salary; 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 an independent director in the Company until the date of the next annual meeting of the Company. For more details, see immediate report published by the Company on April 20, 2023 (Reference No.: 2023-01-043218).

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

On April 23, 2023, the name of DBS Satellite Services (1998) Ltd. was changed to Yes Television and Communications Services Ltd. ("**Yes**").

2.1. Section 1.1.4 – Control of Bezeq

On March 30, 2023, the Company reported a supplementary report regarding the approval of the amendment to the Communications Order (Approval of the Communications Order (Bezeq and Broadcasting) (Establishment of Essential Service provided by "Bezeq", the Israel Telecommunications Corp. Ltd.), 5783-2022 (the "**Amendment**") by the Government of Israel according to which - on March 30, 2023, the Knesset's Economic Committee approved the amendment, and it will enter into force after the signature of the Prime Minister and the Minister of Communications and its publication in the records. For more details, see immediate report published by the Company on March 30, 2023 (Ref.: 2023-01-036198).

2.2. Section 1.3 - Investments in Bezeq's capital and transactions in its shares, Section 1.1.1 - General and Section 1.1.2 - Control of Bezeq

On April 3, 2023, the Company announced the purchase of 2,100,000 ordinary shares of Bezeq in exchange for a total amount of approximately NIS 10 million, at an average price per share of NIS 4.75. The Company's current holding in Bezeq shares after this purchase and as of the date of publication of this report is 26.88% (26.36% fully diluted).

For more details, see the immediate report published by the Company on April 3, 2023 (Ref.: 2023-01-038049).

2.3. Section 1.4.2 – Dividend distribution

For details regarding the dividend distribution made by Bezeq in May 2023 and the Company's share of said dividend, see Note 7 to the statements.

The balance of Bezeq's distributable profits as of the date of the report: about NIS 1.55 billion (surplus

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 business of the Company and/or Bezeq and / or the Group, in any matter that must be described in the periodic report. The update is in relation to the Company's periodic report for 2022 and refers to the item numbers in Chapter A (Description of the Corporation's Business) in said periodic report.

Update to Chapter A (Description of the Corporation's Business) of the 2022 Periodic Report

accumulated in the last two years after subtracting distributions made during that period).

2.4. To Section 1.5.4 - Main results and operational data

2.4.1. To Section 1.5.4.1 - Bezeq Fixed Lines (Bezeq activity as NIO)

Financial data (NIS millions)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Income	1,111	1,057	1,086	1,067	1,096
Operating profit	403	293	388	393	386
Depreciation and amortization	245	266	252	248	239
Operating profit before depreciation and amortization (EBITDA) (1)	648	559	640	641	625
Net profit	249	153	235	243	218
Cash flow from current activities	608	628	427	541	634
Payments for investments in property, plant and equipment and intangible assets and other investments	312	277	294	279	285
Receipts from the sale of property, plant and equipment and intangible assets	29	9	8	5	14
Lease payments	40	35	34	33	36
Free cash flow (2)	285	325	107	234	327
Operating data					
Number of active subscribers at the end of the period (thousands) (3)	1,488	1,503	1,522	1,542	1,563
Average monthly income per telephony subscriber (NIS) (4)	41	40	41	41	47
Outgoing usage minutes (millions)	705	682	740	726	801
Incoming usage minutes (millions)	918	921	986	951	1,080
Telephony churn rate (6)	2.5%	2.5%	2.8%	2.6%	3.0%
Total number of Internet subscribers at the end of the period (thousands) (7)	1,505	1,504	1,505	1,512	1,519
Of which are subscribers connected to the fiber network at the end of the period (thousands) (7)	351	267	212	161	124
Internet lines at the end of the period - in retail (thousands) (7)	1,031	1,032	1,024	1,022	1,024
Of this number of subscribers connected to the fiber network at the end of the period - wholesale (in thousands) (7)	246	198	157	118	93
Internet lines at the end of the period - in retail (thousands) (7)	474	472	481	490	495
Of which are subscribers connected to the fiber network at the end of the period (thousands) (7)	105	69	55	42	31
Average monthly income per Internet subscriber (NIS) - Retail (ARPU) (8)	120	117	116	113	110
Fiber optic network deployment at the end of the period (thousands of households available for connection) (9)	1,689	1,526	1,442	1,308	1,193
Average plan speed for Internet subscriber – retail (Mbps) (5)	250	220	192	164	151
Number of Be routers in use by Bezeq's customers (thousands)	786	764	733	708	688
Number of Be Spot and Be Mesh reception range enhancers of the home internet network (thousands)	425	416	402	386	374

(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 Bezeq's area of activity which neutralizes aspects resulting from variability in capital structure, various taxation aspects and manner and period of amortization of property, plant and equipment and intangible assets. This index is not a substitute for indices based on generally accepted accounting principles, and does not serve as a single index for assessing the Company's results of operations or cash flow. Also, the index presented in this report may not be calculated in the same way as other indices in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from impairment of property, plant and equipment and intangible assets. For the purpose of adequate presentation of economic activity, the Company presents ongoing losses from impairment of

Update to Chapter A (Description of the Corporation's Business) of the 2022 Periodic Report

- property, plant and equipment and intangible assets in Yes 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).
- (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 from its current operations after investing cash in infrastructure and property, plant and equipment and other intangible assets.
 - (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.
 - (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.
 - (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. Starting with the second quarter of 2022, the figure also includes income from Internet access service (ISP).
 - (9) As of the date of publication of the report, deployment of fiber optic network – approx. 1.749 million households are available for connection, of which approx. 380K subscribers are connected to the fiber network (of which about 263K retail and about 117K wholesale).

2.4.2. To Section 1.5.4.2 - Pelephone

Financial data (NIS millions)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Income from services	445	441	467	446	437
Income from the sale of end equipment	171	151	141	153	163
Total income	616	592	608	599	600
Operating profit (loss)	51	17	60	52	64
Depreciation and amortization	133	135	139	136	122
Operating profit before depreciation and amortization (EBITDA) (1)	184	152	199	188	186
Net profit	44	13	50	46	56
Cash flow from operating activities	133	149	203	244	278
Payments for investments in property, plant and equipment, intangible assets and other investments, net	57	0	157	66	72
Lease payments	70	62	58	47	61
Free cash flow (1)	6	87	(12)	131	145
Operating data					
Number of postpaid subscribers for the end of the period (thousands) (2)	2,159	2,149	2,137	2,122	2,093
Number of prepaid subscribers for the end of the period (thousands) (2)	426	431	538	514	490
Number of subscribers for the end of the period (thousands) (2)	2,585	2,580	2,675	2,636	2,583
Of which are subscribers in 5G packages (thousands) (2)	834	784	738	677	605
Average monthly income per subscriber (ARPU) (NIS) (5)	57	57	58	57	57
Average monthly income per subscriber (ARPU) net of interconnect fees (NIS) (6)	43	43	45	43	42
Subscriber churn rate (Churn Rate) (4)	6.7%	6.1%	5.7%	5.5%	6.8%

- (1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.
- (2) Subscriber data includes Pelephone's subscribers (excluding other operators' subscribers who are hosted on the Pelephone network, and without IoT subscribers) and does not include subscribers who has been connected to Pelephone's service for six months or more but are not active. Inactive subscribers are subscribers who in

Update to Chapter A (Description of the Corporation's Business) of the 2022 Periodic Report

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 860K 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 7 of the chapter on the description of the Corporation's business for the year 2022.
- (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.
- (5) In an examination carried out by Pelephone of the register of prepaid subscribers during the Q4/2022, it was found that approximately 96K subscribers were included in the register of subscribers even though they did not meet the definition of an active subscriber. Accordingly, the Company subtracted these subscribers in a one-time manner. The removal of subscribers as mentioned led to an increase by about NIS 2 in ARPU for Q4 and no change in the subscriber churn rate in this quarter.
- (6) Average monthly income per subscriber (ARPU) excluding income from mutual relationships ("Interconnect income") - as part of the reform to change the interconnect rates regime that will apply gradually from June 2023 until June 2025, Pelephone chose to present the average monthly income per subscriber (ARPU) minus the interconnect income component, and this is in addition to the full ARPU.

2.4.3. To Section 1.5.4.3 - Bezeq International

Financial data (NIS millions)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Income	312	319	311	302	307
Operating profit (loss)	14	(60)	17	17	(4)
Depreciation and amortization	30	35	32	29	38
Operating profit (loss) before depreciation and amortization (EBITDA) (1)	44	(25)	49	46	34
Net profit (loss)	13	(58)	16	15	(5)
Cash flow from operating activities	19	56	5	37	112
Payments for investments in property, plant and equipment and intangible assets and other investments, net (2)	10	17	23	27	26
Lease payments	10	9	9	9	9
Free cash flow (1)	(1)	30	(27)	1	77
Operating data					
Subscriber churn rate (3)	14.7%	15.0%	12.4%	12.9%	7.3%

(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) 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.

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2.4.4. Yes

Financial data (NIS millions)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Income	329	330	315	316	316
Operating profit (loss)	0	0	0	(2)	10
Depreciation, amortization and ongoing impairment	50	57	46	46	50
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (1)	50	57	46	44	60
Net profit (loss)	5	1	0	2	10
Cash flow from operating activities	92	56	9	43	78
Payments for investments in property, plant and equipment and intangible assets and other investments, net	30	44	39	49	46
Lease payments	6	7	6	6	6
Free cash flow (1)	56	5	(36)	(12)	26
Operating data					
Number of subscribers (at the end of the period, thousands) (2)	580	579	575	567	564
Of which are IP subscribers (3)	348	329	307	280	253
Of which are StingTV subscribers	108	104	101	94	89
Average monthly income per subscriber (ARPU) (NIS) (4)	185	181	182	184	186
Subscriber churn rate (5)	3.5%	3.0%	3.2%	2.9%	3.7%

(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 Yes subscribers using Yes+ and STINGTV services transmitted via the Internet. As of the date of publication of the report, is about 356K subscribers (of which approx. 110K are STINGTV subscribers), which constitute 61% of all Yes subscribers. This rate 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 Yes income (excluding income from the sale of content to external broadcasters, income from end equipment and income from ISP services) by the average number of customers in the period. See also Section 7 of the chapter describing the corporation's business for 2022.

(5) The number of Yes subscribers who churned from Yes during the period divided by the average number of Yes subscribers registered in the period. See also Section 7 of the chapter describing the Corporation's business for 2022.

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

2.5. To Section 1.7.4 - Change in regulation structure - Amendment 76 to the Communications Law and Section 2.16.4 - Wholesale market

Regarding the use of passive infrastructure in a wholesale service - on March 29, 2023, a resolution was adopted by the Ministry of Communications (following the hearing on November 22, 2022) that allows all authorized suppliers to use the passive infrastructure reciprocally, including the Company's physical infrastructure not only in the incentive areas, and this subject to compliance with security instructions.

2.6. To Section 1.7.7 - Regulatory aspects that are relevant to the whole Group or to a number of companies therein

Paragraph 1.7.7.5 regarding a financial sanction in the amount of approximately NIS 6.9 million imposed on Bezeq - on April 2, 2023, a judgment was given in the appeal filed by Bezeq on the imposition of the sanction confirming the agreement of the parties that the amount of the financial sanction will be a reduced amount of approximately NIS 3.4 million, and accordingly the Consumer Protection Authority reimbursed Bezeq a total of about NIS 3.7 million (including linkage and interest).

3. Bezeq - Landline interior communications

3.1. To Section 2.6.2 – Internet field

Regarding the proportion of Bezeq's unified internet customers from among Bezeq's retail customers - as of March 31, 2023, this proportion was 58%.

3.2. To Section 2.6.8 - Bezeq's preparation and ways to deal with the growing competition

Regarding Bezeq's Be router and upgrading the capabilities of Bezeq's internet network, in May 2023 Bezeq, together with the global company "Nokia", conducted a test that demonstrated the ability to provide rates of up to 25 gigabytes using advanced technologies, and at the same time, it announced a future road map for the development of rates and services which includes the launch of multi-gigabyte rates of up to 10 gigabytes in 2024 and up to 25 gigabytes in 2027, advanced WiFi standards, and the upgrade of Bezeq's Be router. Regarding the status data of the Be routers used by Bezeq customers and marketing data on reception range improving products, see update to Section 1.5.4(a) (Section 2.4 above).

3.3. To Section 2.9.5 – Officers and senior management employees at Bezeq

On April 20, 2023, the general assembly of Bezeq's shareholders approved, among other things, the approval of various amendments to Bezeq's remuneration policy, so that the remuneration policy including said amendments will be valid for a period of three years from its date of approval. The amendments include, among other things, the application of the remuneration policy to the Chairman of the Board of Directors, as well as the possibility of linking salaries to the consumer price index, reflecting expenses and ancillary conditions, granting an adjustment period and a signing grant to officers. For more details on the updated remuneration policy, see Bezeq's immediate report (amendment) on the convening of the meeting dated April 4, 2023, included in this report by way of reference.

3.4. To Section 2.11 - Working capital

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

3.5. To Section 2.13 - Financing

On April 7, 2023, Bezeq's shelf prospectus published on April 7, 2020 expired. On May 9, 2023, Bezeq published a new shelf prospectus dated May 10, 2023. For this matter, see also Bezeq's immediate report dated May 9, 2023 regarding the new shelf prospectus included in this report by way of reference.

3.6. To Section 2.13.1 - Average and effective interest rate on the loans

As of March 31, 2023, Bezeq is not financed by short-term credit (less than a year). Below is the current distribution of long-term loans (including current loans):

Loan period	Financing source	Principal amount (NIS millions)	Currency or linkage type	Interest type and the change mechanism	Average interest rate	Effective interest rate	Nominal interest range in 2023
Long-term loans	Banks	705	Non-indexed NIS	Fixed	3.43%	3.37%	4.30%-3.20%
	Banks	700	Non-indexed NIS	Varies based on the prime interest rate*	6.21%	6.33%	6.28%-5.78%
	Non-banking sources	3,679	Non-indexed NIS	Fixed	3.05%	3.16%	4.00%-2.79%
	Non-banking sources	2,738	Indexed NIS	Fixed	1.44%	1.48%	2.20%-0.58%

* Prime interest rate - 6.00% (as of May 2023)

3.7. To Section 2.13.4 - credit amounts received during the reporting period and to Section 2.13.5 - Bezeq's debentures

On March 26, 2023, Bezeq completed a public offering of debentures (series 13 and 14), by way of expanding series traded on the stock exchange, according to a shelf offer report dated March 22, 2023, which was published according to a shelf prospectus published on April 7, 2020, as extended by the Securities Authority until April 7, 2023. In this framework, NIS 230,040,000 par value debentures (series 13) were issued to the public for a total of NIS 182 million and NIS 278,363,000 par value debentures (series 14) for a total of NIS 238 million. For more details on the subject, see Bezeq's shelf offer report dated March 22, 2023 and Bezeq's immediate report of March 26, 2023 regarding the results of the offering included in this report by way of reference.

3.8. To Section 2.13.6 - Credit rating

On May 3, 2023 Maalot confirmed the iIAA- rating of Bezeq, Pelephone and Yes and updated their rating forecast from stable to positive in view of an improvement in Bezeq's financial relations. Also, on March 22, 2023, Midroog confirmed the Aa3.il rating for Bezeq's debentures and raised the rating horizon from stable to positive. For this matter, see also Bezeq's immediate reports of May 3, 2023 and May 15, 2023 included in this report by way of reference, as well as Section 3 of the Board of Directors' report.

3.9. To Section 2.16.1 - Supervision of Bezeq rates

To Paragraph 2.16.1.4 regarding a hearing regarding the determination of a format for examining margin reduction by owners of landline communications infrastructure - on March 27, 2023, a decision was published in the hearing according to which the format for examining margin reduction in an advanced landline network will be the format published in the recommendation for the hearing together with a number of changes detailed in the resolution and the format This will be a calculation method in accordance with Article 17(d) of the Communications Law. The resolution at the hearing is not expected to have a material impact on Bezeq's business.

3.10. To Section 2.16.4 - wholesale market

Regarding the use of passive infrastructures in a wholesale service - see update to Section 1.7.4.

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

4.1. To Section 3.7 – PP&E, real estate and facilities

To Paragraph 3.7.2.2 regarding the authorization agreement between Pelephone and ILA for the use of land owned by ILA for the establishment and operation of communication sites - following the publication of the Israel Land Council's decision to extend the term of the roof agreement from December 31, 2019 to December 30, 2024, in January 2023, an agreement was signed between the parties.

4.2. v 3.15 - Material agreements

To Paragraph 3.15.2 regarding the agreement between Pelephone and the Accountant General of the Ministry of Finance - on May 2, 2023 another extension notice was received until May 16, 2023. In parallel with this extension, the parties are discussing the possibility of another extension of the agreement.

4.3. To Section 3.16.1 - Pending legal proceedings

To Section 3 regarding a motion for approval of a class action which was submitted against Pelephone on the grounds that Pelephone unilaterally and without consent changed the terms of the agreement by allowing continued browsing after exhausting the amount of browsing included in the package instead of stopping it, despite Pelephone's announcement on the matter - on April 28, 2023, a judgment was issued confirming the settlement arrangement between the parties, the main of which is the provision of compensation in the amount of approximately NIS 18 million (part of it in benefits).

5. Bezeq International – Internet services, international communications and ICT solutions

No update.

6. Yes - Multi-channel TV

6.1. To Section 5.5.1 - Competition

To Section 5.5.1 regarding the competitors in the field - in April 2023, the cooperation project between Keshet and RGE was launched to establish and operate a multi-channel broadcasting platform, under the name freetv, where to the best of our knowledge, at this stage joining it is free of charge.

6.2. To Section 5.12 - Financing

In May 2023, Bezeq approved a credit facility to or capital investment in Yes in a total amount of up to NIS 40 million, for a period of 15 months starting on April 1, 2023. This approval replaces a similar approval given in March 2023 (and not in addition to it).

6.3. To Section 5.14 - Limitations and supervision of Yes

To Section 5.14.1.3 regarding the obligation to invest in local productions - see update to Section 5.16 (Section 6.4 below).

6.4. To Section 5.16 - Legal proceedings

In April 2023, a petition was submitted to the High Court of Justice on behalf of a number of organizations of creators, performers, producers, screenwriters and editors against the Council, the Council Chairman, Yes and Hot, in which the Court was asked to order the Council and the Council Chairman to reply and justify why they will not order Hot and Yes to include their income from additional services granted by them, which are not multi-channel television services via satellite or cable communication, including telephony services, Internet access services and multi-channel television services over the Internet (OTT), for the purpose of calculating their annual investment obligations in local productions According to the Communications Law (see Section 5.14.1.3 of the chapter describing the corporation's business for 2022).

6.5. To Section 5.17 - objectives and strategy

To Section 5.17.1 regarding the graded transition (migration) of Yes from satellite broadcasts to broadcasting via the Internet network (OTT) - see update to Section 1.5.4.4 (Section 2.4 above).

May 16, 2023

Date

B Communications Ltd.

Names and roles 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 March 31, 2023

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

The Board of Directors of B Communications Ltd. ("**the Company**") is honored to submit the Board of Directors' report on the State of the Company and consolidated for all Group Companies (the Company and the Subsidiaries will be collectively referred to hereinafter as: "**the Group**"), for a period of three months ended March 31, 2023 ("**the Report Date**") in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 ("**the Reporting Regulations**").

The report of the Board of Directors includes a review, in a limited format, of the matters discussed therein, and has been prepared taking into account that the reader of the report also has the report of the Board of Directors as of December 31, 2022.

For the investigation by the Securities Authority and the Israel Police, see Note 1.2 to the statements. The auditors drew attention to this in their opinion on the statements.

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

1. **Landline interior communication**
2. **Cellular communication**
3. **Internet services, international communication, and ICT solutions**
Hereinafter: "**Bezeq International Services**"
4. **Multi-channel TV**

	1-3.2023	1-3.2022		Change
	NIS millions			%
Net profit	286	260	26	10.0
EBITDA*	924	905	19	2.1
Adjusted EBITDA*	934	955	(21)	(2.2)

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

The increase in net profit was mainly due to a decrease in provision for legal claims as well as a decrease in financing expenses in the landline interior communications segment.

For more information, see Section 1.2 below.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

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

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

The following is a breakdown of the indices:

Index	Details of the method of calculation and the purposes of the index
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as profit before financing expenses (income), 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 correlated EBITDA index should not be compared to indices with a similar name reported by other companies due to a possible difference in the way the index is calculated.

The following is the method of calculating the indices:

	1-3.2023	1-3.2022
	NIS millions	NIS millions
Operating profit	466	457
Depreciation, amortization and impairment	458	448
EBITDA	924	905
Other operating expenses, net	7	46
Share based compensation	3	4
Adjusted EBITDA	934	955

Report of the Board of Directors on the state of affairs of the corporation for the Period ended March 31, 2023

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

1.1 Financial position - Assets

	March 31, 2023	March 31, 2022	Increase (decrease)		Explanation
	NIS millions			%	
Cash and current investments	2,483	2,290	193	8.4	The increase was mainly due to an increase in current investment balances in the landline interior communications segment. For more information, see Chapter 1.3 below.
Current and non-current trade receivables	2,177	2,426	(249)	(10.3)	The decrease was mainly due to the advance of the crediting dates with the credit card companies starting in the Q2/2022 in the cellular communication segment and in the Bezeq International services segment, from the cancellation of a debt balance for insurance indemnification in respect of a provision for a claim in the landline interior communications segment and debt repayment in respect of a government grant received in the cellular communication segment during the year 2022.
Inventory	141	108	33	30.6	The increase in inventory was due to the cellular communication segment was mainly due to stocking up in light of the timing of mobile device launches.
Broadcasting rights	53	62	(9)	(14.5)	
Right-of-use assets	1,719	1,816	(97)	(5.3)	
Property, plant and equipment	6,629	6,400	229	3.6	The increase was mainly due to the landline interior communications segment, partly due to the progress of the fiber network deployment project.
Intangible assets	3,250	3,271	(21)	(0.6)	
Deferred expenses and non-current investments	272	303	(31)	(10.2)	The decrease was mainly due to the classification of a long-term deposit in a company for current investments.
Total assets	16,724	16,676	48	0.3	

Report of the Board of Directors on the state of affairs of the corporation for the Period ended March 31, 2023

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

	March 31, 2023	March 31, 2022	Increase (decrease)	
	NIS millions		%	
Debt to financial institutions and bondholders	9,622	9,707	(85)	(0.9)
Lease liabilities	1,871	1,943	(72)	(3.7)
Trade payables	1,872	1,946	(74)	(3.8)
Employee benefits	569	642	(73)	(11.4)
Provisions	131	233	(102)	(43.8)
Deferred tax liabilities	324	302	22	7.3
Other liabilities	147	147	-	-
Total liabilities	14,536	14,920	(384)	(2.6)
Non-controlling interests	2,075	1,693	382	22.6
Equity attributed to shareholders of the company	113	63	50	79.4
Total equity	2,188	1,756	432	24.6
Total liabilities and equity	16,724	16,676	48	0.3

Explanation
Repayment of debentures and loans is offset by the expansion of series 13 and 14 debentures in the current quarter and by receiving loans during the year 2022.
The decrease was mainly due to payment for 5G frequencies during the year 2022 in the cellular communication segment.
The decrease was due to payments for employee retirement and to an increase in the discount rate of liabilities to employees, offset by an increase in the provisions for termination of employee-employer relationship in early retirement and voluntary retirement in the Group during 2022.
The decrease was mainly due to a decrease in the provision for claims in the landline interior communications segment, mainly due to the cancellation of the provision for a claim against the balance of the debt for insurance indemnification in respect thereof.
Shareholders equity constitutes approximately 0.7% of the total balance sheet as of March 31, 2023, compared to approximately 0.4% of the total balance sheet as of March 31, 2022.

1.2. The results of operations

1.2.1. Results summary

	March 31, 2023	March 31, 2022	Increase (decrease)	Explanation
	NIS millions		%	
Revenues	2,308	2,255	53	2.4 There was an increase in the income in all the main segments of the Group.
Operating and general expenses	885	829	56	6.8 The increase was due to all the Group's main segments, except for a decrease in expenses from the Bezeq International services segment.
Salary	492	475	17	3.6 The increase was mainly due to the landline interior communications segment.
Depreciation, amortization and impairment	458	448	10	2.2 The increase was due to the landline interior communications segment and the cellular communications segment, offsetting a decrease in expenses from the Bezeq International services segment.
Other operating expenses, net	7	46	(39)	(84.8) The decrease was mainly due to the landline interior communications segment due to a decrease in provision expenses for claims, see Note 10 to the statements.
Operating Profit	466	457	9	2.0
Financing expenses, net	88	104	(16)	(15.4) The decrease was mainly due to the landline interior communications segment, see Note 12 to the Statements.
Taxes on income	92	93	(1)	(1.1)
Profit for the period	286	260	26	10.0

Report of the Board of Directors on the state of affairs of the corporation for the period ended March 31, 2023

1.2.2. Operating segments

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

	1-3.2023		1-3.2022	
	NIS millions	% of total income	NIS millions	% of total income
Revenue by operating segment:				
Interior landline communication	1,111	48.1	1,096	48.6
Cellular communication	616	26.7	600	26.6
Bezeq International services	312	13.5	307	13.6
Multi-channel TV	329	14.3	316	14
Others and adjustments	(60)	(2.6)	(64)	(2.8)
Total revenues	2,308	100	2,255	100

	1-3.2023		1-3.2022	
	NIS millions	% of total income	NIS millions	% of total income
Operating profit (loss) by operating segment				
Interior landline communication	403	36.3	386	35.2
Cellular communication	51	8.3	64	10.7
Bezeq International services	14	4.5	(4)	(1.3)
Multi-channel TV	(5)	(1.5)	(7)	(2.2)
Others and adjustments	3	0.1	18	0.8
Consolidated operating profit / percentage of Group income	466	20.2	457	20.3

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.3 to the Consolidated Financial Statements for a summary of selected data from the statements of Yes Television and Communications Ltd.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

1.2.2. Activity segments

b. Interior landline communications segment

	1-3.2023	1-3.2022	Increase (decrease)	
	NIS millions		%	
Internet infrastructure	479	434	45	10.4
Landline telephony	182	220	(38)	(17.3)
Transmission, data communication and other	363	361	2	0.6
Cloud and digital services	87	81	6	7.4
Total revenues	1,111	1,096	15	1.4
Operating and general expenses	195	178	17	9.6
Salaries	263	246	17	6.9
Depreciation and amortization	245	239	6	2.5
Other operating income, net	5	47	(42)	(89.4)
Operating profit	403	386	17	4.4
Financing expenses, net	76	94	(18)	(19.1)
Income taxes	78	74	4	5.4
Segment profit	249	218	31	14.2

Explanation
The increase was mainly due to an increase in the average income per retail subscription, which is mainly from services to customers on the fiber network, from complementary end equipment and from the provision of Internet access services (ISP) starting in April 2022, as well as from an increase in the volume of wholesale market activity.
The decrease was due to a decrease in the average income per telephone line, mainly due to the reduction in telephony rates by the Ministry of Communications starting in April 2022, as well as a decrease in the volume of traffic. There is also a decrease in the number of lines.
The increase in income, which was mainly due to data communication and transmission services for businesses, was offset by a decrease in transmission revenues to Internet Service Providers (ISPs) due to the switch of subscribers to Bezeq due to the unified Internet reform.
The increase was mainly due to virtual switchboard services and cloud services.
The increase was mainly due to an increase in the costs of subcontractors and the costs of end equipment and materials due to the deployment of the fiber network.
The increase was due to salary updates, a one-off grant to permanent employees as part of the agreements on salary increase in the public sector and the onboarding of employees, mainly offsetting employee retirement.
The decrease was mainly due to a decrease in provision expenses for claims.
The decrease in net financing expenses was mainly due to early repayment costs of debentures which were recognized in the corresponding quarter, as well as an increase in financing income from investments, offsetting a decrease in financing income from employee benefits, see Note 11 in the statements.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

1.2.2. Activity segments

c. Cellular communications segment

	1-3.2022	1-3.2021	Increase (decrease)		Explanation
	NIS millions		%		
Services	445	437	8	1.8	The increase in revenues was mainly due to an increase in income from roaming services and continued growth in the number of subscribers, including subscribers in 5G packages.
Sale of end equipment to customers	171	163	8	4.9	The increase was mainly due to a change in the mix of devices sold.
Total revenues	616	600	16	2.7	
Operating and general expenses	351	333	18	5.4	The increase was mainly due to an increase in the cost of selling end equipment and an increase in the costs of roaming in parallel with an increase in income. In addition, there was an increase in network costs and frequency fees, among other things in light of the increase in electricity rates and index during the period.
Salaries	84	82	2	2.4	
Depreciation and amortization	133	122	11	9.0	The increase was mainly due to an update of the cost estimate of right-of-use assets that was carried out in the corresponding quarter for past periods. This increase is partially offset by assets whose depreciation period has ended, as well as by updating the estimate of site dismantling and removal assets.
Other operating income, net	(3)	(1)	(2)	200.0	
Operating profit	51	64	(13)	(20.3)	
Financing income, net	6	9	(3)	(33.3)	The decrease in financing income, net, was mainly due to an increase in exchange rate differential expenses in light of the increase in the exchange rate during the period, as well as an increase in financing expenses due to CPI linkage differences. This decrease was partially offset by an increase in interest income from deposits.
Income tax	13	17	(4)	(23.5)	
Segment profit	44	56	(12)	(21.4)	

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

1.2.2. Activity segments

d. **Bezeq International services**

	1-3.2022	1-3.2021	Increase (decrease)		Explanation
	NIS millions		%		
Revenus	312	307	5	1.6	The increase was due to an increase in Bezeq's overall business activity, mainly from cloud licensing revenues due to the full consolidation of the activities of CloudEdge in the current quarter (in the corresponding quarter the consolidation takes effect from March 1, 2022), as well as from revenues from equipment, licensing, and service contracts. This increase was largely offset by a decrease in income from internet services (ISP) in the private segment, which was mainly due to a decrease in the number of subscribers following the unified Internet reform.
Operating and general expenses	208	216	(8)	(3.7)	The decrease was mainly due to a decrease in expenses for the use of Internet infrastructure in view of a decrease in private activity in this area. This decrease was partially offset by an increase in cloud licensing expenses, in parallel with an increase in revenues from this area, mainly due to the consolidation of the activities of CloudEdge in the full current quarter, as well as an increase in expenses for the sale of licensing equipment and service contracts.
Salaries	54	56	(2)	(3.6)	The decrease was mainly due to a continuous decrease in the number of Bezeq employees.
Depreciation and amortization	30	38	(8)	(21.1)	The decrease was mainly due to a decrease in the impairment of assets recognized in the current quarter compared to the corresponding quarter last year (see Note 5.2 to the statements) and a decrease in depreciation expenses of intangible assets mainly due to a decrease in depreciation expenses of subscription acquisition assets.
Other operating expenses	6	1	5	500.0	The increase was mainly due to updating the provision for claims.
Operating profit (loss)	14	(4)	18	-	
Financing expenses, net	1	1	-	-	
Segment profit (loss)	13	(5)	18	-	

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

1.2.2. Activity segments

e. Multi-channel TV *

	1-3.2023	1-3.2022	Increase (decrease)		Explanation
	NIS millions			%	
Revenues	329	316	13	4.1	The increase was mainly due to an increase in income from combined TV and fiber packages as well as income from new content packages, mainly from collaborations with international content providers.
Operating and general expenses	225	208	17	8.2	The increase was due to an increase in the volume of content costs as well as an increase in costs for fiber activity.
Salaries	50	49	1	2.0	
Depreciation and amortization	60	66	(6)	(9.1)	The decrease was mainly due to assets that were fully amortized and a change in the estimated duration of assets.
Other operating income, net	(1)	-	(1)	-	
Operating loss	(5)	(7)	2	(28.6)	
Financing income, net	(5)	(1)	(4)	400.0	The increase was mainly due to an increase in the value of forward transactions as a result of a change in the dollar exchange rate.
Taxes on income	-	1	(1)	(100)	
Segment loss	-	(7)	7	(100)	

* The results of the multi-channel television segment are presented net of the overall effect of impairment recognized as of the fourth quarter of 2018 (for more information, see Notes 5.1 and 13 to the Statements). This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.3 to the consolidated statements regarding a summary of selected data from the financial statements of Yes Television and Telecommunication Services Ltd. as well as from the table below.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

1.2.2. Activity segments (Cont.)

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

	1-3.20223		1-3.2022	
	Accounting profit	Proforma profit	Accounting profit	Proforma profit
NIS millions				
Revenues	329	329	316	316
Operating and general expenses	228	225	206	208
Salaries	52	50	50	49
Depreciation and amortization	50	60	50	66
Other operating income, net	(1)	(1)	-	-
Operating profit (loss)	-	(5)	10	(7)
Financing income, net	(5)	(5)	(1)	(1)
Taxes on income	-	-	1	1
Segment profit (loss)	5	-	10	(7)

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

1.3. Cash Flows

	1-3.2023	1-3.2022	Change		Explanation
		NIS millions		%	
Net cash flow from operating activities	849	1,093	(244)	(22.3)	The decrease in net cash flow from operating activities was due to changes in working equity, mainly due to the transition in collection from customers from the fourth quarter of 2021 until the first quarter of 2022 due to employees' sanctions in the cellular communications segment and the Bezeq international services segment.
Net cash flow used for Investing operations	(750)	(268)	(482)	(179.9)	The increase in the net cash flow used for investment activity was mainly due to an increase in net investment in deposits in banks compared to net proceeds from the repayment of deposits in banks in the corresponding quarter in the landline interior communications segment.
Net cash flow from (used for) financing operations	276	(527)	803	152.5	The increase in net cash flow derived from financing activities was due to the expansion of Bezeq debentures (series 13 and 14) in the current quarter, compared to the partial early repayment of Bezeq debentures (series 9) in the corresponding quarter.
Net increase in cash	375	298	77	25.8	

Average volume in the reported year

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 9,402 million.

Provider credit: approx. NIS 952 million.

Short-term customer credit: approx. NIS 1,475 million. Long-term customer credit: approx. NIS 307 million.

Working capital

The Group's consolidated working capital as of March 31, 2023, amounted to approximately NIS 437 million, compared with working capital of approximately NIS 409 million as of March 31, 2022.

The Company's working capital (according to its separate Financial Statements) as of March 31, 2023, amounted to approximately NIS 247 million, compared with working equity of approximately NIS 182 million as of March 31, 2022.

Bezeq (according to its separate Financial Statements) as of March 31, 2023, has a working equity surplus in the amount of NIS 663 million, compared with a deficit in working equity of NIS 278 million as of March 31, 2022.

Disclosure regarding the Company's projected cash flow

The Company's Board of Directors reviewed the Company's consolidated financial statements and separate (Solo) financial statements as of March 31, 2023, 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. Update on the effects of inflation and the increase in interest rates on the results of the Group's activities

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

In the three-month period that ended on March 31, 2023, the increase in the consumer price index were embodied by Bezeq's financing expenses in the volume of approximately NIS 26 million (approximately NIS 21 million after hedging), compared to the corresponding quarter, Bezeq's financing expenses for linkage differences decreased by approximately NIS 8 million (approximately NIS 6 million after hedging).. It should be noted that the net effect of the increase in interest rates in the economy on Bezeq's operating results was immaterial during the reporting period.

In accordance with the extent of Bezeq's index-linked debt as of March 31, 2023, every 1% increase in the Consumer Price Index is expected to result in an increase in Bezeq's financing expenses to the extent of approximately NIS 27 million, before considering the effect of hedging transactions. In addition, every change of 1% in the Bank of Israel's interest rate is expected to cause an increase in Bezeq's financing expenses to the extent of approximately NIS 7 million per year, and accordingly, no significant impact on Bezeq's operating results is expected as a result.

The Company's debentures are not linked to the CPI and are fixed rate coupon, therefore they are not affected by changes in the inflation rate or interest rate increases.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

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

2.1. Disclosure regarding material valuation

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

	Yes Television and Communications Ltd. ("Yes")^{1,2}
Identification of subject of valuation	Examination of the impairment of Yes' assets as of March 31, 2023.
Timing of the valuation	March 31, 2023; The valuation was signed on May 10, 2023.
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 March 31, 2023 is negative in the amount of approximately NIS 76 million.
Value of the subject of the valuation determined in accordance with the valuation	Yes' total enterprise value is negative in the amount of approximately NIS 159 million. In light of the negative enterprise value, the net value of Yes' assets and liabilities was determined as the higher of the fair values and zero. Accordingly, a recoverable amount of yes was determined, obtained as a result of the position according to fair value minus sales costs of the balance sheet items according to the requirements of IAS 36, in a negative amount of about NIS 145 million. Based on the valuation, the Group recognized in the reported quarter an impairment loss of approximately NIS 69 million.
Identification and characterization of the valuator	The valuation was performed by Prof. Hadas Gelandar, Partner, Director of Valuations and Economic Models in the Economic Department of Ernest Young (Israel) Ltd. 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

¹ On April 23, 2023, the name of DBS Satellite Services (1998) Ltd. was changed to Yes Television and Communication Services Ltd.

² Despite the negative enterprise value of Yes, Bezeq supports Yes by approving credit facilities or investing in Yes capital (see Note 4.1 to the Statements). Bezeq's support as mentioned in Yes stems, among other things, from the current and expected contribution of Yes activity to the overall activity of Bezeq Group.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

	Yes Television and Communications Ltd. ("Yes")^{1,2}
	<p>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>
Valuation model	<p>In the first stage – update to the value in use calculated using the DCF discounting method compared to the valuation as of December 31, 2022.</p> <p>It was noted in the valuation that Yes' Management stated that the results of the current quarter have not changed in a material way that requires updating forecasts, and therefore the value in use is based on the forecast received from Yes' Management and included in the valuation for December 31, 2022.</p> <p>At the same time, adjustments were made in the calculation of the aforementioned usage value, both due to a non-normative change in the balance of suppliers and due to the passage of time.</p> <p>In the second stage - the fair value of Yes' net assets and liabilities, minus sales costs, as of March 31, 2023, was determined.</p>
Assumptions under which the valuator made the valuation	<p>Discount rate - 10% (after tax).</p> <p>Permanent growth rate - 1%</p> <p>Percentage of scrap value of the total value determined in the valuation - irrelevant.</p> <p>In addition, assumptions were made regarding fair value minus sales costs of Yes' assets.</p>

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

2.3. Current and subsequent material events

Regarding current and subsequent material events - see Note 15 to the consolidated financial statements.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended March 31, 2023

3. Details related to Bezeq's debentures

3.1. During the month of March, Bezeq borrowed funds by way of an expansion of series 13 and 14 debentures in the amount of approximately NIS 415 million.

3.2. On March 20, 2023, and on March 22, 2023, Maalot announced an iAA- rating for the debentures that Bezeq will issue through the expansion of series 13 and 14 (see immediate reports Ref. 2023-01-024652 and 2023-01-025747).

On May 3, 2023, Maalot confirmed Bezeq's iAA- rating and updated its rating forecast from stable to positive, in light of an improvement in Bezeq's financial relationships (see immediate report Ref. 2023-01-040606).

On March 19, 2023 and on March 22, 2023, the rating agency Midroog determined the rating of Aa3.il with a stable horizon for series 13 and 14 debentures that will be issued by Bezeq by way of expanding series 13 and 14 (see immediate reports Ref. 2023-01-024223 and 2023 -01-025771).

On May 15, 2023, Midroog confirmed the Aa3.il rating for Bezeq's debentures and raised the rating horizon from stable to positive (see immediate report Ref. 2023-01-044233).

3.3. Financial clauses in the Company's debentures

In accordance with the Company's commitment in debt series C and F to comply with LTV's condition, the LTV ratio as of March 31, 2023 was 47.0%.

The Company's net debt balance as of March 31, 2023 is approximately NIS 1,894 million and consists of a principal balance and accrued interest as of the balance sheet date in respect of its debentures in the amount of NIS 1,993 million, net of cash balances and short-term investments in the amount of NIS 99 million.

4. Miscellaneous

For information regarding the balance of liabilities of the reporting corporation as of March 31, 2023, see the form to be reported by the Company on the MAGNA system on May 17, 2023.

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Date of signing: May 16, 2023



Chapter C

Condensed Consolidated Interim Financial Statements As of March 31, 2023

(Unaudited)

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

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**Auditors' Review Report to the Shareholders of
B Communications Ltd.**

Introduction

We reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – "the Company") as of March 31, 2023 and for a period of the three months that ended on the same date. The separate financial information is within the responsibility of the Company's Board of Directors and Management. It is our responsibility to provide a conclusion on the separate interim financial information for said interim periods based on our review.

Scope of our review

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

Conclusion

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

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

Emphasis paragraph (drawing attention)

Without limiting our above conclusion, we draw attention to what is stated in Note 1.3 to the statements which refers to Note 1.3 to the annual consolidated financial statements, regarding the investigation by the Securities Authority and the Israel Police 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 the holding of a hearing on suspicion of bribery and reporting with intention to mislead a reasonable investor, and regarding the filing of indictments against the former controlling shareholder in Bezeq in various offenses, among other things, for offenses of bribery and causing misleading detail in immediate reporting and regarding the filing of an indictment against the former controlling shareholder in Bezeq and former senior executives in the Bezeq Group which attribute to the defendants offenses of obtaining by deceit and reporting offenses under the Securities Law. In addition, following the opening of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq's controlling group in the past, including motions for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and results on Bezeq as well as on the statements and estimates used in the preparation of these reports, if any.

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

Somekh Chaikin
Certified Public Accountants

May 16, 2023

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

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

Condensed Consolidated Interim Statements of Financial Position as of				
		March 31, 2023	March 31, 2022	December 31, 2022
		(Unaudited)	(Unaudited)	(Audited)
Assets	Note	NIS millions	NIS millions	NIS millions
Cash and cash equivalents		1,129	1,296	754
Investments		1,354	994	973
Trade receivables		1,510	1,593	1,440
Other receivables		209	402	289
Inventory		141	108	85
Total current assets		4,343	4,393	3,541
Trade and accounts receivable		458	431	460
Broadcasting rights – net of rights exercised		53	62	57
Right-of-use assets		1,719	1,816	1,746
Property, plant and equipment		6,629	6,400	6,542
Intangible assets		3,250	3,271	3,251
Deferred expenses and non-current investments *		272	303	258
Total non-current assets		12,381	12,283	12,314
Total assets		16,724	16,676	15,855

* Including long-term restricted deposits.

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

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

		March 31, 2023	March 31, 2022	December 31, 2022
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and assets	Note	NIS millions	NIS millions	NIS millions
Debtures, loans and credit		923	949	921
Current maturities of lease liabilities		443	449	456
Trade payables		1,872	1,946	1,598
Employee benefits		371	424	399
Provisions		97	188	168
Total current liabilities		3,706	3,956	3,542
Debtures and loans		8,699	8,758	8,257
Leasing liabilities		1,428	1,494	1,452
Employee benefits		198	218	201
Derivatives and other liabilities		147	147	151
Deferred tax liabilities		324	302	319
Provisions		34	45	37
Total non-current liabilities		10,830	10,964	10,417
Total liabilities		14,536	14,920	13,959
Equity attributed to:	7			
Shareholders of the Company		113	63	54
Non-controlling interests		2,075	1,693	1,842
Total equity		2,188	1,756	1,896
Total liabilities and equity		16,724	16,676	15,855

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: May 16, 2023

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

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

Condensed Consolidated Interim Statements of Income			
	For the period of three months ended March 31		For the year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenues (Note 8)	2,308	2,255	8,986
Operating expenses			
Operating and general expenses	885	829	3,396
Salaries	492	475	1,877
Depreciation, amortization and impairment *	458	448	1,868
Other operating expenses, net (Note 10)	7	46	220
Total operating expenses	1,842	1,798	7,361
Operating profit	466	457	1,625
Financing expenses (income)			
Financing expenses	121	145	530
Financing income	(33)	(41)	(132)
Financing expenses, net (Note 11)	88	104	398
Profit before taxes on income	378	353	1,227
Taxes on income expenses	92	93	336
Net profit for the period	286	260	891
Profit attributed to:			
Shareholders of the Company	58	53	158
Non-controlling interests	228	207	733
Net profit for the period	286	260	891
Profit per share (NIS)			
Baseline profit per share	0.54	0.46	1.42
Diluted profit per share	0.53	0.45	1.41

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

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

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

Condensed Consolidated Interim Statements of Comprehensive income			
	For the period of three months ended March 31		For the year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Profit for the year	286	260	891
Reassessment of defined benefit plan, net of tax *	1	26	56
Other comprehensive income (loss) items (additional, net of tax)	2	12	(6)
Total comprehensive income for the period	289	298	941
Attributable to:			
Shareholders of the company	59	63	171
Non-controlling interests	230	235	770
Total comprehensive income for the period	289	298	941

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

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

Condensed consolidated interim statements of changes in equity

	Shareholder equity	Premium on shares	Treasury shares	Other principals	Loss balance	equity attributable to shareholders of the company	Non- controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For period of three months ended March 31, 2023 (unaudited)								
Balance as of January 1, 2023	12	1,495	(137)	(30)	(1,286)	54	1,842	1,896
Profit for the period	-	-	-	-	58	58	228	286
Other comprehensive income for the period, net of tax	-	-	-	1	-	1	2	3
Total comprehensive income for the period	-	-	-	1	58	59	230	289
Transactions recognized directly in equity								
Share-based compensation	-	-	-	-	-	-	3	3
Balance as of March 31, 2023	12	1,495	(137)	(29)	(1,228)	113	2,075	2,188
For period of three months ended March 31, 2022 (unaudited)								
Balance as of January 1, 2022	12	1,495	(16)	(29)	(1,446)	16	1,454	1,470
Profit for the period	-	-	-	-	53	53	207	260
Other comprehensive income for the period, net of tax	-	-	-	10	-	10	28	38
Total comprehensive income for the period	-	-	-	10	53	63	235	298
Transactions recognized directly in equity								
Share-based compensation	-	-	-	-	-	-	4	4
Buyback of shares	-	-	(16)	-	-	(16)	-	(16)
Balance as of March 31, 2022	12	1,495	(32)	(19)	(1,393)	63	1,693	1,756
For year months ended December 31, 2022 (unaudited)								
Balance as of January 1, 2022	12	1,495	(16)	(29)	(1,446)	16	1,454	1,470
Profit for 2022	-	-	-	-	158	158	733	891
Other comprehensive income (loss) for the year, net of tax	-	-	-	(2)	15	13	37	50
Total comprehensive income (loss) for the year 2021	-	-	-	(2)	173	171	770	941
Transactions recognized directly in equity								
Share-based compensation	-	-	-	1	-	-	11	12
Business consolidation	-	-	-	-	-	-	1	1
Dividend distributed to non-controlling interests	-	-	-	-	-	-	(392)	(392)
Transactions with non-controlling interests	-	-	-	-	(13)	(13)	(2)	(15)
Buyback of shares	-	-	(121)	-	-	(121)	-	(121)
Balance as of December 31, 2022	12	1,495	(137)	(30)	(1,286)	54	1,842	1,896

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

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

Condensed Consolidated Interim Cash Flow Statements

	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from current operations			
Profit for the year	286	260	891
Adjustments:			
Depreciation and amortization	458	448	1,868
Financing expenses, net	91	126	445
Capital loss (gain), net	(1)	2	(8)
Share-based compensation	3	4	12
Income tax expenses	92	93	336
Change in trade and other receivables	(105)	217	342
Change in inventory	(56)	(37)	(21)
Change in trade and other payables	173	89	(54)
Change in provisions	4	43	24
Change in employee benefits	(31)	(83)	(91)
Change in other liabilities	-	(2)	18
Income Tax paid, net	(65)	(67)	(271)
Net cash derived from operating activities	849	1,093	3,491
Cash flows from investing activities			
Purchase of property, plant and equipment	(335)	(335)	(1,353)
Investment in intangible assets and deferred expenses	(81)	(95)	(346)
Payment for frequencies to the Ministry of Communications	-	-	(88)
Government grant received for frequencies	-	-	74
Investment activity, net	(376)	149	223
Proceeds from the sale of property, plant and equipment	33	15	40
Miscellaneous	9	(2)	30
Net cash used for investing activities	(750)	(268)	(1,420)

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

Condensed consolidated interim statements of cash flows (Cont.)			
	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows from financing activities			
Issuance of debentures and receipt of loans	415	-	400
Transaction with non-controlling interests	-	-	(15)
Repayment of debentures and loans	-	(370)	(1,416)
Leasing principal and interest payments	(125)	(111)	(420)
Buyback of shares	-	(11)	(121)
Interest paid	(14)	(9)	(307)
Dividend distributed to non-controlling interests	-	-	(392)
Costs in respect of early repayment of loans and debentures	-	(26)	(26)
Payment for completed hedging transactions	-	-	(18)
Net cash derived from (used for) financing operations	276	(527)	(2,315)
Net increase (decrease) in cash and cash equivalents	375	298	(244)
Cash and cash equivalents for the beginning of the period	754	998	998
Cash and cash equivalents at the end of the period	1,129	1,296	754

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

1. General

1.1. The reporting entity

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

The condensed consolidated financial statements of the Company as of March 31, 2023 include those of the Company and its subsidiaries (hereinafter collectively - "the Group"), (see also Note 14 - Segmental Reporting).

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

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

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

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

2. Basis of preparation of the statements

- 2.1. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, which deals with interim financial reporting and in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.
- 2.2. The condensed consolidated interim financial statements do not include all the information required in full annual financial statements and these reports should be read in the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2022 and the year ended on the same date and accompanying notes (hereinafter - the annual financial statements). The Group presents in the notes to the consolidated interim financial statements only the material changes that occurred from the date of the last annual financial statements to the date of these interim financial statements.
- 2.3. A summary of these consolidated interim financial statements was approved by the Company's Board of Directors on May 16, 2023.

2.4. Use of estimates and discretion

When preparing the condensed consolidated interim financial statements in accordance with IFRS, management is required to exercise discretion and be assisted by estimates, estimates and assumptions that affect the implementation of accounting policies and the

reported amounts of assets and liabilities, income and expenses. Actual results may differ from estimates.

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

3. Reporting rules and accounting policies

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

4. Group entities

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

4.1. Yes Television and Communications Ltd. (Yes)

4.1.1. As of March 31, 2023, Yes has a deficit in equity in the amount of NIS 26 million, as well as a working equity deficit in the amount of NIS 205 million. According to Yes' forecasts, it expects to accumulate operating losses in the coming years, and therefore will not be able to meet its obligations and continue to operate as a live going concern without Bezeq's support.

On May 16, 2023, Bezeq's Board of Directors approved a credit or investment framework in Yes' equity in the amount of NIS 40 million, for a period of 15 months, from April 1, 2023 until June 30, 2024, instead of a similar commitment from March 2023. It should be noted that so far, during 2022, no utilization of the credit facilities provided by Bezeq has been made by Yes.

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

4.1.2. See Note 5.1 below regarding impairment of assets recognized by Yes in the financial statements as of March 31, 2023.

4.2. Bezeq International Ltd.

See Note 5.2 below regarding impairment of assets recognized by Bezeq International in the statements as of March 31, 2023.

4.3. Dividend distribution by Bezeq

4.3.1. See Note 12.6 to the annual financial statements regarding Bezeq's dividend distribution policy, which was approved by Bezeq's Board of Directors on March 13, 2023.

4.3.2. On April 20, 2023, the General Meeting of Bezeq's shareholders (following the recommendation of Bezeq's Board of Directors dated March 13, 2023) approved the distribution of a cash dividend to Bezeq's shareholders in the total amount of

NIS 246 million (constituting NIS 0.088922 per share as of the effective date). The dividend was paid on May 11, 2023. The Company's share in the above mentioned dividend is approximately NIS 66 million.

4.4. Investment in Bezeq

On April 5, 2023, the Company purchased 2,100,000 ordinary shares of the subsidiary, Bezeq. The Company purchased shares as mentioned in exchange for payment of a total amount of approximately NIS 10 million and at an average price of NIS 4.75 per share. After the aforementioned acquisition, the Company owns 26.88% of the issued shareholder equity and voting rights in the subsidiary (before the acquisition, the Company's holding rate was 26.81%).

5. Impairment

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

Following Note 10.5 to the annual statements regarding impairment recognized in 2022, the valuation as of December 31, 2022 presented a value materially lower than the book value of Yes. In accordance with an examination conducted by an external valuator on March 31, 2023 and in accordance with the assessment of Yes' Management, it was found that during the three months that have passed since the previous valuation, there have been no significant changes in Yes' economic performance in the market in which Yes operates, and its regulatory / legal and economic environment that may materially affect Yes forecasts for the following years. At the same time, adjustments were made in the calculation of the aforementioned value in use, both due to a non-normative change in the balance of suppliers and due to the passage of time.

Therefore, in light of the negative enterprise value as determined in the valuation as of December 31, 2022, Yes amortized its assets as of March 31, 2023 up to the amount of the net fair value of these assets.

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

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

	Yes' enterprise value (according to DCF method)	Fair value of assets and liabilities, net	Book value of Yes' assets and liabilities, net before recognition of impairment	Impairment loss
	NIS millions	NIS millions	NIS millions	NIS millions
for March 31, 2023 and for a period of three months that ended on that date (unaudited)	(159)	(145)	(76)	(69)
Total impairment recognized in the three-month period ending March 31, 2023				(69)
As of December 31, 2022 and for the year ending on that date (audited)	(103)	(88)		(275)

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

	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions
Broadcasting rights *	35	32	149
Property, plant and equipment **	26	20	76
Intangible assets **	7	10	45
Rights to use leased assets **	-	2	2
Other payables (advance expenses) *	1	1	3
Total impairment recognized	69	65	275

* 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 Yes determined the fair value (at level 3) of the assets minus exercise costs, see Note 10.5 in the annual financial statements.

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

Further to Note 10.6 to the annual statements regarding impairment in the cash-generating unit Internet, international communications, and ICT Solutions in 2022, the valuation as of December 31, 2022 presented a material value less than Bezeq International's book value.

As of March 31, 2023, there were no substantial changes in Bezeq International's forecasts compared to the forecast made by Bezeq International as of December 31, 2022. Accordingly, Bezeq International did not perform an updated valuation for this date and is

based on the results of the valuation as of December 31, 2022 according to which the value of the activity is negative and amounts to a total of 166 million NIS. The current value as of March 31, 2023 considering the update of the discount rate is negative and amounts to a total of NIS 162 million.

Bezeq International's enterprise value amounted to a negative amount of approximately NIS 162 million. The fair value of Bezeq International's assets net of exercise costs as of March 31, 2023 is in the negative amount of approximately NIS 5 million. Therefore, in light of its negative enterprise value as determined in the valuation as of March 31, 2023, Bezeq International amortized its assets up to the amount of the net fair value of these assets. Based on the fair valuation of Bezeq International's assets, which was performed by an external valuator as of March 31, 2023, the book value of the depreciable assets is approximately NIS 21 million higher than the fair value minus exercise costs. Therefore, in the period of three months ended March 31, 2023, the Group recognized loss due to impairment in the amount of approximately NIS 21 million.

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

	Bezeq International's enterprise value (according to DCF method)	Fair value of Bezeq International's assets and liabilities, net	Book value of Bezeq International's assets and liabilities, net before recognition of impairment	Impairment loss
	NIS millions	NIS millions	NIS millions	NIS millions
for March 31, 2023 and for a period of three months that ended on that date (unaudited)	(162)	(5)	16	(21)
Total impairment recognized in the three-month period ending March 31, 2023				(21)
As of December 31, 2022 and for the year ending on that date (audited)	(166)	(22)		(104)

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

	For period of three months ended March 31		For year ended
	2023	2022	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Property, plant and equipment and intangible assets **	14	24	71
Short-term and long-term advance expenses *	6	8	21
Long-term advance payments for capacities **	1	2	12
Total impairment recognized	21	34	104

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

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

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

6. **Contingent liabilities**

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

In the opinion of the managements of the Group companies, which is based, among other things, on legal opinions regarding the chances of the legal claims, the statements included adequate provisions in the amount of NIS 93 million, where provisions were required to cover the exposure as a result of such legal claims.

In the opinion of the managements of the Group companies, the amount of additional exposure (beyond said provisions), as of March 31, 2023, due to legal claims filed against the Group companies on various issues and whose probability of realization is unexpected, amounted to a total of NIS 3 billion. Additional exposure in the amount of approximately NIS 2.5 billion in respect of claims the chances of which is not yet possible to assess at this stage. In addition, motions were filed against the companies of the Group to recognize the claims as class actions that did not specify an exact amount of the claim, for which the Group has additional exposure beyond the above.

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

- 6.2. The following is a description of the contingent liabilities and provisions of Bezeq Group as they were in effect as of March 31, 2023, 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	1,807	712
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.	-	68	(1) 1,808
Claims of employees and former employees of Bezeq Group companies	Mainly individual claims filed by employees and former employees of the Bezeq Group concerning various payments.	-	-	2
Miscellaneous	Mainly motions for approval of class action lawsuits (and lawsuits on their behalf) concerning allegations of unlawful collection of funds and damage to the provision of services provided by Bezeq Group companies.	-	27	4
Total legal claims against Bezeq and Bezeq's subsidiaries			93	1,902

Notes to the Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

- (1) Including two motions for approval of a class action in the total amount of NIS 1.8 billion filed in June 2017 against the Company, Bezeq, officers in the Bezeq Group and companies from the then controlling group of Bezeq regarding the purchase of DBS shares By Bezeq from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to replace these two motions. The proceedings are delayed in light of the criminal proceedings that are being conducted following the investigation of the Securities Authority (as described in Note 1.3) and at the request of the Attorney General at this stage, until July 20, 2022.
 - (2) In addition, see Note 6.6 to the annual statements
- 6.3. After the date of the statements, a claim in which the exposure was about NIS 80 million was concluded, as well as two claims the exposure in respect of which cannot be estimated.

7. Equity

	As of March 31, 2023	As of March 31, 2022	As of December 31, 2022
	Shares	Shares	Shares
	(Unaudited)	(Unaudited)	(Audited)
Registered shareholders capital	300,000,000	300,000,000	300,000,000
Issued and paid up shareholders capital	116,335,793	116,335,793	116,335,793
Treasury shares	(9,080,317)	(2,637,463)	(9,080,317)
Issued and paid up capital, net	107,255,476	113,698,330	107,255,476

8. Income

	For period of three months ended March 31		For year ended
	2023	2022	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Interior landline communication - Bezeq Fixed			
Internet - Infrastructure	466	418	1,729
Landline telephony	177	215	762
Transmission and data communication	236	220	897
Cloud and digital services	87	81	331
Other services	75	72	261
	1,041	1,006	3,980
Mobile radio telephone - Pelephone			
Cellular services and end equipment	436	428	1,755
Sale of end equipment	169	161	604
	605	589	2,359
Multi-channel TV - Yes	329	316	1,277
Internet (ISP), international communications and network endpoint services – Bezeq International	288	293	1,183
Other	45	51	187
	2,308	2,255	8,986

9. Operating and general expenses

	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
End equipment and materials	221	203	743
Connectivity and payments to communications operators in Israel and abroad	202	183	782
Content costs (including depreciation of content)	141	131	567
Marketing and general	110	132	539
Services and maintenance by subcontractors	131	111	454
Maintenance of buildings and sites	64	55	247
Vehicle maintenance	16	14	64
Total operating and general expenses	885	829	3,396

10. Other operating expenses, net

	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Capital gain (loss) (mainly from exercise of real estate)	(1)	2	(8)
Creation of provision for claims	9	43	55
Expenses in respect of the termination of an employer-employee relationship in early retirement	3	2	78
Expenses in respect of the termination of an employer-employee relationship in early retirement and a streamlining agreement in Pelephone, Bezeq International and Yes	-	-	102
Other income	(4)	(1)	(7)
Other operating expenses, net	7	46	220

11. Financing expenses, net

	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial liabilities	80	74	309
Financing expenses for liabilities in respect of leases	12	10	43
Linkage differences and exchange rate	21	26	117
Exchange rate differences	-	2	8
Other financing expenses	4	4	19
Costs of early repayment of loans and debentures	-	26	26
Costs of employee benefits	4	-	-
Change in the fair value of financial assets measured at fair value through statement of income	-	3	8
Total financing expenses	121	145	530
Financing income in respect of employee benefits	-	20	40
Income from credit grossing in sales	7	6	20
Change in the fair value of financial assets measured at fair value through statement of income	8	6	23
Other financing income	18	3	49
Income from exchange of debentures	-	6	-
Total financing income	33	41	132
Financing expenses, net	88	104	398

12. Financial instruments

Fair value

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

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

	As of March 31, 2023		As of March 31, 2022		As of December 31, 2022	
	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)	1,538	1,453	1,620	1,634	1,530	1,462
Debentures issued to the public (index-linked)	2,675	2,616	2,961	3,188	2,402	2,373
Debentures issued to the public (non-linked)	4,796	4,536	4,883	4,964	4,569	4,386
	9,009	8,605	9,464	9,786	8,501	8,221

12.2. Fair value hierarchy

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

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Level 1 - Investment in marketable securities measured at fair value through income and financial funds	210	77	159
Level 2 – Forward contracts	54	9	42

13. Segmental reporting

13.1. Segments of activity

For period of three months ended March 31, 2023 (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 revenues	1,041	605	288	329	45	-	2,308
Inter-segmental revenues	70	11	24	-	-	(105)	-
Total revenues	1,111	616	312	329	45	(105)	2,308
Depreciation, amortization and impairment	245	133	30	60	2	(12)	458
Segment results - operating profit (loss)	403	51	14	(5)	(1)	4	466
Financial expenses	98	10	4	2	-	7	121
Financing income	(22)	(16)	(3)	(7)	-	15	(33)
Total financing expenses (income), net	76	(6)	1	(5)	-	22	88
Segment profit (loss) after financing expenses, net	327	57	13	-	(1)	(18)	378
Taxes on income	78	13	-	-	1	-	92
Segment results - net profit (loss)	249	44	13	-	(2)	(18)	286
For period of three months ended March 31, 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 revenues	1,006	589	293	316	51	-	2,255
Inter-segmental revenues	90	11	14	-	-	(115)	-
Total revenues	1,096	600	307	316	51	(115)	2,255
Depreciation, amortization and impairment	239	122	38	66	1	(18)	448
Segment results - operating profit (loss)	386	64	(4)	(7)	4	14	457
Financial expenses	121	7	2	2	-	13	145
Financing income	(27)	(16)	(1)	(3)	-	6	(41)
Total financing expenses (income), net	94	(9)	1	(1)	-	19	104
Segment profit (loss) after financing expenses, net	292	73	(5)	(6)	4	(5)	353
Taxes on income	74	17	-	1	1	-	93
Segment results - net profit (loss)	218	56	(5)	(7)	3	(5)	260

Notes to the Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.4 regarding the summary of selected data from the financial statements of Yes.

For the year ended December 31, 2022 (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	3,980	2,359	1,183	1,277	187	-	8,986
Inter-segmental revenues	326	40	56	-	6	(428)	-
Total revenues	4,306	2,399	1,239	1,277	193	(428)	8,986
Depreciation, amortization and impairment	1,005	532	134	274	4	(81)	1,868
Segment results - operating profit (loss)	1,460	193	(30)	(48)	6	44	1,625
Financial expenses	424	42	9	8	-	47	530
Financing income	(92)	(68)	(8)	(14)	-	50	(132)
Total financing expenses (income), net	332	(26)	1	(6)	-	97	398
Segment profit (loss) after financing expenses, net	1,128	219	(31)	(42)	6	(53)	1,227
Taxes on income	279	54	1	1	1	-	336
Segment results - net profit (loss)	849	165	(32)	(43)	5	(53)	891

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.4 regarding the summary of selected data from the financial statements of Yes.

14. Condensed statements of Bezeq, Pelephone, Bezeq International and Yes

14.1. Bezeq the Israel Telecommunications Corporation Ltd.

Data from the statement of financial position:

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	2,827	2,654	2,086
Non-current assets	9,799	10,100	10,002
Total assets	12,626	12,754	12,088
Current liabilities	2,164	2,376	2,148
Long-term liabilities	8,522	8,958	8,317
Total liabilities	10,686	11,334	10,465
Equity	1,940	1,420	1,623
Total liabilities and equity	12,626	12,754	12,088

Data from the statement of income:

	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenues	1,111	1,096	4,306
Operating expenses			
Salary	263	246	970
Depreciation, amortization and impairment	245	239	1,005
Operating and general expenses	195	178	759
Other expenses, net	5	47	112
Total operating expenses	708	710	2,846
Operating profit	403	386	1,460
Financing income (expenses)			
Financing expenses	98	121	424
Financing income	(22)	(27)	(92)
Financing expenses, net	76	94	332
Profit after financing expenses, net	327	292	1,128
Share in the profits of equity-held investee companies, net	62	64	151
Profit before income tax	389	356	1,279
Income tax	78	74	279
Profit for the period	311	282	1,000

14.2. Telephone Communications Ltd.

Data from the statement of financial position:

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	857	896	865
Non-current assets	2,966	3,555	3,215
Total assets	3,823	4,451	4,080
Current liabilities	754	812	684
Long-term liabilities	857	884	879
Total liabilities	1,611	1,696	1,563
Equity	2,212	2,755	2,517
Total liabilities and equity	3,823	4,451	4,080

Data from the statement of income:

	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenues from services	445	437	1,791
Revenues from end equipment sales	171	163	608
Total revenues	616	600	2,399
Operating expenses			
General and operating expenses	351	333	1,327
Salaries	84	82	314
Depreciation, amortization and impairment	133	122	532
Other operating expenses (income), net	(3)	(1)	33
Total operating expenses	565	536	2,206
Operating profit	51	64	193
Financing income (expenses), net			
Financing expenses	10	7	42
Financing income	(16)	(16)	(68)
Financing income, net	(6)	(9)	(26)
Profit before income tax	57	73	219
Income tax expenses	13	17	54
Profit for the period	44	56	165

Notes to the Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

14.3. Bezeq International Ltd.

Data from the statement of financial position:

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	409	492	396
Non-current assets	354	321	364
Total assets	763	813	760
Current liabilities	427	440	431
Long-term liabilities	132	159	139
Total liabilities	559	599	570
Equity	204	214	190
Total liabilities and equity	763	813	760

Data from the statement of income:

	For period of three months ended March 31		For year ended
	2023	2022	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenues	312	307	1,239
Operating expenses			
Operating and general expenses	208	216	827
Salaries	54	56	237
Depreciation, amortization and impairment	30	38	134
Other expenses, net	6	1	71
Total operating expenses	298	311	1,269
Operating profit (loss)	14	(4)	(30)
Financing expenses (income)			
Financing expenses	4	2	9
Financing income	(3)	(1)	(8)
Financing expenses, net	1	1	1
Profit (loss) before taxes on income	13	(5)	(31)
Taxes on income	-	-	1
Profit (loss) for the period	13	(5)	(32)

Notes to the Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

14.4. Yes Television and Communications Ltd. (Yes)

Data from the statement of financial position:

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	259	220	196
Non-current assets	246	255	241
Total assets	505	475	437
Current liabilities	464	426	395
Long-term liabilities	67	87	74
Total liabilities	531	513	469
Equity deficit	(26)	(38)	(32)
Total liabilities and deficit in equity	505	475	437

Data from the statement of income:

	For period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Revenues	329	316	1,277
Operating expenses			
Operating, general, and impairment expenses	228	206	867
Salary	52	50	200
Depreciation, amortization and impairment	50	50	199
Other expenses (income), net	(1)	-	3
Total operating expenses	329	306	1,269
Operating profit	-	10	8
Financing expenses (income)			
Financing expenses	2	2	8
Financing income	(7)	(3)	(14)
Financing income, net	(5)	(1)	(6)
Profit before income taxes	5	11	14
Income tax	-	1	1
Profit for the period	5	10	13

15. Current and subsequent material events

- 15.1. Regarding the distribution of a cash dividend by Bezeq on May 11, 2023 and the Company's share in the said dividend, see Note 4.3.
- 15.2. Regarding the additional purchase of the subsidiary Bezeq's shares by the Company after the balance sheet date, see Note 4.5.
- 15.3. During March 2023, Bezeq borrowed funds through the expansion of series 13 and 14 debentures in the amount of approximately NIS 415 million. For information on the terms of the debentures, see Note 13 to the annual statements.
- 15.4. On May 9, 2023, Bezeq published a new shelf prospectus further to obtaining the permit.



**Condensed Separate Interim Financial Information
As of March 31, 2023
(Unaudited)**

Condensed Separate Interim Financial Information as of March 31, 2023 (Unaudited)

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

To
Shareholders of B Communications Ltd.

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

Introduction

We audited the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – “the Company”) as of March 31, 2023 and for a period of the three months that ended on the same date. The separate financial information is within the responsibility of the Company's Board of Directors and Management. It is our responsibility to provide a conclusion on the separate interim financial information for said interim periods based on our review.

Scope of our review

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

Conclusion

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

Emphasis paragraph (drawing attention)

Without limiting our above conclusion, we draw attention to what is stated in Note 1 which refers to Note 1.3 in the annual consolidated financial statements, regarding the investigation by the Securities Authority and the Israel Police 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 the holding of a hearing on suspicion of bribery and reporting with intention to mislead a reasonable investor, and regarding the filing of an indictment 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 and reporting offenses under the Securities Law. In addition, following the opening of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq's controlling group in the past, including motions for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and results on Bezeq as well as on the statements and estimates used in the preparation of these reports, if any.

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

Somekh Chaikin
Certified Public Accountants

May 16, 2023

Condensed Separate Interim Financial Information as of March 31, 2023 (Unaudited)

Condensed Interim Financial Position Information as of			
	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Assets			
Cash and cash equivalents	64	70	13
Short-term investments and deposits	8	129	63
Other receivables	2	14	1
Total current assets	74	213	77
Long-term deposits	27	68	27
Investment in equity- accounted investee	1,948	1,809	1,864
Total non-current assets	1,975	1,877	1,891
Total assets	2,049	2,090	1,968
Liabilities			
Trade payables	26	31	9
Total current liabilities	26	31	9
Debentures	1,910	1,996	1,905
Total non-current liabilities	1,910	1,996	1,905
Total liabilities	1,936	2,027	1,914
Equity	113	63	54
Total liabilities and equity	2,049	2,090	1,968

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: May 16, 2023

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

Condensed Separate Interim Financial Information as of March 31, 2023 (Unaudited)

Condensed Interim Income Information			
	For period of three months ended		For year ended
	March 31		December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Operating expenses			
Salaries	1	1	5
Operating and general expenses	1	2	7
Total operating expenses	2	3	12
Operating loss	(2)	(3)	(12)
Financing expenses (income) (See Note 2)			
Financing expenses	23	26	106
Financing income	-	(7)	(9)
Financing expenses (income), net	23	19	97
Loss after financing expenses, net	(25)	(22)	(109)
Share in the profits of equity-accounted investee, net	83	75	267
Net profit for the period	58	53	158

Condensed Interim Comprehensive Income Information			
	For period of three months ended		For year ended
	March 31		December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions
Net profit for the period	58	53	158
Other comprehensive income items, net of tax	1	10	13
Total comprehensive income for the period	59	63	171

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

Condensed Separate Interim Financial Information as of March 31, 2023 (Unaudited)

Condensed Interim Cash Flows Information			
	For a period of three months ended March 31		For year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions
Cash flows from current activities			
Profit for the period	58	53	158
Adjustments:			
Share in profits of equity-held investee companies, net	(83)	(75)	(267)
Financing expenses, net	22	20	94
Share-based compensation	-	-	1
Change in receivables and credit balances	-	-	2
Change in other payables	(1)	(1)	3
Net cash used for current activities	(4)	(3)	(9)
Cash flows from investing activities			
Change in deposits and investments, net	55	59	163
Investment in affiliated company	-	-	(15)
Dividend received from the subsidiary	-	-	143
Interest / dividend received in cash	-	-	2
Net cash generated from investing activities	55	59	293
Cash flows for financing activities			
Repayment of debentures principal	-	-	(100)
Repurchase of shares	-	(11)	(121)
Interest paid	-	-	(75)
Net cash used for financing activities	-	(11)	(296)
Increase (decrease) in cash and cash equivalents	51	45	(12)
Cash and cash equivalents at the beginning of the period	13	25	25
Cash and cash equivalents at the end of the period	64	70	13

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

Notes to the Condensed Separate Interim Financial Information as of March 31, 2023 (Unaudited)

Notes to the Condensed Separate Interim Financial Information

1. Method of preparation of the financial data

1.1. Definitions

"The Company" - "B Communications" Ltd.

"Associated Company", "Group", "Holding Company": as these terms are defined in the Company's consolidated financial statements for 2022.

1.2. Main methods of preparing the financial data

The condensed interim financial information is presented in accordance with the provisions of Regulation 38D (hereinafter - "the Regulation") and Schedule 10 to the Securities Regulations (Periodic and Immediate Reports), 5770-1970 (hereinafter - "Schedule 10") regarding the condensed interim financial information of the Corporation (hereinafter: "the Report"). The Report should be read alongside the separate financial information as of the day and year ended December 31, 2022, and alongside the condensed consolidated interim financial statements as of March 31, 2022 (hereinafter: "the Consolidated Financial Statements").

The accounting policy in this condensed separate interim financial information is in accordance with the accounting policy rules which are specified in the separate financial information as of the day and year ended December 31, 2022.

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

2. Financing expenses / income

	For a period of three months ended		For year ended
	March 31		December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions
Interest expenses in respect of debentures	23	23	98
Change in the fair value of financial assets measured at fair value through income	-	3	8
Total financing expenses	23	26	106
Interest income from investments in marketable debentures and bank deposits	-	-	3
Change in the fair value of financial assets measured at fair value through income	-	1	-
Income from exchange of debentures	-	6	6
Total financing income	-	7	9
Financing expenses, net	23	19	97

Notes to the Condensed Separate Interim Financial Information as of March 31, 2023 (Unaudited)

3. Contingent liabilities

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

4. Material subsequent events

4.1. For information regarding dividend distribution by Bezeq after the date of the financial statements and the Company's share of said dividend, see Note 4.3 to the Consolidated Statements.

4.2. For information regarding the investigation by the Securities Authority and the police, see Note 1.2 to the Consolidated Statements.

4.3. Regarding the impairment loss for the companies Bezeq International and Yes, see Note 5 to the Consolidated Statements.

4.4. On April 5, 2023, the Company purchased 2,100,000 ordinary shares of its subsidiary, Bezeq. The Company purchased shares as mentioned in exchange for payment of a total amount of approximately NIS 10 million and at an average price of NIS 4.75 per share. Following the aforementioned acquisition, the Company owns 26.88% of the issued shareholders' capital and voting rights in the subsidiary (before the acquisition, the Company's holding rate was 26.81%).



Chapter E

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period ended March 31, 2023

(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 on the effectiveness of the internal control over financial reporting and disclosure which was attached to the Company's quarterly report for the period ended March 31, 2022 (hereinafter - the last annual report on internal control), the internal control was found to be effective.

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

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

Regarding the investigations by the Israel Securities Authority and the Israel Police, as detailed in Section 1.1.7 of the chapter describing the Corporation's business in the periodic report for 2022, 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 periodical report of B Communications Ltd. (hereinafter – the Corporation) for 2023 (hereinafter - "the Reports");

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

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

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

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

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

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

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

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

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

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

Date: May 16, 2023

Tomer Raved, CEO

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

I, Itzik Tadmor, declare that:

(1) I examined the interim statements and the other financial information contained in the interim statements of B Communications Ltd. (hereinafter – “the Corporation”) for the first quarter of 2023 (hereinafter – “the Statements” or “the Interim Statements”);

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

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

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

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

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

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

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

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

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

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

Date: May 16, 2023

Itzik Tadmor, Chief Financial Officer